Securing the Right to Work at the State or Local Level with a Direct Job Creation Program

By Philip Harvey

Abstract

This paper explores the feasibility of using direct government job creation to reduce unemployment at the state or local level without federal funding. I analyze the net cost of the strategy to an implementing state or local government and propose a plan suitable for use by any size unit of government. The proposed initiative would create proportionally as many jobs at the state or local level as a federal initiative that created 4.5 million jobs. Over the long run, the proposed plan contemplates allowing a state or local government to guarantee decent jobs for all of its residents, eliminating all but genuinely frictional employment, and thereby securing the right to work recognized in international human rights law.

Introduction

The most obvious way a government can create jobs for unemployed workers is to hire them itself. Given the apparent simplicity of this solution to the problem of unemployment, it is surprising how little attention has been devoted to exploring its feasibility and likely economic effects. In other work I have explored the use of direct job creation as a means of securing the right to work recognized in international human rights agreements (Harvey, 2005, 2002, 1995a, 1993 and 1989), reforming public assistance programs (Harvey, 2008, 1995a and 1989), achieving sustained full employment (Harvey, 2006, 2000, 1995b and 1989), and combating recessions (Harvey, 2011a and 2011b). There also is a growing post-Keynesian literature advocating the use of direct job creation to achieve full employment with price stability (Mitchell and Wray, 2005; Wray, 1999; Mosler, 1997-1998; Mitchell and Watts, 1997).

All of this work assumes, however, that the strategy would be implemented nationally. In this paper I analyze the likely cost and effectiveness of the direct job creation strategy as a means of combating unemployment on the local level in programs instituted by state or local governments acting on their own behalf, without federal funding. Implementing the strategy at the state or local level would pose no special administrative problems. The challenge would lie in paying for the program. I conclude that the net cost of implementing the strategy at the state or local level would be greater per created job, and that more direct job creation would be needed to counter the effects of a recession than would be needed if the local initiative was part of a national effort. Nevertheless, I conclude that the strategy would allow state or local governments to provide substantial relief to their citizens from the ravages of a recession at a cost they likely would be willing to pay; and that if the program was continued at the top of the business cycle, it would allow a state or local government to achieve genuine full employment — defined in a manner consistent with the goal of securing the right to work recognized in international human rights proclamations — at a cost both within the capacities of a state or local government to fund and possibly below the level achievable by a federally implemented program.

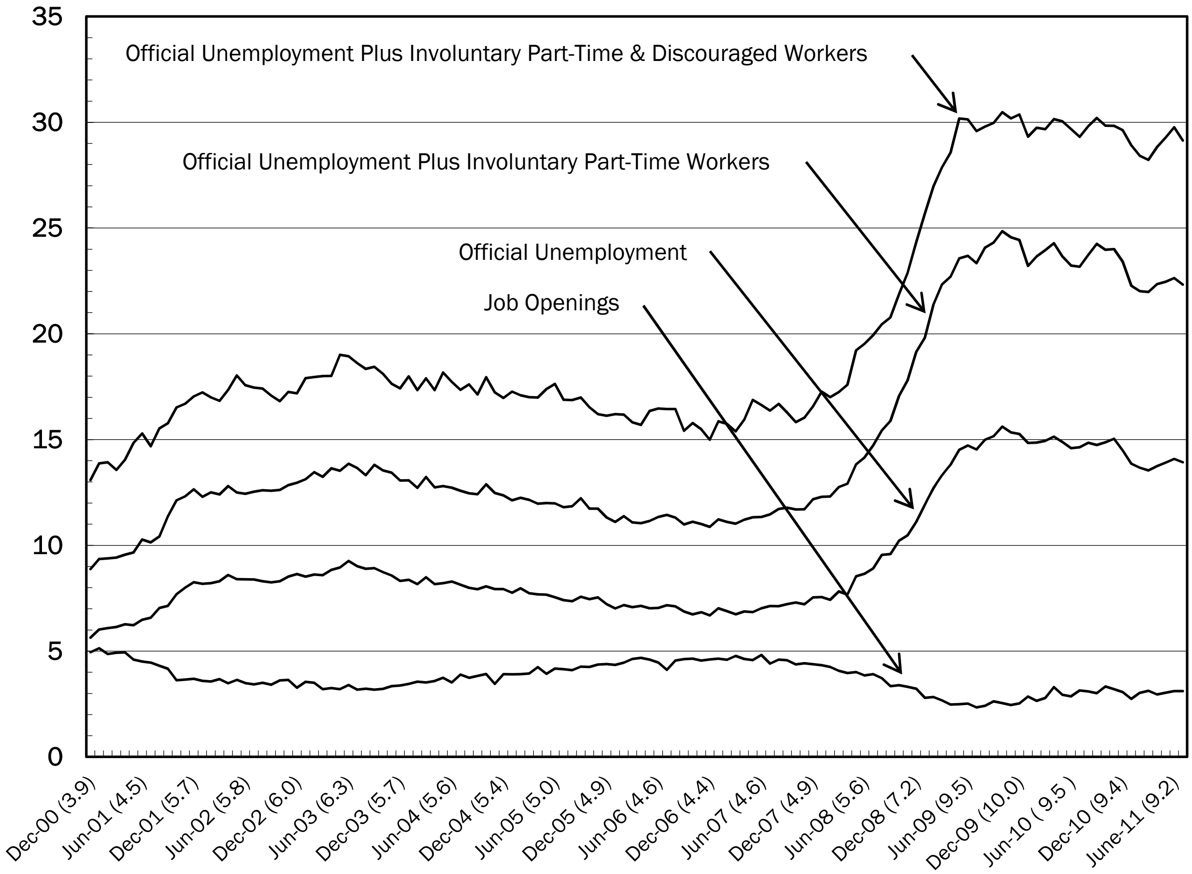
The Direct Job Creation Strategy and the Job Gap

The distinguishing characteristic of what I call the direct job creation strategy is its reliance on public sector job creation to provide employment for job seekers unable to find work in the regular labor market because of an insufficiency in the number of private sector jobs available. These specially created jobs may be provided either in separate programs such as the New Deal-era Civilian Conservation Corps (CCC) and Works Progress Administration (WPA), or by assigning the persons hired to supplement the regular workforce of existing government agencies and not-for-profit organizations, the model adopted for the Public Service Employment program established under the Comprehensive Employment and Training Act in the 1970s (CETA-PSE).[1]

