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OBAMA'S JOB CREATION PROMISE: A MODEST PROPOSAL TO GUARANTEE THAT HE MEETS AND EXCEEDS EXPECTATIONS

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Introduction

Job creation is once again at the forefront of policy action. The "father" of fiscal policy—John Maynard Keynes—and his work are being invoked time and again. For advocates of pro-employment policies, President Obama's Keynesian bent is a most welcome change. In the past few days, however, two specific concerns have surfaced regarding his program. The first, discussed by Paul Krugman (2009a, 2009b, 2009c) and Robert Reich (2009a), is that Obama's plan simply does not go far enough and may, in fact, be underfunded. The second, raised by Reich (2009b), is that a large-scale public investment program may face shortages of skilled labor, put upward pressure on wages, and leave women and minorities behind.

Both concerns can be addressed by a simple amendment to the Obama plan that will bring important additional benefits. The amendment proposed here is for the government to offer a job guarantee to all unemployed individuals who are ready, willing, and able to participate in the economic recovery; that is, to target the unemployed directly. President Obama can create three million jobs through a job guarantee in the first few months of his presidency, and many more over the next two years. This guarantee will also ensure a speedy recovery that does not leave women and minorities behind. Additionally, it can serve as a transitional program for Iraq/Afghanistan

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war veterans who want to return to work but find that their former employers have either downsized or closed permanently.

Is Obama Aiming Too Low? How to Ensure That He Meets and Exceeds His Job Goals

Krugman and Reich are correct—the government stimulus is not bold enough, but this is *not necessarily* because the budget is too small. Reich has estimated that a recovery will require close to $900 billion in government expenditures, or approximately 6.5 percent of GDP (2009a), and House Democrats unveiled a comparable, $825 billion stimulus package on January 15, 2009.

Nevertheless, Obama's plan does indeed set its sights too low; not because he is asking for too little money, but because his job creation goals are extremely modest. Are 3.7 million jobs by the end of 2010 all we can hope for? According to the Romer-Bernstein study of Obama's plan (2009), the unemployment rate in 2014 is estimated to be 5 percent even with a massive fiscal stimulus and a full-fledged recovery—far higher than the lows of the Clinton years or those during the 1950s and 1960s. And we will still have to wrestle with an unemployment rate well above 7 percent over the next two years. As Krugman himself has questioned in the *New York Times* (2009b), is this really an audacious plan?

While Krugman and Reich are asking the right questions, they have not yet offered a satisfactory answer. The job guarantee amendment proposed here can solve the concerns outlined above, while bringing far more bang for the buck than the current proposal.

Reich (2009a) has called on the government to serve as the spender of last resort, when what is really needed is the government to serve as the employer of last resort (ELR). Only a job guarantee or an ELR program can reduce the unemployment rate drastically and immediately. Such policies tend to have much larger multiplier effects than pump priming and represent a genuine bottom-up approach to the recovery—one that offers employment opportunities to all, including minorities and women, irrespective of skill, educational attainment, or past work experience. The job guarantee must therefore be coupled with a program for enhancing human capital. This way it will undertake the necessary strategic investments outlined by President Obama while providing for the wholesale training, education, and on-the-job instruction of millions of people.

Why Obama's Job Target Must Be Bold

According to the Bureau of Labor Statistics (2009), there were 11.1 million individuals out of work in December 2008. By all indications, the private sector will continue to streamline its operations and shed jobs in the months to come, irrespective of any immediate stimulus. Thus, a job guarantee is absolutely essential. Such a direct employment approach will allow President Obama to fulfill his promise of three million jobs within his first few months in office. There are plenty of shovel-ready jobs that can be launched immediately. (Can we not put three million people to work repairing our roads, bridges, schools, and hospitals right away?) Additionally, the open-ended employment guarantee could double, triple, or even quadruple the number of jobs created over the next several years. This will bring the economy close to full employment and allow the president to concentrate on the strategic long-term goals of the plan. And all this can be done within the limits of the budget currently under discussion.

