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## Funding a Job Guarantee

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**Abstract:** Adopting a conventional view of the need for governments to raise the funds they spend, I have argued that a well-designed Job Guarantee (JG) programme could be funded entirely from the savings and additional revenues it would generate (Harvey, 1989; 1995). In contrast, JG advocates working in the Post Keynesian tradition have grounded their proposal for funding such a programme on a more expansive view of the fiscal capacities of currency-issuing governments. Based on that view, they have argued that a JG programme could be funded without relying on any of the funding sources identified in my analysis of the issue (Mitchell and Wray, 2005; Tcherneva and Wray, 2005; Mitchell and Watts, 2005). This article argues that these two approaches to the funding issue are not inconsistent with one another and that they jointly reinforce the conclusion that a JG programme could achieve full employment without generating unacceptable levels of inflation.

**Keywords:** full employment; Job Guarantee (JG); right to work; inflation.

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**Biographical notes:** Philip Harvey is Associate Professor of Law and Economics at Rutgers School of Law – Camden. He received his BA from Yale College, his PhD in economics from the New School for Social Research, and his JD from Yale Law School. He is the author of *Securing the Right to Employment* (Princeton U. Press, 1989), and coauthor, with Theodore Marmor and Jerry Mashaw, of America's *Misunderstood Welfare State* (Basic Books, 1990). In recent years his articles have included *Human Rights and Economic Policy Discourse*, 33 *Colum. Hum. Rts. L. Rev.*, 363–471 (2002); *Combating Joblessness*, 21 *Berkeley J. Emp. and Lab. L.* 677–758 (2000); and *Joblessness and the Law Before the New Deal*, 6 *Geo. J. Pov. L. and Pol'y* 1–41 (1999). Professor Harvey's CV can be accessed at <http://www.philipharvey.info/>.

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## 1 Introduction

This symposium is the second one addressing the relative merits of Basic Income (BI) and Job Guarantee (JG) proposals to be published by a scholarly journal in the past 18 months, and a third is scheduled for publication in the coming year.<sup>1</sup> As one would expect, these symposia highlight disagreements between proponents of BI and JG proposals, but they also call attention to differences in analytic approach and possibly of opinion among the supporters of each proposal. In this article I focus on this latter set of

differences – a clear difference in analytic approach and a possible difference of opinion among JG advocates on the issue of how a JG programme should be funded.

My own approach to the funding issue has been to focus on the costs governments bear as a result of involuntary unemployment and the consequent savings they would enjoy and the additional revenues they would receive if they were to establish a JG programme. I have argued that a comparison of those savings and revenues to the operating costs of even a very generous JG programme suggests that a well-designed JG programme could be funded without increasing either taxes or budget deficits, at least in developed market economies (Harvey, 1989; 1995).

Job Guarantee (JG) advocates working in the Post Keynesian tradition have adopted a markedly different analytic approach to the funding issue. Emphasising the technically unconstrained fiscal capacities of currency-issuing governments, these JG advocates challenge the conventional assumption (apparent in my own analysis, for example) that a government would have to raise the funds needed to pay for a JG programme.<sup>2</sup>

This assumption, they argue, misconceives the respective rolls of government spending, taxation and borrowing (*i.e.*, the sale of government securities) in a modern monetary system. Instead of inquiring where the funds would come from to pay for a JG programme, they ask what macroeconomic results would flow from the funding of such a programme – with or without corresponding increases in government tax collections and/or borrowing. In particular they ask whether government expenditures devoted to the establishment of a JG programme could achieve the programme's desired full employment goal without causing unacceptable increases in the rate of inflation. Stressing the inflation-restraining effect of a fixed-wage JG programme, they answer this question in the affirmative and suggest that the effect may be strong enough to permit a JG programme to be funded by means of additional deficit spending alone (whether or not the deficit spending is accompanied by matching government borrowing). In any event, from this perspective, if either additional taxation or additional government borrowing were needed in connection with the funding of a JG programme, it would not be to pay for the programme but to serve the goals of macroeconomic policy with respect to the regulation of aggregate demand and interest rates (Mitchell and Wray, 2005; Tcherneva and Wray, 2005; Mitchell and Watts, 2005).

Clearly these two analytic approaches are very different. In this article, though, I argue that there is less to this difference than meets the eye. First, I shall argue that our disparate approaches to the funding issue do not conflict with one another. We simply emphasise different points. The Post Keynesians focus on the role of a JG programme as a macroeconomic policy measure and argue that it would allow for the achievement of full employment without triggering the inflationary problems associated with the simple Keynesian strategy of boosting aggregate demand indiscriminately. On the other hand, I focus on the role of a JG programme as a social welfare benefit designed to secure the right to work and argue that securing that right would not require any more redistribution of income than is associated with the existing policy regime. These two points are not only fully compatible with one another; they provide complementary insights into the strengths of the JG strategy.

Second, I shall argue that there is little difference in the practical policy advice emanating from the two analytic approaches with respect to the question of how a JG programme should be funded. Both approaches emphasise that additional taxation and/or borrowing is unlikely to be needed to fund a JG programme. Although the reasoning behind that conclusion differs under the two approaches, the reasoning adopted under

each approach, if accepted, is easily accommodated within the other approach. More important, both approaches support the conclusion that the cost of a JG programme should not concern people who find the idea otherwise attractive.

Finally, I shall argue that the two approaches are complementary to one another in addressing concerns about the inflationary tendencies associated with full employment. Each approach articulates a separate strategy for restraining those inflationary tendencies. Each approach thereby offers a separate reason for believing that full employment with price stability is achievable using a JG programme. Moreover, the two anti-inflation strategies would be mutually reinforcing in practice, providing additional reassurance that a JG policy really does provide a credible alternative to the current practice of using involuntary unemployment to maintain acceptable levels of price stability.

