We Work

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James Galbraith, 2 mai 2018

On April 23, Bernie Sanders announced he will propose a "job guarantee" program—the most radical new piece of economic policy legislation in decades. It didn't take long for the bullets to fly. Predictably, they immediately came from Megan McArdle and National Review. But the liberal intellectual and journalist milieu—say, Jonathan Chait—was also quick to take aim. And then Dean Baker unloaded a fusillade in the *Daily Beast*. Baker, the now-retired director of Washington's Center for Economic Policy Research, is a certified economist with a good Left reputation and a record of prescience on the housing bubble and the financial crisis. His pot-shot is sure to sting.

On this issue, I'm an ex-skeptic. I was deeply involved in the full employment debates of forty years ago; I had the staff role—it was considered minor at the time—of drafting the monetary policy provisions of the original Humphrey-Hawkins Full Employment Bill. I've remained a resolute believer in the possibility and benefits of full employment, but my first published article, in *Working Papers for a New Society* back in 1978, was titled "Why We Have No Full Employment Policy." It was about how hard getting there would be, including how hard to have the government serve as "employer of last resort." I held that position for many years, but I've changed my mind. Here's why the job guarantee deserves a better rap.

Baker attributes the job guarantee proposal to economists from the University of Missouri-Kansas City and the Levy Institute. He does not mention that the idea comes from the teacher of many of them, Hyman Minsky. The point is not petty. Minsky was among the few great economists of the last century, a figure of towering stature, intellectual clarity, and foresight who taught at Washington University in St. Louis. Those tempted to dismiss the job guarantee because its current spokespeople are not heavies from Harvard should take note.

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Against the job guarantee Baker makes three points. First, that it will cost too much and be too hard to implement. Second, that it will upend the private labor market. Third, that it will provoke inflation and a harsh response from the Federal Reserve. The first is untrue. The second is a good thing. The third is a combination of unlikely and irrelevant—or to put it another way, an admission of impotence and a call for preemptive surrender.

Baker writes, "A guaranteed job would radically transform the labor market in a way that could put tens of millions of workers on the public payroll." Well then, how many working American families are *already on the public payroll*? Well, just for starters, twenty-seven million get the Earned Income Tax Credit, because they hold low-wage or come-and-go jobs. Another several million get unemployment insurance—in a good year. Forty million or so get food stamps—it was over seventy million in the 2008 crisis. How many millions take

Social Security early or have applied for disability because they couldn't find work? The public payroll pays a lot of people for *not working*. Much of this "burden"—not all, but a lot—would shrink, if there were always good jobs.

Of course, those jobs would have to be created. Baker thinks that task is too big for the federal government, which only has a few million civilian employees. But here he confuses a "federally-guaranteed job" with the idea of a "guaranteed federal job." Under a proper job guarantee, the *guarantee* would be federal. Most of the jobs would be created by state and local governments, and also perhaps by certified non-profits in health care, education, and other fields. This task would, indeed, be a challenge for the institutions responsible. Can you imagine having funds to fully staff clinics, schools, parks, libraries, and all their upkeep and maintenance? A challenge, indeed. Not the worst one, however.

Baker worries that those public jobs—offering a $15 wage, health insurance, and (ostensibly) protection from abuses "like sexual harassment"—will be flooded by people abandoning the private sector. He fears that a job guarantee would "provide a better option [not only for the unemployed, but] for tens of millions who already have jobs."

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Well, yes and no. It's true that $15 is better than current wages for many low-wage workers. But there is also the question of what the work is and where it leads. Would my son quit his cooking job to serve as a teacher's aide or park monitor? I doubt it. Those public jobs are a stop-gap; they would not lead toward promotions, raises, and careers. To get those things, you'd mostly have to find your way back to the private sector. Yes, some workers would quit bad jobs to take advantage of the guarantee. Many would take stock, think it through, and stay where they are.

For workers a key advantage of the job guarantee is that it creates a continuous work record. This would cure a major problem facing unemployed workers, that long spells of unemployment make them appear unemployable. In the job guarantee pool, private employers would have a host of prospective hires, who are already working, who have supervisors, and people to recommend them. All the employers need do is offer a decent wage and prospect of advancement. For this reason, too, the public option would be much more attractive to the unemployed than to those already on a job ladder.

I'll yield to Baker on two points. Yes, the job guarantee would effectively raise minimum wages to around $15 per hour, even if the actual federal minimum wage doesn't go that high. I'm for that, and so is Bernie Sanders. It's also true that health insurance is a powerful lure. So what would happen? Private employers would have a very strong reason to support universal national health insurance, say in the form of Medicare-for-All. This might be called "win-win-win."

So with a higher wage rate and universal health insurance, will the private labor supply dry up? It's most unlikely. There are other countries out there with high minimum wages. In the UK there was no minimum until early in this century, yet now it's nearly $11/hour—*with* national health insurance—and UK unemployment is about as low as here. Yes, some lowrent stores and fast-food franchises might suffer, as working households move up-scale. So what? The fact is, when you pay people more, their spending rises. What employers lose on the wage bill, they make back on the customer base.

This brings us to Baker's final complaint, which is that the whole scheme would be inflationary and would bring the Federal Reserve crashing down on the economy.

To support this claim, Baker needs to conjure up a wage-price spiral, which is hard to create for a number of reasons. First, a one-time restructuring of relative wages is just that—a one-time event. If there is an effect on consumer prices, it's once-for-all. That, by definition, is not inflation.

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But rising wages do not necessarily lead to rising prices, especially where the product can be separated, as in manufacturing or food service, from the wage. Instead, productivity rises, because employers find ways to be more efficient. This is one reason why booms in recent years—however temporary—*haven't* produced inflation. Baker's theory, roughly that paying waiters and cleaners more will drive up doctors' fees and legal bills—well, let's just say that as theories go, it doesn't put him in a league with Hyman Minsky.

Finally, it is true that the Federal Reserve retains the power to wreck the economy by driving up interest rates. We've seen this a number of times—the lead example was the recession and world debt crisis created by Paul Volcker's 20 percent interest rates in 1981. We may be on the cusp of a similar screw-up today, even though there's no inflation to speak of. (Did you notice that consumer prices fell in March?) It's an institutional habit that's hard to break.

But if you think that good economic policy must always yield to the power and ideology of central bankers, there is no point in pursuing progressive ideas in the first place. Back in 1976, I had the chance to add a few words to what became the Humphrey-Hawkins Full Employment Act. Their entire point was to affirm that the Federal Reserve is a "creature of Congress" under the Constitution, that it had to report to Congress and that it had to answer congressional questions, at regular hearings, which have been going on ever since. If Congress can pass a job guarantee, then *under the Constitution* it can also direct the Federal Reserve not to screw it up.

Maybe some day, when Constitutional rule is restored, this will be true in practice as well.