Backward Fiscal Policy

Before looking at some of the numbers, we need to examine why the current proposal's employment-creation effect is so small relative to its costs. The main reason is that fiscal policy today is executed in a manner completely opposite from what Keynes had in mind. Most contemporary economists use the "leaky bucket" analogy to explain how fiscal policy works. Government spends money on different contracts, stimulates various private industries, and offers broad-based investment subsidies, tax cuts, unemployment insurance, or other income supports in the hope that these injections will boost the GDP growth rate sufficiently to reduce unemployment to desired levels. Because the fiscal stimulus enters the economy through a leaky bucket (e.g., some of it is lost in transit because of administrative costs and some of it, such as tax cuts and certain investment subsidies, has no direct job creation effects), not all of the money reaches the poor and unemployed.

This leaky-bucket analogy comes to us from Arthur M. Okun, the economist whose work inspired the economic "law" named after him. Okun's Law states that a 1 percent increase in unemployment would bring about an approximately 3 percent decline in GDP growth. This relationship has been flipped and used as a policy guide that supports broad-based, pro-growth policies. The law indicates that unemployment can be reduced if the government manages to stimulate growth at a fast enough rate. But 3 percent growth in actual GDP (relative to potential GDP) brings about only a 1 percent reduction in unemployment, which is a rather small and unimpressive effect indeed. (Note that Okun [1962] himself cautioned that the GDP-to-unemployment relationship is rather weak.)

When Keynes developed his theoretical support for government action, he did not have any leaky-bucket effect in mind. In fact, the cardinal measure of fiscal policy effectiveness was its employment-creation effect (Keynes 1981, pp. 165-179). "The real problem," he argued, "fundamental yet essentially simple…[is] to provide employment for everyone" (Keynes 1980, p. 267). And for Keynes, the most bang for the buck would be achieved via *direct* job creation by the public sector. He did not speak of closing the *aggregate demand gap* in the economy; rather, he spoke explicitly of closing the *labor demand gap*. Keynes referred to such policies as "on the spot" employment (Keynes 1982, p. 171). While Keynesian policies are commonly equated with aggregate demand stimuli and pump priming, Keynes himself was very clear that aggregate demand management prevents severe economic depressions but cannot be counted on to bring the economy to full employment. This is because pump priming tends to push prices upward and erode income distribution once the economy begins to recover (Keynes 1964, p. 286). To circumvent these problems, Keynes argued that fiscal stimuli had to be targeted to the unemployed in all circumstances. As a matter of policy, he proposed that when we can't take the worker to the contract, government must bring the contract to the worker (Brown 1936).

The Keynesian approach to fiscal policy has eluded most economists and has consequently been misinterpreted as a "make work" policy. Contrary to conventional belief, Keynes *did not advocate* digging holes, burying jars with money, and digging them out, or any other useless projects. Marrying the two objectives—directly employing the unemployed and making sure that they do useful things—was of paramount importance. Once the unemployed are put to work on a particular project, he argued, "there can be only one object in the economy, namely, to substitute some other, better, and wiser piece of expenditure for it" (Keynes 1982, p. 146). Keynes, of course, emphasized that there was no dearth of useful things to do, and that whatever we do is better than not doing anything at all.

Direct and Open-Ended Job Creation

We have an opportune moment to set fiscal policy straight. By attempting to stimulate GDP to a certain growth rate that will hopefully (after some small multiplier effects) produce the desired but indirect employment effect, we are asking far too little of government action and are, in fact, open for failure. Such fiscal policy essentially puts the cart before the horse. What is needed is a policy that hires the unemployed directly by guaranteeing a job opportunity to all who want one, and then tailoring those jobs to areas that the government deems strategically important for the economic future of the United States.

There are good reasons why economists are suspicious of pump priming. For one, the multiplier effects are always low when fiscal stimuli target particular industries and sectors rather than the unemployed directly. Consider the current recession. Even though all industries are expecting a massive government stimulus, most are shedding jobs and will continue to do so over the next year. The private companies that are cutting their labor force are also retooling, scaling down operations, paying down cash commitments, and implementing labor-saving processes and technologies. Some of the unemployed will surely be rehired under Obama's stimulus package, but overall, employment will not recover *until* companies see a strong and steady stream of revenue. Counting on the private sector to generate the desired job growth is a far too lengthy and sluggish road to recovery. For this reason, it is necessary to create jobs directly, by offering a job opportunity to all who want one.

