



The Job Guarantee: Toward fiscal, monetary, and social policy integration in the Eurozone

Pavlina R. Tcherneva

Chair and Associate Professor, Bard College
Research Associate, Levy Economics Institute

<http://pavlina-tcherneva.net>

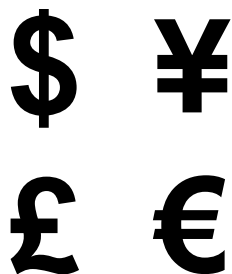
 @ptcherneva

March 9, 2017

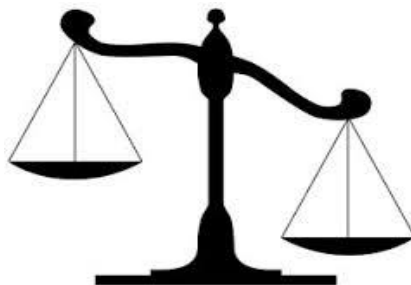


Modern Money Approach

1. Money and Monetary Systems



2. Unique Deficit Perspective



3. New Economic Possibilities

*(full employment
& price stability)*





Summary

- The issuer spends **first**, *collects taxes and borrows later*.
- Bonds and Taxes do not ‘**fund**’ the government financially
 - create **demand for currency**
 - Bond sales offer an **interest bearing alternative**
- Debt and deficit/GDP ratios are **arbitrary, not useful guide** to policy
- Sector balances: **government deficit = private surplus**
- Monopolist is always technically **solvent**. Limits are political.
- The issuer can always choose **how** to provide the currency
- Monopolist can always **set prices/anchor the value** of the currency
 - The ECB
- **No such policy currently exists**
- **Sovereignty** and **policy space** to achieve economic objectives



3. New Economic Possibilities

Full Employment and Price Stability

~~UNEMPLOYED~~





Unemployment

A 'special' problem

A 'monetary' problem

Enormous social and economic costs



Unemployment: A Monetary Phenomenon

- Unemployment is a ‘monetary phenomenon’
 - It’s about “paid work”, someone seeks to obtain the currency but is unable
 - firms are not in the business of providing jobs for all. Government is.
- The currency is a public monopoly: The monopolist can choose how to emit its currency
- The government has chosen a policy of **paying for unemployment**. There is a **superior** policy—paying for **employment**
- The Job Guarantee, Transitional Job Offer, Employer of Last Resort
- The Choice: **unemployment buffer stock** or **employment buffer stock**



Choosing a Buffer Stock

- Examples of buffer stocks
 - Wool, Corn, Gold, Silver, labor (employed or unemployed)
- Prices of physical commodities are very volatile compared to labor
- Production responds to price changes for physical commodities (inflation causes more mining, planting, grazing); production of labor does not respond with price changes when it comes to labor (population growth)



The Job Guarantee

- What?
 - Governments offer voluntary guaranteed **transitional employment** opportunity at a **fixed base wage** for work for the public purpose
 - **Structural reform** that enhances efficiency and competitiveness
- Why?
 - A superior **price** and **currency anchor**
 - A superior **macroeconomic stabilizer**
 - A basic **human right**
 - A missing piece of the **safety-net**
 - A method of **inoculation**
- How?
 - Public Service, Social Entrepreneurship and Non-profit work (Tcherneva '12, '14)
 - Argentina's *Plan Jefes*. Youth Transitional Job Guarantee
 - **ECB Proposal**



Currency Anchor & Macroeconomic Stabilizer

- Currency issuing monopoly can **choose how** to spend and **set a price** for its currency
- The “price setter” and can determine two prices for the currency
 - 1) The “own rate”: how the product exchanges for itself (for a currency it is the ECB interest rate)
 - 2) how the product exchanges for other products/goods and services in the economy
 - It can set the terms of exchange for at least one traded good or service
- Choose a commodity to serve as the internally stable currency anchor.
- Proposal: Replace **Natural Rate of Unemployment** with **Natural Rate of Transitional Employment**