Figure 1 portrays three different measures of the gap between the number of vacant jobs employers were seeking to fill at a particular point in time during the past decade and the number of persons who reported themselves as wanting work at the same point in time. The bottom line in Figure 1 (*Job Opening*s) shows how many vacant jobs employers were ready, willing and seeking to fill on a monthly basis in the United States from December 2000 (when this data series was first reported) through June 2011. The line immediately above it (*Official Unemployment*) shows how many people were totally unemployed and actively looking for work over the same time period. The third line from the bottom adds to official unemployment the number of people who were working part time but wanted full-time jobs (*Involuntary Part-Time Workers*). Finally, the top line adds to these two groups the number of people who said they wanted a job but were not seeking one actively enough to be counted as officially unemployed. I call these individuals *Discouraged Workers*, but readers should be aware that the federal government uses that designation to refer to a much smaller subset of passive job wanters.

As one would expect, Figure 1 shows that the economy's job gap mushroomed during the "Great Recession," but it also shows that the economy had a persistent if much smaller job gap before the recession. Indeed, a positive job gap appears to be an endemic feature of the American labor market — even at the top of the business cycle — at the end of 2000 when the national unemployment rate was 3.9 percent, and in 2007 when it averaged 4.6 percent for the year. This is important, of course, since the Federal Reserve Board (the Fed) is likely to be taking steps at such times to slow the rate of economic growth in order to keep inflation in check, despite the fact that doing so will prevent the rate of unemployment from falling further.

Figure 1
Job Wanters and Job Openings in the U.S., Dec. 2000 – July 2011
(in millions, except unemployment rate in parentheses)



Source: Author's calculations from BLS data

It also is worth noting that the unemployment burden created by the economy's job gap is not equally shared, and that some population groups face much poorer job prospects on an ongoing basis than the national unemployment rate suggests. Table 1 illustrates this point by showing the comparative unemployment rates of various groups and communities in March 2007, the last time the national unemployment rate dropped below 4.5 percent.

Table 1: Comparative Unemployment Rates, March 2007	
National Average Unemployment Rate	4.4%
Youths aged 16-19	
Black aged 16-19	24.9%
White aged 16-19	13.9%
All persons aged 16 and Older	
Black	8.3%
White	4.0%
All Persons aged 25 and Older	
Less than high school diploma	7.9%
Bachelor's degree or higher	1.8%
Large Metropolitan Areas	
Miami-Ft. Lauderdale-Pompano Beach	3.1%
Detroit-Warren-Livonia	6.9%
Source: BLS	

Because of its anti-inflationary attributes (Harvey, 2006 and 1989) and the fact that its job creation effect is easily targeted (Harvey, 2011a, 2008 and 1995a), a well-designed direct job creation program can correct both the aggregate shortfall in labor demand suffered by the national economy and the more severe shortfall in labor demand that afflicts less-advantaged population groups and communities. Moreover, it can achieve these goals more effectively than other policy options across all phases of the business cycle. During recessions, the direct job creation strategy can function simultaneously as a highly effective social welfare intervention, providing unemployed workers with temporary employment to tide them over until the private sector recovers, and as a vehicle for delivering a well-targeted fiscal boost to those otherwise healthy sectors of the economy that have cut back their hiring and spending in response to rising unemployment (Harvey, 2011a). At the top of the business cycle, the direct job creation strategy provides a means of expanding employment until the economy's job gap disappears completely — without bypassing disadvantaged population groups and without the inflationary effects that boosting the overall rate of economic growth would produce.

The Right to Work

The direct job creation strategy was conceived and first implemented by New Deal social welfare planners to help unemployed workers survive the Great Depression without sacrificing their dignity (Harvey, 2011b and 1989). In that context, the same Cabinet-level committee that proposed the establishment of the nation's Social Security and

Unemployment Insurance (UI) systems also proposed that the direct job creation strategy be used on an ongoing basis — even in "normal times" — to provide American workers with what the committee called "employment assurance" (Committee on Economic Security, 1935). During World War II, President Roosevelt actively promoted the idea that access to remunerative employment — what the Committee on Economic Security had called "employment assurance" — was a human right that society had a duty to secure for its members along with other economic and social entitlements such as access to decent housing, a good education and adequate health care (Roosevelt, 1941).

The expanded human rights vision developed and promoted by American progressives during World War II under Roosevelt's leadership atrophied in the United States during the post-war era (Harvey, 2011b), but it has survived in a robust set of international human rights proclamations and agreements drafted under the auspices of the United Nations. The first and most influential of these documents, and the progenitor of all the rest, is the Universal Declaration of Human Rights (United Nations, 1948). The Universal Declaration was drafted in the immediate aftermath of World War II by a U.N. committee chaired by Eleanor Roosevelt, an official member of the U.S. Delegation to the United Nations and the first elected chair of the organization's Human Rights Commission — a coincidence rife with symbolism concerning the role played by New Deal progressives in promoting their expanded vision of human rights. Under Mrs. Roosevelt's leadership, the Universal Declaration she helped draft was "adopted and proclaimed" by the U.N. General Assembly on December 10, 1948 by a vote of 48 to 0 (with eight abstentions: the Union of Soviet Socialist Republics, Ukraine, Byelorussia, Czechoslovakia, Poland, Yugoslavia, South Africa and Saudi Arabia).

Although not in and of itself a legally binding agreement under international law, the Universal Declaration articulates the common understanding of the peoples of the world concerning the substantive content of the human rights that members of the United Nations have a legally binding obligation to promote under Articles 55 and 56 of the organization's Charter. The fact that this obligation is not enforceable in a court of law is by no means unusual as regards international human rights norms. It did not deter the American colonies from asserting their independence from Great Britain on the basis of their judicially unenforceable rights to "life, liberty and the pursuit of happiness"; and it did not deter the peoples of the world from condemning the apartheid regime of South Africa as a human rights violator despite the fact that there was no court in which the regime's victims could obtain legal redress for the wrongs they suffered. Similarly, the fact that key economic and social human rights proclaimed in the Universal Declaration are not judicially enforceable need not deter American progressives from reasserting the same human rights claims that their New Deal predecessors pioneered two-thirds of a century ago (Harvey, 2004).

