The Anti-Inflationary Features of H.R. 1000

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INTRODUCTION

The current version of H.R. 1000 includes a new provision (Section 10) that would give the Secretary of Labor authority to limit new hiring and bar wage increases in job creation projects funded by H.R. 1000 when there is good reason to believe that H.R. 1000 hiring is contributing to inflationary trends in the economy that warrant corrective action. However, in order to understand Section 10's design and why the hiring limits and wage freeze it would authorize is unlikely to be needed, it is important to understand the anti-inflation features the bill already contains.

Anti-Inflationary Features of H.R. 1000

The ability of H.R. 1000 to achieve genuine full employment (i.e., unemployment in the 1% to 2% range) assumes that the nation's central bank (the "Fed") would continue to pursue policies designed to prevent the unemployment rate (calculated as if H.R. 1000 job holders were unemployed rather than employed) from falling below the non-accelerating inflation rate of unemployment (NAIRU) level. In other words, H.R. 1000 is designed to mimic the labor market effects associated with the maintenance of unemployment at the NAIRU level, but with unemployed workers occupying directly-created program jobs (or participating in training programs) while they wait for private or regular public-sector jobs to become available.

The two premises underlying this approach to the problem of unemployment are first, that even when GDP is at the NAIRU level, far fewer jobs exist in the economy than are needed to provide work for everyone who wants to work, and secondly, that it is possible to design a direct job creation program capable of filling this job gap without generating harmful levels of inflation. There are four main ways in which this non-inflationary (or even anti-inflationary) job creation goal can be achieved, and all four are built into the design of H.R. 1000.

(1) Creating Jobs Without Adding to Aggregate Demand at the Top of the Business Cycle

The first of these design features is the ability of H.R. 1000 to create jobs without adding to aggregate demand at the top of the business cycle. This is possible because, unlike job creation attributable to increased business investment or increased government deficit spending, the jobs created by H.R. 1000 at the top of the business cycle would be fully funded on a contemporaneous basis by revenue generated by the H.R. 1000 financial transactions tax ("FTT"). In fact, because FTT revenues would generally exceed H.R. 1000 job creation expenditures at the top of the business cycle, the H.R. 1000 program as a whole would be fiscally deflationary at such times.[1]

The opposite would be true, of course, during recessions. H.R. 1000 accordingly would perform the same automatic stabilizing function that the U.S. unemployment insurance program does. The only difference would be that instead of providing unemployed workers with unemployment insurance benefits, they would be provided employment in jobs funded under H.R. 1000.

Historically, our only experience with unemployment below the NAIRU level has occurred in circumstances where the declining rate of unemployment has been attributable to growing aggregate demand. The deliberate use of fiscally neutral (or fiscally deflationary) job growth to drive unemployment below the NAIRU level would be unprecedented, and while our lack of experience with this type of job growth makes it difficult to predict how much less inflationary it would be compared to job growth at the top of the business cycle attributable to an increase in aggregate demand, there can be little doubt that it would be less inflationary.

(2) Targeting Job Creation to Avoid Labor Shortages

The second feature of H.R. 1000 that would reduce its inflationary effect is the precise targeting of its job creation effect on unemployed workers. This would be in marked contrast to the tendency for market-based investment (and hence market-based job creation) to be concentrated in sectors of the economy that are “hot”—i.e., sectors of the economy that are most likely to be experiencing labor shortages or other supply bottlenecks at the top of the business cycle.

H.R. 1000’s job creation effect would be distributed across regions, communities and economic sectors in exactly the opposite way. It would create jobs only where labor demand was slack rather than in the “hot” spots that attract market-driven investment. The result would be a tendency for employment rates to be leveled upward without adding to the demand for labor where it is already in short supply. In other words, H.R. 1000 would not compete for scarce labor supplies, and this would diminish its potential inflationary impact.

Once again, it’s hard to say how much less inflationary H.R. 1000’s job creation effect would be due to this tendency—as compared to the inflationary tendencies of the kind of job creation induced by market forces at the top of the business cycle—but we can be certain that it would be milder.

(3) Reducing Frictional and Structural Unemployment

The third characteristic of H.R. 1000 that would reduce its inflationary impact would be its tendency to reduce both frictional and structural unemployment in the economy. This tendency would follow from its heavy investment in job training (a third of all program expenditures), its likely effect on labor force

[1] This analysis assumes that income spent purchasing securities (a transfer rather than a purchase of goods or services) either leads to or otherwise would result in consumption or (real) investment expenditures. That may not be the case, but over-saving is generally not a problem at the top of the business cycle.

participation rates, and its contribution to the efficiency of the economy's job matching process. Each of these effects is discussed below.