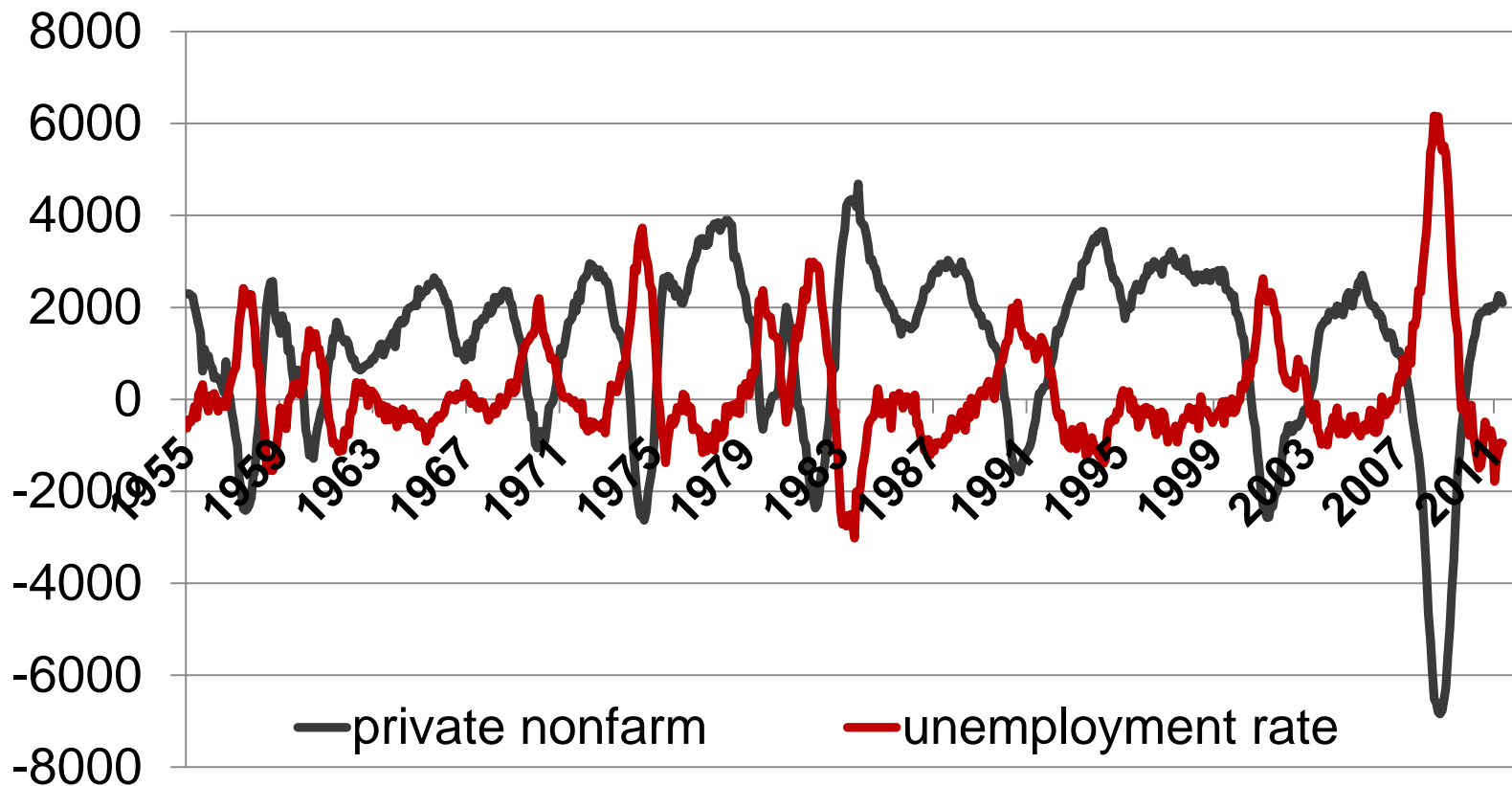


Currency Anchor & Macroeconomic Stabilizer

- **Unemployment Buffer Stock**
 - Uses unemployment to control inflation
 - Quantity rule: fixed budgets, floating market prices
- **Employment Buffer Stock**
 - uses JG to anchor prices
 - **Price rule**: floating budget, fixed price for labor
 - Buy all excess labor available for sale and provide a floor to the price of labor for the economy as a whole (effective minimum-wage policy/ compare to commodity buffer stocks)



Unemployment Buffer Stock: US





JG: Superior Price Stabilizer

- The JG wage is **set exogenously** by the government and is therefore a **stable benchmark** for all prices
- JG is more **'liquid'**: the buying and selling of the 'employed commodity' is superior to that of the 'unemployment commodity'
 - Firms do not wish to hire the unemployed
 - This resistance leads to **labor shortages** even when there is high **unemployment**
- JG produces **useful output**. It increases both aggregate DD and aggregate SS.
- Employment buffer stock allows economy to operate **at higher level of non-inflationary output** than an unemployment buffer stock.