Article 23 of the Universal Declaration proclaims that "everyone has the right to work," and the balance of that article, along with others in the declaration, make the content of that right clear. It has three primary aspects (Harvey, 2007). The first is *quantitative.* It requires that enough jobs be available in the economy to provide

employment for everyone who wants to work. The second aspect of the right is *qualitative.* It requires that the jobs provided in satisfaction of the quantitative aspect provide what the International Labour Organization refers to as "decent work" (International Labour Organization, 2003). The third aspect of the right is *distributive*. It requires that all members of society enjoy equal access to employment opportunities free from any form of unfair employment discrimination.

The relevance of these claims to the direct job creation strategy is that it is the only policy response to the problem of unemployment that appears capable of securing the right to work in a market economy on a sustained basis. It promises not only to create *enough* jobs to secure the right, it also can ensure that the jobs created to secure the right will be made available to all job seekers — in particular, the members of disadvantaged population groups — and that the terms and conditions of the employment provided will be both fair and decent. Moreover, by doing that much, the strategy also promises to create labor market conditions that would enhance rather than undermine — as is often the case now — the effectiveness of policies designed to secure the *qualitative* and *distributive* dimensions of the right to work in the private sector as well (Harvey, 2011b and 2002).

The Direct Job Creation Strategy and the Great Recession

In other work I have estimated the cost of using the direct job creation strategy on a national level to provide unemployed workers with temporary public sector jobs while they wait for the economy to recover fully from the Great Recession, while simultaneously providing the private sector a fiscal stimulus that would hasten that recovery (Harvey 2011a). The initiative I modeled would provide unemployed workers with part- or full-time jobs, depending on their preference, producing relatively labor-intensive public goods and services. The jobs would pay the same wages as similar jobs in the regular public and private sectors of the economy, and program participants would be offered the same health insurance benefits, subject to the same employee contributions as federal government employees. To the extent possible, persons employed in the program would be offered positions comparable in skill level and responsibility to those they previously occupied, if they had previous employment. New entrants or reentrants to the labor market would be offered positions that similarly qualified and experienced workers reasonably could expect to fill as new hires in regular jobs. Employment in the program also would be treated the same as regular employment for tax purposes, for establishing eligibility for government benefits and for asserting legal rights — including the right to unionize.

Based on a slightly refined version of the model used in that study, I estimate that the annual budgeted cost of creating 1 million jobs in such a program would be $46.8 billion, or an average of $46,800 per job. Based on existing worker preferences, about 85 percent of those jobs would be full-time positions averaging 40 hours per week, while the rest would be part-time positions averaging 20 hours per week. The budgeted cost per full-time equivalent (FTE) job in the program would be $53,300. However, because such a program would generate additional revenues and savings for all levels of government, the additional public funding required to pay for the program (which I call its “net cost”) would be substantially lower than this figure.

Table 2 summarizes the budgeted costs of the modeled program and a partial listing of the cost-defraying revenues and savings it would generate, showing an average net cost per job of $24,189, or $26,162 per FTE job. Based on these figures, the budgeted cost of creating the 12.2 million jobs that I estimate would be needed to reduce the nation’s unemployment rate to its pre-recession low of 4.5 percent would be approximately $571 billion the first year. The additional cost of the initiative to taxpayers (the program’s net cost) would be $295 billion the first year.

Table 2: Annual Cost of Creating 1 Million Jobs		
Budgeted Costs		
Estimated Average Hourly Wage	$16.67	dollars
UI-Eligible Workers	$18.70	dollars
Other Program Participants	$10.61	dollars
Annual Wage Bill	$27.7	billion
Employer's Share of Social Security and Medicare Taxes	$2.1	billion
Cost of Providing Federal Employees Health Benefits (FEHB)	$5.3	billion
Nonlabor Costs (space, materials, transportation, etc.)	$11.7	billion
Total Jobs Program Budget	**$46.8**	**billion**
Additional Revenues and Savings Attributable to Program		
Federal Tax Receipts	$7.2	billion
State and Local Income and Sales Tax Receipts	$1.4	billion
UI Savings	$7.1	billion
Medicaid and CHIP Savings from FEHB Enrollments	$2.2	billion
Sales of Goods & Services Produced @ avg. of 10¢ per $	$4.7	billion
Total Additional Revenues and Savings	$22.6	billion
Net Cost of Creating 1 Million Jobs	$24.2	billion
Average Net Cost per Job	$24,189	dollars
Average Net Cost per Full-Time Equivalent Job	$26,162	dollars
Source: Author's calculations. For assumptions, see Harvey (2011a: p. 11).		

How much the program would cost the second year depends on the size of the program's multiplier effect and how quickly private sector investment recovered from its recessionary levels. My model projects that the multiplier effect of program spending would induce private sector employers to create 4.9 million jobs over and above those created in the program (Harvey, 2011a: p. 11, Table 3), with most of that job creation occurring after the program's first year. That means the program would need to provide approximately that many fewer jobs the second year it operated. On the other hand, it doesn't mean the program would continue to shrink annually absent a recovery in the economy's ability to generate its own growth. The boost to private sector employment provided by a fiscal stimulus is not permanent. This is not a limitation of the direct job creation strategy. It is true of all types of fiscal stimulus, including the tax cuts favored by conservatives. Unless the stimulus spending continues or is replaced by another source of increased aggregate demand, employment and unemployment will revert to their pre-stimulus levels within a year or so after the stimulus ends.

As a practical matter, this means that unless and until the private sector rebounds and starts generating job growth on its own, the jobs program would have to continue to create the jobs needed to maintain the nation's overall unemployment rate at 4.5 percent. Economies don't remain in recession indefinitely, however, and with economic recovery the jobs program would shrink. By the time the nation's unemployment rate exclusive of jobs program hiring reached 4.5 percent, the program's workforce would have been cut back to zero.

How long it will take the private sector to recover from the Great Recession is something no one can predict with legitimate confidence. It depends on too many unknowns. However, an ongoing commitment to use the direct job creation strategy to maintain a 4.5 percent national unemployment rate would create an economic environment strongly conducive to a quick recovery. Consumers spend because they have the income to pay for what they purchase and enough confidence in the security of their employment to take on additional debt. Businesses invest to satisfy increases in existing demand and in anticipation of increased future demand. The direct job creation strategy can create these conditions, and by so doing would minimize the number of jobs the government would have to create over time.

