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Why public sector job creation should be fashionable

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1. Introduction

Why should public sector job creation be fashionable? The short answer is that persistent labour underutilisation represents the biggest waste of economic resources and the private sector will never provide enough jobs to fully provide the working hours desired by individuals and households in the economy. As we will see the role that the public sector can play in a full employment strategy is, in fact, much more positive than this and can form the basis of sustainable

A longer answer requires us to understand the basic operations of a modern monetary economy which recognises that fiat currency systems are in fact public monopolies *per se*, and introduce imperfect competition to the monetary system itself, and that the imposition of taxes coupled with insufficient government spending generates unemployment in the private sector. The aim of this paper is to provide a broad theoretical macroeconomic framework based on this recognition.

By recognising that the level of unemployment (beyond meagre frictions) is always the choice of the national government and understanding that this choice is tied intrinsically to the conduct of macroeconomic policy in a modern monetary economy, we immediately appreciate the fallacies of the neo-liberal era. Further we enjoy a heightened understanding of the role that government can play in maintaining its near universal dual mandates of price stability and full employment (see Mitchell, 1998; Wray, 1998; Mosler, 1997-98; Mitchell and Mosler, 2002, 2006; Mitchell and Juniper, 2007). At this point, of our journey, the answer to the opening question becomes obvious. The macroeconomic framework presented in this paper also allows us to break out of the standard neo-liberal macroeconomic stranglehold based on the flawed notion of a government budget constraint.

We also recognise that many governments have entrusted their central banks with the responsibility for managing the price level. In this regard, central banks set the interest rate and attempt to *manage* the state of inflationary expectations and achieve an optimal level of price stability and capacity utilisation (typically assumed to be invariant in the long-run to nominal aggregates). Where negative real effects from the operation of inflation-first monetary policy are acknowledged they are theorised to be necessary for optimal long term growth and employment and small in magnitude. There is sufficient empirical evidence available to support the view that sacrifice ratios remain significant and persistent, meaning that GDP losses during disinflation episodes are substantial (see Ball, 1994; Ball and Sheridan, 2003, Mitchell and Muysken, 2008).

Moreover, this monetary policy stance manifests in the labour market as a persistent pool of underutilised labour as a buffer stock for wage and thereby price stability. The pool of underutilised workers and the unemployed workers in particular, is thus widely recognised and monitored as a price anchor, a primary concern for price stability in general, and a prime object of monetary policy. We note that the official unemployed in any OECD country are currently *maintained* within the public sector. Many of the hidden unemployed are similarly maintained via pensions of one sort or another.

After recognising that the effectiveness of unemployment *per se* as a price anchor is a further function of the terms, conditions, and administration of the unemployment

program, we ask whether the current approach is the most effective buffer stock policy to pursue. We argue that the central bank, as part of the consolidated currency-issuing government sector, has another, somewhat similar yet far more effective buffer stock option which is in fact an alternative way of managing the unemployment program. We argue that a superior use of the labour slack necessary to generate price stability is to implement an employment program for the otherwise unemployed as an activity floor in the real sector, which both anchors the general price level to the price of employed labour of this (currently unemployed) buffer and can produce useful output with positive supply side effects.

In this context, the of the paper juxtaposes two buffer stock options that any central bank has to maintain price stability in a modern monetary economy along the macroeconomics principles outlined in Section 2. First, we consider the unemployment buffer stock approach (characterised by the well-known NAIRU concept) which is the current orthodoxy among central bankers. Second, and by way of contrast we explore the employment buffer stock approach, which we term the Job Guarantee (JG).² This approach is based on the fact that imperfect competition introduced by fiat (flexible exchange rate) currency provides the issuing government with pricing power and frees it of nominal financial constraints.

The JG approach represents a break in paradigm from both traditional Keynesian policies and the NAIRU-buffer stock approach. The difference is a shift from what can be categorised as *spending on a quantity rule* to *spending on a price rule*. For example, under current policy, the government generally budgets a quantity of dollars to be spent at prevailing market prices. In contrast, with the JG option, the government additionally offers a fixed wage to anyone willing and able to work, and thereby lets market forces determine the total quantity of government spending. We categorise this as spending based on a price rule.

In Section 3, the NAIRU approach is shown to be a costly and unreliable target for policy makers to pursue as a means for inflation proofing. In Section 4, the concept of the JG is critically examined and the JG is shown to be a superior inflation anchor via its fixed price employment guarantee. We also argue that the standard Keynesian response to unemployment which we term generalised expansion lacks an inflation anchor. We also examine the arguments posed by Kaleckians who suggest that capitalism and sustained full employment are incommensurate and that the capitalist sector would undermine the JG policy. Concluding remarks follow.

2. A modern money macroeconomic framework with imperfect competition

This Section summarises the arguments developed in Mitchell and Mosler (2002, 2006), Mitchell and Juniper (2007); Mitchell and Muysken (2008) which centre on what we term modern monetary theory. We use this term to define a monetary system characterised by a floating exchange rate (so monetary policy is freed from the need to defend foreign exchange reserves) and the monopoly provision of fiat currency. The monopolist is the national government. Most countries now operate monetary systems that have these characteristics. The following macroeconomic principles explain the

fundamental flaws in the arguments used to justify abandoning full employment in the context of a modern monetary economy.

First, under a fiat currency system, the monetary unit defined by the government has no intrinsic worth. It cannot be legally converted by government, for example, into gold as it was under the gold standard. The viability of the fiat currency is ensured by the fact that it is the only unit which is acceptable for payment of taxes and other financial demands of the government.

Second, as a matter of national accounting, the federal government deficit (surplus) equals the non-government surplus (deficit). The failure to recognise this relationship is the major oversight of neo-liberal analysis. In aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending. The federal government via net spending (deficits) is the only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and hence eliminate unemployment. Additionally, and contrary to neo-liberal rhetoric, the systematic pursuit of government budget surpluses is necessarily manifested as systematic declines in private sector savings.

Third, the decreasing levels of net private savings financing the government surplus increasingly leverage the private sector. The deteriorating debt to income ratios which result will eventually see the system succumb to ongoing demand-draining fiscal drag through a slow-down in real activity.

Fourth, the analogy neo-liberals draw between private household budgets and the government budget is false. Households, the users of the currency, must finance their spending prior to the fact. However, government, as the issuer of the currency, must spend first (credit private bank accounts) before it can subsequently tax (debit private accounts). Government spending is the source of the funds the private sector requires to pay its taxes and to net save and is not inherently revenue constrained.

Fifth, unemployment occurs when net government spending is too low. As a matter of accounting, for aggregate output to be sold, total spending must equal total income (whether actual income generated in production is fully spent or not each period). Involuntary unemployment is idle labour unable to find a buyer at the current money wage. In the absence of government spending, unemployment arises when the private sector, in aggregate, desires to spend less of the monetary unit of account than it earns. Nominal (or real) wage cuts *per se* do not clear the labour market, unless they somehow eliminate the private sector desire to net save and increase spending. Thus, unemployment occurs when net government spending is too low to accommodate the need to pay taxes and the desire to net save.

Sixth, while the federal government is not financially constrained it still issues debt to control its liquidity impacts on the private sector. Government spending and purchases of government bonds by the central bank add liquidity, while taxation and sales of government securities drain private liquidity. These transactions influence the cash position of the system on a daily basis and on any one day they can result in a system surplus (deficit) due to the outflow of funds from the official sector being above (below) the funds inflow to the official sector. The system cash position has crucial implications

for the central bank, which targets the level of short-term interest rates as its monetary policy position. Budget deficits result in system-wide surpluses (excess bank reserves). Competition between the commercial banks to create better earning opportunities on the surplus reserves then puts downward pressure on the cash rate. If the central bank desires to maintain the current target cash rate then it must drain this surplus liquidity by selling government debt. In other words, government debt functions as interest rate support via the maintenance of desired reserve levels in the commercial banking system and not as a source of funds to finance government spending.

