How do our job creation recommendations stack up against a job guarantee?

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A discussion broke out on Twitter last week about a recent paper I wrote on what role the government can and should play in creating jobs. The discussion centered on how this paper overlaps with and is different from a job guarantee proposal detailed in a series of papers by William Darity and Darrick Hamilton (often co-authored with Mark Paul, with others, particularly Pavlina Tcherneva, contributing analyses of job guarantees in recent years). Twitter is a tough place to have a substantive discussion, particularly one in which you're disagreeing with people you have a lot of respect for, so I've decided to spend more than 280 characters on this. Because the contrast on Twitter was between our recommendations and the Darity and Hamilton proposals, I'll focus on their framework in what follows.

Areas of overlap between our job creation recommendations and a job guarantee

Darity, Hamilton, and Paul's latest job guarantee proposal was released last month by the Center on Budget and Policy Priorities. The best summary statement of it comes from their own paper: "The federal job guarantee would provide a job, at non-poverty wages, for all citizens above the age of 18 that sought one." While job creation is the key goal of their proposal, their plan also hinges on these jobs producing goods and services that private markets are not producing—especially public *investments*. They identify two key benefits of the job guarantee as:

> ***Macroeconomic stabilization***. *The job guarantee would function as a robust automatic stabilizer in the economy, maintaining levels of employment during economic downturns through direct hiring, and freely allowing workers to flow from the jobs program to the private sector during economic boom times.*
>
> ***The provision of socially useful goods and services***. *During the Great Depression, the Works Progress Administration (WPA) and Civilian Conservation Corps (CCC) were public employment programs designed to put Americans back to work…. These programs, implemented under the Roosevelt administration, provided goods and services that benefited all Americans by facilitating the logistics and technological expansion of our public infrastructure…..Under a job guarantee, even those who do not receive employment via the NIEC will likely benefit through the increased provision of public goods and socially desirable goods and services.*

In my view, a very good proportion (not all, but most) of the other benefits they identify as stemming from a job guarantee flow through these channels. If one accepts this, then I think you can replicate these benefits through two recommendations I called for in my recent paper on job creation:

1. Get macroeconomic policy right by ensuring aggregate demand is at a high enough

level to support *macroeconomic full employment*
2. Undertake lots of public investment that will create and sustain jobs, as well as providing crucial goods and services that private markets won't

In regards to getting macroeconomic policy right, a job guarantee would be (among other things) a huge and automatic fiscal stabilizer. Huge fiscal stabilizers are a great idea—the experience of the Great Recession and how badly *discretionary* fiscal policy (especially state and local) dragged on growth should have spurred everybody to think about how fiscal stimulus can be made more automatic, and these should be a key part of any plan claiming to get macroeconomic policy right going forward.

In regards to providing benefits by undertaking public investments, particularly in infrastructure and early childcare, I'd absolutely agree that much larger public investments —particularly in these two areas—are great ideas. They're part of our recommendations for job creation and we've spent most of the past decade at EPI arguing strongly for both.

Even within this overlap, there are obviously differences in emphasis. To put this perhaps too politically, if progressives don't even have the political muscle and intellectual influence to keep the Federal Reserve from prematurely hitting the economy's brake and intentionally keeping us from reaching full employment, then I don't think we're going to pass something as ambitious as the Darity and Hamilton job guarantee plans. And we certainly need to fight the good job creation fight in the meantime—until we actually do put in place some automatic fiscal mechanisms (like a job guarantee, or anything else) that ensures aggregate demand is always strong enough to keep us at macroeconomic full employment, we need to monitor monetary and exchange rate policy to ensure that they're not throwing up barriers to reaching this full employment.

Further agreement between our recommendations and the job guarantee is that the ambition of job creation strategies should go beyond hitting the target of macroeconomic full employment at the national level—even if people committed to pushing the lower bounds of unemployment are defining this target. That is, there is almost surely some national unemployment rate (4 percent? 3 percent? lower?) at which further stimulus to aggregate demand could lead to accelerating inflation. Should we just stop there (what I'm calling *macroeconomic full employment*) and declare concern about jobs addressed? Definitely not.

Instead, by deploying public investments strategically, we should be able to lean harder on (targeted) fiscal stimulus and less hard on (across-the-board) monetary stimulus to make sure that national full employment is spread more evenly across communities. If, for example, it turns out that macroeconomic full employment nationally is 3 percent (don't laugh, it might be—and making sure we *know* how low it can sustainably go is a key part of our job creation recommendations), then it's possible to hit this 3 percent rate nationally, but in a way where some communities are at more-than-full employment while other communities face substantially higher joblessness. To put it too simply, when we've hit the target national unemployment rate of (say) 3 percent, we'd like it to be 3 percent in both (say) Seattle and Detroit, rather than 2 percent in the Seattle and 4 percent in Detroit.

