Job Guarantee Programs: Careful what you wish for

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Some progressive economists are now arguing for the idea of a Job Guarantee Program (JGP), and their advocacy has begun to gain political traction. For instance, in the US, Bernie Sanders and some other leading Democrats have recently signaled a willingness to embrace the idea.

In a recent research paper I have examined the macroeconomics of such a program. Whereas a JGP would deliver real macroeconomic benefits, it also raises some significant troubling economic and political economy concerns. Those concerns should be fully digested before a JGP is politically embraced.

The real benefits of a JGP

The starting point for discussion should be recognition that a JGP delivers multiple benefits. First, it ensures full employment by making available a job to all who want one on the terms specified by the program. Second, it substitutes wages for welfare benefits to workers who accept such jobs and would otherwise be on welfare. Third, it may deliver supply-side benefits to the extent that it helps unemployed workers retain job skills and avoid becoming detached from the labor force during periods of unemployment. Fourth, society benefits from the services produced by workers holding guaranteed employment jobs. Fifth, it has significant desirable counter-cyclical stabilisation properties.

That said, a JGP generates some policy conflicts and it also has some drawbacks. Those conflicts and drawbacks concern macroeconomics, microeconomics, and political economy.

Macroeconomic concerns

A first macroeconomic concern is the putative cost of a JGP. This is a complex multifaceted concern. The immediate cost of a JGP will depend on the state of the economy and the state of the aggregate demand (AD) generation process. An economy with a deteriorated AD generation process, marked by a reduced wage share and increased inequality, will be prone to higher unemployment that raises the program’s cost. That speaks to the need to pair a JGP with other conventional structural Keynesian policies that remedy the causes of AD weakness.

A second macroeconomic issue concerns financing and policy trade-offs. If government is financially constrained, policy must operate in a realm of trade-offs. Consequently, adopting a JGP may require giving up other desirable policy proposals such as increased public infrastructure investment, expanded subsidized healthcare, covering the shortfall in Social Security via general revenues, free tertiary education at public universities, elimination of student debt, or a universal basic income (UBI).

This effect of financial constraints on government explains why discussion of a JGP tends to quickly spill over into a broader discussion about the macroeconomics of public finance. JGP proponents tend to believe government is financially unconstrained and can pay for everything by printing money. After the fact, government can then readily withdraw the money it has printed by raising taxes. All of this can be done without causing financial, economic, or political disruptions or distortions. That view is identified with modern money theory (MMT), which dismisses financial constraints on policy and argues the only constraint is availability of real resources (i.e. unemployed workers or under-utilised capital).

In contrast, more conventional public finance macroeconomics argues that history, economic situation, markets, and political process impose financial, economic, and political constraints on governments that are difficult to thread. Though government has the technical ability to pay for everything owing to its power to issue money, doing so in excessive fashion will provoke disruptive and distorting financial, economic, and political reactions.

The possibility of such reactions renders government's technical ability to pay for everything an economic will-o-the-wisp. A government with a short time horizon can use its printing power to finance all its policy desires, but subsequent market reactions to budget excess will impose costs and may make the policies unsustainable. Alternatively, a government with a longer time horizon takes such future reactions into account when setting current policy, making it *de facto* financially constrained despite the appearance of being unconstrained.

A third macroeconomic concern is inflation. The JGP wage is a real wage, which means the JGP nominal wage must be tied to inflation. Private sector nominal wages may then likely be tied to the JGP nominal wage to maintain an appropriate wage differential. Consequently, the JGP nominal wage could start to act as a form of economy-wide nominal wage indexation. Such indexation could potentially generate an unstable wage – price spiral, particularly if the existence of a JGP aggravates distributional conflict by increasing private sector wage demands. Raising the private sector wage share may be a desirable feature, but it points to the need for additional macroeconomic stabilisation policy tools. That requirement is either ignored or denied by JGP proponents.

Microeconomic concerns

As regards microeconomics, there is concern related to the minimum wage aspect of a JGP. A necessary condition for the program to work is workers be willing to move from guaranteed jobs to private sector jobs when the latter become available. That requires the utility derived from a private sector job to exceed that of a guaranteed employment job. The utility depends on the job package consisting of wage, benefits, and work conditions. In effect, a JGP would set a floor for employment conditions in the private sector, akin to a minimum wage, only broader. If the guaranteed employment job package is more attractive than the private sector job package, that will attract workers out of the private sector, lowering private sector output and employment. In that case, private sector employers may respond by improving their job package, which could have effects akin to a high minimum wage that prices low productivity workers out of employment.

Political economy concerns

Lastly, there are significant political economy concerns. A first such concern is the impact of a JGP on public sector unions. The distinction between government sector employment and guaranteed employment is artefactual, and both contribute to national income at cost. Consequently, there would likely be considerable pressure to lower public sector wages and benefits to the level of the guaranteed job on grounds that the work is similar. In effect, there is a high risk that a JGP could be used to open a new front for undermining public sector unions and public sector remuneration.

A second political economy concern is workfare. Not only may the JGP be used to undermine the character of public sector employment, it can also be used to undermine the right to welfare. Thus, the right to welfare can be made conditional on accepting a guaranteed employment job. In this fashion, a JGP can become a double-edged sword, cutting upward against the public sector and downward against the welfare system. That is not an outlandish speculation in the context of US political economy, where the large prison population is already being exploited to work for near-free for the benefit of politically connected labor-intensive private industry.

A third political economy concern is the productivity of guaranteed employment jobs. A JGP will be sold politically to the public on grounds that JGP workers are productive. However, delivering productivity requires organisational and managerial capacity that the public sector may not have. In that case, there is a risk that such jobs become perceived as "make work". That would play into the political economy of animus to government, and it could boomerang back in the form of politics opposed to government provision of public goods and services and opposed to macroeconomic stabilisation policy.

Careful what you wish for

In sum, the debate over JGPs is fraught. Even those who support the aims of a JGP, and are favourably inclined to activist public policy, may still be wary of a JGP for economic and political economy reasons. Implementing a JGP will require political capital and the right political conditions. It might be better to use that favorable moment to introduce new policies (e.g. a UBI) and upgrade a collection of existing different policy modalities that together deliver the same or more benefits without the political economy risks.

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