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The Job Guarantee: A Critical Analysis

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1 Introduction

Employment is typically the first metric by which the public judges the health of our economy. From trade agreements and immigration to the performance of politicians, the discussion centers around how many jobs are “created” or “lost.” This focus is not surprising. For most Americans, a steady job is the primary source of income.

Unemployment is currently low by historical standards, but calls from some policy circles have grown louder for a radical response: a federal job guarantee. Authors at several think tanks, most notably the Center on Budget and Policy Priorities¹ (the “CBPP report”) and the Levy Economics Institute² (the “Levy report”), have proposed similar versions of the idea, which requires the federal government to provide work, a wage around fifteen dollars per hour, and full benefits on demand to any American.³

The primary goal of this report is to show why a federal job guarantee is a clear-cut case in which the proposed cure is worse than the disease. The proposals described by the CBPP and Levy reports would constitute nothing less than the single largest government intervention in US economic history. According to the reports’ own estimates, a federal job guarantee would incur a higher cost in one to two years than the entire New Deal in today’s dollars.⁴

A federal job guarantee would be monumentally expensive, return only limited value from the participants’ work, entail administrative challenges nearly impossible to solve, and be potentially disastrous for economic growth and the private labor market.

Relying on rigorous but basic economics and data analysis, we find the following:

- Job-guarantee participants would be placed in a system that eschewed the most fundamental ways that markets provide information and incentives, such as competition and freely set wages (section 3).
- Under the authors’ own projections of ten to seventeen million participants, a federal job guarantee would, by several-fold, create the world’s largest organization (public or private) measured by employees (section 4).

- Under the authors’ own projections, the program’s annual cost would be comparable to that of the Pentagon (section 4).
- There are multiple reasons why the CBPP and Levy reports may have underestimated participation and cost (section 4).
- Both the CBPP and Levy reports set standards for the type of work to be provided that would be difficult if not impossible to attain, place burdens on state and local governments, and return work of very limited value (section 5).
- An on-demand job guarantee of the scale and scope proposed could cause massive distortions in the wider economy leading to less output and growth, and could prevent workers from investing in critical human capital (section 6).

While many commentators have expressed grave concern with job-guarantee proposals, this article represents one of the first detailed analyses of the claims advanced by the policy’s proponents. Because of the unprecedented size and scope of the CBPP and Levy programs, some have dismissed the seriousness of a federal job guarantee as a policy proposal. On the left, economist Paul Krugman has said that “realistically, a blanket jobs guarantee is unlikely to happen.”⁵

But prominent politicians, including Kirsten Gillibrand, Corey Booker, Bernie Sanders, and Alexandria Ocasio-Cortez, have expressed support for a job guarantee, and it has been discussed by dozens of media outlets including some that have suggested that Democrats make it the center of their 2020 campaign.⁶

This report also speaks to the recent trend among some politicians toward advocating very large, centralized government programs. These include “Medicare for all” and recent corporate-governance plans, in addition to the job guarantee. These plans often sound good to voters in one or two sentences, but do not hold up to closer inspection.

The authors of the CBPP and Levy plans are often short on details when describing their programs, in which government officials would assign jobs to millions without the help of market signals. After thinking through those details, we find that the case provides a powerful example of the impossibility of such large-scale centralized initiatives in a complex modern society such as our own.

2 How a Federal Job Guarantee Works

The CBPP and Levy reports are among the most prominent and representative of recent job-guarantee proposals. Appendix 1 presents the key points of the CBPP and Levy reports' plans.

As the table summarizes, both plans are the same or similar in the following respects:

- Mandating the acceptance of any adult American, on demand, for an indefinite length of time
- Paying an average wage around fifteen dollars per hour, for both part- and full-time options
- Providing health insurance and other benefits
- Projecting enrollment of more than ten million workers
- Relying most of the time on states and especially local governments to create and assign work to individual participants
- Broadly highlighting infrastructure, education, health, the environment, and culture as areas of work for enrollees
- Assigning work to participants via government-run offices using a database or "job bank"
- Attempting to avoid crowding out work already being done in the private, public, and nonprofit sectors

The plans attempt to distance themselves from "workfare" on the one hand, and traditional (albeit on an unprecedented scale) government hiring on the other. Though the plans have far more similarities than differences, the Levy plan is closer to the former, while the CBPP plan is closer to the latter.

The most important difference between the plans is worker pay. The Levy plan offers one fixed wage of fifteen dollars per hour to all enrollees, while the CBPP plan offers wage variation based on skills, performance, tenure, and geographic region. However, the authors offer very little detail on how they would implement this system. The Levy authors criticize tiered pay structures as more likely to crowd out private sector hiring.

3 Market Jobs versus Mandated Jobs

A federal job guarantee as proposed in the CBPP and Levy reports eschews the essential characteristics of labor markets as we know them, including competition, negotiation, and a price (wage) mechanism. These radical differences are evident in the way jobs are created and filled.

Most employment in our economy, whether in the private, public, or nonprofit sector, is mutually beneficial, as shown in figure 1. It starts with an opportunity for an employer to create value if it hires the right worker. A worker is willing to do the job for a certain wage. If the value they create together is enough to pay the worker at least what they are willing to accept and to leave some profit for the employer, then a job is born.

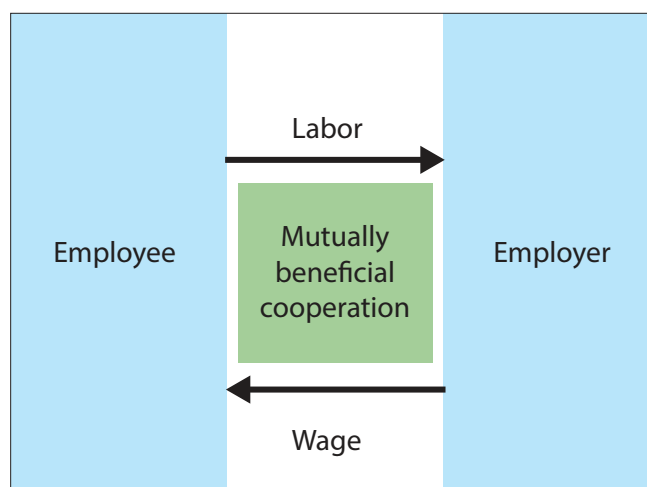


Figure 1. A market-based employment arrangement

Rather than cooperative, work arrangements in a job guarantee are a series of three interlocking mandates, as shown in figure 2. An individual mandates that the federal government provide a wage and benefits, the federal government mandates that some government agency (local, state, or federal) identify or create work for this and other individuals, and that agency mandates that the individual perform certain work.

