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GUARANTEED JOBS THROUGH A PUBLIC SERVICE EMPLOYMENT PROGRAM

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In this policy note, we examine the effects of implementing a nationwide job creation program. In recent months, support for a national job guarantee has been growing rapidly, with a number of progressive organizations issuing proposals. The Levy Economics Institute has spent more than a quarter of a century researching the topic and putting forth numerous proposals. The Institute will soon be issuing a major report that will provide detailed estimates of the economic effects of a nationwide program, including impacts on the federal budget, inflation, GDP, and private sector employment.

We begin this note with a brief overview of the goals and structure of the proposal that has been developed at the Levy Economics Institute, building on the work of the Institute's scholars. The program we envision—which we call a Public Service Employment (PSE) program—would create millions of new jobs at a living wage in an effort to guarantee employment to anyone ready and willing to work. We then discuss current labor market conditions and assess how a job guarantee program modeled on our PSE approach would affect employment and poverty.

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We see the PSE program as part of a restructuring of the economy that represents a radical departure from the neoliberalism that has dominated national policy for the past four decades. Neoliberal doctrine has resulted in stagnant wages, chronically high unemployment, declining labor force participation among prime-age male workers, rising inequality that already exceeds levels achieved in America's notorious "Gilded Age," and an explosion of household debt. Other key initiatives in this restructuring include calls for a national infrastructure investment plan, the movement to eliminate student debt (see Fullwiler et al. 2018), proposals to create "Medicare for All," and the push to raise minimum wages to $15 per hour.

The PSE program would play a complementary role by offering paid work at a living wage of $15 per hour with a basic package of benefits that would include healthcare provided through an expansion of Medicare. It would ensure full employment in the sense that the program would supply a job to anyone ready and willing to work. Jobs would be provided in every community—taking workers where they are, delivering an economic boost to every community in the country.

Goals and Structure of the PSE Program

There has been a recent surge of interest in the creation of a national "job guarantee." Those now championing the idea (rightly) recognize that our nation is failing to provide an opportunity to work for millions of Americans who want and need jobs. In our work on such proposals, spanning more than a quarter of a century, we have examined America's experience with job creation programs, including the New Deal programs, as well as those adopted in other countries. As a result of our long investigation of the successes and failures of those experiences, we have designed a program that is in some respects simpler than other proposals and yet provides greater potential for economic stabilization.

Our PSE program pays a uniform wage of $15 per hour, for both part-time and full-time work. This ensures that anyone ready and willing to work will be able to earn at least that wage. In other words, this becomes the effective minimum wage across the country—a wage other employers will have to meet (either by paying at least that wage or by offering other benefits or opportunities in compensation for a lower wage). It also offers basic healthcare (we suggest that this be done through an expansion of Medicare), as well as other basic benefits (such as childcare)—effectively establishing a minimum benefits package that other employers will have to match (or those offering below-minimum benefits will have to pay above $15 per hour).

This inclusion of benefits and a generous wage was also part of the strategy that President Roosevelt attempted to pursue in his New Deal jobs programs, and his purpose—to provide a boost to living standards at the bottom—was similar. Unfortunately, President Roosevelt was not able to achieve that goal—he was forced by political opposition to accept a tiered wage structure, with relatively decent wages for skilled workers but poverty-level wages for low-skilled workers. States dominated by conservative politicians then ensured that most jobs created in their states through New Deal programs like the Works Progress Administration (WPA) were designated as low-skilled jobs, in order to keep wages low. Radical restructuring of US labor markets to ensure that anyone who works full time will earn a living wage requires a high minimum program wage.

In addition, Roosevelt's plan for the New Deal jobs programs was to create employment that did not compete with private sector activities. The goal was to ensure full employment with decent basic wages, but to do so without putting private employers out of business. It is important that the program of job creation does not pull workers out of existing jobs in the private sector. Our PSE program is designed to ensure that all employers pay fair (living) wages, but without competing for employees or displacing private sector undertakings.