Structural unemployment exists when jobs go begging (or are slow to fill) because job seekers lack the skills or other qualifications employers demand. During most phases of the business cycle structural unemployment is a marginal phenomenon. The larger the economy's job gap the less likely it will be that significant numbers of jobs go begging for lack of qualified applicants. At the top of the business cycle, and especially when unemployment falls below the NAIRU level, structural unemployment is more likely to constitute a real barrier to the achievement of genuine full employment and a contributing factor to rising rates of inflation due to shortages of qualified labor in certain occupations or certain geographic locations.

Providing unemployed workers with job training unaccompanied by additional job creation during recessions may provide long term benefits to the trainees, but it's unlikely to reduce aggregate levels of joblessness and runs the risk of embittering eager trainees who discover that there is a shortage of jobs available in the occupations for which they have trained. H.R. 1000 would address that problem by providing the graduates of training programs occupationally appropriate employment during recessions, unless and until non-program jobs requiring their skills became available. At the top of the business cycle, especially when unemployment falls below the NAIRU level, training programs can satisfy a more immediate need by reducing the inflationary pressures associated with the emergence of excess demand for certain categories of labor in certain geographic locations. The fact that H.R. 1000 would allocate a third of its funding to job training programs accordingly qualifies as another of the bill's anti-inflationary features.

Frictional unemployment is joblessness caused by the time it takes for employers (with job openings to fill) and qualified job seekers (with an interest in those jobs) to find one another, assess one another, and conclude a hiring. While it is not one of H.R. 1000's stated goals to improve the efficiency of the job matching process, it would nevertheless have that effect; and a reduction in the level of frictional unemployment in the economy would tend to lower the NAIRU. Stated differently, it would have an anti-inflationary effect.

The principal source of H.R. 1000's beneficial effect on the efficiency of the job matching process would be a side effect of the function the nation's system of One-Stop Career Centers would perform in certifying the eligibility of job seekers for H.R. 1000 employment and in providing non-program employers an easy way to identify qualified workers for the purpose of recruiting new employees

To obtain access to jobs funded by H.R. 1000, unemployed workers would first have to register for and conduct a job search with the assistance of their state employment service; and they would be required to maintain their registration with the employment service and their availability for suitable non-program jobs for as long as they remained employed in an H.R. 1000 job. Performing this function would require a major investment of new resources in the One-Stop system, but H.R. 1000 funding would be available for that purpose.

The information collected by One-Stop Centers via this registration process would result in the creation of a comprehensive data base of information concerning the qualifications, interests, work experience, training, and availability for work of jobs program participants, and the availability of this information would enable One-Stop Centers to quickly identify and refer qualified candidates for both employment and training opportunities.

But would employers list their job openings with the One-Stop system? They would have to in order to gain access to the pool of job candidates working in H.R. 1000 jobs, enrolled in H.R. 1000 job-training programs, or pursuing job searches in order to qualify for H.R. 1000 employment opportunities.

Once most job seekers and most job openings are registered with the One-Stop system, both the job search process and the employee recruitment and vetting process would operate more smoothly, more quickly, and more fairly. The nation's publicly-funded employment service would finally be able to fulfill its potential as a clearing house for the efficient matching of job seekers and available jobs. The agony of the job search process would be eased for millions of job seekers every year, and the level of frictional unemployment would be reduced—thereby mitigating the economy's inflationary tendencies.

Finally, the enhanced efficiency and "user friendliness" of the economy's job matching process, combined with H.R. 1000's promise of assured employment and/or paid job-training opportunities would almost certainly increase labor force participation rates by job wanters not currently counted as unemployed because they are not engaged in an active job search. Job wanters would no longer be deterred from actively seeking work by the size of the economy's job gap and the frustrations of the job search process. They would know they could succeed in finding a job without spending weeks or months "pounding the pavement" and without having to endure the discouragement and humiliation of being repeatedly told they aren't "good enough." The result would be a higher proportion of job wanters actively seeking work, the disappearance of "hidden unemployment," and increased employment rates—without a corresponding surge in the rate of inflation.

(4) The Buffer Stock Effect of H.R. 1000 Job Creation

The fourth way in which H.R. 1000 would counteract the inflationary tendencies normally associated with an unemployment rate below the NAIRU level is by insuring that persons employed in jobs funded under the Act remain available for non-program employment. Indeed, this is why H.R. 1000 includes language requiring persons employed in jobs funded under it to remain available for suitable non-program employment. The aim of this provision is to preserve the inflation-fighting function of unemployment without wasting their productivity and without forcing them to endure the burdens of unemployment. To the extent that purpose is achieved, the program's inflationary effect will be reduced.

