



Centre of Full Employment and Equity



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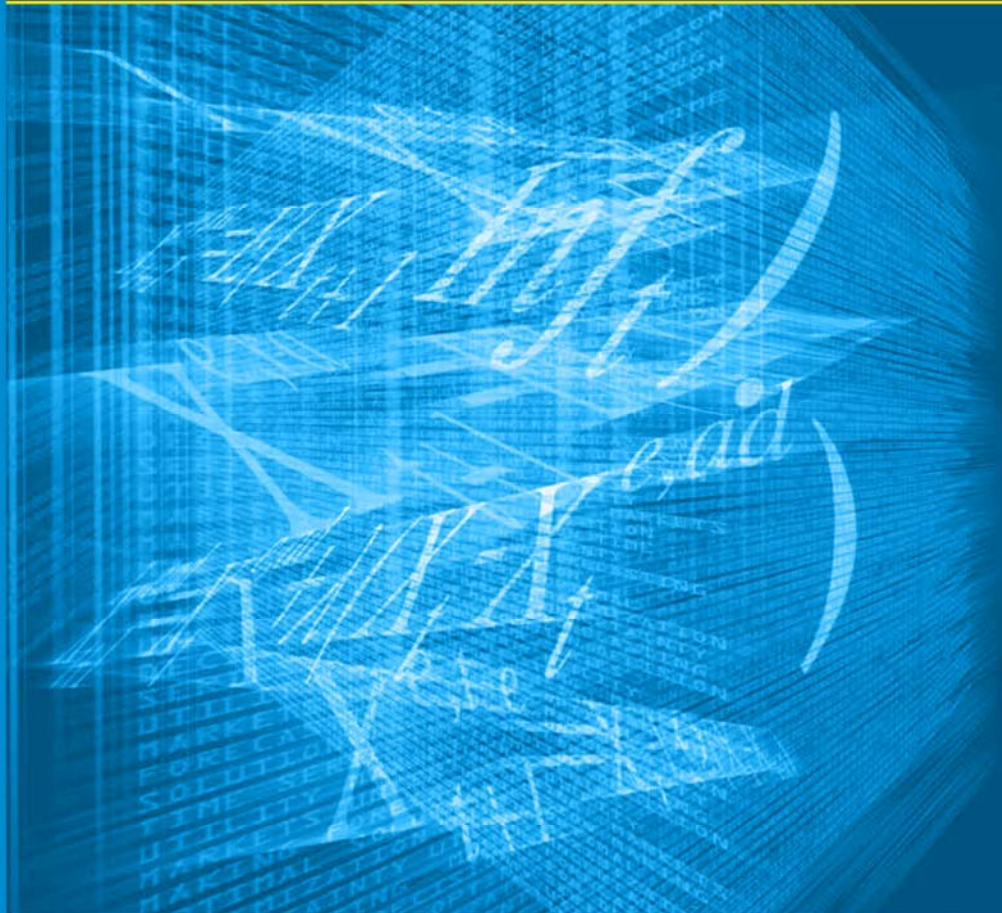
Should and could the state offer employment
guarantees!

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FULL EMPLOYMENT ABANDONED

SHIFTING SANDS AND POLICY FAILURES



FULL EMPLOYMENT ABANDONED

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Outline of talk ...

- Explain the role of employment guarantees as **part** of a full employment and price stability policy framework.
- Provide a **brief** introduction to the macroeconomic theory which underpins this role.

Why should the state offer employment guarantees?

- Short answer - persistent labour underutilisation represents the biggest waste of economic resources and largest source of social pathology.
- People are the only durable investments for the future.
- The private sector never provides enough jobs to fully provide the working hours desired by individuals.
- Many standard public sector jobs are unsuitable.
- The public sector has to ensure that all workers can gain access to work no matter their level of skill – matter of **human rights**.

There is no shortage of work ...

- There is no shortage of work just a shortage of **paid** work.
- Unemployment arises because there are too few **paid** jobs.
- In economies where **fiat currency** is used this can always be traced back to policy choices made by the **sovereign** government.

Desirable macroeconomic policy goals ...

- To understand why employment guarantees should underpin the goals of full employment and price stability we need understand the basic operations of a **modern monetary economy**.
- In a modern monetary economy fiat currency systems are public monopolies.
- They require us to rethink our macroeconomic framework

Two buffer stock options ...

- To understand the options available to any **currency-issuing** government which aims to stabilise prices we can juxtapose two different buffer stock options:
 - Unemployment buffer stocks (NAIRU approach)
 - Employment buffer stocks (Job Guarantee approach)

Unemployment buffer stocks

- Central banks now manage monetary policy via interest rate manipulation to target inflation.
- The NAIRU approach abandons full employment in favour of full employability.
- A major component of this monetary policy stance is the persistent pool of unemployed (and other forms of labour underutilisation).
- Clearly, central bankers are using buffer stocks of unemployed to achieve a desirable price level outcome.