The superiority of this recovery strategy is readily apparent when its cost and job creation effect are compared with that of the American Recovery and Reinvestment Act (ARRA), which Congress enacted in February 2009. Instead of directly creating jobs, the ARRA relied on a combination of tax cuts and increased spending to induce private sector firms to create jobs. According to the Congressional Budget Office (CBO), the ARRA cost the federal government about $677 billion through the end of 2010 and increased the number of people employed as of that point by 1.3 million to 3.5 million (Congressional Budget Office, 2011, p. 1).[2] If we instead had spent that $677 billion on the direct job creation strategy, we could have reduced the nation's unemployment rate to 4.5 percent as quickly as we could have gotten the program up and running, and kept the unemployment rate at that level for more than 18 months while simultaneously increasing private sector employment by about 3.9 million by the end of 2010, compared with the 1.3 million to 3.5 million achieved by the ARRA.

Beyond Recovery: Using the Direct Job Creation Strategy to Secure the Right to Work at the National Level

As noted above, the direct job creation strategy could be used not only to combat the exceptionally high levels of unemployment brought on by the Great Recession, but also to move beyond that goal and secure the right to work for all job seekers — a labor market condition described as "full employment" by progressive economists in the 1940s (Beveridge, 1944; Clark, 1949), though in recent decades the term has come to be used more loosely. The unemployment rate that corresponds to full employment in the 1940s sense of the term is hard to pinpoint, and it would not have to be targeted to secure the right to work using the direct job creation strategy. Genuine full employment would be achieved when everyone who sought employment in the jobs program could be either accommodated or placed in a regular job outside the program. For purposes of cost estimation, though, let us assume that the unemployment rate corresponding to that state of affairs would be 2 percent — the level at which the only unemployment remaining in the economy (or local labor market) would be frictional — that is, it would be based on nothing other than the fact that it takes time for job seekers who want to work and employers with job openings they want to fill to find each other and negotiate a mutually acceptable employment contract.

There is only one significant difference between using the direct job creation strategy anticyclically to keep private sector employment at the maximum level the Fed will tolerate, and using it to fill the job gap that remains when that point is reached. In the former case, the goal of the strategy is to foster private sector job growth as well as to provide work for the unemployed; in the latter case, the goal is to provide work for the unemployed without fostering further private sector job growth. This is why it is useful to distinguish our preceding analysis of the cost of using the direct job creation strategy to restore unemployment to its pre-recession level of 4 percent to 5 percent in the United States, and our present discussion of the cost of using the strategy to go beyond that goal and secure the right to work for job seekers who remain victims of the economy's job gap even at the top of the business cycle.

Using the same model on which the cost estimates reported in the preceding section of this paper are based, a direct job creation program designed to reduce the nation's unemployment rate from 4.5 percent to 2 percent would need to provide jobs for about 3.9 million workers on an ongoing basis, at a budgeted cost of about $182 billion per year. As noted above, however, the additional revenues and savings generated by the program would reduce that figure to a net cost of $94 billion a year. As long as the private sector continued to provide enough jobs to keep the regular labor market operating with the equivalent of 4.5 percent unemployment, this is the size program needed to permanently secure the right to work in the United States.

When another recession struck, the jobs program would have to expand; but that's where another advantage of the direct job creation strategy would come into play. Most of the job losses that occur during a recession are the follow-on result of earlier job losses, rather than being the direct result of whatever tendencies or events caused the economy to contract in the first place. By offering immediate reemployment to workers who lose their jobs as a

result of a recession-triggering event, a direct job creation program can prevent their job losses from causing further job losses. That alone might be enough to stop a recession in its tracks; but even if it did not, it would lessen the intensity of the contraction and minimize the number of additional jobs the job creation program would have to create in order to restore the nation's labor market to its pre-recession state.

It also is worth recalling at this point that the list of revenues and savings upon which the cost estimates reported in Table 2 are based do not include a wide range of less direct savings that both government and private individuals would reap if the right to work was secured. Spending on means-tested social welfare benefits would decrease, as would homelessness and expenditures for unreimbursed medical care. There also would be health care savings attributable to reduced morbidity rates for the wide range of physical and behavioral health ailments for which unemployment is an aggravating factor. The incidence of suicide and suicide attempts would decline. Rates of family formation would increase, and rates of family dissolution would decrease. Rates of partner abuse and child abuse would decline. Fewer children would need special services inside and outside of school, and fewer would end up in the foster care system. Rates of criminal activity would decline, especially among youths, and savings would be realized in the budgets and/or effectiveness of the criminal justice system. Considering the wide range of these potential savings, there is a good chance that paying $182 billion a year to close the economy's job gap and secure the right to work in the United States could end up saving taxpayers money (Harvey, 1995b).

The Fiscal Challenge of Implementing the Direct Job Creation Strategy at the State or Local Level

The advantages of the direct job creation strategy naturally lead to the question of whether it could be implemented on the state or local level. It would make no difference at all administratively. Since the location of the jobs created in a direct job creation program and the identity of the individuals hired to fill them is subject to administrative control, such a program could be implemented by whatever level of government took on the task, with program enrollment limited to the residents of whatever geographic unit the government implementing the policy selected.

The problem lies in the special difficulties a state or local government would encounter in coming up with the money required to fund the initiative. There are four reasons why this task would be more difficult for a state or local government than for the federal government.

First, the net cost of creating a given number of jobs would be greater for a program funded at the state or local level because those governments are less well-situated than the federal government to capture the additional revenues and savings the program would generate and mobilize them to defray its cost. This would be true not so much because a lion's share of the revenues and savings generated by the program would end up in the federal fisc, but because the federal government's legal and functional relationship with the states would allow it to require state and local governments to contribute their own share of these windfall gains to help defray the cost of a national program simply by making such contributions a condition for the state's participation in the program. State and local governments have no reciprocal power to force the federal government to share the revenues and savings it would receive as a result of a locally funded direct job creation program.

It also would cost a state or local government more to fund the direct job creation strategy because the private sector jobs created via the multiplier effect of program spending could not be limited to the geographic area in which the program operated; and even those that were located there might not be filled by local residents. Commuters from surrounding communities and states might fill them.