Legitimate questions can be raised, of course, as to whether persons employed in H.R. 1000 jobs would remain available for private sector employment without the whip of unemployment driving them to seek and accept whatever jobs are on offer. Could H.R. 1000's administrative requirements and the enhanced efficiency of the nation's One-Stop system provide an effective substitute for material want in insuring the continued availability of jobs program employees for private sector employment?

One reason for confidence on this score is that H.R. 1000 would enhance the employability of the reserve labor force it maintained. Unemployment may motivate workers to seek jobs, but it also has a tendency to degrade their "hard" skills, erode their "soft" skills, and make it harder for employers to judge the quality of their labor. This uncertainty is the principle reason employers discriminate in their hiring in favor or currently employed job applicants over unemployed job applicants. H.R. 1000 would improve the actual quality of the economy's reserve labor force and, just as importantly, make it easier for employers to identify individual members of this reserve who possess the qualities they are looking for.

The practical availability of individual workers for employment depends not only on the actions they take to communicate their availability to potential employers, but also on the actions employers take to identify, recruit, and evaluate potential candidates for employment. The quality of the information that potential candidates for employment and employers have about one another is more important in this regard than whether it is the candidate for employment or the employer who initiates the contact. Because of the size and persistence of job shortages in market economies, employers tend to rely on job applicants to do the "heavy lifting" in making their availability for employment known. Put a sign in your window announcing that you are hiring, and job applicants appear as if by magic. This is not the only way labor markets can function. The role played by "headhunters" in the recruitment of employees possessing qualifications in short supply demonstrates that employers can adjust to the requirements of labor markets in which they must take the initiative to seek out and query the availability of potential candidates for employment.

Yes, labor markets would work differently if H.R. 1000 succeeded in providing temporary work for virtually all members of the nation's reserve labor force. Workers would not be out "pounding the pavement" in search of work, and that means employers would have to play a more active role in identifying and reaching out to those who possessed the qualifications they were seeking. But that's how markets in genuine equilibrium should function, and H.R. 1000 would furnish employers with an institutional framework that would make it easy for them to step up their recruitment activities. They would no longer be able to get away with a sign in the window or a word to their existing employees that they had a job opening they wanted to fill, but they also wouldn't have to field a deluge of job applications. All they'd have to do is tell their local One-Stop Center what kind of workers they wanted to hire. The One-Stop Center would identify appropriate candidates in the H.R. 1000 employee pool, and provide contact information to both the employer and the H.R. 1000 employee along with relevant information about each for the other's consideration. The H.R. 1000 employee would know what kind of job was available, and the employer would have a list of suitably-screened candidates for the job. Would this system insure the same level of "availability" on the part of H.R. 1000 employees as our existing reliance on the whip of unemployment? It's impossible to say for certain, but there is no reason to assume it wouldn't work as well—and it clearly would be preferable on non-economic grounds.

Another reason to doubt the adequacy of H.R. 1000's buffer stock effect to control inflation is the relative stability of H.R. 1000 wage rates. When a currently employed worker is offered a job of similar quality that pays slightly more than their current job, the employee is likely to sound out their current employer as to whether the higher wage offer might be matched before deciding whether to accept the new job. This strategy would be unavailable to persons employed in jobs funded by H.R. 1000, because their wages would be fixed at a level matching the wages of regular public sector employees who perform comparable work. A desire to maintain existing relationships with co-workers, a commitment to the project on which they are working, a fear of the unknown, or simple inertia could still incline a worker to turn down the offer of alternative employment, but the force of those considerations would be blunted to some extent by the relatively high turnover of the H.R. 1000 labor force and the fact that program employees would be required to show good cause for refusing a apparently suitable non-program job offer. And of course, there are bound to be plenty of H.R. 1000 workers who would prefer non-program employment in the private sector.

The only employers who would face insurmountable difficulties in recruiting employees from the H.R. 1000 labor force would be those that paid substandard wages and/or provided their workers with substandard working conditions. There are many such employers now, but they tend to be concentrated in the low-wage sectors of the economy, and the fact that H.R. 1000 would apply pressure on them to pay their workers more and/or provide them with better working conditions should be viewed as an advantage of the bill's job creation strategy. All low wage employers would face the same challenge, and some might not survive. But that's how markets are supposed to work in equilibrium conditions. The ability of low-wage employers to adjust to increases in the statutory minimum wage demonstrates that having to pay more for the labor they deploy is a death sentence only for inefficient businesses.

The One Inflationary Tendency H.R. 1000 Could Trigger

The preceding recital of the anti-inflationary features of H.R. 1000 should be reassuring. Taken together, they furnish strong grounds for believing that H.R. 1000 could push unemployment below the NAIRU level without causing untoward inflationary effects. There is, however, one characteristic of the H.R. 1000 strategy that could generate inflationary pressure. That is its effect on the bargaining power of labor both individually and collectively. The only issue to be addressed in assessing this tendency is whether it would simply permit workers to claim a bigger share of national income than they do at present—a trend most people would applaud—or whether it would trigger an inflationary spiral.