Problems with this system multiply very quickly with size. A centralized office, even for a locality rather than the whole nation, cannot possibly process all the information and knowledge that is dispersed among millions of individuals. Markets make use of

all of this dispersed information and knowledge by allowing each individual to act on their own.

Without the critical information conveyed by markets, resources go to the wrong places, and even seemingly small mistakes can pile up and multiply throughout the economy. Hayek (1945) famously illuminates this point. But chapter 1 of virtually any introductory economics textbook makes clear the centrality of this view to the field. For example, Mankiw (1998) writes:

Prices reflect both the value of a good to society and the cost to society of making the good. Because households and firms look at prices when deciding what to buy and sell, they unknowingly take into account the social benefits and costs of their actions. As a result, prices guide individual decisionmakers to reach outcomes that, in many cases, maximize the welfare of society as a whole.

A federal job guarantee, in which wages (prices) and competition have no role, turns its back on these modern economic fundamentals.

4 Unprecedented Size and Cost

4.1 Size

Because a federal job guarantee differs so radically from anything ever attempted in an otherwise predominantly market-oriented economy, making accurate projections is very difficult. The authors of the CBPP and Levy reports, however, agree that the program is likely to enroll over ten million people. In fact, there are several reasons why their estimates may be too low.

The CBPP report estimates a total of 10.7 million full- or part-time participants, with a “full time equivalent” of 9.7 million jobs. This is the number of workers required to reduce the nation’s U-6 (unemployment and underemployment rate including discouraged workers) from 8.2 percent (as of January 2018) to 1.5 percent, “a reasonable estimate for frictional unemployment in the U.S. economy.”

The Levy report estimates initial participation in their program of 12.7 to 17.5 million Americans. Its approach is conceptually similar but more ad hoc and is detailed in section 2 of their report.

Any of the estimates presented in the two reports would result in an enterprise of staggering, unprecedented size. As chart 1 shows, the Levy report’s upper-bound estimate of 17.5 million enrollees would exceed employment at the world’s nine largest employers combined. The CBPP’s lower estimate would be just shy of employment at the world’s five largest employers combined.

This list of employers contains private firms, state enterprises, militaries, and public utilities, none of which individually have attained even a third of the size of the lowest projected job-guarantee participation rate. Economists have long written about the managerial, informational, and incentive-related issues that arise as firms get bigger.⁷ We are aware of no organization of any structure that has prospered or even existed with anywhere near these numbers of employees.

As large as these numbers are, they may be underestimated because of conceptual errors in thinking about the minimum wage, and the fact that projections are based on recent relatively low levels of unemployment.

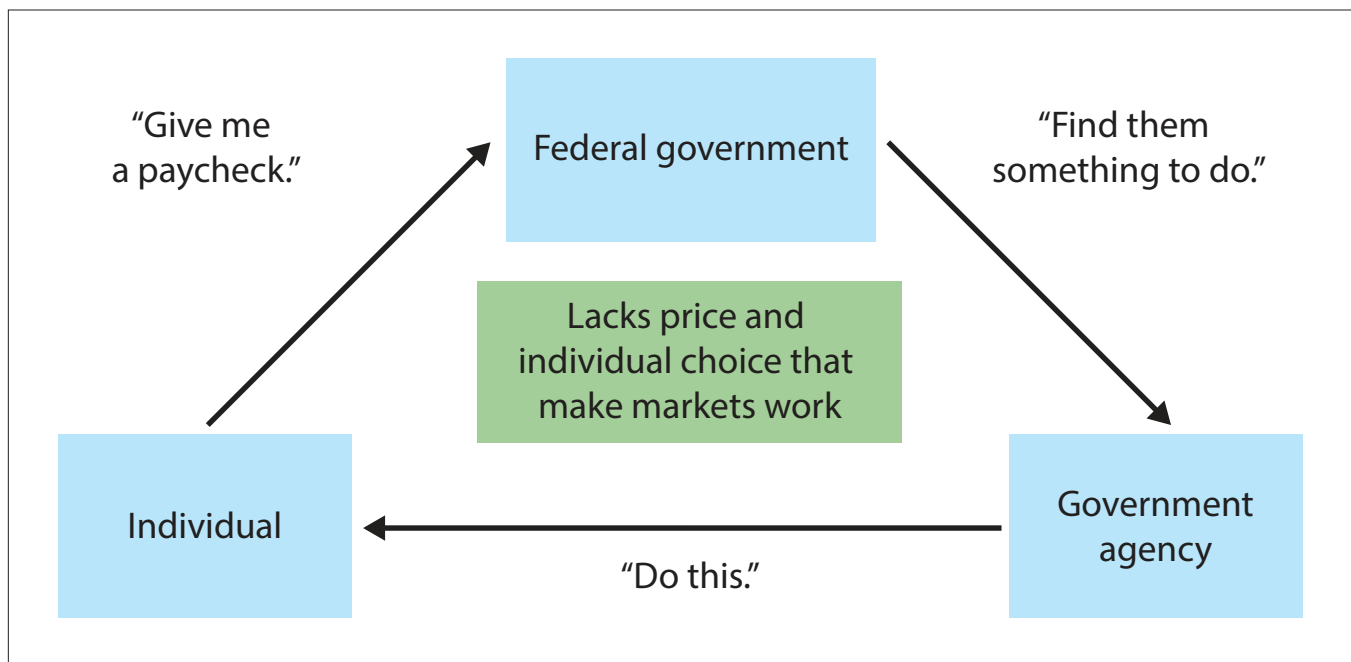


Figure 2. Mandated employment under job-guarantee proposals

The Levy report sees the program wage as a “de facto minimum wage” for the entire economy, forcing private sector employers in most circumstances to match it. The CBPP report notes that forty-one million workers currently earn less than fifteen dollars per hour. Both reports assume no more than a trivial amount⁸ of those workers would enroll in a job-guarantee program. This reflects the belief by advocates of a higher minimum wage that it would not cause significant job losses, even with a radical doubling to fifteen dollars per hour.⁹

A survey of the literature on minimum wage and employment by Neumark and Wascher (2007) reports that a “sizable majority” of studies found negative employment effects from minimum-wage hikes, and that “the studies that focus on the least-skilled groups that are likely most directly affected by minimum wage increases provide relatively overwhelming evidence of stronger disemployment effects for these groups.” If even a few percent of the workers currently earning under fifteen dollars per hour either lost their jobs or simply chose to enroll, projected participation would increase by millions.