In addition to costing them more, state and local governments have a more limited fiscal capacity than the federal government to fund such a program. The reason for this has to do with the limited ability of state and local governments to engage in anticyclical spending. The use of the direct job creation strategy to combat increases in unemployment during a recession requires rapid increases in expenditure on relatively short notice when the economy (and consequently tax revenues) are declining. This is something the federal government can do because it is not subject to a balanced budget requirement and because it issues its own currency. State and local governments, in contrast, are either prohibited by state law from spending more on current expenses than their current receipts, or their political culture is such that doing so is virtually unthinkable (National Conference of State Legislatures, 2010). The result, as we have seen over the past several years, is that state and local governments are forced to reduce their expenditures and lay off workers during recessions, even though macroeconomic considerations advise doing the opposite.

Finally, some states and localities are burdened with more than their fair share of the nation's overall unemployment problem while simultaneously enjoying less than their fair share of the per capita income needed to fund a direct job creation strategy. Because these are the states and localities that would benefit most from the strategy, it is particularly unfortunate that they also are the ones that would have to scrape the hardest to come up with the funds required to implement the strategy.

On the other hand, there is one cost advantage state and local governments would enjoy in pursuing the direct job creation strategy. The inflation concerns that would prevent a national program from being used to promote enough private sector job growth to reduce the nation's unemployment below the 4 percent to 5 percent range would not apply at the state or local level. Indeed, when the national unemployment rate averages 4.5 percent we know that it has to be lower than that in half the country. Table 1 shows that it can be considerably lower in some places with large local labor markets.

But would states and localities that deployed the direct job creation strategy to secure the right to work tend to suffer more or less unemployment than the national average if we ignore the jobs created inside their direct job creation programs? There is good reason to believe they would suffer less private sector unemployment, which means they would have to create fewer jobs in their direct job creation programs over time.

There are two reasons for the likely beneficial effect of the direct job creation strategy on average levels of private sector employment. The first is the strategy's anticyclical effect on local economies. Although the ability of a state or local job creation program to combat the negative employment effects of a recession would be more limited than for a national program, as described above, there still would be a beneficial effect. Job losses in local business firms that sold their goods or services in the national market could not be prevented by implementing the direct job creation strategy; but local businesses that sold their goods and services to local consumers, or to other businesses that in turn sold to local consumers, would be at least partially insulated from the effects of the recession. The reason is simple: The job creation program would prevent local consumption levels from feeling the full effects of the recession. A local doughnut shop that sold coffee and doughnuts to people on their way to work would still be selling coffee and doughnuts to people on their way to work during a recession. Their customers just might be going to work in their local job creation program rather than in their pre-recession jobs producing goods for the national market.

The second reason a state or local government that deployed the direct job creation strategy would likely enjoy higher levels of private sector employment over the long run is that the strategy would create a favorable environment for local economic growth. This positive "economic development effect" would be produced by the relative economic stability described in the preceding paragraph, by the reduction in social problems that would result from the elimination of involuntary unemployment and the poverty associated with it, and, finally, by the availability in the jobs program of a readily employable supply of labor with substantial work experience and easily discernable qualifications.

The reduced average rate of unemployment a state or local direct job creation initiative would be likely to generate outside its job creation program (due to the program's antirecessionary and positive economic development effects) would tend to reduce the number of jobs the program would have to create over time. Whether this would compensate for the factors noted above that would tend to generate higher costs for a state or local initiative cannot be determined with certainty. It would depend on how dependent the local economy was on its "export market" as opposed to local consumer demand; how much local economic development the direct job creation strategy would generate over time; and, in the case of states and localities with higher-than-average unemployment rates to begin with, how much more unemployment than the national average they had to contend with. It is a hopeful, though, that the fiscal balance might tip in favor of a state or local initiative.

Devising a State or Local Funding Strategy

Because of its cost and anticyclical funding requirements, the feasibility of using the direct job creation strategy to secure the right to work in a state or locality depends on two things:

1. The willingness and ability of a state or local government to fund the average costs of the program over time, and
2. The development of a strategy allowing those funds to be expended in the countercyclical fashion required by the strategy.

I shall address the second of these challenges first, as it has the more obvious solution. The easiest way for a state or local government to meet expenses that rise when tax revenues fall is to establish a trust fund into which tax or other revenues are regularly deposited for use when those revenues decline. This is how UI programs established and administered by state governments are able to pay recipient benefits anticyclically, and the same method could be used to fund an Employment Assurance (EA) benefit for the same workers. It also would be possible for an EA trust fund to borrow money when additional funds were needed (as UI trust funds often do), with the loans being secured by future tax proceeds.

The real challenge, therefore, is the identification of a permanent revenue source capable of balancing the EA Trust Fund's income and expenditures over the long run. To estimate how large a revenue stream would be needed requires at least a rough idea of how large a jobs program would have to be to secure the right to work in a state or locality.

For purposes of illustration, consider a hypothetical city with a population of 1 million whose demographic and economic characteristics mirror those of the national economy insofar as they are relevant to the adoption of the direct job creation strategy. Over the long run, the average level of spending required to fund the city's direct job creation initiative would depend on the city's average unemployment rate — and that level should be below the national average because of both the anticyclical and the economic development effects of the job creation initiative.

The actuarial projections of the Board of Trustees of the Old-Age and Survivors Insurance and the Disability Insurance trust funds (Social Security) peg the average long-term unemployment rate for the United States at 5.5 percent (Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal disability Insurance Trust Funds, 2011: Part II.C). If the anticyclical and economic development effects of the direct job creation strategy lowered that average by one percentage point in our hypothetical city (to 4.5 percent, exclusive of the jobs program), the budgeted cost of creating the remaining 12,500 jobs needed to reduce the city's unemployment rate to 2 percent would average about $585 million a year. The net cost of the initiative would be only slightly below that level, at $524 million a year, because the city would not have the unilateral power to claim either the additional state and federal tax revenues the program would generate or the savings it would produce in the state's UI, Medicaid and Children's Health Insurance (CHIP) programs. Assuming, however, that the city would be able to exercise enough influence in its state capital to obtain a refund of the UI, Medicaid and CHIP savings that its job creation program generated for the state, the program's net cost would be reduced to $426 million a year, which translates into $426 per capita in a city with a population of 1 million. If we ignore the indirect savings the city and its residents would enjoy because of the beneficial social and medical effects that the program would generate, this $426 million figure represents the amount of additional funding the city would have to generate on a yearly basis to secure the right to work of its residents (expressed in 2011 dollars).