Superior Price Stabilizer

- JG reduces price fluctuations
 - JG workers are hired by **private** sector when there are **inflationary** pressures
 - JG workers are hired by **government** when there are **deflationary** pressures
- JG ensures that **budget deficits** are never too big or too small
- **Human Capital** is maintained and enhanced, bringing **productivity gains**
- JG **reduces** other social and economic direct and indirect costs (spending on unemployment insurance, welfare and other aid falls)
- JG may be directed toward public works and other infrastructure development that will promote private sector productivity growth, efficiency, competitiveness



Additional Features of the Job Guarantee

- long-run macroeconomic stabilizer
- Infinitely elastic demand for labor
- Targeted
- Floor to wages/effective minimum wage
- Embedded inflation control mechanism
- Centrally-funded, locally-administered
- Focuses on communities; targets distressed areas
- Bottom-up policy, not trickle down or pump priming policy
- Preventative



Missing Piece of the Safety-net

A direct approach

- Retirement income insecurity
 - social security
- Homelessness
 - housing
- Food insecurity
 - food
- Joblessness
 - **job**

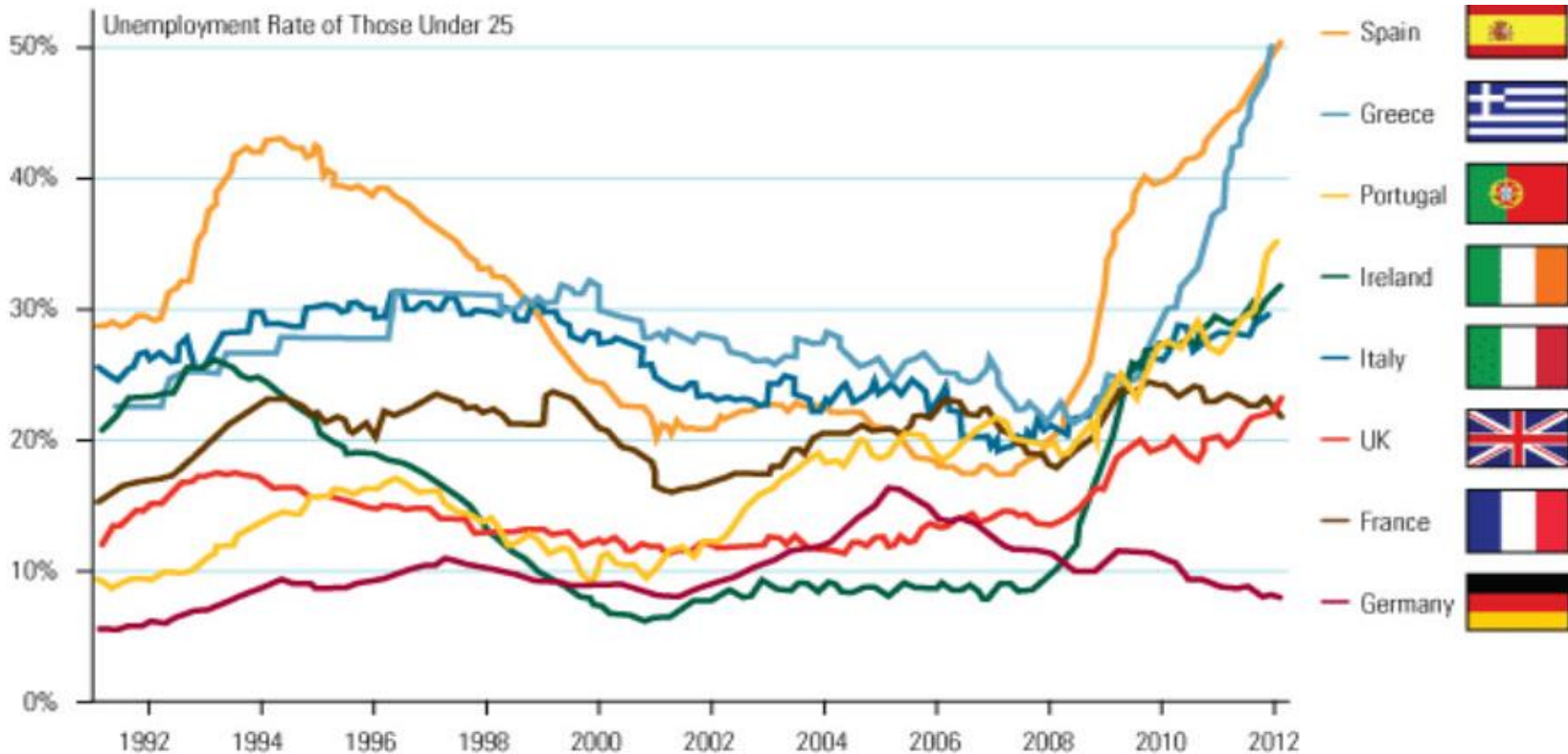


Prevention, Not Just Cure

https://www.youtube.com/watch?v=shqJR_0Wdrl&t=3s



European Youth Unemployment



Source: Thomson Reuters Datastream, Eurostat
Reuters graphic/Scott Barber 4/2/2012



A Social and Economic Epidemic

- Chronic
- Vicious
 - Unemployment breeds unemployability; firms don't hire the unemployed
- Deadly
 - Permanent increase in mortality 30-40%; 1 in 5 suicides
- Costly (individual, families, communities, economy)
 - Permanent loss of lifetime earnings; permanent negative impact on social participation and social capital; rise in physical and mental problems and health costs
 - Negative impact on child growth, nutrition, school, and labor market outcomes
 - Increase in crime, disability, alcoholism
 - Direct and indirect financial and real costs to the State
 - US (4.7% unemployment), we forego \$2-10b of GDP per day