3. Unemployment buffer stocks and price stability

There have been two striking developments in economics over the last thirty years. First, a major theoretical revolution has occurred in macroeconomics (from Keynesianism to Monetarism and beyond) since the mid 1970s. Second, unemployment rates have persisted at the highest levels known in the Post Second World War period.

Full employment as a genuine policy goal was abandoned with introduction of the natural rate hypothesis and its assertion that there is only one unemployment rate consistent with stable inflation. In the natural rate hypothesis, there is no discretionary role for aggregate demand management and only microeconomic changes can reduce the natural rate of unemployment. Accordingly, the policy debate has become increasingly concentrated on deregulation, privatisation, and reductions in the provisions of the Welfare State with tight monetary and fiscal regimes instituted (see Mitchell, 1998, 2001a).

The almost exclusive central bank focus on maintaining price stability on the back of an overwhelming faith in the NAIRU ideology has marked the final stages in the evolution of an abandonment of earlier full employment policies. In a NAIRU depiction, rising demand will increase output and employment and a range of wage-wage and wage-price forces are invoked as the product market softens which lead to acceleration in price inflation. In response, the role of the central bank is to repress demand via interest rate manipulation. The higher unemployment brings the real income expectations of workers and firms into line with the available real income and inflation falls and then stabilises. The inflation dynamic, in turn, impacts on inflationary expectations such that this independent driver of price inflation is rendered benign. So the prevailing view among central bankers is that monetary policy should adopt low inflation as their sole objective and that there is some unique real level of activity (summarised in either output or employment) that the economy gravitates to, and any episodes of price disinflation will only temporarily push the real economy below these levels.

Under inflation targeting (or inflation-first) monetary regimes central banks shifted their policy emphasis. They now conduct monetary policy to meet an inflation target and, arguably, have abandoned any obligations they have to support a policy environment which achieves and maintains full employment (Mitchell, 2001b). Unemployment since the mid-1970s has mostly persisted at high levels although in some economies low quality, casualised work has emerged in the face of persistently deficient demand for labour hours.

So the modern NAIRU policy framework is in contradistinction to the practice of governments in the Post Second World War period to 1975 which sought to maintain levels of demand using a range of fiscal and monetary measures that were sufficient to

ensure that full employment was achieved. Unemployment rates were usually below 2 per cent throughout this earlier period.

The use of unemployment as a tool to suppress price pressures has, based on the OECD experience in the 1990s, been successful in that inflation is now no longer driven by its own expectations. One explanation is that unemployment temporarily balances the conflicting demands of labour and capital by disciplining the aspirations of labour so that they are compatible with the profitability requirements of capital. Similarly, low product market demand, the analogue of high unemployment, suppresses the ability of firms to pass on prices to protect real margins. Other explanations for the effectiveness of unemployment in controlling inflation are possible. The empirical evidence is clear that most OECD economies have not provided enough jobs since the mid-1970s and the conduct of monetary policy has contributed to the malaise (see Modigliani, 2000). Central banks around the world have forced the unemployed to engage in an involuntary fight against inflation and the fiscal authorities in many cases have further worsened the situation with complementary austerity.

However, central bankers do not characterise their approach according to our construction and they avoid recognition of the empirical fact that contractionary monetary policy continues to generate output and employment losses which are permanent. Instead the dominant paradigm suggests that full employment is a natural derivative of the maintenance of price stability even though this approach to price stability requires the maintenance of an unemployed buffer stock.

Whatever construction is placed on the behaviour of central banking, it is clear that central bankers now use buffer stocks of unemployed to achieve a desirable price level outcome. While the real effects of such a policy have been contested, and there is overwhelming evidence to suggest that the cumulative costs of this strategy in real terms have been substantial. In addition to lost output, other real costs are suffered by the nation, including the depreciation of human capital, family breakdowns, increasing crime, and increasing medical costs. However, and most important to a central banker, the effectiveness of an unemployed buffer stock has been shown to deteriorate over time, with ever larger numbers of *fresh* unemployed required to function as a price anchor that stabilises wages. From empirical observation, the European Union, for example, currently requires unemployment in excess of 8 per cent for price stability!

The overwhelming quandary that the NAIRU approach to inflation control faces is whether the economy, once deflated by restrictive aggregate demand management, can be restarted without inflation. If the underlying causes of the inflation are not addressed a demand expansion will merely reignite the tensions and a wage-price outbreak is likely (Cornwall, 1983; Rowthorn, 1980). As a basis for policy the NAIRU approach is thus severely restrictive and provides no firm basis for full employment and price stability. Further, despite its centrality to policy, the NAIRU evades accurate estimation and the case for its uniqueness and cyclical invariance is weak. Given these vagaries, its use as a policy tool is highly contentious.

The question that arises is whether using a persistent pool of unemployed (or casualised underemployed) is the most cost effective way to achieve price stability? The understanding we achieved from Section 2, where we outlined the imperfectly

competitive macroeconomic framework in which modern governments operate, would suggest that a better alternative would be to utilise an employed buffer stock approach.

4. Employment buffer stocks and price stability

4.1 A productive role for the central bank

We recognise that central banks have, increasingly, been given the responsibility by government for managing the price level. In conducting monetary policy to fulfill their major economic objectives, central banks manipulate the interest rate and attempt to manage the state of inflation expectations. These policy tools are employed to achieve an optimal level of price stability and capacity utilisation (typically assumed to be invariant in the long-run to nominal aggregates). Where negative real effects from the operation of inflation-first monetary policy are acknowledged they are theorised to be necessary for optimal long term growth and employment and small in magnitude.

However, several researchers have found that sacrifice ratios remain significant and persistent, meaning that GDP losses during disinflation episodes are substantial. Additionally, a major component of this monetary policy stance is the persistent pool of labour underutilisation (see Ball, 1994; Ball and Sheridan, 2003, Mitchell and Bill, 2004) as a buffer stock for wage and thereby price stability. The unemployment pool is thus widely recognised and monitored as a price anchor, a primary concern for price stability in general, and a prime object of monetary policy. Recognising that the effectiveness of unemployment *per se* as a price anchor is a further function of the terms, conditions, and administration of the unemployment program, we also recommend management of the unemployment policy and programs be made a function of the agency responsible for said price stability - the central bank.

In terms of the macroeconomic framework developed in Section 2, the central bank, as part of the consolidated currency-issuing government sector, has another, somewhat similar yet far more effective buffer stock option which is in fact an alternative way of managing the unemployment program. We argue that a superior use of the labour slack necessary to generate price stability is to implement an employment program for the otherwise unemployed as an activity floor in the real sector, which both anchors the general price level to the price of employed labour of this (currently unemployed) buffer and can produce useful output with positive supply side effects.

In this vein we are suggesting that politicians should set a minimum acceptable living standard and ensure that a base level job is always available to allow all citizens to achieve that living standard independent of welfare payments. This is the essence of the JG.

4.2 The concept of a Job Guarantee

The JG proposal was conceived independently by Mitchell (1998) and Mosler (1997-98). It has since been developed further by a range of authors (see Forstater, 2003; Wray, 1998; Fulwiler, 2005 among others). The JG is based on the buffer stock principle. Mitchell (2000) discusses the link between the JG approach and the agricultural price support buffer stock schemes like the Wool Floor Price Scheme introduced by the Australian Government in 1970. While generating *full employment* for wool production,

there was an issue of what constituted a reasonable level of output in a time of declining demand. The argument is not relevant when applied to unemployed labour. If there is a price guarantee below the prevailing market price and a buffer stock of working hours constructed to absorb the excess supply at the current market price, then a form of full employment can be generated without tinkering with the price structure. The other problem with commodity buffer stock systems is that they encouraged over-production, which ultimately made matters worse when the scheme was discontinued and the product was dumped onto the market. These objections do not apply to maintaining a labour buffer stock as no one is concerned that employed workers would have more children than unemployed workers (see Graham, 1937).