Costs of NAIRU approach...

- Their approach reflects an overwhelming faith in the NAIRU ideology:
 - Transitory (and small) real effects
 - Optimises real output around long-term (supply-driven) trend.
- But the reality is that the cumulative costs of strategy are substantial:
 - Lost output – sacrifice ratios are significant and durable.
 - Other costs – social pathologies.
 - Skill deterioration.
 - Regional decay.

Deterioration of the price anchor ...

- But the effectiveness of the buffer stock is duration-dependent and deteriorates over time.
- The longer is the average duration the higher the price anchor unemployment pool has to be.
- This could not possibly be the most cost effective way to achieve price stability?

But is an unemployed buffer the best anchor?



- A superior use of the labour slack necessary to maintain price stability is to implement an **employment buffer** program.
- This is called the Job Guarantee.
- It is an **unconditional offer of a public job** at the minimum wage to anyone who wants to work.
- Represents the minimum government spending to achieve “loose” full employment – hiring off the bottom.
- Purchasing at **zero bid**.

In-built inflation control ...

- The fixed JG wage provides an in-built inflation control mechanism.
- When the non-JG sector is inflating, the government uses its fiscal authority to ensure increase the BER.
- It is thus a **high quality anchor** – maintains an effective labour supply.

The Job Guarantee ...

- It provides a framework to reduce the hiring costs to private business.
- It provides for intergenerational advantage.
- It is not the panacea to everything.
- But it is better than the unemployment buffer stock option.

How can we afford it?
Need to understand what the real costs are!

Modern monetary theory ...

- A monetary system characterised by a floating exchange rate (so monetary policy is freed from the need to defend foreign exchange reserves) and the monopoly provision of fiat currency.
- The monopolist is the national government – which therefore faces **no financial constraints**.
- This imperfect competition provides options to the national government that are not fully understood by most economists.

Our first macro National Accounts equation ...



- Government deficit = Non-Government surplus.
- Government deficit spending adds to private income and saving.
- They accommodate any net private desire to save and thus serve to eliminate unemployment.
- Budget surpluses reduce private savings and wealth.
- Government cannot ‘save in its own currency’ – intergenerational myths etc.

Public spending is not revenue constrained ...



- There is no Government Budget Constraint.
- Households, the users of the currency, must finance their spending prior to the fact.
- Government, as the issuer of the currency, must spend first (credit private bank accounts) before it can subsequently tax (debit private accounts).
- Government spending is the source of the funds the private sector requires to pay its taxes and to net save and is not inherently revenue constrained.

Taxes do not finance government spending ...



- Taxes do not finance government spending.
- So what do they do?
- Under a fiat currency system, the monetary unit defined by the government has no intrinsic worth.
- The demand for the currency is ensured by imposing taxes which must be paid in that unit.
- Taxes are accounted for and scrapped!

How does Government spend?

- Credits private bank accounts.
- They do not spend by “printing money”.
- This operation is not revenue dependent.
- Governments cannot run out of money.
- The conceptualisation in macroeconomic textbooks of government’s having three sources of finance: (a) taxes; (b) bonds; (c) printing money is without application.

What is the role of government debt?

- Mainstream macroeconomics considers debt as the way in which government finances its deficit spending.
- But in fact it is part of the interest-rate maintenance operations of monetary policy.
- It has nothing to do with “financing” spending.

Role of debt issuance?

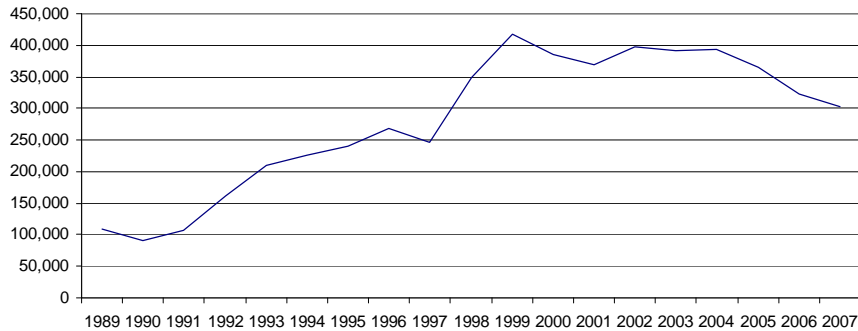
- As long as the CB maintains a **positive** target interest rate, the size of its purchases and sales of government debt are not discretionary.
- The CBs portfolio of government bonds changes due to **operating transactions** that are needed to support the target.
- Borrowing does not fund spending, but instead functions to support interest rates set by the CB.

Who sets the interest rate?