## **2 Different paths to the job guarantee idea**

For three decades following the end of World War II progressive economic policy was dominated by the simple Keynesian strategy of using an expansive fiscal policy to boost aggregate demand and keep unemployment rates low. When both expert and popular support for this strategy collapsed during the stagflation crises of the 1970s, the progressive political agenda lost its forward momentum. Without a credible full employment policy, the ambitious social policy goals articulated by progressives in the 1940s no longer seemed achievable (Harvey, 2005).

Believing that the problem of involuntary unemployment had to be solved in order to reinvigorate the progressive political agenda, and conceiving that goal in the rights-based terms expressed in documents like Franklin D. Roosevelt's 1944 State of the Union Message (Roosevelt, 1944) and the Universal Declaration of Human Rights,<sup>3</sup> I proposed a JG strategy for achieving full employment that I argued would secure the right to work better than the simple Keynesian strategy and with less inflationary impact (Harvey, 1989).<sup>4</sup> With a bow to the strategy for combating unemployment advocated by New Deal social welfare planners before Keynesian theory came to dominate progressive thinking on this issue (Committee on Economic Security, 1935; National Resources Planning Board, 1943), I argued that the federal government should close the economy's job gap by using direct job creation to provide decent paid work for all job seekers the regular labour market failed to employ. As for the inflationary tendencies that had doomed the simple Keynesian strategy described above, I argued that a well-designed JG programme could be fielded without increasing aggregate demand relative to aggregate supply, and that this, along with other features of the strategy, would reduce the programme's likely inflationary impact to a manageable level (Harvey, 1989).

A few years later Post Keynesian economists influenced by the work of Abba Lerner, Hyman Minsky and others began to publish the results of their own research supporting a similar strategy for achieving full employment with price stability (Mitchell and Watts, 1997; Mosler, 1997–1998; Wray, 1998; 1999; Forstater, 1998).<sup>5</sup> Despite differences in theoretical orientation and descriptive terminology, the proposals advanced by these economists were structurally very similar to my own. Indeed, there are only two differences that I consider truly significant. The first concerns the wage policy a JG programme should adopt.<sup>6</sup> The second concerns the issue addressed in this article – how the task of funding a JG programme should be approached.

### **3 A Post Keynesian approach to the funding issue**

Proposals to fund a JG programme naturally give rise to concerns about the cost of such an initiative. Post Keynesian supporters of the JG idea have responded to these concerns by challenging the conventional view that the fiscal capacity of governments is limited by their ability to raise taxes and borrow money in financial markets. This claim goes beyond the familiar Keynesian point that deficit spending by government is necessary to maintain adequate levels of aggregate demand in a market economy. It involves an embrace of the less familiar argument that currency-issuing governments should base their spending, taxing, and borrowing decisions on their macroeconomic effects rather than on the notion that government spending must be financed with taxes or borrowing.<sup>7</sup> This does not mean that the spending decisions of currency-issuing governments are unconstrained, only that those constraints are political and macroeconomic rather than budgetary (Wray, 1999; Mitchell and Wray, 2005; Mitchell and Watts, 2005; and Tcherneva and Wray, 2005).

From this perspective, the proper question to ask about the funding of a JG programme is not how a government would pay for it. It would pay for it by writing checks, and a currency-issuing government could write those checks whether it first collected the requisite funds to cover the spending or simply credited the accounts on which the checks were drawn by fiat. The important question to ask is what the macroeconomic effects of establishing and paying for a JG programme would be with or without matching increases in tax collections or government borrowing.

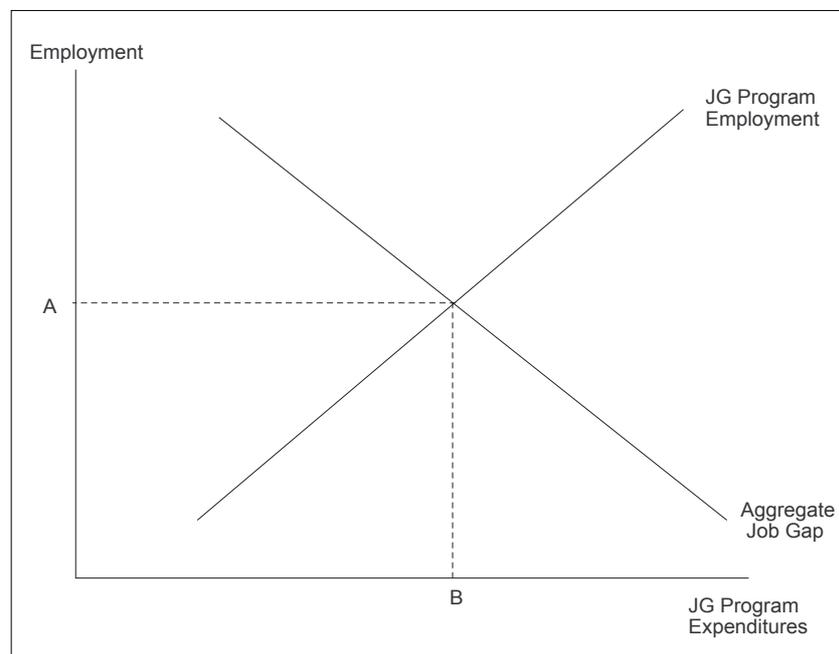
Aside from the ability of a JG programme to achieve full employment, the macroeconomic effect of most concern to Post Keynesian JG advocates is the possibility that funding such a programme would cause inflation rates to rise. Their views on this issue lie at the crux of their advocacy of the JG idea. It is what distinguishes their strategy for achieving full employment from the simple Keynesian strategy of indiscriminately increasing aggregate demand. What a JG programme would do, they argue, is create a buffer stock of qualified labour whose availability for hire at a constant wage level would restrain the wage inflation that normally occurs as labour markets tighten. This, in turn, would help contain upward pressure on costs of production and product prices. It would, in effect, permit employers to enjoy the benefits of unemployment (ready supplies of labour at existing wage rates) without forcing workers to bear the burdens of actually being unemployed.