Under the JG, the public sector offers a fixed wage job, which we consider to be *price rule spending*, to anyone willing and able to work, thereby establishing and maintaining a buffer stock of employed workers. This buffer stock expands (declines) when private sector activity declines (expands), much like today's unemployed buffer stocks, but potentially with considerably more liquidity if properly maintained.

The JG thus fulfills an absorption function to minimise the real costs currently associated with the flux of the private sector. When private sector employment declines, public sector employment will automatically react and increase its payrolls. The nation always remains fully employed, with only the mix between private and public sector employment fluctuating as it responds to the spending decisions of the private sector. Since the JG wage is open to everyone, it will functionally become the national minimum wage. To avoid disturbing the private sector wage structure and to ensure the JG is consistent with price stability, the JG wage rate should probably be set at the current legal minimum wage, though an initially higher JG wage may be set higher as part of a broader priority for an industry policy.

Buffer employment stocks were used in the Post Second World War period to ensure full employment. In the period spanning the immediate post-war years through to the mid 1970s, most advanced western nations, maintained very low levels of unemployment. This era was marked by the willingness of governments to manipulate levels of aggregate demand to ensure enough jobs were created to meet the preferences of the labour force, given labour productivity growth. Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending.

While both private and public employment growth was relatively strong, the major reason that the economy was able to sustain full employment was that it maintained a buffer of jobs that were always available, and which provided easy employment access to the least skilled workers in the labour force (see Ormerod, 1994). Some of these jobs, such as process work in factories, were available in the private sector. However, the public sector also offered many buffer jobs that sustained workers with a range of skills through hard times. In some cases, these jobs provided permanent work for the low skilled and otherwise disadvantaged workers.

The JG proposal recognises that a stock of jobs providing opportunities for the less skilled must be maintained by the public sector if there is to be a true path to full employment. This type of cohesion is a pre-condition for strong communities. The introduction of a JG would restore the buffer stock capacity to any economy and ensure

that, at all times, the least advantaged workers in our community have opportunities to earn a wage and to live free of welfare support.

While it is easy to characterise the JG as purely a public sector job creation strategy, it is important to appreciate that it is actually a macroeconomic policy framework designed to deliver full employment *and* price stability based on the principle of buffer stocks where job creation and destruction is but one component.

4.3 Inflation control under a Job Guarantee

The fixed JG wage provides an in-built inflation control mechanism. Mitchell (1998) called the ratio of JG employment to total employment the Buffer Employment Ratio (BER). The BER conditions the overall rate of wage demands. When the BER is high, real wage demands will be correspondingly lower. If inflation exceeds the government's announced target, tighter fiscal and monetary policy would be triggered to increase the BER, which entails workers transferring from the inflating sector to the fixed price JG sector. Ultimately this attenuates the inflation spiral. So instead of a buffer stock of unemployed being used to discipline the distributional struggle, the JG policy achieves this via compositional shifts in employment. The BER that results in stable inflation is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER) (Mitchell, 1998). It is a full employment steady state JG level, which is dependent on a range of factors including the path of the economy.³

The JG introduces no relative wage effects and the rising demand *per se* does not necessarily invoke inflationary pressures because by definition it is satisfying a net savings desire. Additionally, in today's demand constrained economies, firms are likely to increase capacity utilisation to meet the higher sales volumes. Given that the demand impulse is less than required in the NAIRU economy, it is clear that if there were any demand-pull inflation it would be lower under the JG. There are no new problems faced by employers who wish to hire labour to meet the higher sales levels. Any initial rise in demand will stimulate private sector employment growth while reducing JG employment and spending.

However, these demand pressures are unlikely to lead to accelerating inflation while the JG pool contains workers employable by the private sector. While the JG policy frees wage bargaining from the general threat of unemployment, two factors offset this. First, in professional occupational markets, while any wait unemployment will discipline wage demands, the demand pressures may eventually exhaust this stock and wage-price pressures may develop. With a strong and responsive tertiary education sector skill bottlenecks can be avoided more readily than with an unemployed buffer stock. Second, private firms would still be required to train new workers in job-specific skills in the same way they would in a non-JG economy. However, JG workers are far more likely to have retained higher levels of skill than those who are forced to succumb to lengthy spells of unemployment. This changes the bargaining environment rather significantly because the firms now have reduced hiring costs. Previously, the same firms would have lowered their hiring standards and provided on-the-job training and vestibule training in tight labour markets. The JG policy thus reduces the "hysteretic inertia" embodied in the long-term unemployed and allows for a smoother private sector expansion. It is also worth noting that with high long-term unemployment, the excess supply of labour does

not pose a very strong threat to wage bargaining (Mitchell, 1987, 1998). We thus hypothesise that the threat factor under the JG is now higher.

A crucial point is that the JG does not rely on the government spending at market prices and then exploiting multipliers to achieve full employment which characterises traditional Keynesian pump-priming. In Section 4.6 we argue that traditional Keynesian remedies fail to provide an integrated full employment-price anchor policy framework. In fact, a Keynesian policy agenda would impact more significantly on inflation if it was true that a JG was inflationary as a result of its impacts on demand in the product market.

4.4 Would the NAIBER will be higher than the NAIRU?

Would the NAIBER will be higher than the NAIRU? We anticipate the reverse. Some commentators argue that the NAIBER would have to be greater than the NAIRU for an equivalent amount of inflation control (for example, Sawyer, 2003). There are two strands to this argument. First, the intuitive but somewhat inexact view is that because JG workers will have higher incomes (than when they were unemployed) a switch to this policy would always see demand levels higher than under a NAIRU world. As a matter of logic then, if the NAIRU achieved output levels commensurate with price stability then, other things equal, a higher demand level would have to generate inflationary impulses. So according to this view, the level of unemployment associated with the NAIRU is intrinsically tied to a unique level of demand at which inflation stabilises.

Second, and related, it is claimed that the introduction of the JG reduces the threat of unemployment which serves to discipline the wage setting process. The main principle of a buffer stock scheme like the JG is straightforward – it buys off the bottom (at zero bid) and cannot put pressure on prices that are above this floor. The choice of the floor may have once-off effects only.

It should be noted that while it is clear that JG workers will enjoy higher purchasing power under a JG compared to their outcomes under a NAIRU policy, it is not inevitable that aggregate demand overall would rise with the introduction of JG. We take this issue up in a Section 4.6 but for now assume for argument sake that aggregate demand overall does rise when the JG is introduced.

When aggregate demand is higher when the JG is introduced than that which prevailed in the NAIRU economy, a traditional economist (and some Post Keynesians, such as Sawyer, 2003) might wonder why inflation is not inevitable as we replace unemployment with (higher paying) employment. Sawyer (2003: 898) represented the problem as ‘the level of unemployment achieved could be below a supply-side-determined inflation barrier ... the NAIRU.’ The higher demand may stimulate private investment which then puts upwards pressure on prices. However, the government could react by introducing contractionary measures which would increase the JG pool (as employment was redistributed from the inflating sector to the fixed-wage JG pool) and thus keep inflation under control.

We note that rising demand *per se* does not necessarily invoke inflationary pressures because by definition, given the logic developed in Section 2, the extra liquidity is satisfying a net savings desire by the private sector.