Direct Job Creation Examples

- **Right to work:** Sweden, India's NREGA
- **Crisis resolution:** U.S.'s New Deal programs (WPA, PWA, CWA), Argentina's *Plan Jefes*
- **Unemployment, Poverty, Youth, Women:**
 - **Developed countries:** U.K.'s *Future Jobs Fund*, *Community Jobs Scotland*, USA Youth Entitlement, Eurozone *Youth Guarantee*
 - **Developing countries:** South Africa's *EPWP I&II*, Peru's *Programa de Apoyo*, Mexico's *Programa de Empleo Temporal*, Indonesia's *Padat Karya*

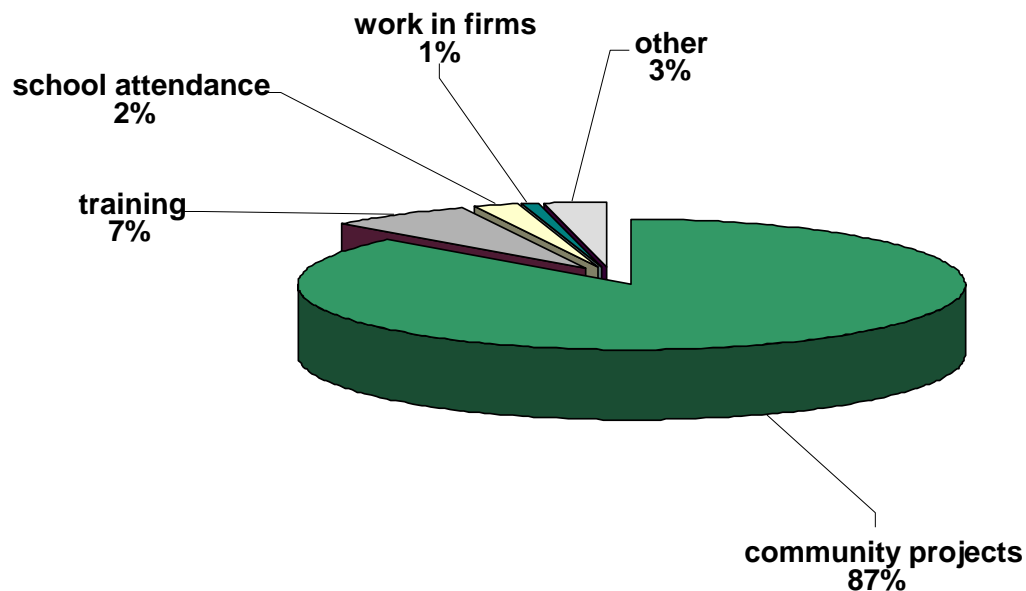


Lessons from Argentina: *Plan Jefes y Jefas*

- 4hr/day of public sector for 150 pesos/mo for any unemployed head of household
- 2 million participants at its peak
- Program costs were <1% of GDP at its peak
- Well-targeted: many with unsatisfied basic needs, little or no education, low income
- 87% of activities were in community projects
- 60%-80% maximum government financing for each project
- Decentralized administration
- Sharp reduction in indigence rates, program multiplier of 2.57
- By 2005, 75% of participants were women
- Positive impact on families