Given the inflation-restraining effects they attribute to a JG programme, Post Keynesian advocates of the JG strategy suggest that a JG programme not only could but normally should be accompanied by increased deficit spending. This increased deficit spending would move the economy towards full employment in two ways. First, it would create jobs in the JG programme itself. Second, the increase in aggregate demand resulting from the additional deficit spending used to pay for the programme would create additional jobs in the private sector, thereby reducing the number of jobs the JG programme would have to provide in order to achieve full employment (Mitchell and Wray, 2005; Mitchell and Watts, 2005).

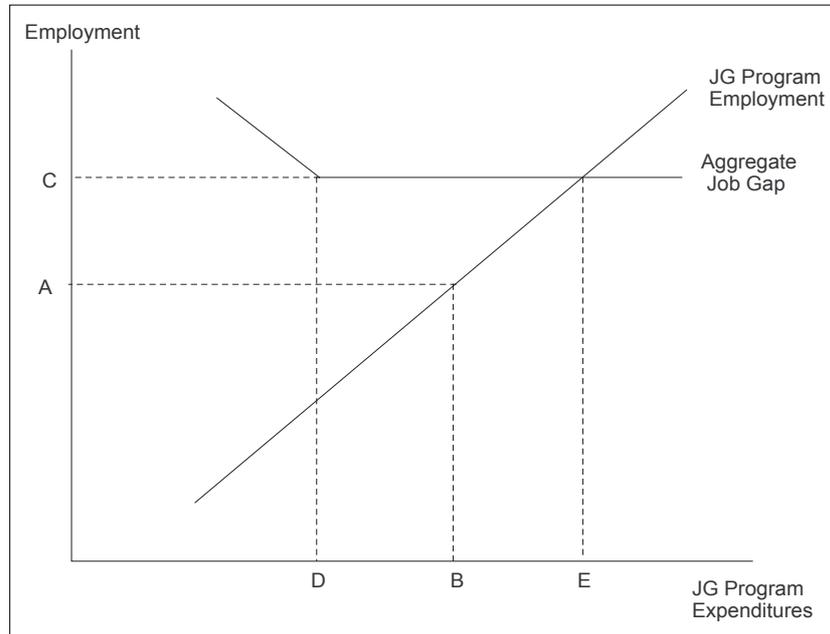
The only limit on this strategy would be that the JG programme would have to be maintained at a large enough level that it could continue to perform its buffer stock function effectively. Figure 1 portrays the situation that would exist if the JG programme was fully funded using deficit spending. The upward sloping curve measures JG programme employment. The downward sloping curve measures the economy's 'job

gap' – the number of jobs needed to achieve full employment, *not including jobs created in the JG programme*. This curve shows the number of jobs a JG programme would have to create to achieve full employment. If the JG programme was funded entirely by means of deficit spending, the economy's job gap would fall continuously as the JG programme grew, because programme expenditures would increase private sector employment at the same time it was creating JG programme jobs. The number of jobs the JG programme would have to create to achieve full employment would therefore be determined by the point where the JG employment curve crossed the job gap curve. Based on Figure 1, the JG programme would achieve full employment by creating *A* jobs with an accompanying increase in deficit spending of *B* dollars.

**Figure 1** Achieving full employment with a JG programme funded entirely with deficit spending



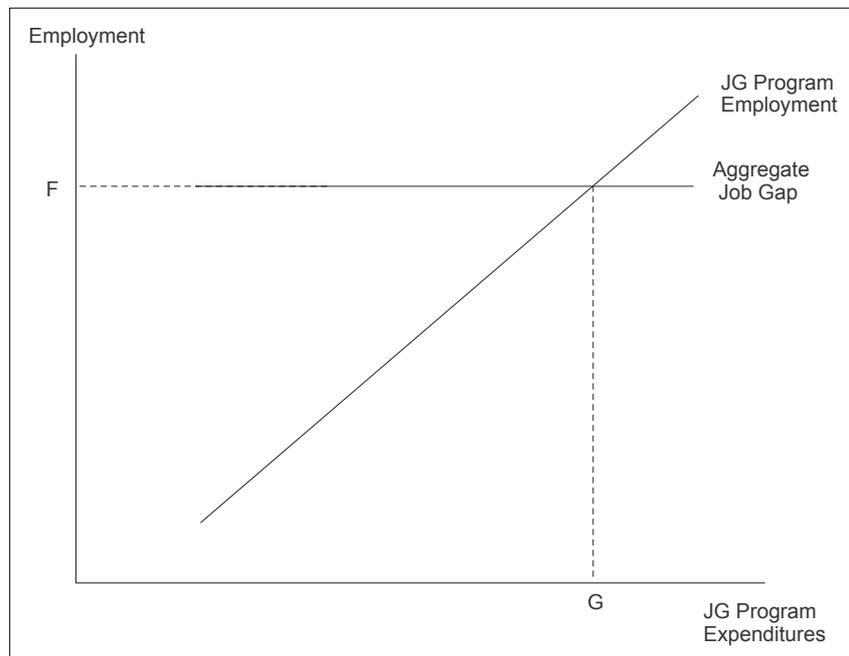
It could be, though, that the JG programme would have to maintain a labour force larger than *A* in order to perform its buffer stock function adequately. Figure 2 portrays this situation. Assume that *C* is the minimum level of employment the JG programme must maintain in order to perform its buffer stock function adequately. To maintain the programme at that size, total programme spending would have to equal *E* dollars, of which *D* dollars would represent additional deficit spending. The balance of the spending required to fund the programme (*DE*) could be matched by increased tax collections. The purpose of this tax increase would not be to 'pay' for the programme (even though people probably would think of the tax increase in those terms) but simply to limit the growth of aggregate demand that programme expenditures otherwise would cause. Comparing *C* to *A* and *E* to *B* shows that the programme would be larger in this instance (to adequately perform its buffer stock function) and would cost correspondingly more than if the programme were funded entirely with deficit spending.