Both reports also project their programs’ enrollees based on very recent unemployment, underemployment, and discouraged-worker data. These numbers are nearing twenty-year lows. The large impact higher unemployment could have on participation, raising the cost and other burdens we

discuss below, can best be seen in chart 2, which graphs the U-6 rate on which the CBPP report bases its projected enrollees from the series’ inception in 1994 until the present.

The U-6 rate that generates the CBPP report’s baseline projection of 10.7 million enrollees (8.2 percent) is very close to the low end of the data series over the time in which it has been collected. The all-time low U-6 rate of 6.3 percent in mid-2000 would have yielded a projection of 7.7 million enrollees, but peaks of unemployment associated with the early 2000s recession and 2008 financial crisis would yield projections of 15.2 million and 26.4 million enrollees, respectively.¹⁰

The grave concerns we raise in the upcoming sections about a job guarantee’s cost, logistics, and footprint on the wider economy all stem from its massive size. While we believe both reports have underestimated that size, we will primarily use the authors’ own size estimates in the analyses that follow. To the extent that they indeed underestimate program size, the harms we discuss would likely be even greater.

4.2 Cost

How much would a federal job guarantee cost taxpayers? The short answer, at the size the two reports project, is it would cost about the same as the Pentagon.

The CBPP report estimates an annual cost of \$583 billion, while the lower and upper bounds in the Levy report are around \$400 billion and \$550 billion per year, respectively, in a ten-year simulation. The Levy report's lower cost estimate, despite higher participation than that projected in the CBPP report, arises because its authors significantly underestimate their plan's cost of capital and worker benefits.

Table 1 breaks down the components of both reports' cost projections, and partially corrects areas in which we believe the Levy report has demonstrably underestimated its plan's costs.

Because of different ways of incorporating the option of part-time work, the average annual-wage figures for the two reports are not directly comparable. The CBPP report assumes an average annual salary of \$32,500, approximately equivalent to fifteen dollars per hour. To account for the fact that some work would be part-time, it converts its projected 10.7 million participants into 9.7 million "full time equivalent" workers.

The Levy report assumes a fixed wage of fifteen dollars per hour and an "average work week" of thirty-two hours, thereby incorporating a slightly larger assumed share of part-time workers in the program (assuming full time would mean a forty-hour week).

Worker Benefits

The CBPP report then adds costs for worker benefits. While the authors do not describe the benefits in concrete terms, they appear to be comparable to standard benefits received by full-time American workers. They assume a cost of \$10,000 per enrollee for direct benefits plus \$2,500 for FICA taxes (which go toward future benefits).

According to these projections, 27.8 percent of enrollee compensation will be in the form of benefits. This number is somewhat lower than the 31.8 percent national average reported by the Bureau of Labor Statistics (BLS) in March 2018¹¹ and therefore might be a slight underestimate.

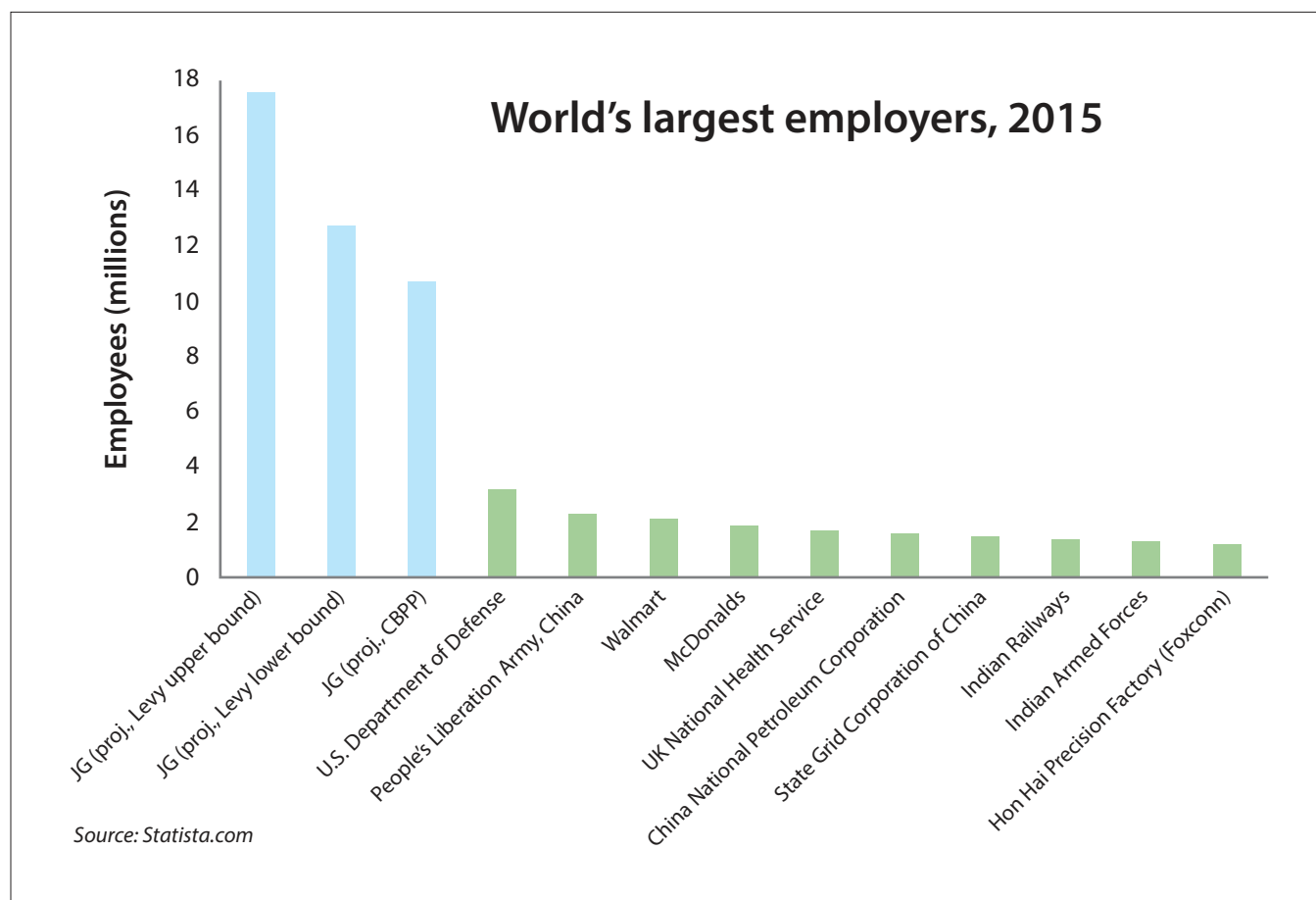


Chart 1. Job-guarantee (JG) projected enrollees versus current largest world employers

The Levy report's estimate for cost of worker benefits, on the other hand, is not defensible. The authors assume benefits will cost 20 percent of what each worker is paid in wages, or 16.7 percent of total compensation. The examples they provide for benefits are health care and child care (the latter of which is not part of the BLS calculation) though it is unlikely they would want the government to withhold any of the standard benefits from enrollees.