The impact on the price level of the introduction of the JG will also depend on qualitative aspects of the JG pool relative to the NAIRU unemployment buffer. It is here that the so-called threat debate enters. As explained in Section 4.3, the JG buffer stock will be a qualitatively superior inflation fighting pool than the unemployed stock under a NAIRU. Therefore the NAIBER will be lower than the NAIRU which means that employment can be higher before the inflation barrier is reached.

In the NAIRU logic workers may consider the JG to be a better option than unemployment. Without the threat of unemployment, wage bargaining workers then may have less incentive to moderate their wage demands notwithstanding the likely disciplining role of wait unemployment in skilled labour markets (see Sawyer, 2003). But as explained in Section 4.3, an employer would likely consider a JG worker, who is already demonstrating commitment to working, a superior training prospect relative to an unemployed and/or hidden unemployed worker.

The functioning and effectiveness of the buffer employment stock is critical to its function as a price anchor. Condition and liquidity is the key. Just as soggy rotting wool is useless in a wool price stabilisation scheme, labour resources should be nurtured as human capital constitutes the essential investment in future growth and prosperity. There is overwhelming evidence that long-term unemployment generates costs far in excess of the lost output that is sacrificed every day the economy is away from full employment (see Mitchell, 2001a). It is clear that the more employable are the unemployed the better the price anchor will function.

The International Labour Organisation (1996/97: 56) said that ‘prolonged mass unemployment transforms a proportion of the unemployed into a permanently excluded class.’ The ILO argued that these people ‘cease to exert any pressure on wage negotiations and real wages.’ The result is that ‘the competitive functioning of the labour market is eroded and the influence of unemployment on real wages is reduced.’

In summary, Mitchell and Wray (2005: 238) concluded that in ‘hiring off the bottom’ the JG

does not seek to employ any specific number of workers nor does it seek specific skills. Most importantly, it does not chase wages upward and thus never competes with higher and rising private sector wage offers. As a consequence, ELR can achieve and sustain noninflationary full employment at any level of aggregate demand.

We thus hypothesise that the NAIBER would in fact be lower than the NAIRU.

4.5 The political aspects of the Job Guarantee

Some commentators (for example, Sawyer, 2003) invoke political arguments to suggest that the JG will be inflationary. In this context they cite the arguments raised by Kalecki’s 1943 *Political Aspects of Full Employment*, which laid out the blueprint for socialist opposition to Keynesian-style full employment policy. The critique has been used to oppose the JG as a viable progressive economics policy option. Kalecki (1971: 138) said ‘the assumption that a Government will maintain full employment in a capitalist economy if it knows how to do it is fallacious. In this connection the misgivings of big business

about maintenance of full employment by Government spending are of paramount importance.’

Kalecki (1971: 139) listed three reasons why the industrial leaders would be opposed to full employment ‘achieved by Government spending.’ The first asserted that the private sector opposes government employment *per se*. The second asserted that the private sector does not like public sector infrastructure development or any subsidy of consumption. The third asserted that the private sector merely dislikes ‘the social and political changes resulting from the *maintenance* of full employment’ (emphasis in original).

One is tempted to respond to these assertions by referring to the long period of growth and full employment in the Post World War II period up until the first oil shock. Most economies experienced strong employment growth, full employment and price stability, and strong private sector investment over that period under the guidance of interventionist government fiscal and monetary policy. This period of relative stability was only broken by a massive supply shock, which then led to ill advised policy changes that provoked the beginning of the malaise we are still facing after 25 years. In Kalecki's defense it might be argued that it took 30 odd years of the Welfare State to generate the inflationary biases that were observed in the 1970s (Cornwall, 1983).

Kalecki (1971: 139-140) explained how the dislike by business leaders of government spending ‘grows even more acute when they come to consider the objects on which the money would be spent: public investment and subsidising mass consumption ... [and if public spending overlaps with private spending then] ... the profitability of private investment might be impaired and the positive effect of public investment upon employment offset by the negative effect of the decline in private investment.’ This criticism is inapplicable to the JG because the JG jobs would most likely be located in the areas that have been neglected or harmed by capitalist growth. The chance of overlap and substitution is minimal. Of-course, government industry policy may deliberately target an overlap to drive inefficient private capital out.

Kalecki (1971: 140) acknowledged that the ‘pressure of the masses’ in democratic systems may thwart the capitalists and allow the government to engage in job creation. His principle objection then seems to be that ‘the *maintenance* of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders.’ The issue at stake is the relationship between the threat of dismissal and the level of employment. Kalecki (1971: 140-41) said that ‘under a regime of permanent full employment, “the sack” would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow.’

Kalecki was really considering a fully employed private sector that is prone to inflation rather than a mixed private-JG economy. The JG creates what we call loose full employment because the JG wage is fixed (growing with national productivity). The issue comes down to whether the JG pool is a greater or lesser threat to those in employment than the unemployed when wage bargaining is underway. For reasons outlined in Section 9.2.3, the JG workers do comprise a credible threat to the current

private sector employees and are a superior inflation-fighting force than large pools of unemployment.

Kalecki (1971: 142-144) said that counter-stabilisation policy would not worry business as long as the ‘businessman remains the medium through which the intervention is conducted.’ Such intervention should target private investment and should not ‘involve the Government either in ... (public) investment or ... subsidising consumption ...[and if attempts are made to] ... maintain the high level of employment reached in the subsequent boom a strong opposition of “business leaders” is likely to be encountered ... lasting full employment is not at all to their liking. The workers would “get out of hand” and the “captains of industry” would be anxious to teach them a lesson.’ Kalecki was very vague about the form that capitalist opposition would take.⁴ He implied that the reaction would work via business and rentier interests pressuring the government to cut its budget deficit. Presumably, corporate investors could threaten to withdraw investment.

There is ample evidence available to show that the investment ratio moves as a mirror image to the unemployment rate in most OECD countries, which reinforces the demand deficiency explanation for the swings in unemployment (Mitchell, 2001a; Mitchell and Muysken, 2008). The rapid rise in the unemployment rate in the early 1970s followed a significant decline in the investment ratio. The mirrored relationship between the two resumed, albeit the unemployment rate never returned to its 1960s levels in many countries still suffering high unemployment. Far from being a reason to avoid active government intervention, the JG is needed to insulate the economy from these investment swings, whether they are motivated by political factors or technical profit-oriented factors.

Another factor bearing on the way we might view Kalecki’s analysis is the move to increasingly deregulated and globalised systems. Many countries have dismantled their welfare states and enacted legislation aimed at deregulating their labour markets, in particular, in relation to wage determination and the welfare-to-work interface. Trade union membership has also declined substantially in many countries as the traditional manufacturing sector has shrunk and the service sector has grown. Trade unions have traditionally found it hard to organise or cover the service sector due to its heavy reliance on casual work and gender bias towards women. It is now much harder for trade unions to impose costs on the employer. Far from being a threat to employers, the JG policy becomes essential for restoring some security for workers.

4.6 Does the JG operate akin to a generalised demand expansion?

In the discussion of the relative magnitudes of the NAIBER versus the NAIRU we noted that aggregate demand may or may not increase with the introduction of a JG. A common misconception considers the JG to be similar to any Keynesian approach that ‘increases employment by raising aggregate demand’ (Mitchell and Wray, 2005: 235). This misconception has been at the heart of a debate within Post Keynesian economics about the JG approach, characterised by the exchange between Sawyer (2003, 2005) and Mitchell and Wray (2005). Sawyer (2003) perpetuated the erroneous view that the JG is similar to any traditional Keynesian generalised demand expansion. The point is important because if Sawyer’s representation is valid then the debate quickly moves to comparing different options that could be pursued by expansionary fiscal policy – that is,

by increasing government spending, lowering taxes, or in Friedman's conception dropping money from helicopters.