**Figure 2** Achieving full employment with a JG programme partly financed with deficit spending

Finally, Figure 3 shows the level of funding and JG employment required if JG programme spending was fully matched by increased tax collections. In that case the job gap that existed before the establishment of the programme would be filled entirely with JG programme employment, creating a programme of  $F$  employment at a cost of  $G$ . This is not the option Post Keynesian JG advocates prefer, since they believe additional deficit spending could be undertaken in connection with the operation of a JG programme without untoward inflationary effects in most circumstances. Nevertheless, their analytical model allows for this option; and in some situations (*e.g.*, when inflation rates already were rising) they might advocate the tax policy portrayed in Figure 3 in order to maximise the JG programme's anti-inflationary effect (by taking advantage of the programme's buffer-stock effect without causing any counteracting increase in aggregate demand).

One final point that should be made with respect to all three Figures is that they should not be understood to suggest that all deficit spending undertaken by government should be channeled through a JG programme. Deficit spending on other programmematic initiatives – whether of the guns or butter variety – is perfectly suitable for increasing aggregate demand and aggregate private sector employment up to the level where unacceptable inflationary pressures begin to emerge. The use of a JG programme to close the economy's job gap is needed only beyond that point, which might correspond to a 3% or 4% national unemployment rate at some points in time (the late 1990s in the USA) and, if US inflation hawks were right in the 1980s, a 5% or 6% unemployment rate at others. For this reason, the job gap portrayed in Figures 1 through 3 should be understood as the residual job gap remaining when further increases in aggregate demand would prove unacceptably inflationary if devoted to purposes other than the funding of a JG programme.

**Figure 3** Achieving full employment with a JG programme funded without additional deficit spending



This analysis suggests that the only limit on the use of deficit spending to fund a JG programme would arise from the need to protect the programme's inflation fighting capacity. However, the force of this analysis – and particularly its endorsement of additional deficit spending beyond a level that would be unacceptably inflationary if it were devoted to other purposes – depends on the effectiveness of the buffer-stock effect attributed to a JG programme by Post Keynesian supporters of the JG idea.

If the buffer stock effect of a JG programme proved less potent than its Post Keynesian advocates expect, the implication of their analysis is that programme spending would, at some point, have to be accompanied by measures designed to restrain the growth of aggregate demand. Instead of living in the world portrayed in Figure 1, we might find ourselves in a Figure 2 or Figure 3 world. This would not be terrible. The JG strategy still would achieve full employment with price stability, but it would have to be accompanied by either increased taxation or other measures designed to reduce or limit the growth of aggregate demand, a harder political sell.

#### 4 A budget neutral approach to the funding issue

Before reading the work of Post Keynesian advocates of the JG idea I had not considered the possible buffer stock effects of a JG programme. Accordingly I had not considered the possibility that higher levels of deficit spending could be accommodated with a JG programme in place than without it. For reasons I shall explain below, I still am not fully persuaded that a JG programme's price-stabilising effects would be greater than its inflationary effects, but at this point I merely want to emphasise that my own treatment of the JG issue is based on the assumption that increased deficit spending beyond the level a prudent Keynesian would advocate in the absence of a JG programme is likely to aggravate inflationary tendencies in the economy. For that reason the question I have addressed in my own analysis of the funding issue is how to pay for a JG programme without relying on increased deficit spending by government (Harvey, 1989; 1995).

In making this point I want to emphasise that I am not suggesting that Post Keynesian JG advocates assume that increased deficit spending is necessarily needed to fund a JG programme. Since they view budget deficits as the post hoc result of independent taxing and spending decisions, their position is more properly described as emphasising the irrelevance of the question. Still, their advocacy of the JG idea is aided by the fact that they think increased deficit spending by government is desirable in most circumstances and could be safely undertaken in conjunction with the establishment of a JG programme because of the buffer stock function such a programme would perform. By assuming that increased deficit spending could be undertaken in that circumstance (*i.e.*, that we reasonably could aspire to the world portrayed in Figure 1) they have avoided the politically unpalatable task of having to advocate demand-reducing measures to compensate for the increase in aggregate demand that would flow from JG programme expenditures.

My own assumption that a JG programme should be funded, if possible, without increased deficit spending led me to inquire how much additional spending such a programme actually would require. Answering that question requires more than a programme cost estimate, since the establishment of a JG programme would save governments money as well as costing them money.

Developed market societies provide a range of income transfer benefits to officially unemployed workers, to impoverished individuals who want work whether or not they are counted as unemployed, and to the dependents of both of these groups. For simplicity, I shall refer to all these benefit recipients collectively as the 'Unemployed'. If a JG programme was used to close the economy's job gap, government spending would be reduced for existing transfer benefits to the Unemployed. If those savings totaled 'X' billion dollars, the first 'X' billion spent on a JG programme would already be accounted for. Not only would it not be associated with any change in aggregate demand or deficit spending; it would not be associated with any change in the level of government spending. The only change would be the transformation of transfer benefit payments into wage payments.

Another portion of the budgetary cost of providing a job guarantee would be covered by additional tax receipts attributable to the aforementioned conversion of transfer benefits (which generally are not treated as taxable income) into taxable wage income. Programme costs covered by this source also would not be associated with any change in aggregate demand or deficit spending, even though it would appear as additional government spending balanced by an equal increase in government revenues.

The extent to which the budget of a JG programme would be covered by these two sources of funding is an empirical question. It depends on the JG programme's overall cost, how the programme's operation would affect transfer benefit eligibility, and the size and generosity of the benefit programmes that would be partly or wholly supplanted by it. In general, the more generous the support provided by a society to the Unemployed and the less generous the job guarantee established to replace those benefits, the smaller the programme funding deficit that would have to be covered from other sources.

