Dems’ Job Guarantee Isn’t Nearly as Easy as It Sounds

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Dean Baker, *thedailybeast*, April 27, 2018

There has been a surge of interest in the last year in the idea of a government job guarantee.

A number of economists associated with the Levy Institute at Bard College and University of Missouri at Kansas City have long pushed the idea. In recent months, several potential candidates for the 2020 Democratic presidential nomination have publicly raised the idea, including senators Cory Booker and Kirsten Gillibrand, and of course Bernie Sanders, who has fully endorsed it.

While the idea of guaranteeing a decent paying job to every worker who wants one is appealing, it is likely to prove a difficult lift in implementation. A guaranteed job would radically transform the labor market in a way that could put tens of millions of workers on the public payroll. This would almost certainly put many low-wage employers out of business and raise the costs to consumers of services like restaurants, haircuts, and house cleaning. It also effectively gives the government direct responsibility for allocating workers across regions.

The basic issue is that the program is designed to guarantee all people decent pay through their work. The problem is that this guarantee will not only provide an opportunity to those currently unemployed or under-employed; it would provide a better option for tens of millions of workers who already have jobs.

A key issue here is determining the number of people who might opt for this public program. That will depend on the wage rate. In the plan being pushed by the Levy Institute (politically, most closely associated with Sanders), the wage rate is $15 an hour. This is around the 25th percentile of the wage distribution, meaning that 25 percent of the workforce, or roughly 40 million workers, now gets less.

The proposal also calls for health-care insurance equivalent to that received by federal employees. This would make the plan attractive to even more low-wage workers, most of whom do not get employer-provided health-care benefits. In addition, government jobs are likely to offer job security and protection against abuses by an employer, like sexual harassment, which is yet another reason why they may prove attractive to workers in the private sector.

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Given the number of workers who currently are paid less than the $15 an hour proposed wage, plus health care benefits that are worth at least $4 an hour, it might be that 10 million workers would leave private sector jobs for a guaranteed federal job. And that’s a conservative estimate; it could quite possibly be more than 20 million. With 10 million or so unemployed and underemployed workers, we are likely talking about having at least 20 million people in the program and perhaps over 30 million.

Currently the federal workforce, excluding the Postal Service. is 2.2 million, so this is increasing the number of workers employed by the federal government by a factor of at least ten. The proposal calls for the program to be administered at the state and local level. This also presents issues (many of these governments have serious corruption problems), but even using state and local employment as a denominator, we would still be talking about doubling current levels.

It requires some serious faith in government to think that this sort of leap in employment levels can be well-managed if done in a short period of time. It doesn’t help that many of these workers will have little education and job experience.

There is also the issue of what happens in the private sector. The opportunity to get a public-sector job, with health-care insurance, paying $15 an hour, effectively imposes a floor on wages in the private sector. If we say that 50 million people now earn less than this package (the median wage is around $23 an hour – 80 million workers earn less), and the average gap is $4 an hour, then the additional cost to matching this wage in the private sector will be roughly $350 billion a year (this calculation assumes 1750 hours per worker and 50 million workers).

That sum comes to roughly 1.8 percent of GDP. There also has to be some spillover effect. Workers who had been earning $16 or $17 an hour will have to see some bump in pay when the pay for those at the bottom jumps to $15 from levels that are currently as low as $7.25 an hour. If 20 million workers are in the bump range, and they get an average pay increase of $2 an hour, that raises the cost by another $70 billion, putting the total at $420 billion, or 2.1 percent of GDP.

And this brings us to inflation. As a first approximation, this 2.1 percent figure would be the impact on the level of prices, although it would be dampened by reduced profit margins and increases in productivity. In any case, a Federal Reserve Board committed to a 2.0 percent inflation target would send interest rates soaring in response to this rise.

But even if the Fed can be controlled, this rise in pay for those at the bottom will mean a reduction in living standards for those higher up. They will have to pay more for restaurants and haircuts, as well having their house cleaned and their lawn mowed.

Most of us won't shed any tears for the "hard to get good help" crowd, but if we haven't taken steps to weaken their economic power—which won't be easy because they are powerful—we can expect to see doctors, lawyers, and other high-end earners getting pay hikes to protect their living standards. This is a story of serious wage-price spiral, unless we introduce other measures.

None of this means we should reject a job guarantee out of hand. We can start with a lower wage and limit the program to long-term unemployed, or in other ways restrict the size. But we should also look to measures to weaken the economic power of those at the top. It is government policies, like restricting the entrance of qualified foreign doctors and allowing pension funds that pay private equity partners to lose them money, not laws of economics, that gives us a situation where doctors get $260,000 a year, hedge fund boys over a million, and CEOs more than $20 million. Reversing these policies will open the door for much higher pay and living standards for those lower down the income ladder.