Local governments collected about $3,049 per capita from their own sources in 2008 (expressed in 2011 dollars) (U.S. Census Bureau, 2011: p. 6, Table A-1). Therefore, to raise the additional $426 per capita required to pay for its jobs program, our hypothetical city would have to increase its tax collections by about 14 percent.

To provide an intuitively accessible comparison, it would take a 1.3 percentage point increase in the combined FICA and Medicare tax rate (from 7.65 percent to 8.95 percent) to generate that level of funding, assuming the tax was levied on the Medicare tax base rather than the somewhat smaller FICA tax base (Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, 2011: p. 59, Table III.B1). Indeed, piggybacking a local EA (employment assurance) tax onto the FICA and Medicare taxes that city residents and their employers already pay could be the easiest way to raise the needed funds. Other sources of revenue could be tapped, of course. The point is simply that the additional tax burden required to pay for the direct job creation strategy does not seem excessive. When one considers what the public is willing to pay for Social Security and Medicare benefits, an additional 1.3 percent charge seems a small amount to pay for a guarantee that neither you, your spouse, your children or other family members who occasionally need your help will ever have to suffer involuntary unemployment again.

We have ignored so far the extra start-up cost of instituting the direct job creation strategy when the economy is in recession or recovering from one. With the unemployment rate in our hypothetical city currently running at 9.1 percent (double the 4.5 percent average assumed in the above example), the net cost of creating the approximately 52,000 jobs needed to reduce the city's unemployment rate to 2 percent is around $1.7 billion — or about $1.3 billion more than the $427 million we have assumed the city would generate in additional taxes for its EA trust fund. The trust fund could sell bonds to raise the needed funds, pledging future tax receipts to pay off the debt, but doing so would put the trust fund in a serious fiscal hole from the outset.

Nor would the multiplier effect of program spending promise quick fiscal relief to the EA trust fund. If we reasonably assume that the local multiplier effect of deficit spending by the program would equal half its national multiplier effect, the cost of operating the local job creation program during its second year would fall only about $250 million unless the national economy's growth rate picked up. This means the EA trust fund would have to borrow another $1 billion to cover the program's operating costs. How long the program would have to operate in the red would depend on how long it took the national economy to recover and on the speed and size of the program's local economic development effect.

It's doubtful that a program generating this much red ink could be politically sustainable even if it made sense economically. A more realistic plan for introducing the direct job creation strategy at the state or local level during a recession would rely on national economic trends to reduce the city's unemployment rate to its average long-term level, while using the direct job creation strategy to provide partial relief to the city's unemployed while hopefully generating at least the beginnings of a positive economic development effect.

For example, our hypothetical city could establish its EA trust fund with whatever revenue stream it anticipated needing to secure the right to work in the long run and use those funds to inaugurate its direct job creation program. We have estimated that those revenues would be sufficient to create an average of about 12,500 jobs in our hypothetical city on an ongoing basis. That would be enough to provide jobs for about a third of the city's officially unemployed workers — the equivalent of creating about 4.5 million jobs at the national level. That's a sizeable commitment and would provide substantial relief to the city's unemployed. As the private sector recovered and the size of the city's unemployed population shrank, the share of that population who could be accommodated in the program would grow until the city was finally able to secure the right to work by guaranteeing a private sector job placement or a position in the city's job creation program for everyone who wanted to work.

This incremental strategy would allow the program to operate in the black until it was well-enough established to sustain popular support when it became necessary to go into the red to continue securing the right to work — i.e., when the next worse-than-average recession struck. The strategy also makes sense from an administrative perspective, since it would allow the city to develop and fine-tune its direct job creation program over a number of years before having to deal with the added administrative and fiscal stress of rapidly expanding the program to accommodate large numbers of newly unemployed workers. Finally, it would delay the point in time when adjustments would be needed in the funding stream used to pay for the program — another political advantage. The need for periodic adjustments in the city's contributions to the EA trust fund would be inevitable, given the uncertain size and cost of the job creation effort over time. Fiscal adjustments also may be needed based on vagaries in the tax system used to fund the program.

An interesting implication of our conclusion concerning the partial implementation of the direct job creation strategy at the state or local level during a recession is that the strategy does not depend on the size of the city or state in question or on whether its unemployment rate is above or below the national average. The higher the level of government that implements the direct job creation strategy, the larger the geographic area within which it is implemented, the more comprehensive and diverse the "local" economy of the area, and the lower the average rate of unemployment its residents suffer, the less costly it will be to implement the direct job creation strategy. Nevertheless, the implementation strategy described above could be adopted by any level of government, within any geographically defined political jurisdiction, without regard to the structure of the jurisdiction's local economy, and regardless of its current or long-term average rate of unemployment. Differences would exist in the net average cost of the jobs created in different jurisdictions, in the size of the initial dent the jurisdiction could make in its unemployment problem, and in the length of time it would take to reach the point that the right to work could be secured for everyone who lived in the jurisdiction; but notwithstanding those differences, the outlines of the initiative would be the same as those described above for our hypothetical city.

Program Design

The implementation of the direct job creation strategy at the state or local level would be straightforward, but the varied and unique functions to be performed by the job creation initiative necessitate that the design of the program be undertaken with care. More is required than simply creating jobs in the public sector for unemployed workers. The following discussion identifies the major issues that must be addressed in designing the job creation program that's at the heart of the direct job creation strategy.

Who Should Administer the Program?

There are three basic models from which to choose in deciding how the job creation program should be administered. The first option is to have a government agency hire the program's workforce and administer the program's projects separately from the regular operations of government. This was the model adopted by the New Dealers in programs such as the CCC and the WPA. A second option is to integrate the program's workforce and projects into the regular operations of government. This was the model used in administering the CETA-PSE program in the 1970s. The third option is to contract with community-based organizations (CBOs) or other not-for-profit entities to provide the needed jobs. Notable examples of this strategy include the in-school employment program established by the New Deal's National Youth Administration in the 1930s (the predecessor of our present Federal Work-Study program) and the Summer Youth Employment Program that was originally funded under the CETA umbrella and still operates today. These three administrative models can be pursued in conjunction with one another, but each poses its own administrative challenges.