To provide such an estimate I conceived a model JG programme designed to secure the right to work recognised in the Universal Declaration of Human Rights in the USA. I then estimated the budgeted cost of the programme, the savings in transfer benefit expenditures it would produce, and the tax receipts on programme wages it would generate<sup>8</sup> over the 10-year period from 1977–1986 (Harvey, 1989). Unemployment rates in the USA during that 10-year period averaged 7.0%, the highest 10-year average since the 1930s and the third highest in over 100 years.<sup>9</sup> It also was a period during which significant cuts were made in social welfare spending per unemployed person and per person living in poverty. In other words, it was a period when the number of jobs a JG programme would have been required to provide was well above average and when the per capita transfer benefits such a programme would have replaced were shrinking. I thought a cost and savings estimate for that period would provide a good high-end estimate of the net funding requirements of a JG programme in general. Table 1 shows the results of this modeling exercise.

As Table 1 shows, I estimated the programme's 10-year budgeted cost at \$1.2 trillion (current) dollars, savings in transfer benefit expenditures at \$725 billion and additional income and payroll tax receipts at \$246 billion. In other words, I estimated that approximately \$971 billion or 82% of the programme's budgetary cost would have been covered without resort to additional funding sources or deficit spending. Moreover, these estimates did not take into consideration three other sources of savings or revenue that would have reduced this funding deficit even farther.

First, the estimates in Table 1 do not take into consideration the counter-cyclical effect the programme would have had in a period that included two recessions. I think it is beyond cavil that increased deficit spending, along with other expansionary macroeconomic measures, are both desirable and effective during recessions. A JG programme would function as a powerful automatic stabiliser in such periods. If the 'Funding Deficit' shown in Figure 1 for the recession years of 1980–1983 had been funded with additional deficit spending, it would have added almost \$125 billion to aggregate demand over that four-year period, even if the spending did not produce any multiplier effect. This would have generated enough private sector employment to reduce the JG programme's budget by an amount roughly equivalent to its Funding Deficit for those years. In other words, if the JG programme I modelled had been partly funded with additional deficit spending or had been accompanied by additional deficit spending during the 1980–1983 recessionary period, the funds needed to pay for the programme (including those covered by any additional deficit spending) would have been significantly reduced. The figures shown in Table 1 do not account for this effect.

**Table 1** Estimated budgetary cost of a job guarantee programme in the USA: 1977–1988

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	10-year total or (average)
Budgeted cost	70.4	66.1	69.8	98.3	117.1	161.5	175.3	144.0	142.2	142.5	1187.2
Additional tax receipts from programme wages	14.0	13.1	13.9	19.9	24.6	33.8	36.3	29.9	30.0	30.4	245.9
Savings from cutbacks in other programmes	52.0	55.4	57.7	69.0	76.0	78.0	90.4	81.9	80.6	83.5	724.5
Funding surplus or deficit	-4.4	1.4	1.8	-9.4	-16.5	-49.7	-48.6	-32.2	-31.6	-28.6	-217.8
Official unemployment rate (percent)	6.9	6.0	5.8	7.0	7.5	9.5	9.5	7.4	7.1	6.9	7.0

Note: In billions of current dollars, except for unemployment rate

Source: Harvey (1989)

The figures reported in Table 1 also ignore the indirect savings a JG programme would have generated in both the private and public sectors due to its ameliorative effect on the medical and social problems that involuntary unemployment tends to cause or aggravate. The negative effects of unemployment on physical and mental health are well-documented, and it also is implicated as a causative or aggravating factor in the full range of social problems associated with poverty – from increased rates of family dissolution and mental illness to increased criminal activity (Harvey, 2002, pp.398–400). The negative effects of unemployment impose costs on society far beyond the expense of providing income transfer benefits to the unemployed. These indirect costs can be measured both in terms of the harms unemployment causes (*e.g.*, increased property crime) and the positive costs incurred to respond to those harms (*e.g.*, increased criminal justice expenditures). Since a JG programme almost certainly would reduce the severity of these harms, it would generate both direct felt benefits and indirect savings in expenditures required to respond to these harms in both the private and public sector.

It would be analytically incorrect to treat these savings as available for reallocation to a JG programme in exactly the same way that transfer benefit payments paid directly to the Unemployed could be reallocated to pay programme wages. This is because, unlike transfer payments, the extra costs governments incur responding to medical and social problems are already being spent on job creation. They pay the wages of health care workers, social service providers, criminal justice personnel and so forth. If funds currently allocated to the provision of these services were reallocated to pay for a JG programme (because the existing services were no longer needed) the workers who now provide those services would lose their jobs.<sup>10</sup>

Notwithstanding this difference, these indirect savings could be reallocated to a job programme in a more roundabout way. The direct benefits and indirect savings the public would enjoy as a result of reductions in the private and social costs of involuntary unemployment would increase the public's real income.<sup>11</sup> If the monetary equivalent of that increase in real income were partly or wholly taxed away to help fund a JG programme, the public would be left with the same or more real income than they enjoyed before the job programme was instituted, even though their after-tax money income would be reduced. In this way, national income currently allocated to treating the negative effects of unemployment could be reallocated to the prevention of involuntary unemployment without increasing aggregate demand.<sup>12</sup>

Finally, the budgetary estimates reported in Table 1 do not account for the possibility that at least some of the goods and services produced by the JG programme could have been sold, thereby generating revenue to help defray the budgetary cost of the programme. In other words, the figures reported in Table 1 assume that the goods and services produced by the programme would have been distributed for free to the public. But at least some of these goods and services could have been sold. Child care or rehabilitated housing, for example, could have been sold at below-market prices to persons who would not otherwise have been able to afford such purchases.<sup>13</sup>

The sale of programme output would increase aggregate supply in the economy, but if the revenue generated by these sales was used to pay programme wages, that increase would be balanced by an equal increase in aggregate demand. In other words, this means of paying for a JG programme would not produce any net macroeconomic stimulus even though it would be associated with an increase in aggregate demand.

Under applicable government accounting rules, any revenue generated by the sale of goods and services by a JG programme would be set off against programme expenditures, thereby reducing the budgeted cost of the programme rather than increasing government expenditures and revenue simultaneously. In other words, the sale of goods and services by a JG programme would be treated for accounting purposes as reducing government spending on the programme.