Some job guarantee proposals would pay tiered wages, with higher wages for workers of higher skill. We see two problems with such a strategy. First, it could generate the same political fighting that we saw over the New Deal programs, as states dominated by conservatives will try to exclude projects with higher wages. More importantly, higher wages for workers with greater skills will increase competition with private sector employers. Indeed, during periods of economic growth, there is already substantial competition for skilled workers. We believe that the most serious unemployment problem faced in the United States is chronic unemployment for workers with lower skills and education—they have high unemployment (and underemployment) through thick and thin of the business cycle. Our design targets job creation for this group. While workers with greater education and skills will turn to this program when jobs are scarce, PSE participation for them will be transitional: they will work temporarily in the program until conditions improve. Since their normal pay will be above the program wage of $15 per hour, they will have an incentive to return to employment outside the program. The PSE program will not try to retain them with pay above $15 per hour.

On the other hand, the PSE program will provide not only the opportunity to work for those with lower skills and education, it will enhance their chances to obtain work outside the program. They will gain work experience as well as on-the-job training. This will be made an explicit goal of every job created in the program. As such, when labor markets are tight, employers will recruit workers out of the PSE program.

By design, employment in the PSE program will move in a countercyclical pattern—growing in downturns and shrinking in recoveries as workers are pulled into the private sector. This helps to stabilize economic activity and household incomes. Economists call this an automatic stabilizer. The government's budget will also move in a countercyclical manner as spending on the program cycles with the economy. This, too, helps to smooth cyclical fluctuations.

While we recognize some advantages to designs that feature a federally run program like the WPA, we prefer a highly decentralized program. Today, the federal government directly employs only 2.8 million workers (less than 2 percent of US employment). Advocates of a universal job guarantee recognize that the program might employ at least five times that number of workers. We worry about the political feasibility of expanding federal employment on such a scale. We also see the advantages of decentralizing administration to the community level. Since the goal is to create jobs in every community, and to create projects that are beneficial to every community, it makes sense to involve the local communities in the projects from the proposal stage through to implementation, administration, and evaluation.

Hence, while we would have the federal government provide the funding for the program, we would allow state and local governments as well as registered nongovernmental, not-for-profits to put forth proposals. (To retain a level playing field within the private sector, we would not allow for-profit firms to participate—as they might try to replace part of their workforce with federally paid or subsidized workers.) Since federal monies would be spent, we envision that project assessment and evaluation would take place at multiple levels: community, state, regional, and federal.

We expect that most of the jobs created will provide public services in nonprofit community organizations, public schools, and state and local governments. We recommend that the federal government's role be largely confined to providing administrative services (through local employment offices), project evaluation, and funding of wages, benefits, and some materials costs. However, if state and local efforts prove to be insufficient, the federal government will need to create supplemental projects to ensure a sufficient number of jobs are made available to all seeking work. These should be targeted to underserved groups.

While some advocates of job guarantee programs would follow the New Deal in undertaking large-scale public works projects, we would limit the use of PSE program workers on infrastructure projects to small-scale projects or for approved apprenticeship or other trainee positions. We do this to avoid conflicts with the Davis-Bacon Act and prevailing wage laws that require wages higher than $15 per hour. As discussed above, we do not favor a tiered wage structure and do not want to compete with private sector employment. Virtually all public works projects today involve government contracts that are awarded to private construction firms. However, PSE workers could be used for very small projects (installing playground equipment), simple maintenance of infrastructure (planting vegetation as screening), and environmental retrofitting (adding insulation to housing in low-income neighborhoods or to community buildings), where such projects do not conflict with applicable prevailing wage laws or the Davis-Bacon Act.

We also envision experimentation with alternative approaches to employment and the provision of community services. For example, a number of proposals for creation of workers' cooperatives could be solicited. These might be supported by the PSE program for a limited time with the federal government paying wages until the co-ops could become self-supporting. Alternatively, proposals can be solicited for apprenticeship programs that would train PSE workers for skilled employment outside the program after a specified term of PSE program employment. While we want to avoid funding of programs that train workers for jobs that do not exist, training should be a part of every PSE job and some room should be made in the program for approved apprenticeship programs.