Workers per type of *Jefes* employment





Types of community projects

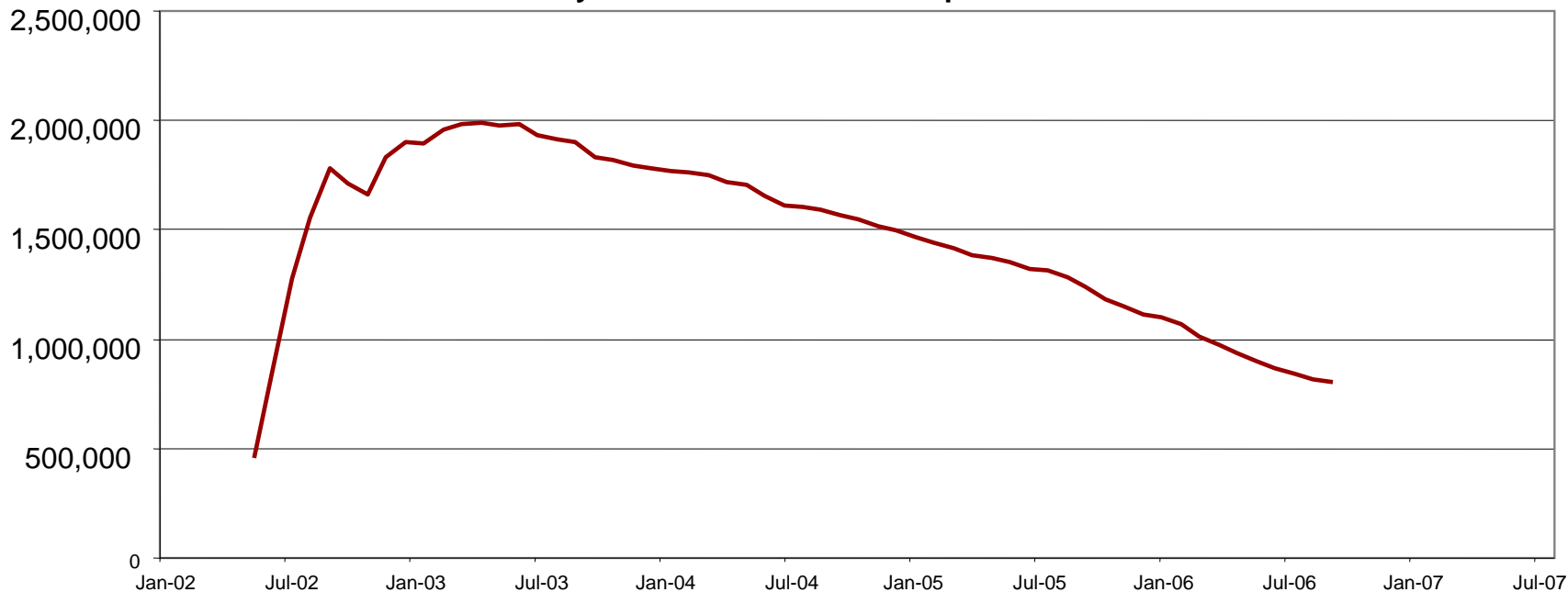
Micro enterprises	26 %
Social and community services	17
Maintenance and cleaning of public spaces	14
Public lunchrooms	11
Educational activities	10
Construction and repair of homes and social infrastructure	8
Healthcare and sanitation	5
Administrative support	4
Child care	2
Elderly care	1
Other	2
Total	100 %



Counter-cyclical stabilizer

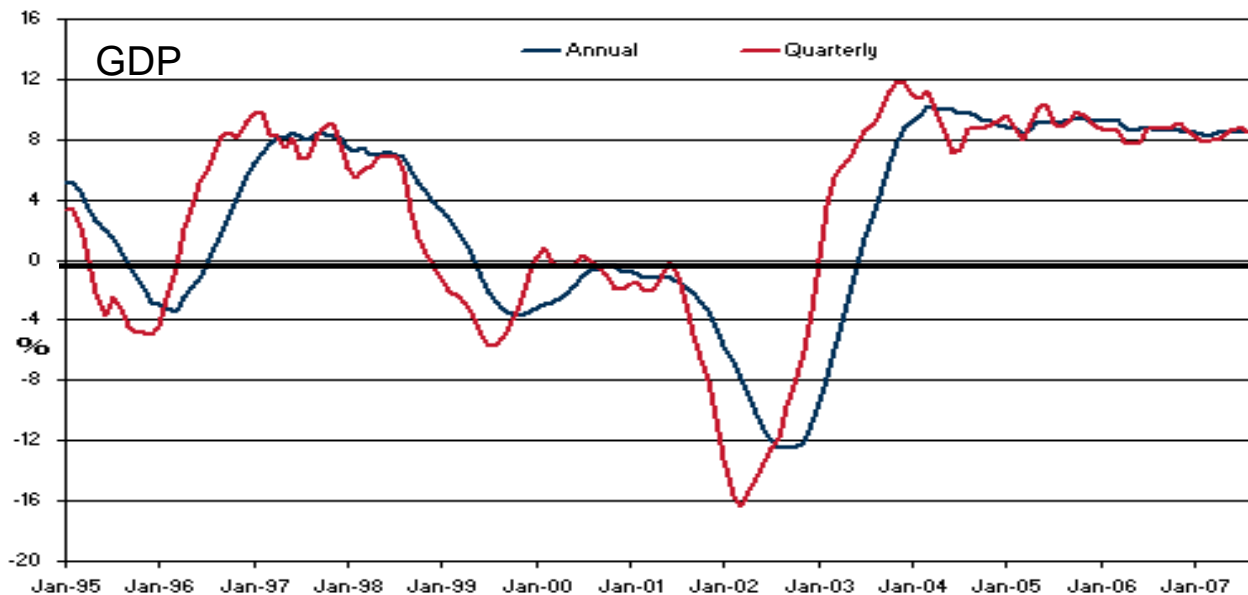
- *Jefes* increases employability

Steady Decline in *Jefes* Participants





Macroeconomic conditions



- Unemployment 31% → 8%, government surplus 2% of GDP
- The multiplier: 2.57
- Indigence (extreme poverty) fell by 25% in the first 4 months after the implementation of the program