Any one of these three additional sources of revenue or savings could have closed the programme budget gap shown in Table 1 for the job programme I modelled. Since the period covered by my estimate was one of exceptionally high unemployment combined with reduced per capita spending on the Unemployed, my analysis suggests that using a government funded JG to achieve full employment would not require either additional deficit spending by government or any additional redistribution of income (taxation) – even in the USA which is notoriously stingy in the transfer benefits it provides to the Unemployed.

Figure 3 was described above as a portrayal of the situation that would arise if JG programme spending was accompanied by a matching increase in taxes, but it also describes the situation that would arise if JG programme spending was matched by the savings and additional revenue generation that I have described. In other words, the funding sources I have identified would function as the equivalent of tax increases in preventing JG programme spending from increasing aggregate demand. That is why I labelled the figure as I did – suggesting that its importance lies in its portrayal of a fiscally neutral funding strategy for a JG programme rather than the particular means adopted for achieving that neutrality. The requisite fiscal neutrality could be achieved by increasing levels of taxation to match programme spending, but it also could be achieved without any increase in taxes as I have explained.

Mitchell and Watts (2005, p.75, n.6) are mistaken, in my view, in suggesting that a budget neutral JG programme could achieve full employment only if it resulted in an expansion in private sector spending or a contraction in private sector activity accompanied by a transfer of private sector workers to lower-paying guaranteed jobs. None of the funding sources I have identified would cause a contraction in private sector activity, and the only one that would cause an expansion in private sector spending is the use of counter-cyclical deficit spending during recessions. Most social welfare spending is associated with redistributive taxation rather than an expansion or contraction of aggregate demand. There is no reason a JG programme would function any differently than unemployment insurance in this respect. To make this clearer, it might be useful to view a JG programme as providing a social welfare benefit that is the functional equivalent of a decent private sector job rather than as a strategy for achieving full employment in the conventional sense of the term.

This does not mean that a JG programme would necessarily have to be funded in a budget neutral manner. It could be funded with additional deficit spending just as other social welfare benefits can, and during recessionary periods that increased deficit spending to support an expanded JG programme clearly would be desirable. Nevertheless, there are good political and economic reasons to prefer budget neutral, or even budget surplus funding for a JG programme as a general proposition.

The political reasons for adopting this seemingly conservative fiscal stance are two fold. First, I think it would be extremely helpful in winning and maintaining public support for the establishment of a job guarantee if the public understood that society's toleration of involuntary unemployment is costing them money rather than saving them money.

Establishing a job guarantee would not only help the Unemployed, it could put money into the pockets of the rest of society. That being the case, it strikes me as politically foolish not to emphasise that fact at every turn in promoting the JG idea.

The second political reason I think budget neutral or budget surplus funding should be adopted for a JG programme is that it would simplify the educational task required to win acceptance of the idea. Overcoming resistance to new ideas is never easy. It requires a concerted educational effort, and it is inherently easier to teach one new idea than two or three simultaneously. Educating the public to the logic of providing a job guarantee as a way of combating unemployment and poverty is a big task. If the success of that educational task also required that the public be persuaded that government budget deficits are a good thing and that a government's fiscal capacity should not be legally constrained by its taxing and borrowing capacity, I fear the lesson would never be learned. I sympathise with the desire of my Post Keynesian colleagues to influence public attitudes towards government spending, taxation and borrowing in general; but I do not think it is either necessary or helpful to link that task to the promotion of a job guarantee as a means of achieving full employment.

The economic reason for preferring a budget neutral means of funding a job guarantee is that it would reduce the inflationary effects of the policy. As any economist who has worked in this field knows, the policy challenge we face in achieving full employment is not the problem of devising a means of boosting aggregate demand. That's easy to do. The challenge is to achieve full employment without unleashing unacceptable inflationary pressures. Post Keynesian JG advocates argue that a JG programme would help achieve that goal because of its buffer-stock effect; but wouldn't it also help if aggregate demand did not increase as the last few percentage points of involuntary unemployment were squeezed out of the economy?

Inflationary pressures develop as an economy approaches full employment because aggregate demand exceeds currently available supply in at least some sectors of the economy. This puts pressure on producers to expand output, and as they do so, competition for dwindling supplies of labour tends to force wages and hence costs of production up. These pressures are felt first in the economy's 'hot spots' – those firms, industries, communities and geographic regions where capacity is most constrained. Genuine labour shortages may exist in those hot spots, and inflationary pressures emanating from them can cause price levels to rise in the economy as a whole, long before rising aggregate demand soaks up surplus labour supplies in the economy's 'cold spots'. This regularly leaves some communities and population groups suffering the equivalent of a depression when the political and/or economic reaction to rising prices has already set in motion a slowdown in the growth of aggregate demand. Consequently, full employment is never achieved.

Inflationary pressures of this type would not exist if involuntary unemployment were eliminated by establishing a JG programme that did not increase aggregate demand. The added employment would reach the Unemployed immediately, without creating supply bottlenecks in the economy's hot spots. That does not mean such a programme would create no inflationary pressures, but it would greatly reduce the inflationary pressures that historically have scuttled efforts to achieve sustainable full employment.

The principle source of inflation that would remain would stem from the increased bargaining power that workers would enjoy as unemployment fell and the fear of joblessness lost its *in terrorem* effect on wage negotiations. This is a tendency that would not be entirely eliminated by the buffer stock effect of a JG programme, and it is why I indicated above that I still am not fully persuaded that a JG programme's price-stabilising effects would be greater than its inflationary effects. That, I am afraid, is an empirical question.

Customary wage and profit expectations are the product of centuries of market experience in which employers almost always have enjoyed the benefit of a buyers market – with more workers seeking employment than there are vacant jobs to fill. The emergence of new wage and profit expectations consistent with a genuine balance between the demand for and supply of labour would take time, and inflation could be one of the manifestations of the adjustment process as workers and employers fought over income shares. I have argued that any wage-price spiral that resulted from this cause would be self-dampening and temporary if it were not reinforced by rising aggregate demand (Harvey, 1989, pp.75–78). The buffer stock effect of a JG programme also would help dampen these tendencies.