If, however, such a government program is capped at three million people, no more jobs can be created until the private sector's profit expectations improve considerably. If the program is capped at six million instead, then President Obama will meet his goals twice over. With 11.1 million individuals unemployed, in addition to many more who are discouraged or otherwise marginally attached to the labor force, surely six million will show up for work. But why cap the program at all?

There are many needs and long-term strategic goals to be met in this country, and more jobs than the manpower to do them—for example, retooling for energy independence, addressing climate change, fixing the nation's crumbling infrastructure, addressing the needs of an aging population, and providing health care and other services. What about public service? Most food kitchens, homeless shelters, and other social services are underfunded or understaffed. How many more libraries can we build and after-school programs can we organize? How much assistance can we offer to our veterans, the disabled, or victims of abuse? Virtually every social program needs more manpower. There are far too many important tasks left unattended in spite of idle and unemployed resources. This is why a job guarantee should be exactly that—a guarantee; an open-ended, unconditional job opportunity for anyone who wants to work.

Krugman is correct that Obama must be far more audacious with respect to job creation. The amendment proposed here—to couple the recovery plan with a job guarantee (public service employment, employer-of-last-resort program, or whatever you wish to call it)—is a truly bold and audacious approach that creates jobs and valuable work at a much smaller price.

A Job Guarantee Is Much Cheaper Than the Current Proposal

A job guarantee not only helps address a basic human right—the right to a job, as per the United Nations Universal Declaration of Human Rights (1948)—but it is also far more cost effective than the hodgepodge of pump priming contained within the current proposal: direct but limited job creation, various income supports, tax cuts, and investment subsidies. An unconditional job guarantee that offers a base living wage will cost only a fraction of the current budget.

Suppose that tomorrow the government announced a job guarantee to all persons willing and able to work at a wage of $12 per hour (this figure is used for illustration purposes only, as the public sector wage level must be scrutinized more carefully). This would mean an annual salary of nearly $25,000 per person (which is above the poverty line for an individual and for a family of four). If two members within the household were employed under the auspices of the job guarantee program, they would earn a combined income of $50,000, which is above the national average living wage for a family of four (Bernstein and Lin 2008).

Now suppose that about half of the currently unemployed—say, five million—show up for work, while the remaining unemployed hold out for private sector employment. This means that five million public sector employees at $25,000 each will create a wage bill of $125 billion, which is a drop in the bucket when compared to the money already spent on bailing out the banks. Even if the number of people enrolled in the program doubles, the wage bill ($250 billion) is still only a fraction of the proposed budget.

The budget unveiled by the House Democrats on January 15 includes $275 billion in tax cuts and $550 billion in spending. The $550 billion portion of the stimulus essentially commits roughly $183,000 for each of the three million jobs that it expects to create. Clearly, most of this money will not go toward salaries. A large portion will leak into the economy in the form of subsidies, unemployment insurance, food stamps, state aid, and private contracts for public works. Where private employment is stimulated, some of the money will leak into profits and go toward past cash commitments and materials. Thus, the amount of money left over for salaries will be rather small, which is why President Obama's plan is so expensive and has such small employment effects.

By contrast, a direct job guarantee could create 10 million jobs for $250 billion, which is even cheaper than the proposed tax cut—which, as recognized by President Obama and his team, has no immediate and direct job creation effect. (Note that a good portion of the tax cut will likely go toward the repayment of debt because the household sector is highly indebted. This means that the multiplier effect is smaller and the indirect job creation effect of the tax cut will be miniscule). We must ensure that backward thinking about fiscal policy does not create yet another program that attempts to throw money at the problem without guaranteeing the desired new employment. President Obama's proposal is surely one very leaky bucket.

With direct job creation, we can be bolder in our goals and expectations. Suppose that all of the unemployed, including many discouraged individuals as well as homemakers who were previously outside the labor force, decide to join the public job guarantee program. Now suppose that we create the outrageous number of 20 million public sector jobs that pay living wages. The entire wage bill will still be only $500 billion. If the amount doubles to account for the cost of materials, management, and administration, we still end up with a budget comparable to the one House Democrats are contemplating—except that now, $1 trillion will have created 20 million new jobs! These jobs could include staffing state and municipal government programs and offices; improving our schools and hospitals; creating new, green infrastructure; and repairing old infrastructure. In other words, a job guarantee is entirely consistent with all of the objectives of President Obama's plan.