To be really clear, at EPI we've been as loud as anybody in recent years about the importance of hitting genuine macroeconomic full employment and not prematurely declaring it achieved. We've also been as loud as anybody in recent years about the payoff to a big increase in public investment. These are bedrock principles for us, as they are for Darity and Hamilton, and this is key overlap I see between our respective programs

Finally, once we have ensured that aggregate demand is high enough to support macroeconomic full employment, and we have made sure it's spread evenly across communities with targeted public investments (and shortened working hours—something else I call for in my paper), then there will still be unemployment to be addressed. In the jargon of mainstream economists, this remaining unemployment will be "structural," rather than the result of deficient aggregate demand. But saying that unemployment is structural doesn't mean you can't attack it with policy. Our specific recommendation is to attack it in part by building up the capacity for providing what we called a "public option for employment," which would let those workers structurally shut out of jobs in the private sector find meaningful work in the public sector.

Areas of differing judgment about what can be done

Our "public option for employment" is admittedly far less ambitious than the Darity and Hamilton job guarantee. But it's a small part of our overall strategy, so it doesn't make sense to me to compare this one plank of my plan to the entirety of their plan. But, this does raise the question of why my plan didn't just make full-throated call for a guarantee. There are a couple of reasons for this.

First, I'm quite worried about the ability of jobs that provide needed public investment to ebb and swell depending on the state of private sector aggregate demand. Darity and Hamilton have recently written very convincingly about the need to professionalize the care sector. We couldn't agree more. But we think it's precisely this need to make these professionalized, career-building jobs that make them an uneasy fit for a job guarantee. We certainly don't want child care workers *leaving* these jobs as soon as demand in the private sector ramps up hiring and offers higher wages. And during times when the private sector contracts, I don't think we can easily absorb people from a range of professional backgrounds seamlessly into early child care and education jobs. We certainly don't think we can slide people easily into becoming K-12 teachers during downturns, and professionalizing early childhood care and education means treating this workforce much more like K-12 teachers than they are today. One could argue this is less true for, say, jobs related to physical infrastructure investment, but, I'm not sure I believe it. Most civil construction jobs these days are skilled enough (or dangerous enough or incur enough legal liability) that it's not obvious to me that lots of people from varying professional backgrounds could just be slotted into them seamlessly during private sector contractions.

I think a larger public sector that provides needed public goods and employs a lot more people can be a useful part of job creation strategies along many dimensions, and will certainly lead to an economy more resistant to implosions following private sector demand retrenchment, and I really want the valuable investments such jobs can produce. But, I don't think that jobs in the public sector that produce valuable investments should ebb and swell in the way that would be necessary for them to be part of a "job guarantee." Instead, for public investments that we value, we should create a lot more *permanent* and sustainable jobs.

A second difference regards what will drive "stigma" in public employment. Darity and Hamilton argue that they think smaller, targeted programs (like my "public option for employment") will lead to stigma. I disagree, and think that the degree of stigma will be driven by public perception of whether or not the work being performed by enrollees in the job guarantee program is socially useful relative to its salient cost. Both sides of this equation on stigma—*perceived as socially useful* and *worth the cost*—are big hurdles.

In their latest paper, Darity and Hamilton estimate that a job guarantee today would absorb about 11 million workers. I don't think we have the public sector managerial capacity right now to oversee the work of 11 million people—who will be coming from varying backgrounds and labor qualifications—and ensure that they will be perceived as undertaking socially useful tasks. This is essentially three times as many people as there are K-12 public school teachers in this country today. These 11 million workers will not have a shared mission (like school teachers) or overwhelmingly have advanced education (again, like teachers). We will need to slot them into a system of management and oversight that has yet to be created or defined (unlike public education, where at least the goals and population to be served are clear enough).

Further, if the private sector contracts in a recession, this number could swell within 18 months to 22 million. This would require careful management of a workforce more than 10 times as large as Wal-Mart's global labor force. Building anything like this much public sector management capacity strikes me as a project that will be years, if not decades, in the making. And attempts to do this all at once will lead inevitably, I think, to stories about how these are disorganized make-work programs and the stigma will follow. This is why I emphasize ramping up a smaller "public option" over time.