The WPA Model. The WPA model requires the establishment of a new government agency. This is always a challenging undertaking, though the ease with which the New Dealers did it was astounding even at the time (Harvey, 1989). Once an agency is established, however, the experience and expertise of its staff allow it to respond more quickly to changing labor market conditions, to undertake more ambitious projects, to ensure stricter compliance with appropriate financial and administrative practices and to more easily demonstrate the benefits of the direct job creation effort to the public, because the goods and services the program produces can be clearly attributed to and identified with it.

There are two major disadvantages associated with the WPA model. First, as noted above, the establishment of a new government agency capable of administering such a program would be challenging, and in recent decades progressives as well as conservatives have shown a preference for decentralized administrative models in designing new social welfare initiatives. Second, the categorical separation of the program's workforce from other public employees, and the program's projects from the regular operations of government, renders the program and its workers more susceptible to negative publicity and possible stigmatization. Just as well-run projects can demonstrate the benefits of the direct job creation strategy to the public, poorly run projects can undermine public support for the strategy and can stigmatize the individuals who depend on it for their employment.

The CETA-PSE Model. The principal advantage of the CETA-PSE model is that it does not require the establishment of a new government agency to administer program projects. In fact, if the total number of unemployed individuals hired through the program is small relative to the size of the existing public workforce, it may not even be necessary to undertake new projects to usefully employ them. The principal disadvantage of the CETA-PSE model is that it is harder to prevent the direct job creation initiative from being used to replace regular public sector workers. This is a problem not only for existing public sector workers, it also can defeat the job creation purpose of the program by turning it into a worker-replacement initiative.

When a direct job creation program is funded by one level of government and administered by another, this problem is likely to manifest itself in the so-called "fiscal substitution effect" that famously undermined the net job creation effect of the CETA-PSE program (Johnson and Tomola, 1977; Harvey, 2011a: pp. 26-27). Fiscal substitution occurs when the government administering the job creation program uses it to replace public sector employees and thereby shifts the cost of paying their wages to the government that is paying for the job creation program.

Fiscal substitution is less likely to be a problem in the case of a job creation program funded by the same level of government that operates the program, but it still could exist. First, if an EA trust fund was used to pay for the job creation program, local government officials could "raid" the fund to pay the regular costs of government by pursuing a strategy of fiscal substitution, the same as if the federal government was picking up the tab for the program. Second, local officials also might try to use the job creation program to replace relatively expensive regular government employees with less-expensive jobs program workers even if there was no separate EA trust fund for them to raid. A strong set of judicially enforceable, antisubstitution rules would be needed, therefore, even if the job-creation program was funded by the same level of government that administered it.

A second disadvantage of the CETA-PSE model is that it has a more limited capacity to hire and put to work large numbers of workers. Stated differently, confronted with the need to provide jobs for large numbers of unemployed workers, existing government agencies operating under the CETA-PSE model are going to have to create special projects to provide the necessary work; but, lacking the experience and expertise of a government agency like the WPA, the quality of those projects is likely to vary dramatically and probably be lower, on average, than those created by a specialized agency such as the WPA.

The CBO Model. Given the problems associated with both the WPA and CETA-PSE models, it may seem tempting to assign the task of actually providing the jobs funded by a direct job creation initiative to CBOs and other not-for-profit entities that provide public services. These organizations typically have long-standing involvement in social service and community improvement efforts and often are starved for staff and resources. Assigning program workers to them would avoid the difficulties involved in either building an organization capable of carrying out a wide variety of work projects or integrating large numbers of program workers into the regular public sector workforce.

Nevertheless, there are disadvantages to the CBO model. First, funding CBOs to do this work would require careful vetting of the organizations' capacities, as is the case with the allocation of public monies to them for other purposes. That process would take time when jobs may be needed on short notice, and advance certification of organizations may prove an inadequate substitute for a review of their current capacities. This could make it hard to expand (and contract) the jobs program quickly as labor market conditions changed.

Second, there are not a lot of CBOs that already have the experience necessary to operate large projects of the type needed to employ substantial numbers of unemployed workers — although they certainly could acquire the necessary experience over time. But the same would be true of an in-house operation run by the program itself (the WPA model) or by regular public sector agencies (the CETA-PSE model). In the case of social service agencies that already have a large staff (e.g., hospitals and schools), problems analogous to the fiscal substitution tendency in the public sector are possible, so the development and enforcement of antisubstitution rules still would be needed.

Finally, the independence of CBOs, and the possibly large number of CBOs with program contracts, would make it inherently more difficult to monitor their operations to ensure that program requirements and quality standards were being met.

Picking a Model. Since each of the three identified administrative models have advantages and disadvantages, it may make sense in planning an actual direct job creation initiative to deploy all three. In that way, particular kinds of job creation activities could be matched with the administrative structure that seems best suited to the activity in question, while activities prone to particular kinds of problems or abuses could be matched with the administrative structure that seems best able to manage those problems or prevent the abuses. A mixed administrative structure under the overall supervision of a relatively small central administration also would allow the program to learn from a wider variety of successful and unsuccessful administrative practices in order to improve the effectiveness of the program's overall administrative structure over time.

What Kind of Work Should Program Workers Be Assigned?

A second major planning task required to implement the direct job creation strategy is the identification of public goods and services the jobs program could produce. Some program activities would be dictated by the needs of the program. It would need managers and a diverse complement of administrative, technical and supervisory staff — just like any other large producing entity. The positions created to perform these functions would form part of the overall complement of jobs the program would create, even if the hiring process used to fill them might vary from the process used to hire the bulk of the program's workforce. The program would also need to provide certain services to its workforce, the most obvious being child care. The establishment and operation of child care centers that could serve not only program workers but other workers as well — with everyone paying for the service on an affordable, sliding scale — might be the first project undertaken by the program.

The selection of program projects and activities, other than those required for the operation of the program itself, would be subject to two economic constraints and one political constraint. The first economic constraint is that the jobs should be chosen with an eye to the occupational skills and interests of the program's workforce. The second is that the jobs should be relatively labor intensive in order to increase the number of jobs created with the available funding. The political constraint is that the projects and activities selected should avoid conflicts, to the extent reasonably possible, with employers and workers who do similar work in either the regular public or private sectors. The challenge involved in expanding the availability of child care services without stepping on toes illustrates the potential difficulties underlying the second constraint, and it may be that unusual arrangements will be necessary in particular situations to accommodate existing interests.