Microeconomic conditions

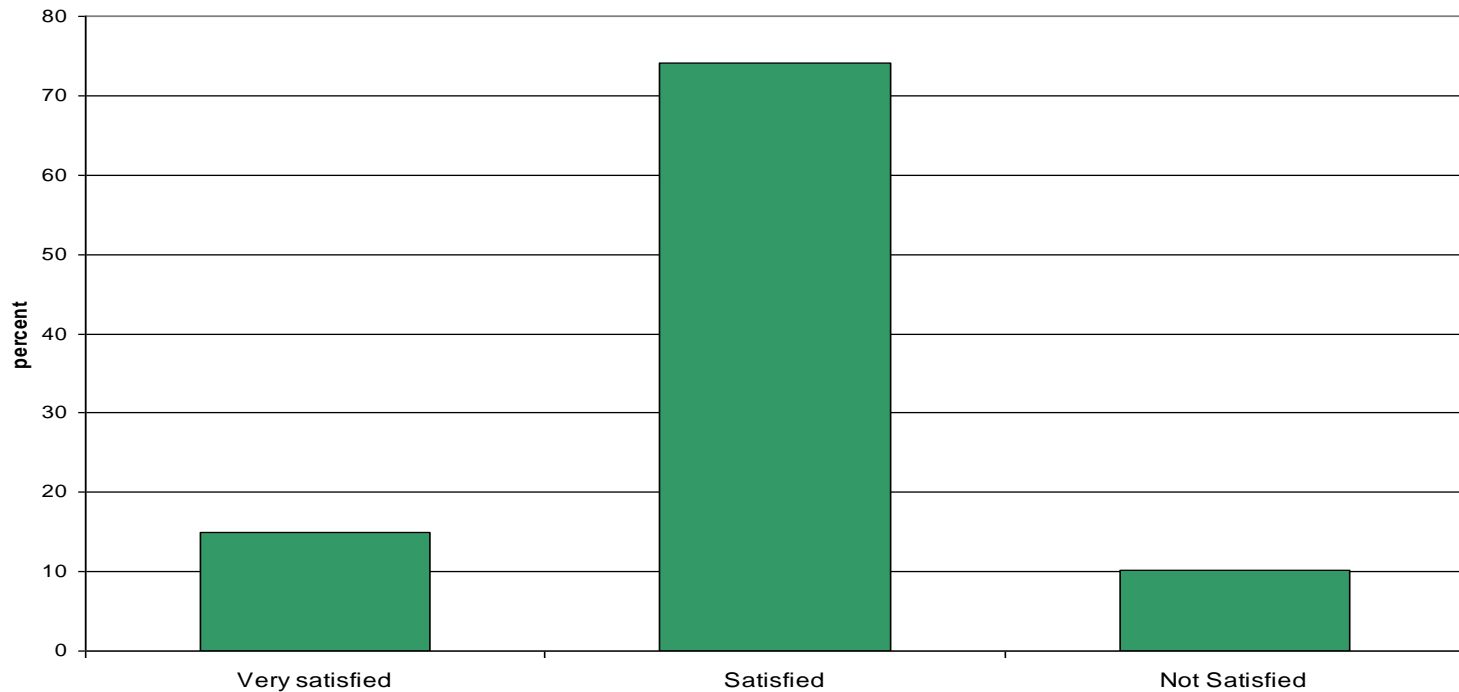
- *Jefes* formalizes the gray economy
- Social security and retirement: employment cards and benefits
- Employment contracts
- Effective minimum wage policy

The *Jefes* Wage is the Effective Minimum Wage

Distribution of <i>Jefes</i> beneficiaries who have found private sector jobs according to salary received	
Salary received	Percent of beneficiaries
Less than 150 pesos	6.8%
150 -- 349 pesos	30.4%
350 -- 549 pesos	34.8%
550 -- 749 pesos	17.7%
<u>750 pesos and above</u>	<u>10.3%</u>
TOTAL	100.0%