If unacceptable levels of inflation emerged despite these moderating influences, other measures would be needed, including the adoption of deflationary macroeconomic policies (a last resort, in my view, because of the political difficulty in winning acceptance for such a policy) or the implementation of more active incomes policies to stabilise prices for the period of time it took for workers and employers to adjust their wage and profit expectations to the change that sustained full employment would bring in their relative bargaining power.

In any event, given the important role inflation control would play in the both the political and economic success of a JG strategy for achieving full employment, I think it would be prudent to finance the programme in such a way that it did not increase aggregate demand. This would in no way limit the ability of a government to use its fiscal powers to increase aggregate demand as the need arose, but given the nature of the role a JG programme would play in achieving full employment, it probably would be best not to use the programme as a vehicle for boosting aggregate demand except during recessions. At such times the public generally does accept the need for increased deficit spending and, as I have noted, a JG programme would provide a particularly good vehicle for delivering an automatic counter-cyclical boost to the economy. Except in that context, though, I think fiscal policy planning and the implementation of fiscal policy should be separated from the administration of the JG programme so as not to confuse the public (or economists) concerning its role in achieving full employment. Given the additional protection this strategy would provide against inflation and the political advantage of being able to promote the JG idea without challenging popular resistance to tax increases or increased deficit spending, I think this strategy is preferable.

## **5 The redistributive cost of a job guarantee programme**

Most social welfare benefits redistribute real income, and although opponents of social welfare initiatives rarely focus on this fact, there is little doubt that it contributes to opposition to social welfare spending in market societies. For this reason it is important for discussions of the cost of social welfare initiatives to consider not only the question of

how the proposed benefit could be funded but also how much redistribution of income that funding mechanism would entail. Viewed from this perspective, the appropriate question to ask is not where the funds necessary to pay for a JG programme would come from but how much income redistribution would be required to achieve the programme's social welfare goals.

The implications of both my own and the Post Keynesian analysis of JG programme funding is that such a programme could be established in developed market economies without *any* additional redistribution of income. The Post Keynesian analysis supports this conclusion provided the JG initiative is funded with additional deficit spending – since in that case the programme's real cost would be totally covered by the programme's contribution to increased aggregate demand and, hence, to increased aggregate real income. Neither present nor future tax payers would suffer any reduction in their real income to pay for the programme. My own analysis supports the same conclusion even if the JG programme is funded without engaging in additional deficit spending, because of the savings in existing government expenditures the programme would permit and the additional government revenue it could generate.

This does not mean that any interest-based opposition to the JG idea would be irrational. As explained above, a JG programme would strengthen the bargaining power of wage earners by reducing the *in terrorem* effect of unemployment. This would likely tilt the wage/profit tradeoff more in favor of wage-earners over the long run, and in this way, a JG programme probably would cause some redistribution of income over time, even if the funding mechanism used to pay for the programme had no such effect in the short-run. This long-term redistributive effect would be likely to fuel employer opposition to the idea even if they were satisfied that a JG programme could be funded without any additional redistribution in the short run, but it would be hard for employers to mobilise opposition to the JG idea among tax payers in general if the idea could be promoted without relying on additional income redistribution to pay for it.

## **6 Conclusion**

Supporters of the JG idea confront a difficult task in persuading the public that the policy makes sense, and the first step in that process may be to persuade progressive economists – by no means an easy task. In pursuing this agenda it is important that the key features of the strategy be explored in detail to determine what is essential to the strategy and what is not. Clarifying the options available for funding a JG and assessing their relative strengths and limitations is an important part of this undertaking, but progress in that effort has been hindered by the marked difference in analytic approach adopted by different JG advocates in discussing the funding issue.

Believing that the two analytic approaches discussed in this article are compatible with one another, it has been my goal here to develop a conceptual framework for talking about the two approaches that highlights their consistency. A job guarantee could be funded in the way Post Keynesian supporters of the idea suggest, and if the strategy did not aggravate inflationary tendencies it would have the advantage of both minimising the number of jobs a JG programme would have to provide and permitting tax payers to bank the savings governments would experience as a result of the elimination of involuntary unemployment. Nevertheless, I believe it is important to recognise that a JG programme also could be funded without relying on additional deficit spending and without raising

taxes – and that doing so would provide additional insurance against the inflationary tendencies such a programme might generate. In other words, the claim that a JG programme could be used to achieve full employment without triggering an unacceptable increase in inflation is supported by both approaches to the funding issue discussed in this article, and the fact that these two analytic approaches and the funding strategies they suggest are compatible with one another further buttresses that claim. That is a conclusion that all JG advocates should find encouraging.

