

Why a Job Guarantee Program Wouldn't Have to Create as Many Jobs as People Think

Philip Harvey

Professor of Law and Economics, Rutgers University

Philip.harvey@rutgers.edu

INTRODUCTION

In April 2015 there were 8.5 million officially unemployed individuals in the United States plus an additional 6.6 million individuals working part-time who wanted full time jobs and 6.3 individuals who wanted a job (and are available to accept one) but are not counted as officially unemployed because they were not seeking work actively enough to satisfy the Bureau of Labor Standards (BLS) criteria for being counted as unemployed.

That's 21.4 million people all together, and because HR 1000 would likely generate only enough funds to create about 8 million jobs directly and approximately 2 million more via the multiplier effect of program spending, it's reasonable to ask whether it's capable, as presently configured, of achieving genuine full employment.

I believe it would, but only after

1. The economy once again reaches the top of the business cycle with unemployment in the 4% to 5% range (not counting jobs funded by HR 1000), and
2. Employers, involuntary part-time workers, and job wanters not counted as unemployed all adjust to the increased availability of jobs achieved by HR 1000.

From that point in time on, I believe HR 1000, as it is presently configured, would be capable of achieving genuine full employment (that is, unemployment in the 1% to 2% range) and keeping us there when economic slowdowns or recessions occur in the future.

The Level of Funding Provided by HR 1000's Financial Transactions Tax

The version of HR 1000 introduced in this Congress would generate approximately twice as much dedicated job creation and job training revenue as the version introduced in the last Congress. This is true even though the tax rates specified for the financial transactions tax (FTT) in the bill are lower than in the last version. The main reason for this is that the FTT in the current version of the bill covers bond transactions and their derivatives as well as stock transactions and their derivatives. This broadening of the FTT's tax base increases the revenue-generating capacity of the tax, but it is also important for achieving the other objective of an FTT—reducing speculative high-frequency trading in the nation's financial markets.

Adapting a model originally developed by Dean Baker, Robert Pollin, and James Heinz (and further developed by Pollin since then) I estimate that HR 1000's FTT would generate an average of about \$240 billion in annual revenue for the bill's Full Employment Trust Fund. This would be enough to create more than 10 million jobs—8 million in the job creation program itself and over 2 million via the multiplier effect of program spending. However, for reasons I will explain below, I estimate that the program would need to create only about 6 million jobs to achieve genuine full employment at the top of the business cycle—at an annualized cost of about \$180 billion. The other \$60 billion in FTT tax receipts would create a funding buffer for the Full Employment Trust Fund that would allow it to pay for the additional job creation required when the economy was in recession or to repay funds borrowed from the Fed for that purpose.

This excess of tax receipts over program spending as the economy approached the top of the business cycle would also cancel out the program's multiplier effect. Indeed, it would render the combined effect of the program's tax and spending components fiscally deflationary. This is one of several reasons why HR 1000 should be able to achieve genuine full employment without triggering an inflationary spiral.

Achieving Genuine Full Employment

Is this level of job creation enough to achieve (and maintain) genuine full employment? I think it is—notwithstanding the fact that 6 million jobs is nowhere near enough to provide work for everyone who wants work at the top of the business cycle *under existing conditions*. Why would 6 million jobs be sufficient? The answer lies in the effect the program would have, once it was up and running, on the behavior of employers, involuntary part time workers, and job wanters who are not currently seeking work actively enough to be counted as unemployed by the BLS.

Involuntary Part-Time Workers and Job Wanters Not Counted as Officially

Unemployed: The implementation of HR 1000 would allow involuntary part-time workers to obtain full-time jobs funded by HR 1000, and for purposes of estimating the number of jobs needed to achieve genuine full employment, I have assumed they all would do so if they were unable to find full-time employment in the regular labor market.

This exodus of involuntary part-time workers from private sector employment would force employers to adjust their hiring practices vis-à-vis part time work. They would have four options: (1) hire less qualified workers who actually want part-time work, (2) combine part-time jobs to provide a smaller number of full-time jobs, (3) increase the wages they pay part-time workers enough to attract job applicants who otherwise would prefer to work full-time, or (4) offer their full-time workers the opportunity to work longer hours (at overtime rates of pay where statutorily mandated).

Former involuntary part time workers employed in jobs funded by HR 1000 would have the full-time work they wanted. However, like formerly unemployed workers employed in program-

funded jobs, they would have to remain available for comparable private sector employment when and if it became available. In other words, they would be in the same position as formerly unemployed workers employed in program-funded jobs.

The same would be true of job wanters who are not currently counted as unemployed. By taking jobs funded by HR 1000, these former “non-labor-force-participants” would join the active labor force—and that means they too would become available for private sector employment as it became available.

But the NAIRU currently requires only 4% to 5% of the labor force to remain available for private and regular public sector hiring in order to keep inflation in check. This means that until the number of HR 1000 workers plus the number of persons experiencing unavoidable frictional unemployment reaches the NAIRU level, the private sector could be safely stimulated to grow enough to absorb more of this enlarged HR 1000 labor force. Moreover, HR 1000 is structured to automatically provide the fiscal stimulus necessary to achieve that goal because the \$80 billion a year described above as an anti-cyclical funding buffer would permit the program to fund an additional 2 million jobs during this start-up period (for a total of 8 million instead of 6 million).

As noted above, the FTT tax rate in the current version of HR 1000 is set at a level sufficient to directly create about 6 million jobs while still leaving a funding buffer averaging about \$60 billion a year. That 6 million jobs would provide work for about 3 percent of the economy’s labor force. That’s enough to reduce the economy’s unemployment rate from a NAIRU level of approximately 4.5% to a genuine full employment floor of approximately 1.5%—once involuntary part-time employment is eliminated and all job wanters not counted as unemployed have joined the labor force. In other words, 6 million is the level of job creation we would need to achieve genuine full employment at the top of the business cycle—once the program’s likely effect on the phenomena of involuntary part-time employment and labor-force withdrawal by job wanters takes hold. And once the economy reaches that point, the \$80 billion a year in surplus funding the FTT would generate when the private economy is operating at the NAIRU level should be enough to keep us there.

It would take time, of course, to complete the labor market adjustments described above, just as it would take time to recover from a recession if HR 1000 were adopted sometime other than at the top of the business cycle. In fact, the process of eliminating involuntary part-time employment and absorbing all job wanters into the labor force would look and feel very similar to changes that already occur during the recovery phase of the business cycle. As jobs become more readily available the number of involuntary part-time workers in the labor force declines and so does the number of job wanters not counted as unemployed. HR 1000 would simply accelerate that process and continue it to completion—the elimination of involuntary part-time employment and the inclusion of all job wanters in the active (job seeking) labor force. It’s impossible to say how long this would take, but my guess would be between a few years and a decade based on the rate at which involuntary part-time workers and job wanters not counted

as unemployed are absorbed into the labor force now during the recovery phase of the business cycle.

In short, the current version of HR 1000 is indeed designed to get us to genuine full employment and to keep us there—without requiring the adoption of other job creation measures.