The possibility that H.R. 1000 could trigger a wage-price spiral by reducing unemployment below the NAIRU level is the reason an inflation circuit breaker has been added to the bill. The provisions of this circuit breaker are explained below. At the same time, however, it is important to understand that the program features described above would militate against the emergence of such a spiral, as would the Fed's ability to slow the economy's growth. A moderate increase in labor costs and prices in low-wage industries would be the likely near-term effect of H.R. 1000 at the top of the business cycle, but there's no reason to believe that tendency would trigger a wage-price spiral.

The H.R. 1000 Inflation Circuit Breaker

If problematic inflationary tendencies emerged in the economy despite the anti-inflationary constraints described above, program hiring could be cut back and program wages could be frozen. That is what Section 10 of H.R. 1000 is designed to do.

The steps called for in the section would be activated whenever the seasonally adjusted inflation rate exceeded 3 percent and the seasonally adjusted unemployment rate fell below 4 percent. The 3 percent inflation trigger is a percentage point above the Fed's inflation target of 2 percent and likely approximates the upper end of the range of inflation rates the Fed should deem acceptable. The 4 percent trigger constitutes a reasonable approximation of the NAIRU.

Whenever both of these triggering conditions are satisfied simultaneously, Section 10 would activate a procedure that would permit quick action to curb H.R. 1000's possible inflationary impact followed by a public review of that action. This process would unfold as follows.

(1) The Secretary of Labor would be required to make an initial determination as to whether there was good cause to believe that H.R. 1000 was playing a significant role in elevating the inflation rate above 3 percent and whether a reduction in H.R. 1000 hiring was needed to counter this trend.
(2) If the Secretary makes such a determination s/he would be required to immediately issue an interim order freezing wages in jobs funded by H.R. 1000 and temporarily suspending new hiring of two of the four categories of persons eligible for employment under H.R. 1000. The two categories would be involuntary part time workers and persons receiving unemployment insurance benefits—because these two categories of job seekers have at least some alternative source of support. The two other categories of persons eligible for program employment—unemployed individuals who qualify as disadvantaged and unemployed individuals who have been looking for work unsuccessfully for 60 days—would not be subject to the hiring freeze. The net effect of this partial hiring freeze would be to reduce the pool of persons eligible for H.R. 1000 employment by about 50 percent. Persons already employed in jobs funded by H.R. 1000 would not be forced out of their jobs, but if their employment ended for other reasons they would be subject to Section 10's hiring restrictions.
(3) At the same time this interim order was announced (and 7 days before it became effective) a comment period of 30 days would be opened during which the public would be afforded the opportunity to comment in favor of or against the continuation of the Secretary's interim order.
(4) At the end of the comment period the Secretary would be required to confirm, revoke, or modify the interim order and justify that decision, taking into considerations the arguments received during the comment period.
(5) To expedite the decision-making process contemplated by this procedure, Section 10 makes it clear that no review of the Secretary's order by the OMB would be required (It shouldn't under existing law in any case) and no other impact statement otherwise required by law would have to be prepared (again none should under existing law in any case).

The rest of Section 10 addresses collateral issues and makes clear the permissible parameters of any order issued under the section's authority.

Section 10(f) would give the Secretary authority to shift funds from the job creation account in the Full Employment Trust Fund to the job training account if additional funds were needed to insure the availability of job training opportunities for all persons whose eligibility for employment under H.R. 1000 was being suspended.

Section 10(g) would give persons whose eligibility for H.R. 1000 jobs had been suspended the right to appeal for individual hardship exemptions from the order's effect.

Section 10(h) would make it clear that neither the interim nor the final order issued by the Secretary could require the early termination of the employment of persons already occupying H.R. 1000 jobs.

Section 10(i) would make it clear that new hires of persons other than UI recipients and involuntary part-time workers could not be suspended.

Section 10(j) would make it clear that the Secretary's authority to freeze wage rates in the program did not extend to ordering wage reductions.

Section 10(k) would give the Secretary authority to exempt grant recipients (i.e., the providers of H.R. 1000 jobs) from the hiring and/or wage freeze to the extent necessary to enable the job creation project(s) they administer to continue to operate. This would be necessary, for example, if certain jobs had to be filled for the project to continue and those jobs could not be filled from the remaining pool of persons eligible for program employment.

Section 10(l) makes it clear that any hiring or wage freeze ordered pursuant to the section would automatically expire if the unemployment rate rose above 4% and/or the rate of inflation fell below 3 percent.