Mitchell and Wray (2005: 236) showed that the JG approach cannot be characterised as Keynesian 'pump-priming' because it is a buffer stock program, which 'hires off the bottom' (paying the minimum wage). The size of the buffer stock of jobs is determined by private activity levels (principally fluctuations in private investment) and non-JG government spending. The stock will fluctuate with movements in aggregate demand. However, the maintenance of full employment under a JG is independent of the state of aggregate demand. This relates to our description above that the JG creates loose full employment.

While Sawyer (2003: 884) said that the 'ELR scheme seeks to remove demand-deficient unemployment through the provision of required aggregate demand', Mitchell and Wray (2005: 237) demonstrated that the 'ELR *can be* implemented without raising aggregate demand' (their italics). While aggregate demand will increase by more than the JG wage bill (for example, to pay for working capital used by the JG workers), the government can tighten fiscal policy to ensure that this demand increase does not threaten inflation. It is thus not inevitable that the introduction of a JG policy would stimulate aggregate demand. In that sense, the introduction of the JG could be accompanied by either deflationary or expansionary fiscal policy. Mitchell and Wray (2005: 236) concluded that the JG approach 'represents the minimum stimulus required to achieve full employment and does not rely on market spending and multipliers—and "works" regardless of the level of demand.'

So in contradistinction to Keynesian pump priming, which competes for labour at market prices, the JG buys labour which attracts a zero bid (that is, no employer is currently prepared to offer these workers employment at the going wage) in the market economy.

4.6 Why not just pursue full employment through generalised Keynesian expansion?

Progressive economists are mostly united by the proposition that the orthodox NAIRU approach to inflation control is costly and unacceptable. The neo-liberal solution to the resulting unemployment is to pursue supply-side policies (labour market deregulation, welfare state retrenchment, privatisation, and public-private partnerships) to give the economy room to expand without cost pressures emerging. Progressive economists, in general reject this strategy because the sacrifice ratios are high and the distributional implications (creation of under class and working poor and loss of essential services) are unsavoury.

However most progressive economists still advocate, as an alternative, the policy recommendations of Keynes himself. Specifically, they advocate generalised fiscal and monetary expansion mediated by incomes policy and controlled investment as a solution to unemployment (Davidson, 1994; Ramsay, 2002-3; Seccareccia, 1999; Kadmos and O'Hara, 2000; Sawyer, 2003, 2005). Davidson (1994: 79) is representative of this mainstream Post Keynesian approach and wrote that 'Government fiscal policy is conceived as the balancing wheel, exogenously increasing aggregate demand whenever private sector spending falls short of a full employment level of effective demand and reducing demand if aggregate demand exceeds the full employment level.'

Under the generalised expansion approach the government ensures spending is sufficient to purchase all available output by the government itself purchasing goods and services at market prices or by the government providing incentives to profit-seekers to expand activity. Both policy measures will be conducive to private employment expansion. Typically, public and private capital formation is targeted.

Four major criticisms of the generalised expansionary approach can be made. First, indiscriminate demand expansion in isolation is unlikely to lead to employment opportunities for the most disadvantaged members of society. Second, generalised expansion fails to address spatial labour market disparities which are now common across OECD economies. Third, generalised expansion does not incorporate an explicit counter-inflation mechanism. Fourth, how does generalised expansion address environmental concerns given that market allocations are the basis for the employment expansion?

The regional disparity issue is addressed by Mitchell and Juniper (2007) in what they call a Spatial Keynesian framework. They show that a generalised expansion will not have the capacity as a stand-alone policy to target regions in need of employment creation which may be reliant on a declining industry. Further, aggregate policy is not able to account for feedback or spill-over effects between regions such that social networks and neighbourhood effects transmit shocks from one region to another. This behaviour underpins the observations common in OECD economies that clusters of high unemployment regions or *hot spots* form as a result of spatial interdependency (Mitchell and Bill, 2006). Arestis and Sawyer (2004: 11, 18) argued correctly that ‘the industrial structure of a region and ... variations in productive capacity as well as in aggregate demand of the region ... [drive these disparities and conclude] ... in terms of policy implications, appropriate demand policies are required to stimulate investment and underpin full employment.’ But how can we be sure that the investment will provide jobs in failing regions? Upon what basis are the most disadvantaged workers with skills that are unlikely to match those required by new technologies going to be included in the generalised expansion?

Accordingly, public investment is unlikely to benefit the most disadvantaged workers in the economy. The JG is designed to explicitly provide opportunities for them. By way of example, during the golden age in Australia (1945-1975) when public capital formation and social wage expenditure was strong, full employment was only achieved because the public sector (implicitly) provided a JG for low skilled workers (Mitchell, 1998). This experience is shared across all advanced economies.

Where is the inflation anchor in the standard Keynesian approach? Most progressive economists who still advocate this approach construct the solution to unemployment in terms of solving the deficient effective demand (closing the aggregate spending gap) by stimulating net spending via purchasing goods and services and/or labour at market prices. An economy struggling with high unemployment will typically react to increases in nominal demand by quantity adjustments (rising output). This applies to the introduction of a JG as well as a generalised expansion. However, the generalised expansion approach will inject considerably more nominal demand into the spending system, directly and via the multiplier processes, than would be the case under the JG. Accordingly, the generalised expansion approach relies on demand stimulus to approach full employment and provides no nominal anchor to the economy. If the quantity

adjustment gives way to price adjustment then full employment may never be reached. The advocates of generalised expansion argue that the expansion could be accompanied by the introduction of an incomes policy. While an incomes policy may help constrain costs pressures there are few examples of successful incomes policy being implemented and sustained in any economy. Ultimately, they do not provide a long-term inflation anchor.

By way of sharp contrast, the JG does not rely on the government spending at market prices and then exploiting multipliers to achieve full employment. The latter approach characterises Keynesian pump-priming and as a consequence fails to provide an integrated full employment-price anchor policy framework. Under a JG policy, the net spending to finance the JG pool is the minimum required to restore full employment, as defined above.

The generalised Keynesian expansion relies on the market to provide the increased employment. Therefore the allocations that follow largely reflect private costs and benefits, hence environmental constraints are likely to emerge. As noted above, JG proponents emphasise the regional dispersion of unemployment. Higher output levels are required to increase employment, but the composition of output remains a pivotal policy issue. JG jobs would be designed to support local community development and advance environmental sustainability. Indeed, an environmental criterion could be used to determine which jobs are acceptable for the JG, introducing an environmental planning aspect to the policy framework. JG workers could participate in many community-based, socially beneficial activities that have intergenerational payoffs, including urban renewal projects, community and personal care, and environmental schemes such as reforestation, sand dune stabilisation, and river valley and erosion control. Most of this labour intensive work requires very little capital equipment and training (Mitchell, 1998).

It is this spatially targeted employment policy that Mitchell and Juniper (2007) called Spatial Keynesianism, in contrast to the bluntness of orthodox Keynesian tools which fail to account for the spatial distribution of social disadvantage.

We do not want it thought that the JG is the only solution available to government. While advocates of the generalised expansion approach usually ignore any role for a buffer employment stock policy, which allows the government to guarantee full employment using automatic stabilisers by purchasing at fixed prices, the fact is that both approaches can co-exist, although such a co-existence, for reasons noted below may not be optimal. This position also qualifies our discussion in Section 2 where we advocated government spending when unemployment is too low. As we argued above that spending should not necessarily be of a general nature. Further, the JG does not replace social security payments to persons unable to work because of illness, disability, or parenting and caring responsibilities. Clearly, and emphatically, a mixture of both approaches is likely to be optimal – a generalised expansion alone is not preferred.