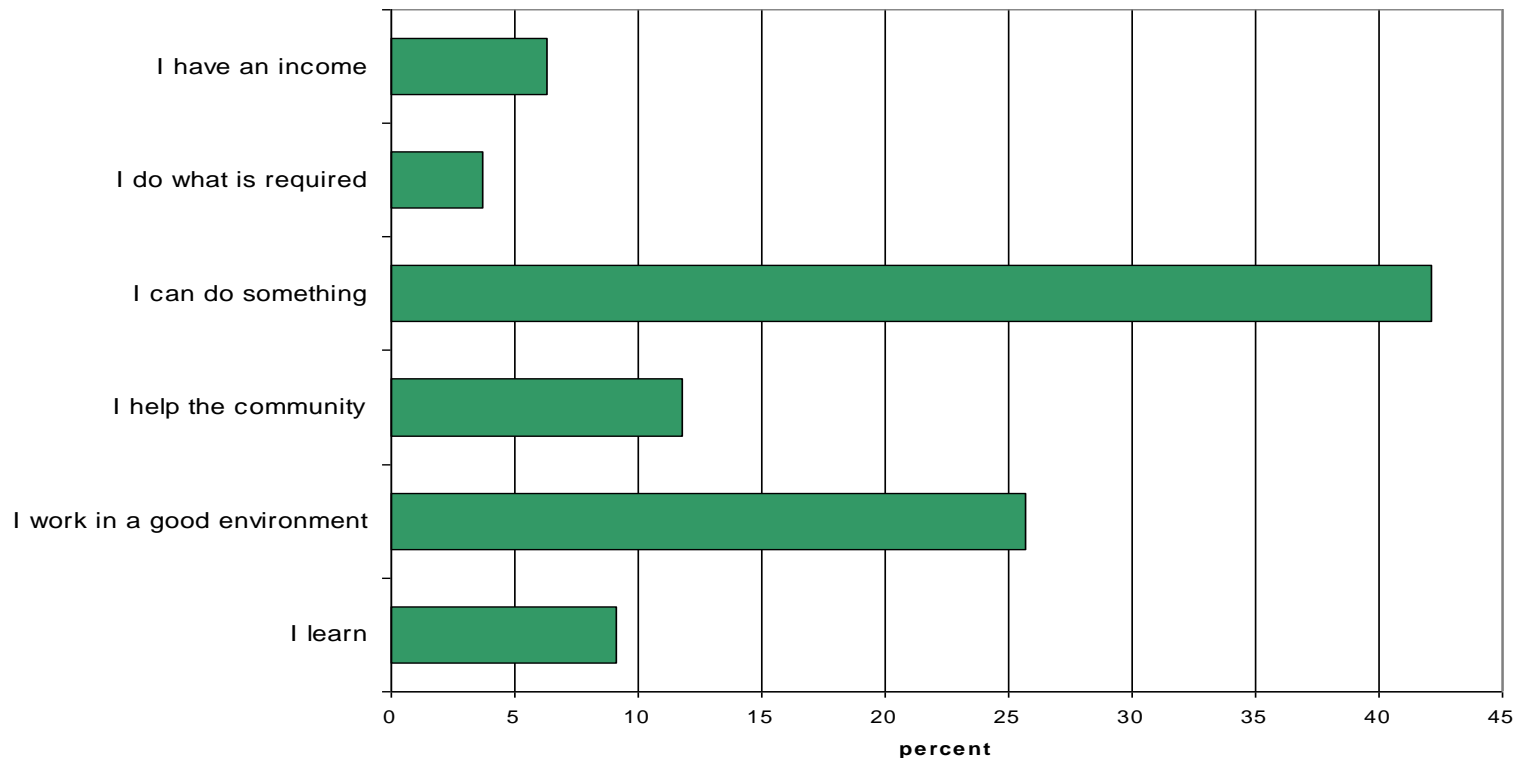


Satisfaction with the program



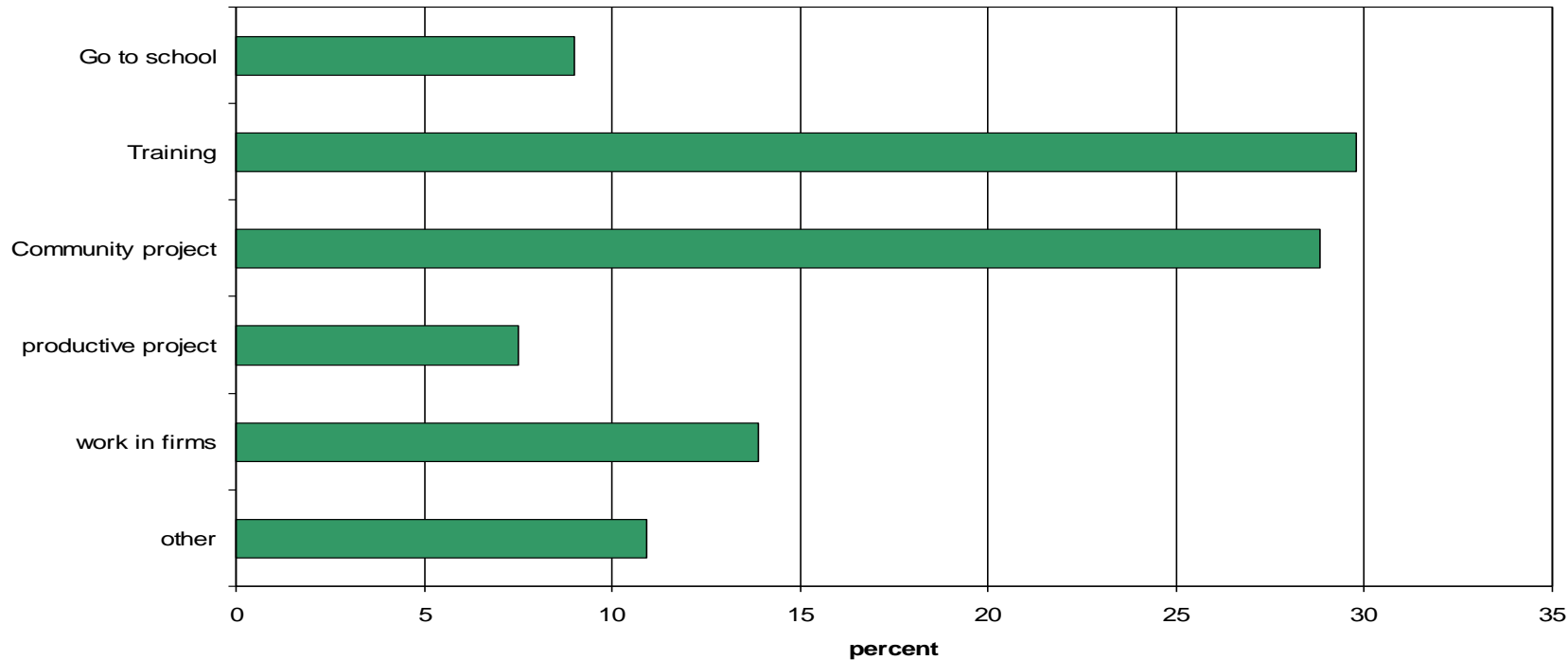


Reasons for satisfaction with the program





What would you like to do in the program?





Is *Jefes* a true Job Guarantee?

Institutional Characteristics	job guarantee	Argentina's <i>Jefes</i> Plan
1. Infinitely Elastic Demand for Labor?	Yes. No means tests, no term limits	No. It is means-tested and limited; No term limits
2. Hires Off the Bottom?	Yes	Yes
3. Loose Labor Markets?	Yes	Yes. People are moving into the private sector but program discontinuation prevents adequate evaluation
4. Fixed Wage?	Yes	Yes, but below poverty wage.
5. Enhances Human Capital?	Yes	Yes but training and education component is too small relative to needs.
6. Useful Activities?	Yes	Yes



Job Guarantee vs. Basic Income

- *Plan Jefes* was replaced by *Plan Familias*
- The initial pilot program for *Plan Familias* failed
- Participants did not want to move to basic income
- All women participants reported that
 - They want to work, not to collect welfare
 - They enjoyed working cooperatively with neighbors
 - They felt like they are contributing to and participating in their community
 - They are learning life skills from their co-workers and on-the-job training
 - Daycare and proximity to jobs and kids was very important
 - They believed their chances of getting private sector work increased



Basic Income

- Unemployment buffer stock policy
- No internal currency anchor
- No price stabilizer → no counter cyclical stabilization
- No direct production of output
- No obvious human capital enhancements
 - The firms still do not wish to hire the unemployed
- Not a structural reform



Job Guarantee in Europe

- Expand the Youth Guarantee to all unemployed
- Pay a non-disruptive JG wage (€7/hr or ~ €1,052/mo)