Replacing the Levy report's figure with the BLS national average raises the cost of every job in the plan by 22 percent. Unless the authors provide a reasonable explanation for their original estimates, the estimates must be corrected before they can inform any policy discussion.

Capital Costs

Any work done by job-guarantee enrollees will require materials, machines, and know-how. The CBPP report assumes capital expenses of \$11,000 per worker. The Levy report assumes capital costs equal to 25 percent of wage costs, or just over

\$6,240 per worker (given their fixed wage of fifteen dollars per hour and assumed average work week of thirty-two hours).

Capital intensity varies greatly by type of work. Because both reports are short on details regarding the work assigned to program enrollees, checking the plausibility of these estimates is challenging. Both reports further confound such efforts by offering no source for their assumed capital costs.

The nonmarket structure of the proposed programs muddies the waters even further. Because the cost of labor is fully subsidized by the federal government rather than valued at a market rate, standard spending ratios such as capital to labor and capital to output cannot provide meaningful benchmarks to evaluate the authors' estimates.¹²

One point of comparison is capital expenditure per worker. The Census Annual Capital Expenditure Survey reports total spending on equipment and structures across all industries in 2016 of \$1.58 trillion. Dividing by 150 million, the approximate size

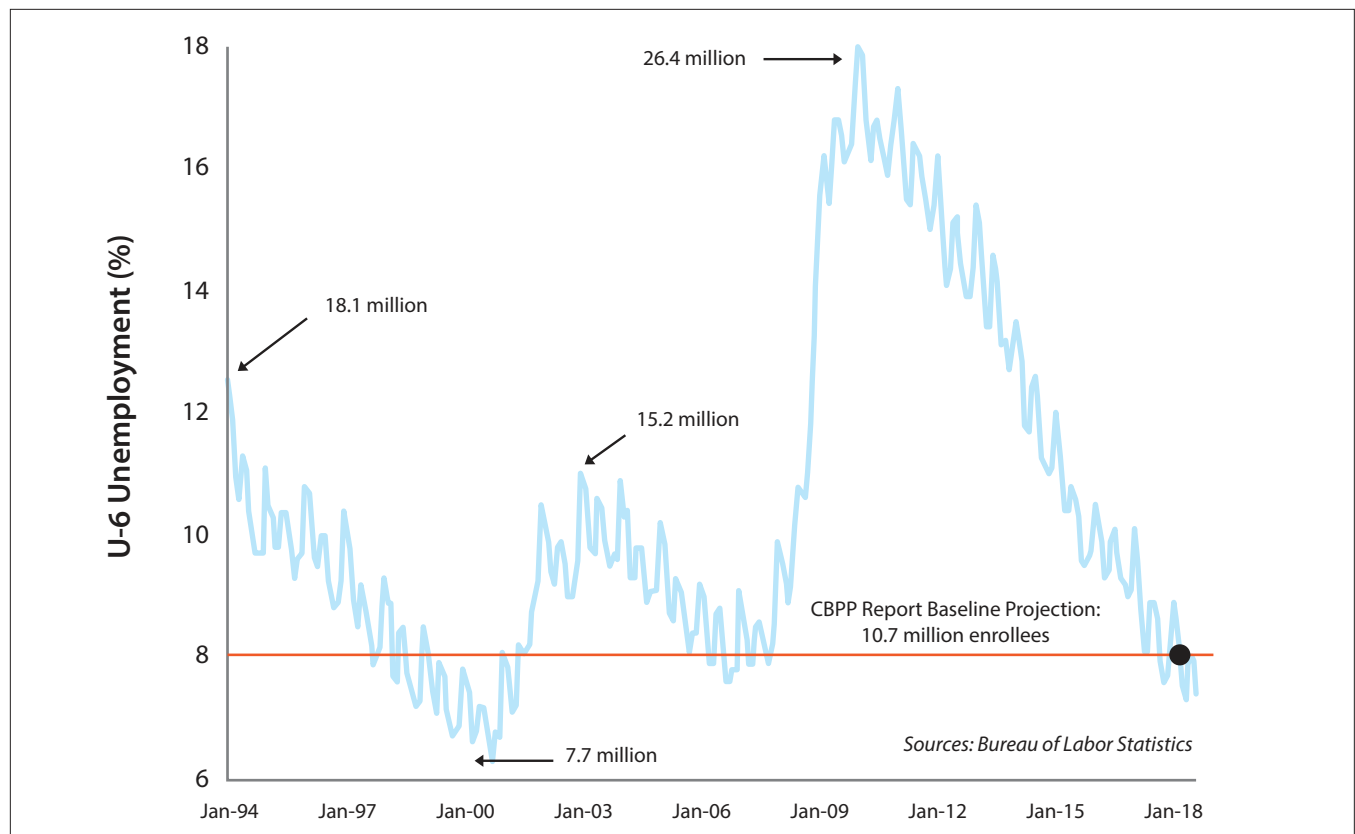


Chart 2. U-6 unemployment and projected job-guarantee enrollees under CBPP report formula (1994–present)

	CBPP Report	Levy Report	
		Lower	Upper
Avg. annual wage per worker	\$32,500	\$24,960	\$24,960
Benefits per worker	\$12,500	\$4,992	\$4,992
Capital exp. per worker	\$11,000	\$6,240	\$6,240
Total cost per worker	\$56,000	\$36,192	\$36,192
Projected workers	10,700,000	12,708,000	17,463,000
Proj. annual cost	\$543.2 billion	\$459.9 billion	\$632.0 billion
Benefits and capital correction		+33 percent	+33 percent
Corrected annual cost	\$543.2 billion	\$611.7 billion	\$840.6 billion

Table 1. Job-guarantee annual cost estimates from CBPP and Levy reports

of the U.S. workforce in 2016, yields an estimated average capital expenditure per worker of just below \$11,000. This amount mirrors the CBPP report's estimate, but the authors often emphasize infrastructure projects, which would be on the high end of capital intensiveness.