4.7 Financial considerations of the Job Guarantee in a modern monetary economy

Following the analysis of the options facing a government which issues fiat currency in a modern monetary economy in Section 2 several specific issues are relevant to a discussion of the JG. First, does the implementation of the JG imply that it would be

financed entirely by net spending? The government can always meet the financial demands involved in implementing the JG. Whether the government budget is in deficit or not is endogenous and dependent on the saving desires of the non-government sector. There is little doubt that in a stagnant economy, the JG pool would increase (as private employment falls) and the government budget would be expected to reveal larger deficits. But logically, the budget could be in surplus with a JG policy operating if there was a strong private sector expansion underway. The major point is that the size of the budget is not a reasonable policy target for government interested in maintaining full employment.

Second, some commentators who have criticised the JG do not reveal a solid understanding of the material discussed in Section 2. For example, Kadmos and O'Hara (2000: 10) stated that 'government spending can never be restrained. The government is in a position to hire all unemployed workers at any price it chooses, financing this labour force by printing as much money as required that will achieve full employment.' In reality, the appeal to 'printing money' is erroneous. Mitchell and Wray (2005: 242) argued that

government always spends by crediting bank accounts and taxes by debiting them. If spending exceeds taxes, then HPM [high powered money] remains as bank reserves, but it is misleading to say that deficits are financed by printing money. ... ELR will be "financed" in the same manner as any other government spending. ... If the government credits to bank balance sheets resulting from payment of ELR wages (and other associated spending) lead to excess banking system reserves, these are immediately drained by automatic central bank intervention—either by winding down loans at the discount window or through open market sales of bonds.

Third, some economists believe that the high powered money creation required to finance the budget deficits created by the JG will generate inflation. But this common perspective, firmly Monetarist in origin, profoundly misrepresents central bank operations. As indicated in the quote of Mitchell and Wray above, central bank operations are always defensive and are undertaken to drain excess reserves. So unless the central bank sets a zero cash target interest rate there won't be any excess money in the system.

Fourth, will the JG place upward pressure on interest rates as in the crowding out story? While the JG is not necessarily financed by net government spending it is likely that the government would be in deficit if the JG pool was rising. The crowding out hypothesis suggests that if this deficit was financed by debt issuance, interest rates would rise and damage private spending which was sensitive to interest rates. In response, we emphasise that central banks set the short-term interest rate taking into account a range of considerations including the expected inflation rate, currency rates and other aggregates. With a deficit, the central bank (or the treasury) has to sell bonds to drain excess reserves and keep control of their target rate of interest (unless they are targeting a zero overnight rate). As we discovered in Section 2, a deficit-financed JG will actually place downward pressure on interest rates.

5. The Job Guarantee and social policy

The social policy aspects of JG have been a topic of heated debate from the very beginning. In this section we discuss the various questions at issue: Are the jobs under the JG real jobs? Does the JG produce zero value output? Does the JG provide career paths back into private employment? Does the JG replace unemployment with underemployment? Should the JG be accompanied by an abolition of unemployment benefits and other income support payments?

5.1 What about the quality of jobs under the Job Guarantee? Are they real jobs?

Some commentators have criticised the JG approach on the basis that there would not be enough meaningful opportunities to efficiently utilise the unemployed. Sawyer (2003: 891) argued that JG if they are to be inclusive to all would ‘not require much skill’ or ‘use skills which are widely available in the population’ and would ‘lead to the production of useful output’ which is not ‘necessary in that the output is only forthcoming when aggregate demand is low and the ELR jobs are required.’ In other words, only when demand is low does JG increase output which is precisely when the output is not desired.⁵

In relation to this, Sawyer (2003: 894) provided a strange twist on marginal productivity theory, when he argued that if JG pays low wages, then productivity of JG workers must be low. We see productivity as mostly socially determined, not as some characteristic of the individual worker. Further, the productivity in question should be social productivity, not productivity in a market sense. We do not believe that low pay in the JG program necessarily ensures low *social* productivity of the JG program. For example, a childcare program employing JG workers could have very high social productivity.

Taking a similar tack, Kadmos and O’Hara (2000: 10-12) criticised the focus on government consumption of low-skilled services by JG advocates. They claimed the leading sectors rely on information, knowledge, communications and networking. They advocated a boost to public infrastructure investment which enhances the profitability of private sector investment, in addition to contributing to aggregate demand and employment. Clearly, if a political will exists to construct public infrastructure then employment levels will rise subject to real resource availability. This is independent of the need for a JG. Yet, the JG should be accompanied by social wage spending to increase employment in education, health care and the like (Mitchell, 1998). But, as we discussed in Sections 4.6 and 4.7 above, sole reliance on public sector investment to achieve full employment, would create considerable economic inflexibility. The ebb and flow of the private sector would not be readily accommodated and an increasing likelihood of inflation would result (Forstater, 2000).

Further, it is surprising that these types of criticism are applied exclusively to public sector job creation (usually vilified as so-called make work plans or raking and boondoggling) while the fact that in all OECD economies thousands of low-wage, low-skill private sector jobs are created every day is largely ignored. Sawyer (2003: 893-893) is representative of this dualism. Mitchell and Wray (2005: 239) said that it appears that Sawyer ‘is disturbed only when the public sector creates such jobs, because of problems of switching on jobs which have capital requirements, problems in “undercutting of

wages for mainline public sector jobs” by being “substitutes for mainline public sector employment,” problems in yielding output “in competition with output which is or could be produced by the private sector,” problems relating to the spatial and temporal distribution of unemployment and the like.’ It is remarkable that the invisible hand of the market is presumed to operate smoothly without creating problems, while the visible hand of government is believed to be incapable of dealing with logistical complications.

The JG is based on the employment buffer stock principle and this places some specific requirements on the structure of the jobs. Importantly, the JG has to provide for a fluctuating labour force that varies inversely with private demand. The cyclical nature of JG jobs presents an operational design challenge for the administration of such a scheme and the design of the JG jobs. As Mitchell and Wray (2005: 239) put it:

JG jobs would have to be productive yet amenable to being created and destroyed in line with the movements of the private business cycle. While challenging this is not an impossible requirement for public policy to meet. The private sector does not have a monopoly on being able to mobilise a diverse range of resources and successfully complete thousands of tasks within a tight and complex schedule.

The cyclical nature of the jobs suggests that in designing the appropriate ELR jobs the buffer stock should be split into two components:

- a core component that represents the average buffer stock over the typical business cycle given government policy settings, trend private spending growth, and a mismatch of labour force characteristics and employer preferences; and
- a transitory component that fluctuates around the core as private demand ebbs and flows.

The existence of a stable core, which might change slowly and predictably as government policy settings change, would allow JG administrators to more easily allocate workers to jobs. Many of these core jobs would be more or less permanent. More ephemeral JG activities could then be designed to switch on when private demand declined below trend. These activities would not be used to deliver outputs that might be required on an ongoing basis, but would still advance community welfare (see Mitchell, 1998 for examples of such jobs). It is difficult to be precise about the size of the typical average buffer stock over the course of a business cycle.

However, it would not be difficult to establish what the national unemployment rate would be given the stance of fiscal and monetary policy and levels of private spending at any point in time. The difference between this rate and the full employment rate (around 2 per cent of the labour force) is then the implied size of the JG pool. Finally, if the government decided to play a more substantial role in the economy by expanding their commitment to areas like public education, public health or environmental sustainability, then the core buffer would fall substantially.