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## Notes

- 1 See *Rutgers Journal of Law and Urban Policy*, Vol. 2, No. 1 (2005) (available at [www.jlup.org](http://www.jlup.org)); *Basic Income Studies* (forthcoming) (available at [www.basicincomestudies.org](http://www.basicincomestudies.org)).
- 2 I say that the fiscal capacity of currency-issuing governments is *technically* unconstrained because there may be legal limitations on their ability to spend funds they have not received, notwithstanding the fact that there are no inherent limitations. In the USA, for example, the federal government's spending powers are vested in the Secretary of the Treasury, but the Secretary lacks legal authority to make payments except from 'public money in the Treasury', 31 U.S.C. § 3327(a), and while the Secretary may borrow money on behalf of the government in order to ensure that there will be sufficient funds in the Treasury to cover spending obligations that exceed government revenues, this authority does not include the legal power simply to credit either the Treasury or depository accounts maintained by the government with the requisite funds. See 31 U.S.C. §§ 3102–3106. Thus, to exercise the fiscal capacity that Post Keynesian JG advocates emphasise currency-issuing governments possess, significant changes in law may be required.
- 3 Universal Declaration of Human Rights, 1948, G.A. Res. 217A, U.N. GAOR, 3d Sess., U.N. Doc. A/810.
- 4 Similar strategies for achieving full employment (and ending the poverty associated with involuntary unemployment) were proposed by Minsky (1986) and Reimer (1988) at about the same time, although none of us were aware of each other's work at the time.
- 5 For an account of the origins of this work, see Forstater (2003).
- 6 Post Keynesian supporters of the JG idea generally advocate the adoption of a single wage rate for all programme participants. This unitary wage would then function as both the economy's de facto minimum wage and the minimum wage regular employers would have to offer to hire JG workers away from the programme. In contrast, I propose that JG programme participants be offered jobs comparable in both pay and responsibilities to those occupied by similarly qualified workers in the regular labour market, subject to the caveat that anyone whose level of skill and experience did not qualify them for a good enough job to earn an adequate standard of living would be offered either supplemental income-assistance benefits or job training that would qualify them for a better-paid position either inside or outside the JG programme.

This does not mean the programme I propose would have to match the prior earnings of every worker it hired, only that the programme's wage scale would have to be comparable to those offered in the regular labour market for similarly qualified job seekers. It also does not mean that the programme's wage scale would have to be subject to constant adjustment. Programme wages could remain fixed for relatively extended periods of time, just as they are for other public sector employees.

I think the unitary wage policy advocated by Post Keynesian JG advocates would be both undesirable and unnecessary. It would interfere with the programme's ability to secure all aspects of the right to work – an unacceptable policy compromise in my view (Harvey, 1989; 2002; 2004; 2005). It would make it harder to plan and administer genuinely useful work projects, thereby diminishing the range and quality of the goods and services the programme could produce as well as the quality and variety of the jobs it could provide. It would undermine public respect for the programme and its employees by reinforcing claims (sure to be made by programme critics) that it was providing nothing but make work for people who lacked the skills necessary to occupy real jobs. (Why else offer nothing but minimum wage jobs and pay everyone the same wage for performing them?) Finally, it would diminish the effectiveness of the programme's buffer stock effect by reducing its ability to provide a credible reserve of both skilled and unskilled workers in a wide range of occupations. With respect to this latter point, the kind of wage scale I advocate for a JG programme would not only enforce an earnings floor for the economy as a whole; it would function as a loose incomes policy – one that would restrain wage-induced inflation without subjecting employers or workers to the administrative constraints that make other incomes policies both unpopular and difficult to police.

- 7 The capacity of currency-issuing governments to spend money without first receiving it derives from their control over their own monetary system. If legally empowered to do so (and without such authority if they dare) such governments can simply credit bank accounts with whatever funds are necessary to support the spending they want to undertake. As noted in Note 2 above, governments may not have the legal authority to fund their own spending in this manner, but it can be argued that the taxing and borrowing they undertake is functionally gratuitous with respect to funding of government accounts.
- 8 These tax receipts consisted mostly of Social Security contributions that would have been paid in part by the government as employer and in part by programme participants as employees.
- 9 The only time other than the 1930s when the USA experienced a higher 10-year average unemployment rate than it did during 1977–1986 was in the 1890s.
- 10 Suppose, for example, that \$40,000 currently allocated to support a nurse's salary was 'saved' because a reduction in unemployment caused a reduction in medical problems requiring the nurse's services. If that \$40,000 was reallocated to support a JG programme it would leave an unemployed nurse behind whose re-employment would require a net \$40,000 increase in aggregate demand. In contrast, if a \$10,000 transfer benefit currently paid to an unemployed individual were reallocated to help pay for a job for that individual, the reallocation of funds would not be accompanied by any reduction in existing employment.
- 11 For example, the reduction in medical problems that likely would result from the elimination of involuntary joblessness would both reduce the harm experienced by those who suffer the medical problems (along with their families and friends), and it would permit healthcare workers to provide improved care for other health problems.
- 12 To illustrate this point, suppose the \$40,000 salary of the nurse described in Note 10 above was paid with tax revenue or private insurance premiums. With the elimination of involuntary unemployment, the nurse's services no longer would be needed to treat the victims of unemployment. Instead, the nurse could be assigned work that would improve the quality of medical services provided to the employed workers whose tax payments and/or private insurance premiums have been paying her salary all along. Those workers accordingly would receive the equivalent of a \$40,000 increase in real income, and part or all of that increase could be taxed away to help pay for the JG programme without reducing their real income. No increase in aggregate demand would accompany this reallocation, since its only monetary manifestation would involve a transfer of purchasing power from tax payers to job programme participants (for which they would be compensated by the receipt of additional healthcare services in exchange for their existing tax and health insurance premium payments).

- 13 While efforts to channel this additional production to persons who would not be able to purchase equivalent goods or services in the private market would be desirable in order to minimise political opposition to a JG programme, it would not be possible to avoid such competition entirely (Harvey, 1989, pp.79–86, 88–96, 103–104). Mitchell and Watts (2005, p.75, n.6) suggestion that a JG programme could avoid such competition while still providing useful public services is unduly optimistic in my view. Even if the goods and services produced by a job programme were given away for free, those goods and services still would help satisfy demand that otherwise would be manifest in at least some purchases. The only economic problem with such competition (as distinct from the political problems it is likely to generate) is that it might lead to reductions in private or regular public sector employment (Harvey, 2002, pp.459–64). This problem could be avoided, however, if the programme's contribution to aggregate supply was matched by equivalent increases in aggregate demand (as it would if the programme's revenue was used to pay programme wages) and if reasonable care was taken not to expand the output of any good or service (whether it is sold or given away for free) in excess of growing consumer demand for it. That way the job programme would avoid the political consequences that would follow if it 'destroyed private sector jobs' even though it still would reduce the growth of private sector employment in those industries that provided goods and services similar to those produced by the job programme (*e.g.*, the child care and housing renovation industries).