On the second front (cost), I think stigma will is more likely if the cost of providing this program is large enough to be noticeable to taxpayers. The Darity and Hamilton proposal would be noticeable. The cost estimate from their latest paper is about $543 billion. This is about 33 percent more than we spend on Medicaid in a year, and about 60 percent of what we spend on Social Security in a year. It is four times more expensive than the tax cut passed by Congress at the end of last year. This cost is sometimes minimized inappropriately; for example, a recent article in *New York Magazine* reported polling indicating that people were willing to pay for an ambitious job guarantee. But the revenue specified in the poll question (a 5 percent increase in income taxes for incomes above $200,000) would not even pay for a fifth of the Darity and Hamilton program during good economic times.

Of course, the public investments we call for in our job recommendations are not free—they cost serious money (but probably only about half of this $543 billion). But by putting investment outputs (infrastructure and educated kids) instead of jobs as the primary justification for these investments, I think our approach is less actually less likely to generate stigma for workers who are employed under our plan.

Further, I think both the cost and the size of the workforce to be effectively managed could be significantly larger under a true guarantee. The $543 billion cost figure is Darity and Hamilton's estimate when the national unemployment rate sits at 4.1 percent. During recessions unemployment could easily be double (or more) that rate. Additionally, this cost estimate is pegged to providing jobs for the currently un- and underemployed—but we know that two-thirds of all newly-employed workers were in the previous month not unemployed, but out of the labor force entirely. In short, the job guarantee could attract many workers from out of the labor force. That is, arguably, a feature of the jobs guarantee, but it does come at a cost, both fiscally and in terms of the managerial capacity needed to direct these workers' labor.

Finally, in previous work, Darity and Hamilton and co-author Mark Paul note that because their job guarantee will pay much better wages than what is currently paid by a huge swath of employers, their plan might attract far more people than the 11 million workers who are currently un-or underemployed. Their estimates indicate that if *everybody* earning a lower wage today than what would be provided under the guaranteed jobs plan decided to enroll, the number employed would be about 35 million, and the cost would rise in line with that (to well over $2 trillion, or more than 50 percent of what the federal government today spends on everything). Of course, some (maybe even lots of) private employers will raise wages in response to the guarantee, so the number of workers the guarantee would have to absorb won't be *that* large, but even so, I worry that the numbers attracted would be large enough to overwhelm our current public sector managerial capacity.

Proponents of the job guarantee have emphasized that the open-ended commitment—the guarantee—is what makes this policy so transformative. I agree completely, but I also think the guarantee is what makes it such a gamble for those hoping to build and sustain the public's confidence that the public sector can be efficient with their tax money. And I think building this confidence is a crucial long game for the left.

To be really clear, I'm not opposed at all to calling for large increases in public spending. But I do think there are both political, but also some economic, constraints on how much the government can spend without taxing. Tax revenue is clearly hard to get politically (even a Democratic party that has moved left in recent years on economics finds it excruciatingly hard to oppose tax cuts, let alone affirmatively call for tax increases). Given how precious tax revenue is, we should put the highest priority claims on this revenue first, and we should remember that some chunk of the job creation challenge can be met without spending tax revenue (i.e., training the Fed to keep the foot off the brakes until we really hit an inflation barrier, and boosting aggregate demand by changing the rules of the labor market to allow typical workers to claim a large share of income growth).

But now we're arguing political priorities, and it's fine that we don't agree on that.

I'll end up on one final point of complete agreement: for all but the most privileged groups, capitalism can be brutal and policymakers should do everything they can to push back against the radical uncertainty of having to sell your labor to eke out a living. My view is that there's no one big silver bullet that can achieve this, but instead policy changes along dozens of margins will be needed, and will provide the best hope of providing genuine relief over time. This is perhaps less inspiring than the One Big Idea promising to provide this certainty. I get that. But the advantage to thinking of this as a portfolio of policy changes rather than one big change is that it lets you make incremental progress along the way even if you don't have the momentum and votes needed to get the one big win right now.

Sorry for footnotes in a blog post, but, it's worth clarifying what I mean by *macroeconomic full employment*. I just mean the lowest national unemployment rate that can be reached by simply boosting aggregate demand. Not *all* unemployment results from too-low aggregate demand, but most does. And even unemployment that cannot be solved by ramping up aggregate demand needs to be addressed by policymakers.

I present other ideas for combating structural unemployment in that piece as well, particularly reducing spatial mismatch through transit investments and combating discriminatory housing and hiring practices.