- Direct costs for 17,240,000 unemployed: €18b/mo + €2b Equipment
- Savings: Current €12b/mo on income maintenance and support expenditures
- Net: ~8b/mo
- ECB is responsible for program: currency issuer, in charge of price stability. It can manage size via other pro-growth policies as additional tool for meeting its price stabilization mandate
- Implementation by each nation in phases



How to 'Pay' for It

- How will the ECB expense be accounted for? Pay actual expenses or per capita allocation?
- Member states could 'pay' for the JG like they do with unemployment insurance.
- To ensure that their capital at the ECB does not fall, they can issue transferrable tax credits to the ECB equal to the ECB expenses on the wage bill and materials from the program

ECB		Member state	
<u>Asset</u>	<u>liability</u>	<u>Asset</u>	<u>Liability</u>
transferrable tax credit	balance at the ECB	balance at the ECB	transferrable tax credit

- The tax credits are assets on the ECB balance sheet
- The wages/materials payments to member states are credits by the ECB to their accounts
- If the ECB wants to convert the tax credits to Euros (no logical reason why/monopoly issuer), the tax credits can be sold to member banks and the banks can use them on behalf of depositors when depositors need to pay their taxes (i.e., instead of clearing with Euro reserves they clear with Euro tax credits)



What the Job Guarantee accomplishes

- A superior policy for stabilizing prices and the value of the currency
- A superior macroeconomic stabilizer
- A policy that employs the public money for the public purpose
- A policy that completes the safety-net
- A policy that secures a basic human right
- A policy that inoculates society and the economy from the vile effects of unemployment



Thank you