It also should be noted in this context that the program's reliance on relatively labor-intensive projects or activities does not mean that low-productivity work would be undertaken or tolerated. The goal of the program should always be to match the productivity of private and regular public sector employers who do the same kind of work.

How Should the Hiring Process Be Administered?

Since the ultimate goal of the direct job creation strategy is to provide work for everyone who is unable to find it in the regular labor market, that condition is the only one to which program applicants and existing program employees should be subject once the program is able to offer work to all comers. Still, mechanisms would be required to determine whether that eligibility criterion has been and, for existing employees, continues to be satisfied. For a program instituted at the state or local level, it also would be necessary to determine what residency requirements applicants and existing program employees would have to satisfy. Prior to the point when the jobs program is able to offer work to all comers, it also would be necessary to establish hiring preferences for different categories of program applicants.

The easiest way to administer eligibility requirements for applicants would be to engage the services of the state's public employment service. Under the leadership of the federal Department of Labor, these state agencies have developed considerable expertise in screening and counseling job applicants concerning their employment prospects and in referring them not only to appropriate employment opportunities but also to training opportunities and other support programs.

All persons seeking employment in a direct job creation program could be required to register with the state employment service, which would counsel them concerning their eligibility to participate in the program and evaluate their qualifications for different types of jobs both in and outside the program. Since program employment would be offered only when private sector and regular public sector employment was unavailable, the satisfaction of that requirement could be determined either administratively by the employment service based on labor market data at its disposal (especially in periods of high unemployment when jobs are scarce) or by requiring program applicants to undertake a job search for a certain period of time (the length could vary, depending on the workers' circumstances) before they could be hired by the program.

For reasons explained below, and with limited exceptions based on special program needs, persons employed in the jobs program should remain registered with the employment service as available for employment outside the program. As suitable private or public sector jobs become available, they should be required to apply for them. Also, to prevent program participants from shunning employment outside the program, they should remain eligible to return to the program if an outside job does not work out.

To further ensure that program employment would be comparable to outside employment, the performance of all program employees should be evaluated on a regular basis; and promotions, pay raises and training opportunities should be offered to workers based on their performance. Workers whose performance is unsatisfactory or needs improvement should be offered assistance in improving their performance, in accord with best practices in the public and private sectors. Also in accord with best practices, continued unsatisfactory performance or misconduct should result in disciplinary action, up to and including termination. Workers who are terminated from program employment should be permitted to reapply for another program job, but their unsatisfactory prior performance should be taken into consideration in determining their eligibility for particular positions. In other words, every person's right to work should be guaranteed, but not their tenure in a particular job. That should depend on their satisfactory performance in the job. If the program has not yet reached the point of being able to guarantee employment to all applicants, workers whose employment is terminated for misconduct or unsatisfactory performance might be subjected to a waiting period before they could reapply to the program.

Although persons who were eligible for UI (unemployment) benefits could be treated in different ways by the program, the best way probably would be to allow them to elect either to take a program job or to receive their UI benefits, but not both at the same time. In this way the existing UI program could remain in place, with relatively limited changes in existing law to allow the use of an individual's UI benefits to help defray the cost of their wages in the jobs program.

On-the-job training should be provided to all program employees to the extent they need it to perform the jobs they are hired to fill. On the other hand, opportunities for additional training could be made available and incorporated into the program, or offered to program participants and nonparticipants alike, as a service of the program. The program also would strive to provide model compliance with existing law requiring employers in both the public and private sectors to provide reasonable accommodations for workers with disabilities so that they can perform satisfactorily in jobs they are otherwise qualified to fill.

Why Not Expand Regular Public Sector Employment to Close the Job Gap?

Some people may wonder why it is necessary to distinguish between jobs program employees and regular public sector workers. Why not simply expand the size and functions of government enough to provide permanent work for everyone who needs it?

There are two reasons why this strategy will not work. The first is because the economy's job gap is not of constant size. It expands and contracts over the course of the business cycle, which means that a direct job creation program designed to close that job gap has to be able to do the same. A permanently expanded public sector workforce would not be able to perform this gap-filling function, and this strategy would do nothing to permanently reduce the amount of unemployment the economy would suffer — as the experience of Western European countries demonstrates.

The second reason is because closing the economy's job gap requires that unemployed workers be hired based on their need for work rather than an invidious comparison of their qualifications to those of other job applicants. This type of hiring is incompatible with the civil service procedures upon which the hiring of most public sector employment properly depends for purposes of both fairness and efficiency.

Adopting the direct job creation strategy would expand the size of the public sector and the supply of public goods and services produced by it, but it would not do so in the same way that an expansion in regular public sector employment would. The goal of the strategy is to secure the right to work by closing the economy's job gap. The fact

that achieving that goal would enrich society with an expanded supply of public goods and services — real income that market economies currently forgo because of their inability to provide productive employment for everyone who wants it — is simply a bonus that securing the right to work would provide for all members of society.

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Endnotes

[1] Although the CETA-PSE program was far less effective than the WPA in achieving its net job creation goals (Johnson and Tomola, 1977; Harvey, 2011a: pp. 24-27), its disappointing performance in that regard was rooted in a design flaw that is both correctable and less likely to be problematic in a program funded by the same level of government that administers the program (Harvey, 2002).

[2] The CBO report estimated that 70% of the 10-year cost of the ARRA was incurred by the end of Fiscal Year 2010, i.e., September 30, 2010. The $677 billion figure I cite for program expenditures through the end of the calendar year simply extrapolates the 2010 expenditures forward for an additional three months.

About the Big Ideas for Job Creation Project

Big Ideas for Job Creation, a project of the Institute for Research on Labor and Employment at the University of California, Berkeley, with the support of The Annie E. Casey Foundation, tapped into the innovative thinking of leading experts across the nation to develop job creation proposals. Every idea had to meet the following criteria: designed for implementation by cities and/or states and will lead to net new job creation in the short-term; practical, sustainable, scalable and already tested; and all jobs created should be accessible for low-skilled workers and offer some career opportunity. Taken together, these Big Ideas can create millions of new jobs for our country.

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