Once again, the Levy report's assumed expenditure appears far too low. While relying on labor-intensive projects makes sense given the plan's full subsidization of labor costs, the report's lack of detail makes it impossible to reliably estimate how much capital would be used. Had the Levy report instead used the census estimate of average capital spending per worker, the plan's cost would increase by another 11 percent.

Both reports neglect the cost of human capital. Even if most of the labor used in the proposed programs is unskilled, someone presumably needs to know how to do the work. This need is likely especially pronounced for work such as infrastructure and environmental cleanup. Other proposed work such as teachers' aides and elder care would also require significant training. Beyond hoping that experts in these fields will become unemployed and willing to accept relatively low-wage work, some industry

professionals would have to be hired at competitive salaries, further increasing the cost of both plans.

Administrative Costs

Neither report includes the cost of designing and implementing a permanent program with over ten million beneficiaries and a budget of hundreds of billions of dollars. Once again, projecting this cost with any accuracy is difficult given the unprecedented nature of the programs and the shortage of detail in the reports. However, it is yet another reason why the cost of a federal job guarantee would likely be higher than projected in either report.

Budgetary Impact

While neither report advocates ending other government entitlement programs in the wake of a federal job guarantee, the authors are correct that some of the cost would be offset by savings in unemployment insurance and programs aimed at poverty. Only the Levy report attempts to estimate the size of these offsets. However, as we describe in appendix 2, the authors fail to include obvious negative budgetary impacts along with cost savings. Since we do not explicitly estimate these negative

impacts, presenting program costs without offsets is more informative than only including the offsets.

Comparing Costs

Chart 3 compares annual cost estimates for both reports’ federal job-guarantee programs with two current big-ticket items in the federal budget, defense and Medicare/Medicaid. We quote the CBPP report’s own costs estimate without alteration and raise the Levy report’s lower- and upper-bound estimates by 33 percent to correct for demonstrable errors in the cost of capital and benefits. We do not further revise the cost projections upward for greater participation (due to either the de facto minimum wage hike or potentially harder economic times) or costs of capital, worker benefits, or administration.

Any way one slices it, a federal job guarantee would add greatly to America’s already-strained budget. The CBPP report estimate and corrected Levy report lower estimate are slightly lower than but comparable in magnitude with spending on defense,

while the corrected Levy report upper estimate begins to leave the realm of current discretionary spending and is closer in size to obligations under Medicare/Medicaid.

We also present each cost estimate as a percentage of taxable income (extrapolated forward from 2014¹³). While admittedly an oversimplification—given the possibility of deficit financing and the reality of progressive taxation—the job-guarantee proposals could be fully funded with an across-the-board income tax hike on all taxpayers of 4.5 to 7 percent.

Having established the size and cost of a federal job guarantee, we now turn to what the United States would get for its colossal investment.

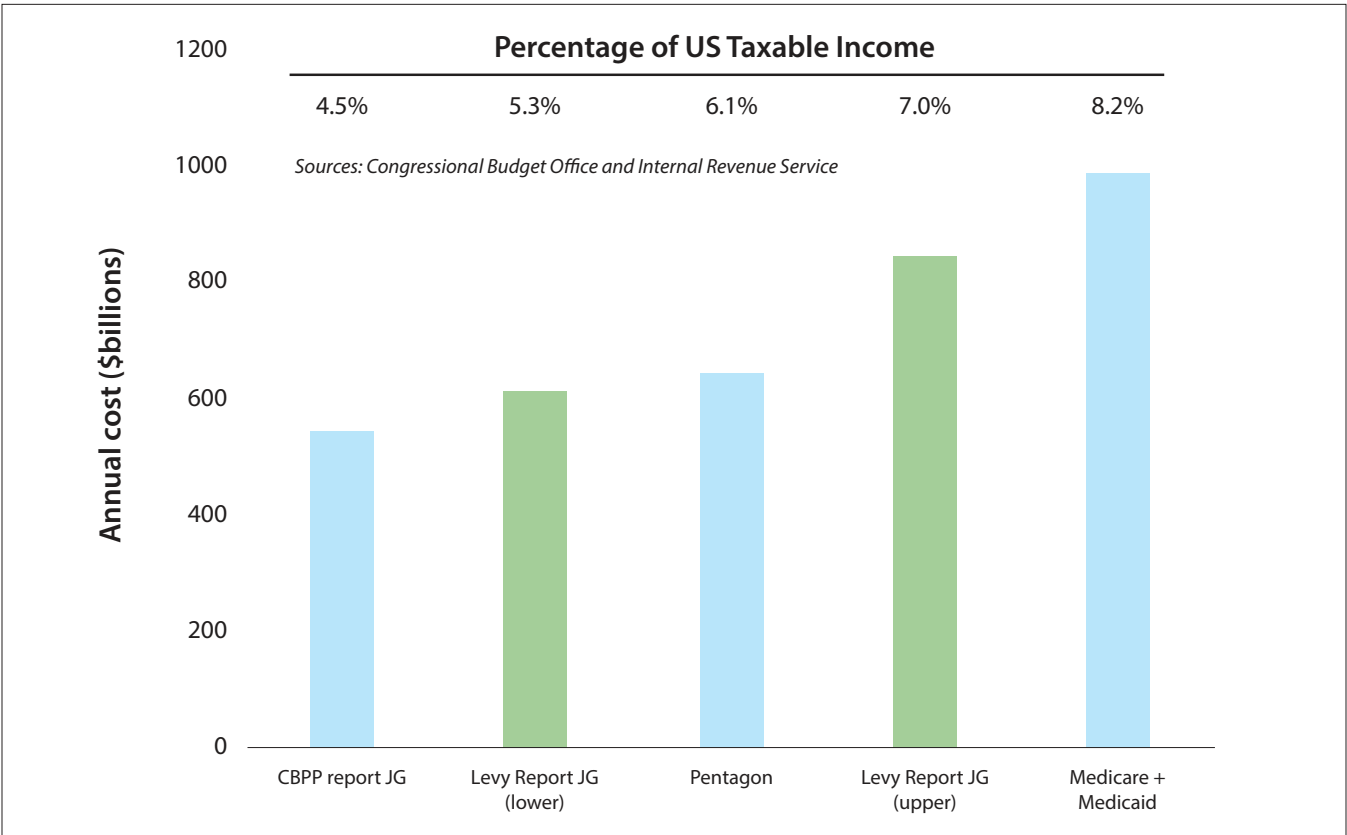


Chart 3. Comparison of federal job-guarantee annual cost estimates with spending on defense and Medicare and Medicaid

5 The Reality of Running a Federal Job Guarantee

An employer normally pays an employee because the latter is doing something of value. Under a federal job guarantee, that logic is reversed: the government must find something for ten million or more workers to do because they are being paid. The difference is of great importance.