The newly employed individuals will spend their incomes on private sector goods and services, which will kick-start private sector activity. As a consequence, the government labor force will *shrink* rapidly in subsequent years, as private firms hire public sector employees and provide better-paying jobs. In the meantime, the government sector will have an army of workers to help transform the country's infrastructure and transportation system, create fossil fuel–free sources of energy, improve health and educational infrastructure, improve information systems, provide universal broadband Internet access, supply the infrastructure and care services for the retiring baby boomers, and improve our overall economic productivity to compete in a 21st-century global economy.

Jobs, Skills, and the Unemployed

The second concern mentioned in the introduction comes from Robert Reich (2009b), encapsulated in the title of his post "How to Create Jobs Without Them All Going to Skilled Professionals and White Male Construction Workers." Reich correctly argues that many men and women, even those with low skills, can be put to work on certain types of green jobs that do not require a high level of expertise. Furthermore, basic training can be provided reasonably quickly to update individual skills in needed areas. But that still does not mean that these jobs (especially in construction and manufacturing) will necessarily be open to women and minorities, which is why Reich advocates job quotas to ensure fairness.

A job guarantee, by contrast, provides jobs to *all*. It offers living wages and training and educational opportunities to its participants. It is a *true bottom-up approach* to economic policy that does not leave behind the most vulnerable—those who need jobs but are always last hired and first fired by the private sector. It is a policy that brings the discouraged back into the labor market by guaranteeing a job opportunity.

Women and Minorities

By "taking the contract to the worker," such a job guarantee can benefit women and minorities in particular. It has to be recognized that many women want paid work, but care responsibilities often prevent them from participating in the labor market on the same terms as men. Women who receive welfare also want employment to "prove" that they deserve government support.

In the current punitive system, "welfare mothers" are required to find jobs in exchange for government checks, but they are not guaranteed a job opportunity or affordable child care and transportation in order to fulfill this requirement. The needs of women and children (on welfare or not) must be an explicit focus of public job guarantees. By providing abundant and affordable child and elder care, the program will alleviate obstacles to paid work and help women with jobs to reduce their "double shift" day. The program will also help women and minorities who are unable to obtain the limited number of private sector quota jobs.

Minorities have suffered disproportionately from a lack of opportunities for adequate education and employment. A job guarantee will level the playing field by allowing them to build their skills and work experience while obtaining training and education as part of the program. This will increase their employability in the eyes of private employers.

A job guarantee can also provide essential support for Obama's other objectives, such as improving the public school system. It is important to recognize that no plan to improve inner city schools will be successful unless it is coupled with a program for job creation in the inner city. This can be part of a more comprehensive plan for community development when many of the job guarantee participants live and work in the same neighborhood.

Obama's plan to increase public school funding, boost teacher salaries, and supply needed resources to students will bring fewer benefits unless complemented by a community jobs program. Much of what plagues our inner city schools stems from problems outside the schools but within the community. The absence of employment and other economic opportunities in these neighborhoods has contributed to economic crimes, absentee parenthood, rising school drop-out rates, and a vicious cycle of illicit activities. The long-term, double-digit unemployment rates in particular, coupled with a substandard educational system, have eroded human capital to alarming levels. Restoring and enhancing this human capital must be a top priority. Participants in the job guarantee program will benefit from educational opportunities such as on-the-job training and GED completion. The eventual skill enhancement will gradually bring higher quality jobs to the inner city.

The Audacity of the Job Guarantee

A job guarantee is just that—a voluntary but guaranteed employment opportunity to all who want to work. It rests on the conviction that, irrespective of educational attainment and past labor market experience, every member of society is capable of contributing something to the prosperity of our country.

If President Obama asked himself this question, "I have 10 million unemployed people who are ready, willing, and able to work—what can I ask them to do?," he would surely find 10 million answers.

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