While we advocate a program wage of $15 per hour, we recognize that moving immediately from the current federal minimum wage to $15 per hour would be disruptive in many regions of the country. Further, scaling up to a national program that might employ 15 million workers will take time. Hence, we recognize that the program will probably be phased in over a period of several years, both in terms of the numbers employed and the wages and benefits paid. Current proposals for lifting the minimum wage frequently allow for gradual increments, with the wage finally reaching $15 per hour in 2022. This allows time for employers to adjust to higher wages.

PSE Program Impacts on Employment and Poverty

President Obama stepped out of office with the longest uninterrupted streak of job creation on record: with 15.8 million private sector jobs added since 2010. Indeed, official unemployment rates have fallen into the 4 percent range—rates that are now commonly believed to equate to, or even exceed, full employment. The February 2018 payroll employment data showed the unemployment rate remained at 4.1 percent for the fifth month in a row, while 331,000 jobs were added. The number of unemployed remained at 6.7 million and the number of long-term unemployed was also unchanged at 1.4 million.

However, those apparently good numbers do not satisfy all analysts. Some take this as evidence that the unemployment rate has reached rock bottom and fear labor shortages will soon fuel inflation. This is the sentiment that lies behind the Federal Reserve's move to raise rates. On the other hand, others are worried that in spite of relatively strong job creation and low official unemployment rates, some groups are being left behind. In many regions of the country, chronic joblessness is creating desperation—reflected in an opioid crisis, suicides, and rising mortality—at least for some groups. The social costs of unemployment—both visible and less so—are extensive and already shouldered by governments, communities, and families (Tcherneva 2017). Why aren't these realities reflected in the numbers?

The problem is that the official unemployment data count only a fraction of those who are without jobs but want to work. Indeed, the constant unemployment rate and numbers of unemployed in the face of job growth is evidence that part of the big picture is missing. We need to look beyond official unemployment statistics and adopt a dynamic approach to the labor force. Many of those who leave the ranks of the officially unemployed simply exit the labor force (often because they've given up hope), and some of those who exit are counted as discouraged. Many of those who obtain new jobs do not come from unemployed status, but from being out of the labor force. While a significant number of them are new entrants (college graduates, for example), many others are discouraged workers who got lucky. In some respects, many of those who are out of the labor force look very much like those who are counted as unemployed in terms of their desire to work.

Table 1 shows the flows between labor force categories from January to February 2018—during which 331,000 jobs were added. Just over 1.5 million workers who had been employed in January became unemployed by February, and another 4.2 million left the labor force. Of the more than 6.5 million who had been unemployed, almost 2 million obtained jobs, 3.2 million remained unemployed, and 1.5 million left the labor force. Over 4.5 million who had been out of the labor force obtained jobs—almost two-and-a-half times greater than the number of

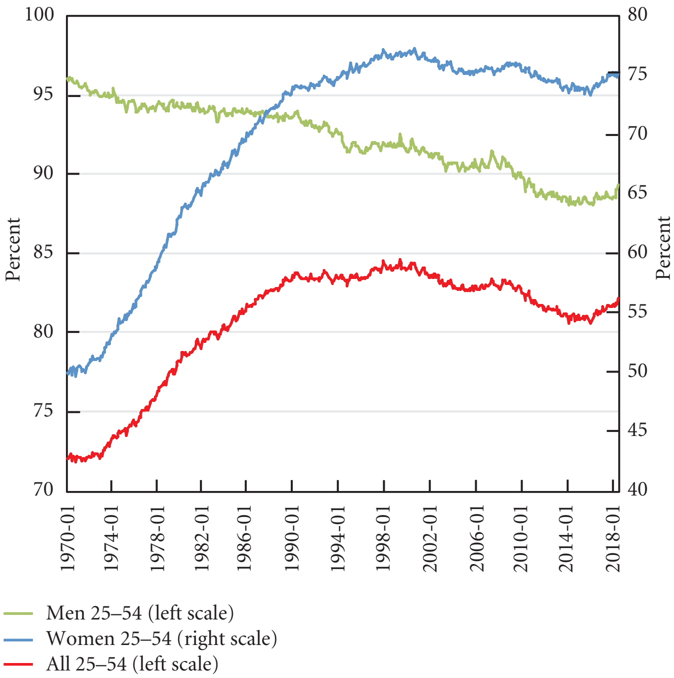
Table 1 Labor Force Status Flows, Seasonally Adjusted (in thousands)