The work handed out under a job guarantee is subject to complex criteria. In the view of the Levy report, these jobs must

- Be able to “quickly accommodate new entrants into the program and let them go without disruption should they find alternative employment”
- Help low-skilled workers build human capital to “enhance their chances to obtain work outside the program. They will gain work experience as well as on-the-job training.”
- In every community, “provide visible benefits, meeting specific local needs”
- Put millions to work “without competing for employees or displacing private sector undertakings” or “conventional public-sector work”

These points, taken together, are astonishing.¹⁴ The work given to enrollees must teach valuable skills, but not so valuable that someone securely employed in the private sector would want to enroll. And while the work needs to result in “visible benefits,” these benefits should not be so great that any firm or government agency would be willing on its own to pay a wage of fifteen dollars per hour.¹⁵

The Levy report’s authors see concerns about finding such work as a failure of imagination:

Is there really a dearth of useful things that might be done by our unemployed workers? Have we become so blind that we cannot see our failing infrastructure, our understaffed parks with their closed swimming pools and unkempt trails, the unmet needs of our seniors and our children, our polluted ponds and streams that require clean-up, and our low-income housing that would benefit from repairs and insulation? Are we really so unimaginative that we cannot think of a way

to match our jobless with paid work tackling the unmet tasks surrounding us?

Beyond examples such as these, both reports leave the job guarantee’s implementation, and its feasibility, to the reader’s imagination.

The remainder of this section will consider the logistical details of finding and assigning work to over ten million people without the aid of the market, while also meeting the above criteria. While large-scale, centralized proposals can sound good in the abstract, even scratching the surface of the logistics involved shows how they quickly break down, sometimes catastrophically.

5.1 Two Approaches to Finding Work: Local and National

Since the work done by job-guarantee enrollees cannot be created by mutual economic opportunity, it must be somehow found through a bureaucratic process. We will assume that the goal of the agency given this task is to find the work with the most value to society. But whether this is done at a local, state, or national level, the process inevitably runs into fatal flaws.

Both reports emphasize, to varying degrees, the importance of relying on smaller units of government to administer the program. The Levy Report relies almost exclusively on “communities” (taken here to mean local or county governments) to find and assign work:

While we recognize some advantages to designs that feature a federally administered program like the [New Deal program] WPA [Works Progress Administration], 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 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 these projects, from the proposal stage through to implementation, administration, and evaluation.

The CBPP report is less explicit about who administers its program, but seems to envision a larger role for the federal government alongside input from states and localities:

Because of the vital role of state and local governments in providing public workers and services, it is essential that federal agencies and the NIEC [National Investment Employment Corps] are empowered to work closely with these governments. Local and state governments will be encouraged to develop employment proposals in conjunction with community leaders, local government officials, labor organizations, and local residents to ensure the proposals will serve the needs of the constituents and available pool of labor. The employment proposals may not be used to employ individuals who will replace or speed the displacement of existing employees or individuals who would otherwise perform similar work. The program will cover wage, benefits, and material expenses. This structure will largely parallel the direct employment programs under the New Deal, whose projects were developed and proposed by local and state governments. Fostering partnerships and buy-in from local and state partners is critical to the success of the program, as localities may be most aware of the skills of their available workers as well as projects that will provide the greatest benefit to their communities.

5.2 The Local Approach

The Levy report touts a “highly decentralized” program, federally funded but run almost entirely on the local level. While the authors’ instinct that local governments will have more detailed knowledge about their communities’ needs is correct, they apparently misunderstand the term “decentralized.”

In a labor market, employees and employers gather information about each other and each can commence, negotiate, and terminate relationships based on what benefits them most. This decentralized decision-making enables our labor market to process the information necessary to put millions of workers in the right place to create value.

The Levy report’s job-guarantee program can better be described as “delegated,” where a decision that has already been made is given to others down the chain of command to execute. This structure may afford some informational advantages in the process of finding and assigning work to program enrollees,

but with the hiring and pay decisions already made by mandate, the advantages of a market structure are wiped away.

To understand the process of finding and assigning work on a local level, we will look at a concrete example. There are few places where unemployment and its consequences are clearer than Hampden County, Massachusetts, whose 5 percent unemployment rate¹⁶ is well above the national average. Home to state capitol Springfield and several other small cities and large towns, Hampden County’s population in the 2010 census was 463,490.¹⁷

We estimate¹⁸ that under the projections of the CBPP and Levy (upper bound) reports, respectively, the local governments of this county of less than 500,000 people would have to find work for between 17,000 and 28,000 job-guarantee enrollees, between 3.6 and 6.0 percent of the population. As we showed above, these numbers could increase by 50 percent or more during a recession.

How would a medium-sized county such as Hampden create work on this scale? The Levy report lists a litany of laudable ideas in the quote above, but how much work would these ideas really create? And how would they fare under the criteria stated in the Levy report? Allow us to consider some of those details by looking directly at the ideas proposed.

“Our failing infrastructure”

Infrastructure projects have been a favorite of hiring plans since the New Deal (including, to some extent, the current CBPP plan), but the Levy report mostly rejects them out-of-hand: “We would limit the use of PSE [Public Service Employment] workers on infrastructure projects to small-scale projects or for approved apprenticeship or other trainee positions.” There is no evidence that “small-scale” projects would create more than a small number of transitory jobs for the program or provide much value in return.

“Our understaffed parks”

Online searches do not reveal any discussion of a labor shortage in Hampden County’s parks. The census reports 124 paid employees in Hampden County parks, museums, and historical sites,¹⁹ meaning any shortage would be trivial relative to the county’s obligation to staff 17,000 to 28,000 jobs.

“The unmet needs of our seniors and our children”

Teachers’ aides and elder care are prominent suggestions in both the Levy and CBPP reports. Hampden County public and charter schools employed 4,604 teachers and 2,115 teachers’ aides in the 2017–18 school year.²⁰ In theory, the county could occupy the time of up to 2,500 job-guarantee enrollees by giving every public school teacher an aide.

This is yet another proposal that sounds nice enough until one takes even a cursory look at the details. Does every teacher want an aide? Would the county’s system for handing out work do a good job of finding the best people available for the classroom? And wouldn’t a flood of fully federally subsidized teachers’ aides violate the stated goal of not competing with the current private and public labor markets for paraprofessionals?