Sawyer (2003) raised the issue of labour force churning whereby a high proportion of those who enter official unemployment exit that status regularly. While large movements in and out of the short-term unemployment pool are common in most labour markets it does not make the operation of the JG any more difficult as Sawyer implied. Mitchell and Wray (2005: 239) noted that in fact many of those who lose jobs ‘will prefer to undertake

full-time search rather than accepting temporary ELR work ... The relatively low pay will act as a disincentive for many job losers'. Therefore there is no reason for ELR to induce all of those with short-term spells of unemployment into ELR work.

Sawyer (2003) also argued that if aggregate demand was high enough then the JG pool would disappear. While logically correct, there is very little chance that the private sector demand (coupled with standard government demand for labour) will ever create that many jobs. Mitchell (2001b) argued that full employment was only sustained during the post war period by the implicit existence of a public sector buffer stock (see also Ormerod, 1994).

Once modelling along the lines outlined above provided a guide to the steady-state JG jobs that would be required, work allocations would be prioritised among a broad array of community enhancing activities. In this way, it is unlikely that any important function or service would be terminated abruptly, due to a lack of buffer stock workers, when the private demand for labour rises. Thus, the design and nature of JG jobs would reflect the underlying notion of a buffer stock. This stock would, in turn, have a steady-state or core component determined by government macroeconomic policy settings, and a transitory component determined by the vagaries of private spending. In the short-term, the buffer stock would fluctuate with private sector activity and workers would move between the two sectors as demand changes. Longer-term changes in the size of the average buffer stock would reflect discrete changes in government policy. Given that unemployed people are already supported by the public sector welfare system, the JG would require only a low level of additional public investment to allow currently unutilised labour to perform a range of useful activities of benefit to the broad community.

By ensuring that there are always employment opportunities for people within the target groups, the JG strategy would help to reduce poverty. It is a policy direction that facilitates social inclusion, not exclusion, and the focus on community development recognises the multi-faceted nature of the problems confronting areas of high unemployment. The JG would also serve to reduce regional disadvantage. The policy would not eliminate inequality between geographical regions on its own. However, it would help communities in disadvantaged areas to maintain continuity of income and labour force attachment, without recourse to welfare dependence.

Importantly, the JG strategy also acknowledges the strains on our natural ecosystems and the need to change the composition of final output towards environmentally sustainable activities. Environmental projects are ideal targets for public sector employment initiatives as they are likely to be under-produced by the private sector due to their heavy public good component. If a portion of JG jobs were used to repair and restore the environment, the workers would re-gain personal dignity, and society would gain from the increased provision of goods and services which support sustainability. It is not increased demand per se that is necessary but increased demand in sustainable areas of activity.

In determining whether a JG job is superior to unemployment (that is, whether it is socially beneficial to employ unused labour) we only have to determine whether the marginal benefits are positive. With creative thinking and professional administration this very low benchmark would be easily exceeded by the JG jobs on offer.

The JG is thus designed to ensure that the lowest skilled and experienced workers are able to find employment. The JG is a full employment-price stability policy and should be judged on those terms. It does not presume that JG jobs will suit all skills. For some skilled workers who become unemployed in a downturn the income loss implied would be significant. Yet, Seccareccia (1999) acknowledged that a fully employed economy with the JG workers paid minimum wages represents a Pareto improvement, when compared to the current unemployment.

5.2 Does the Job Guarantee produce zero value output?

Sawyer (2003: 895) approached the quality of jobs issue by concluding that JG workers would usually be ‘paid more than they produce’ which implies that the output they produce is not valued by the economy. Indeed, the criticism that JG jobs are not ‘real jobs’ carries with it the related claim that the output produced is not ‘real output’. So if the JG wage (w) is greater than the productivity of the JG job (q) then according to Sawyer (2003: 895) ‘the ELR workers are making net claims on the rest of the economy (equal to $w - q$) ... [and] ...that the net claims ... are greater than those currently made by the unemployed.’ (2003: 895). Sawyer (2003: 895) then concluded that if the output ‘... is not valued by others, it is as though the ELR worker is producing nothing.’ How should we assess this claim?

First, it suggests that the only mechanism that can validate output as being of value is the private market (which includes government spending that competes in the private market for resources). Even neoclassical theory acknowledges that private benefits and costs can diverge from social benefits and costs. Many activities which produce outputs are possible which have zero private market value but deliver positive contributions to the community (positive social value). The JG would likely focus on labour intensive activities which would fall into this category. It is also obvious that many jobs are created in the private sector, especially in the low skill service sector (for example, fast food shops) which may have very little or even negative social value. In assessing social value, we also have to consider the impacts on the previously unemployed individual who transits from welfare dependence via the JG. There is substantial evidence that these benefits are likely to be significant (Mitchell, 1998). Mitchell and Wray (2005: 241) concluded that it ‘is difficult to believe that ELR will produce less social value than fast food production’.

Second, there is a problem that economists have to confront relating to the static concepts of work and productivity which underpin the criticism that JG jobs are not productive. To accommodate the benefits of technological progress a debate about the future of paid work is clearly important. The concept of gainful work which relates to performing work for profit will have to be broadened to embrace a range of other activities not usually considered to be work. We clearly will need to make a transition in the way we link work and income generation such that old-style capitalist concepts of the work ethic are replaced with more creative uses of human activity. Further the right to work and hence income has to be preserved for all. In advocating a transition, we do not support those who advocate for institutionalising non-work via a basic income guarantee. We do not consider that society is advanced enough as yet to embrace a culture whereby some do not work at all but receive State support without commensurate activity being required.

Social attitudes take time to evolve and are best reinforced by changes in the educational system.

In this context, the JG is a progressive, forward-looking approach for a state aiming to rebuild communities based on the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer. It also provides the framework whereby the concept of work itself can be extended and broadened to include activities that we would dismiss as being leisure using the current ideology and persuasions, as well as to encourage private sector activities currently counted as productive in a narrow sense that societies of the future will view as socially destructive.

5.3 Does the Job Guarantee provide career paths back into private employment?

Kadmos and O'Hara (2000) and Seccareccia, (1999) claimed the low-wage service JG employment produce skills which are of little benefit to the private sector (see also Sawyer, 2003). Kadmos and O'Hara (2000) alleged that in a tightening labour market with structural unemployment, firms drive up wages to retain skilled staff, thereby maintaining unemployment in the context of wage/wage inflation. But structural unemployment is itself a loaded term because it ignores the fact that firms adjust hiring standards across the business cycle and offer training slots as part of their recruitment strategies when labour markets tighten. Certain individuals are excluded from job/training offers by discriminating firms because they are deemed to possess undesirable personal characteristics, although discrimination reduces as activity increases (Thurow, 1976; Friedlander *et al.*, 1997; Welters and Muysken, 2006).

For that reason economists should question why these discriminative practices occur rather than perpetuating the idea that there are structural labour market impediments. Moreover, the JG redresses this discrimination that many wrongly call structural unemployment. For instance, via regionally-based job creation programs, the JG can productively employ all workers who cannot find a private employer.

The JG also does not preclude training initiatives (see Mitchell, 1998). Appropriately structured training within a paid employment context helps overcome the churning of unemployed through training programs, workfare and other schemes under current neo-liberal policies. Specific skills are usually more efficiently taught on the job.

As a consequence, a properly designed JG can help previously unemployed persons to make transitions into careers in the private sector and also stimulate employers to modify their recruitment behaviour.