	Status in Current Month (February 2018)				
Status in Previous Month	**Employed**	**Unemployed**	**Not in Labor Force**	**Other Flows***	**Total**
Employed	148,628	1,560	4,217	25	154,430
Unemployed	1,916	3,220	1,547	2	6,684
Not in Labor Force	4,600	1,911	88,955	200	95,665
Other Flows**	71	15	294	–	380
Total	155,215	6,706	95,012	227	

Notes: *Including estimated deaths and other BLS population adjustments; **Including those who turned 16 and other BLS population adjustments.

Source: Bureau of Labor Statistics

Figure 1 **Prime-Age Labor Force Participation Rates: Men vs. Women, January 1970 – February 2018**



Source: Bureau of Labor Statistics

unemployed who found paid work in February—and almost 2 million became unemployed (more than the number of employed who lost their jobs). While the vast majority of those who had been out of the labor force maintained that status, a significant minority behave much like those who are counted as unemployed—and their flows into the ranks of the employed and the unemployed significantly impact the changes in those categories' totals. This is why relatively robust job creation does not necessarily reduce the unemployment rate.

Another way of looking at that is to say that official unemployment rates do not provide an accurate assessment of the tightness of labor markets. We also need to look at employment rates (number employed relative to population of working age—generally age 16) and labor force participation rates (number of employed and unemployed relative to population of working age). Figure 1 shows labor force participation rates for prime-age workers (ages 25–54).

Dantas and Wray (2017) examined in detail the stagnation or decline of labor force participation rates and employment rates by age, gender, and race. This has commonly been attributed to the aging of the US population and to other supply-side factors (such as lifestyle choices), but Dantas and Wray show that these trends account for only half of the decline. In any case, age demographics cannot apply to prime-age workers. Furthermore, the share of the population age 55 or older that continues to work has been rising, attenuating the negative impact of aging on the participation rate.

Our forthcoming Levy Institute report will provide detailed estimates of the number of people out of the labor force who would have accepted work if a universal job guarantee program had been in place in the third quarter of 2017. Even after the sustained pace of job creation of the past month, we estimate that approximately 4.5 million people who are currently counted among those out of the labor force would be ready and willing to work in such a program. If we add those who are still counted as unemployed (almost 6.7 million) and those who are involuntarily underemployed (working fewer hours than desired—about 4.5 million), we find that there are approximately 15 million potential workers who would be likely to join the program. This would reverse the troubling labor force trends of the past two decades.

For the purposes of our analysis, we assume that the program pays $15 per hour—which equates to $31,200 annually for full-time work. We assume that the workweek in the program averages 32 hours, which includes part-time and full-time workers. The program's nonwage benefit costs are set at 20 percent. Hence, while we recognize that real-world implementation of a PSE program would be phased in over a period of years, with the wage gradually rising to $15 per hour, for the purposes of our analysis we model a program that is implemented quickly and pays $15 per hour from the beginning.

We find that the program would have a significant effect on poverty rates. At $15 per hour, one full-time worker could lift a family of up to five out of poverty; with one full-time and one part-time worker, a family of eight could rise out of poverty.[1] In 2016, nearly 7.5 million people in families with a full-time worker lived in poverty. We find that with one full-time worker per family in the program, 9.5 million children would be lifted out of poverty. The average income gap of the 8 million families living in poverty in 2016 was $10,505—which is less than what a half-time job in the PSE would pay.

Direct spending on the program is just below 2.5 percent of GDP per year. However, this estimate excludes increases in tax revenue due to economic growth as well as potential savings on a wide range of federal, state, and local programs that are targeted to low-income households. In 2015, for example, the federal government spent $104 billion on food and nutritional service programs (including $74 billion for the Supplemental Nutrition Assistance Program, $21 billion for Child Nutrition, and $6 billion for the Special Supplemental Nutrition Program for Women, Infants, and Children), $17.3 billion on Temporary Assistance for Needy Families, $50 billion on housing assistance, and $67 billion on Earned Income Tax Credits. Additionally, total direct spending by states on social services and income maintenance on public welfare was $505 billion (this does not include spending on health, policing, or corrections). Many of these programs would be significantly reduced if everyone who wanted to work had access to a job paying $15 per hour, plus benefits.