These details become even more troubling when looking at elder care. Hampden County has more than eleven thousand residents over the age of eighty-five,²¹ and that number will grow in the coming decade.²² The county currently has just over three thousand home health care workers. Couldn’t they mandate that thousands of job-guarantee enrollees each be assigned as a forty-hour-per-week companion to an elderly person? “Companion” is a more apt term in this instance as current home health aides have essential job-specific skills and are employed by the existing private or public sectors, both violations of the Levy report’s criteria.

“Our polluted ponds and streams”

According to a 2015 op-ed in the *Boston Globe*,²³ polluted waterways are indeed a problem in Massachusetts. An in-depth analysis of environmental cleanup is beyond the scope of this report, but none of the several fixes proposed in the article appear to benefit from a large number of unskilled laborers.

“Low-income housing... repairs and insulation”

Hampden County has a sizable amount of low-income housing: 16,670 units deemed “affordable,” including 11,475 that set rent based on one’s income.²⁴ Data on the repair status of these housing units are not readily available, but two points are in order. First, this work, especially insulating, is likely temporary, rather than a source of ongoing labor for enrollees. Second, while low-skill labor may be useful for home repairs, it also likely requires a large presence by managers with construction know-how,

again underscoring human capital as a neglected part of both reports’ cost estimates.

Adding It Up

The sum total of the examples listed in the Levy report’s impassioned plea does not appear to realistically account for more than a few thousand workers, almost certainly less than half of the lower estimate of seventeen thousand workers that Hampden County would be mandated to employ.

Finding work for projected job-guarantee programs would be a long and costly process, which cannot be fully replicated in a brief report. The infeasibility of finding work for millions of participants is one of the most frequently levied criticisms against job-guarantee proposals. The fact that proponents have not even attempted to produce a proof-of-concept showing how workers might be deployed is quite telling.

There are other ideas such as blight cleanup and community theaters mentioned in the Levy report. We invite the authors to show, in much greater detail, how so many enrollees could be put to work without placing a huge bureaucratic burden on local governments already stretched thin such as those in Hampden County.

5.3 The National Approach

The CBPP report also leans heavily on local administration, and therefore must answer the same questions posed above. However, the authors place more emphasis on the federal government to create work and make frequent comparisons to New Deal programs such as the WPA. This approach carries with it an additional set of problems.

The invocation of the WPA and New Deal in general is problematic given the vastly different economic circumstances faced by the United States today. The WPA was created in 1935 to provide temporary employment to jobless heads of household, employed a maximum of 3.3 million workers in 1938, and was wound down after the start of the Second World War.²⁵

Public works projects, including road construction, sewers and other utilities, parks, and public buildings, accounted for at least three-quarters of the WPA’s workers. The other quarter or less were in smaller, locally focused projects more like those proposed by the Levy report.

The WPA offered temporary relief to those out of work during a national emergency of unprecedented proportions. While debates rage to this day as to the efficacy and impact of New Deal programs, those debates are of limited relevance to our current situation, where unemployment rates are near twenty-five-year lows.

The infrastructure-construction projects that dominated WPA employment rolls²⁶ would be more capital intensive than the other ideas put forward in both reports, adding further cost to the program. In addition, the lack of information conveyed by market signals would be compounded by more centralized program management.

There is evidence that these issues arose during the years of the WPA itself. That program initially had a tiered wage-and-hours structure like the structure described in the CBPP report, which raised familiar concerns about competition with existing private sector jobs. Officials tried other schemes, including linking wages to those “prevailing” in private sector versions of the same work, and simply fixing hours and wages. These attempted solutions underscore the blunt instruments with which administrators must work when attempting to design a rational system from the top down.

Whether nationally administered or delegated locally, it appears that finding and assigning work on the scale both reports propose would quickly turn their vision of a public good into a public burden. But the disruptive effects on the wider economy, to which we now turn, might prove far more burdensome.

6 Impact on US Labor Market and Economy

We must approach any discussion of the impact of a federal job guarantee on the wider economy with an abundance of caution. Our sample size for evaluating a program that the Levy report’s authors term a “radical transformation of the labor market” is zero. Even countries with much larger public sectors do not operate under the mandated system of a job guarantee.

However, economic theory and lessons from history can inform our understanding of the likely impacts of a federal job guarantee. Both reports’ authors are confident that in addition to benefiting program enrollees, a federal job guarantee would be an unequivocal positive for the larger economy, offering macroeconomic stabilizers and perhaps even paying for itself.

Neither report concerns itself with the potential negative consequences that flow from basic economics, issues ranging from large distortions in the information and incentives provided by markets to opportunities for special interests to manipulate the programs to their advantage.

Each of these issues could potentially result in substantial net harms to all Americans, including program participants.

In appendix 2, we briefly evaluate the claims both reports make of benefits to the economy beyond the program enrollees themselves. The CBPP report touts some benefits but is short on details, while the Levy report makes highly problematic use of macroeconomic forecasting models.

The remainder of this section focuses on the potential economic harms of a job guarantee.

6.1 Labor Market Disruptions

Both reports’ authors treat the ten million or more enrollees in a federal job guarantee as somehow cloistered from the labor market at large (which includes both private and government employers). The Levy report envisions a “buffer stock” of job-guarantee workers that will grow in times of downturns and shrink as more workers rejoin the traditional labor market in better times. One does not have to go deep into economic theory to see how this purportedly clean flow of workers would break down.

Neither report takes account of harm to the private sector caused by their proposals. In addition to the de facto minimum wage and benefits set by a job guarantee, one must consider the contraction in private labor supply that would result if a sizable fraction of the many millions of currently employed workers at the lower end of the wage distribution chose to leave their jobs and enroll in the federal program.

The immediate result of more pay and benefits for the working poor is something everyone would like to see, all else equal. But the process would divert workers from the places in the economy where they are most productive to a labyrinthine bureaucracy, where even finding enough work to assign would be a challenge. This could greatly weaken the productivity of the overall economy, potentially leading to declines in output and even greater job loss.

Contrary to the stated goal of not competing with the private sector, some industries could become entirely nationalized. For example, 875,000 home health aides and 1.3 million teachers' aides currently employed by the private and public sectors earn less on average than proposed job-guarantee wages. One might myopically say these workers deserve a raise, but turning these industries from conventional jobs into tasks assigned on demand would almost certainly result in poorer service to the young and elderly.