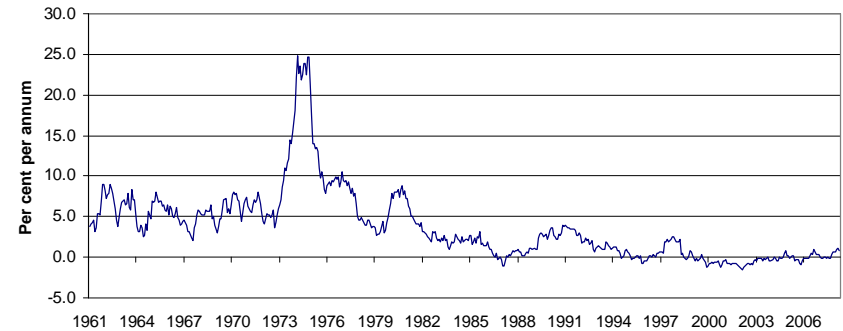
- The central bank not the market!
- What if there is a budget deficit?
- Excess reserves in the cash system!
- Direction of interest rates – down!
- Penalty for not borrowing? – see Japan!
- Bonds are an interest-rate maintenance part of monetary policy.
- Financial crowding out is a nonsensical notion!

Japan - a modern monetary economy ...

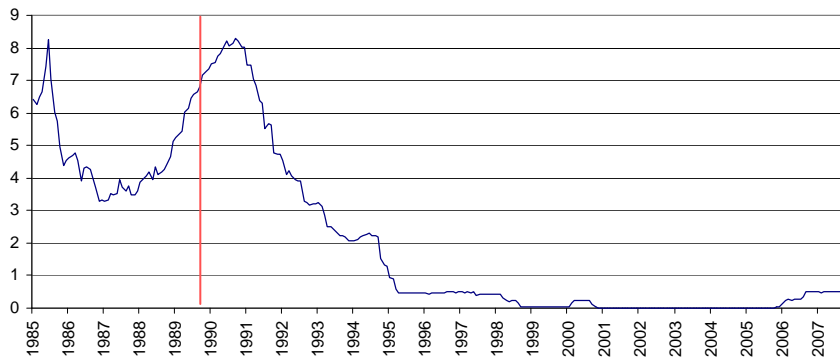
Budget balance (+ = deficit)



Annual inflation rate



Call money (%)



- Budget deficits growing year by year
- Inflation rate negative
- Interest rates zero

Other fallacies that need to be put to rest ...

What is the real cost of the JG?

- Nominal budget entries are not costs.
- Whether it is 10 billion or 100 billion is not indicative.
- True costs are the real resources that are used in such a program – food, materials.
- We always need to keep that in mind.

Displacement problems ...



- Role of the minimum wage.

Are they real jobs?

- Critics argue that JG jobs are just disguised unemployment.
- First, why criticise low skill public sector jobs?
- Second, why believe the productivity will be low because wages are low? What about social concepts of productivity?
- Third, they can provide career and training paths.
- Fourth, underpin community development and environmental sustainability.

Does unemployment become underemployment?

- ILO two definitions: (a) Time-related; (b) Skill-related
- JG solves time-related underemployment
 - a person can choose their hours
 - counters the recent dynamic towards casualised, precarious work
- JG has to be a functional employment safety net. Most workers who require this are poorly educated with low skill.
- In severe downturns, there will be some skills underemployment – but it is better than the NAIRU alternative.

Employment guarantees in developing countries?

- Many claim that the Job Guarantee proposal is inapplicable to developing countries.
- Where the developing country has a sovereign currency system the JG approach is imperative.
- Two fold development strategy: (a) get the adults into work; (b) get the kids into child support then education.
- Massive infrastructure needs, unemployment and poverty align.
- For example, South Africa – perverse development.

What about a Basic Income Guarantee (BIG)?



- BIG proponents construct the problem of unemployment wrongly – they assume government is financially constrained.
- We should be aiming for full employment.
- The constraints raised against full employment are **ideological** and **political**.
- BIGs are about the state withdrawing from its macroeconomic responsibilities.

Case against BIG ...

- BIGs deny the skill building and social aspects of work.
- They create a passive welfare dependency.
- They stigmatise the recipients.
- They fail to develop capacity (productive and social).
- They fail to provide an inflation anchor.
- They relegate citizens to being seen as “consumption units” – to be kept alive but to play no role in building the nation.

- Would the unions support the JG?
- Is there a radical dynamic in the JG?
- JG and the transition to more enlightened concepts of work, productivity and income security.

- Employment buffer stock approaches to price stability are a superior alternative to the NAIRU option that we currently use.
- The JG should be an essential part of a government strategy when imperfect competition in currency issuance occurs.
- It doesn't preclude a number of other social and economic policies that are desirable.
- They are crucial for developing countries.

End of Talk