5.4 Does the Job Guarantee replace unemployment with underemployment?

Related to the criticism that the JG does not provide real jobs to the unemployed, Sawyer (2003: 894) argued that the JG 'in effect constitutes unemployment by another name' because it would create jobs that are prone to underemployment. The International Labour Organization (ILO) defined two types of underemployment: (a) time-related underemployment which relates to insufficient hours of work (and is the measure of underemployment adopted at the Sixteenth ICLS (ILO, 1998)); and (b) underemployment reflecting an 'inadequacy of employment situations', which refers to '...situations in the workplace which reduce the capacities and well-being of workers compared to an

alternative employment situation' (ILO, 1998). While imprecise, the ILO suggested that these situations might include 'inadequate use of occupational skills; excessive hours of work; inadequate tools, equipment or training for the assigned tasks; travel to work difficulties; inconvenient work schedules; and recurring work stoppages because of delivery failures of raw material or energy.' Before the 1998 ICLS convention, the ILO used the ICLS 1966 definition of underemployment which separated 'visible underemployment' (time-related) from 'invisible underemployment' which referred to situations where workers were not fully using their skills in their current employment (because the job itself is low skill and/or the worker is idle part of the time) (ILO, 1990).

Clearly the JG solves the problem of time-related underemployment. The JG workers can voluntarily choose what fraction of full-time hours they wish to work. In fact, the introduction of the JG is likely to reduce time-related underemployment. In recent expansions, many OECD economies (notably, the English-speaking ones) have reduced official unemployment but at the same time created a growing proportion of part-time work which has been associated with increasing time-related underemployment. Much of the recorded underemployment is in the low-skill service sector. A full-time JG job at wages commensurate with those prevailing in the low pay private sector service industries would be attractive when compared to a low skill private job that rations the worker hours. As a consequence, the introduction of a JG, which provides the opportunity for workers to engage in full time employment, would likely place pressure on private employers, who have failed to provide sufficient hours of work to satisfy the preferences of their workforces, to restructure their workplaces to overcome the discontent that their underemployed workers feel.

However, the attack on the JG in this context is based on the allegation that it will introduce invisible underemployment. This argument has been advanced by the Post Keynesian economists Sawyer (2003) who surprisingly employed a neoclassical-inspired human capital analysis to outline three scenarios which compares the implied productivity of a JG job (q) to the "true" productivity of the worker in an alternative job (Q). The neoclassical nature of this analysis rests on Sawyer's idea that productivity is embodied in the individual (a central plank of human capital theory) instead of the more reasonable and realistic notion that productivity results from a 'complex mix of individual capacities, team-based collaboration, on-the-job training, and job design and management' (Mitchell and Wray, 2005: 241).

Sawyer (2003: 894) characterised $q < Q$ as the general case because 'ELR jobs are low-skill, low-productivity jobs' and accordingly concluded that 'underemployment replaces unemployment'. It is quite clear that if the JG is to be a functional employment safety net then the jobs made available have to be accessible for the most disadvantaged workers in the labour market. It is empirically irrefutable that this cohort usually is disproportionately represented in the unemployment pool (particularly in long-term unemployment).

If productivity is more complex as noted above then it is likely that q will approximate Q , for most individuals who will rely on JG employment in between stints in the low-pay private labour market (see Mitchell and Wray, 2005).

In severe downturns, when unemployment is widespread and impacting on the broader occupational structure it is likely that the higher skilled workers will face the choice between taking a JG position or entering wait unemployment. Logically, if they choose a JG (presumably as a temporary option) then some skill-based underemployment will exist. However the output loss implied by this underutilisation is less than under a NAIRU economy and reflects the negative consequences of allowing the level of activity to fall below full employment. The likelihood of skilled workers opting for wait unemployment is also high as they usually receive more generous redundancy payments which help to tide them over during a period of idleness. They may also conceive a career disadvantage in taking a low-wage JG position given that they would expect the business cycle to improve and their spell of unemployment to be relatively short in duration.

Overall, the introduction of the JG is likely to more closely align the preferences of the workforce with the provision of hours of work than under the current NAIRU approach. JG jobs can clearly be offered at fractions of full-time hours to suit the workers relying on them. There would be no enforced time-related underemployment and workers would be sovereign in the final number of hours they worked. In this sense, workers could more easily align their other commitments (family, recreational) with their working lives (see Wray, 1998).

5.5 Would the Job Guarantee be accompanied by an abolition of unemployment benefits and other income support payments?

The introduction of a JG has no necessary bearing on the availability or operations of existing income support payments. Existing unemployment benefit schemes could easily co-exist with a JG scheme and workers could be given a choice as to whether they accept income support or work in a JG job for a wage. Mitchell (1998), in the Australian context, advocated the abandonment of usual unemployment benefits payments once a JG is introduced, barring the paying of transition income support capacity based on an activity test. The activity test would be the availability of a JG position and once this offer was made no further access to unemployment benefits would be provided.

Sawyer (2003: 897) is critical of this approach and asked ‘who would be required to undertake ELR employment (or otherwise receive no income and who would, in effect, be exempt (and receive forms of income support from the State).’ However, this is not a problem specific to the JG but in fact is a basic issue in any categorical benefits system. Workers who are unable to work would have access to the other forms of state-provided income support as they currently do (depending on country concerned). This form of income support is typically split into different categories such as aged pension, sickness benefit, disability support pension, and other types of payments. To be eligible for one of these payments particularly before one qualifies on age alone, individuals have to fit themselves into a relevant category. For its part, the state has to establish mechanisms to screen applicants to ensure the integrity of the pension system. Unemployment benefits are subjected to activity tests and other forms of screens. No new problem is introduced with the JG that doesn’t already exist.

What JG does is to provide jobs to all who want to work. Most public policy today uses the stick to force able-bodied off welfare without providing the carrot in the form of jobs.

Most welfare-to-work schemes are little more than a cruel joke, precisely because there is no job for most welfare-leavers.

6. Conclusion

Given the overwhelming central bank focus on price stability, and the critical roll of today's unemployed buffer stocks of unemployed, we argue that functioning and effectiveness of the buffer stock is critical to its function as a price anchor.

Condition and liquidity are the keys. Just as soggy rotting wool is useless in a wool price stabilisation scheme, labour resources should be nurtured as human capital constitutes the essential investment in future growth and prosperity. There is overwhelming evidence that long-term unemployment generates costs far in excess of the lost output that is sacrificed every day the economy is away from full employment (see Mitchell, 2001a).

It is clear that the more employable are the unemployed the better the price anchor will function. The government has the power to ensure a high quality price anchor is in place and that continuous involvement in paid-work provides returns in the form of improved physical and mental health, more stable labour market behaviour, reduced burdens on the criminal justice system, more coherent family histories and useful output, if well managed.

It is also the case the training in a paid-work environment is more effective than contextually isolated training schemes, which have become the fashion under the active labour market programs pursued by governments in all countries over the last two decades.

So, it should be clear why public sector job creation should be fashionable.

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² The term *employer of last resort* (ELR) is interchangeable with the term *buffer stock employment* (BSE) and *Job Guarantee* (JG). The latter two descriptions of the approach to full employment are found in the work of Mitchell whereas the ELR terminology is used by Mosler and Wray and the US commentators. Wray now prefers 'public service employment' (PSE). While ELR is accurate in one sense, it also provides a negative connotation that neither PSE nor JG implies.

³ There is an issue about the validity of an unchanging nominal anchor in an inflationary environment. The JG wage would be adjusted in line with productivity growth to avoid changing real relativities. Its viability as a nominal anchor relies on the fiscal authorities reigning in any private wage-price pressures. Clearly, in a hyperinflation environment, the discipline of the JG wage would fail. But in historical experience these circumstances have been rare.

⁴ We leave aside the political rationale where presumably funds directed to sympathetic political parties and control of the media could all be effective means to oppose an incumbent government.

⁵ Elsewhere, he argued that at full employment, output cannot be increased. Since the JG achieves full employment, output cannot be increased once it is implemented. From the analysis earlier in this Paper, it should be clear that this is incorrect. A JG can achieve full employment at any level of aggregate demand and at any rate of economic growth. Obviously, this does not imply that aggregate demand can be at any level given full employment.