The social and economic costs of unemployment and poverty are already "paid for" by federal, state, and local governments, by private firms, by charitable organizations, and by American households. While it is difficult to estimate the dollar savings that the various levels of government might experience from a program that creates jobs at living wages for perhaps 15 million workers, lifts all workers' wages above $15 per hour, and significantly reduces poverty, there is little doubt that social safety net spending would decline and tax revenues would rise. It would be a mistake to focus on the "cost" of federal funding for a national PSE program without considering the much greater economic and social costs already borne by government and society as a whole, a large portion of which are due to inadequate work opportunities.

In our forthcoming report, we will provide detailed estimates of the economic effects of the program—including impacts on the federal budget, GDP, inflation, poverty reduction, and additional private sector jobs created due to the economic stimulus provided by a job guarantee program that pays a living wage.

Conclusions

Despite headline-grabbing reports of a healthy US labor market, millions of Americans remain unemployed and underemployed. It is a problem that plagues our economy in good times and bad—there are never enough jobs available for all who want to work. The problem is most acute for women, youths, blacks, and Latinos, but new research from Benjamin Austin, Edward Glaeser, and Lawrence H. Summers (2018) finds a persistent lack of employment for large numbers of working-age men, especially across the Eastern heartland, a region that extends from Mississippi to Michigan.

To address the problem, Austin, Glaeser, and Summers argue in favor of geographically targeted subsidies, in particular expanding the Earned Income Tax Credit, to encourage hiring and reduce entrenched joblessness. But what if something far more ambitious were tried? What if we sought to eliminate involuntary unemployment across *all* demographic groups and geographic regions, by directly creating jobs in the communities where they are needed through a federally funded job guarantee program? How could such a radical transformation of the labor market be implemented? What would it cost, and what would it mean for the US economy?

In recent months, a number of proposals for direct job creation have emerged as an alternative to the more conservative approaches that continue to try to encourage private employers to hire more workers. We applaud these efforts, which are based on the recognition that the government must play a direct role in job creation. Even if the private sector could be encouraged to create enough jobs to move the economy toward fuller employment, it would be impossible to maintain that position for long. Private spending and employment have always been—and will always be—cyclical. As Hyman Minsky argued, "policy weapons which are sufficient to move an economy from slack to . . . full employment are not sufficient to sustain full employment" (Minsky 2013, 122).[2] Such policies would generate inflation and financial instability that would make them unsustainable—leading to a "go-stop-go" approach to policymaking. For this reason, Minsky argued that "a suggestion of real merit is that the government become an employer of last resort" (Minsky 2013, 39).

In this policy note, we have sketched the design for such a program. We prefer a universal program that takes workers "as they are" and "where they are." It is decentralized to ensure that it serves workers as well as the communities in which they live. The program pays $15 per hour plus benefits, establishing a nationwide effective minimum compensation level. It does not compete with private employers, beyond setting minimum labor standards. Employment in the program moves countercyclically, against business cycle swings, helping to stabilize consumption, output, income, and employment. In cyclical upswings, private employers recruit workers out of the program; in downturns, the program absorbs workers shed by private employers. Access to paid work eliminates most poverty, making it easier to deal with the poverty that remains among those who cannot, should not, or will not work. The program eliminates involuntary unemployment among those who experience the greatest barriers to obtaining full-time work. While it does not resolve all labor market problems, it tackles the most severe ones: chronic unemployment, underemployment, and poverty-level wages.

The forthcoming full report on our alternative proposal, the Public Service Employment program, provides detailed estimates of budgetary impacts, jobs created, economic growth, employment demographics, inflation, and poverty reduction.

Note

1. Using 2017 preliminary poverty thresholds released by the US Census Bureau.
2. See also Wray (2015) for a discussion of the sustainability problems of full employment.

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