6.2 Impact on Worker Incentives

Neither the CBPP nor Levy report has established how the work under a federal job guarantee would help build the workers' human capital. In fact, the very existence of the program might strongly disincentivize workers from going out and acquiring the skills that lead to real, value-enhancing job creation in the labor market. By forcing workers mostly at the low end of the skills distribution to work by mandate and earn a fixed wage, a worker would have to derive enough value from education or other human capital acquisition to leapfrog ten million or more other workers.

It would cost about \$330 billion to send ten million workers currently counted among the U-6 unemployed for full trade school degrees,²⁷ a fraction of the cost of a single year of a federal job guarantee. While we do not support such blanket solutions of any kind, this number puts in perspective the benefits to investing in, rather than simply sustaining, people.

6.3 Rent-Seeking and Corruption

A federal job guarantee, no matter how well intentioned, would also serve as a magnet for corruption and corporate influence peddling. Especially when administered on a local level, the opportunities for corruption become vast and difficult to monitor. For example, one need not be particularly imaginative to see opportunities for a local building contractor to get free labor by giving kickbacks to officials in charge of placing enrollees in jobs.

Corporations and other interest groups do not have to resort to corruption per se to gain control of the millions of subsidized laborers in a job guarantee. Rent-seeking, where corporations or other incumbent interests compete for influence over government to further their own objectives, is a well-known phenomenon.²⁸

For example, the regional manager for Walmart might get in touch with a local government about the condition of its store's parking lot and the grounds around it. Sales have been falling, and this expense might tip the decision to move to a new location in the next town. Couldn't the town provide some of its laborers to improve the look of the store's grounds?

Where there is free labor to be had, private businesses come knocking. Both with and without breaking the law, influence peddling would be an inevitable consequence of a job guarantee.

7 Conclusion

A federal job guarantee, no matter how well intentioned, would be the largest government intervention in the history of the US economy and would likely be disastrous. Measured by employees, proponents' own estimates imagine an organization that would dwarf the largest employers in the world, and the program would constitute our largest or second-largest category of discretionary spending, about the size of the Department of Defense.

Millions would be siphoned into a bureaucratic system that eschewed market signals essential to allocating labor to its greatest social benefit. The resulting system would likely slow economic growth and squash workers' incentives to invest in themselves.

Rejecting a federal job guarantee as a bad proposal does not mean minimizing or accepting the plight of those who continue to struggle. We, as individuals, families, organizations, and governments, can do better by them without ripping up the fabric of our labor market.

As our society becomes increasingly technology- and network-driven, grassroots efforts, whether private or public, can be more effective than ever. Local governments or private individuals could offer crowd-funding initiatives for community projects that would hire the unemployed or struggling. Similar efforts could be made with education and local networking.

Before supporters of a federal job guarantee scoff at these ideas as drops in a bucket, they might consider what would happen if even a fraction of the resources they seek for their top-down proposal were put into more grassroots efforts. Our economy could make significant progress toward a day when nobody would want to accept a deal of mandated labor from the government.

This report benefitted from the insights and comments of many AIER colleagues, and in particular, the outstanding research assistance of Shane Bradley.

Appendix 1 – Comparison of Proposals in the CBPP and Levy Reports

	CBPP report	Levy report
Eligibility	All adult Americans, on demand, indefinite duration	All adult Americans, on demand, indefinite duration
Wage	Minimum: \$11.83/hr. Average: \$15.00/hr. (Incorporate variation based on time, performance, experience, education, and region)	\$15.00/hr., fixed
Benefits (stated)	Health insurance, retirement plans, paid leave, 4 weeks vacation	Health insurance, child care, “other basic” benefits
Work hours	Full time (35–40) or Part time (20, with no health insurance), based on participant’s choice	Full time (35–40) or part time (any number of hours participant chooses)
Estimated participation	10.7 million	12.7–17.5 million
Administration	Dept. of Labor will “work with federal agencies to identify areas of needed investment in the U.S. economy” Local and state governments “encouraged” to propose projects Federal gov’t can intervene to guarantee “full employment in all localities.”	Proposals come from local, state, and registered nonprofits Federal provides funding, some administration and evaluation, “supplemental projects” if state and local efforts insufficient
Types of work	“The repair, maintenance, and expansion of the nation’s infrastructure, housing stock, and public buildings; energy efficiency upgrades to public and private buildings; assistance with ecological restoration and services to reduce the country’s carbon footprint; engagement in community development projects; provision of high-quality preschool and afterschool services; provision of teachers’ aids; provision of high-quality elder care and companionship; rejuvenation of the nation’s defunded postal service; support for the arts; and other activities that shall support the public good.”	“The PSE program will help fill specific community needs that pertain to: (1) care for the environment, (2) care for the community, and (3) care for the people.”
Assigning work to participants	Online “jobs and projects bank” that will “help state and local administrators match projects with existing workers”	“A number of organizations can be identified in each community that will supply opportunities on demand. Others can be added over time. The opportunities at these organizations are inventoried with the Community Jobs Banks. Once the unemployed have been registered at the One-Stop Job Centers, they are placed in positions with these organizations.”
Interaction with traditional labor market	Proposed work should not “displace or speed the displacement of existing employees who would otherwise perform similar work” “Reserve pool of workers”	“The job guarantee will maintain a repository of jobs and places of work—via the Community Jobs Banks—that can quickly accommodate new entrants into the program and let them go without disruption should they find alternative employment.” “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.”

Appendix 2 – CBPP and Levy Reports’ Presumed Benefits to Overall Economy

The authors of the CBPP report appear to understand that predictions about macroeconomic variables under such a radical change to the economy are highly speculative. They make no attempt to estimate future GDP or inflation under their proposal. They discuss in some detail the benefits to the workers enrolling in the program and others for whom the program would serve as a social safety net.

Beyond what the authors say about the direct beneficiaries, they say very little about benefits of the program to the wider economy. They note that increased income flowing to program participants would benefit local and state tax bases (the impact on the federal tax base or deficit is conspicuously absent in this part of the discussion). They also briefly tout the overall benefits of the program as a “macroeconomic stabilizer” and as a “provider of socially useful goods and services,” the latter of which we discussed in section 4 above.

While the CBPP report glosses over the negative economic impacts we discuss below, its authors seem to recognize the futility of using macroeconomic forecasting models to predict dollar impacts of such fundamental, structural changes to the economy. The Levy report, however, is far less shy.

The Levy report provides results from a complex macro-econometric simulation using equations developed and made publicly available by economist Ray C. Fair. The author’s own description of one version of the model is that it “contains 26 stochastic equations and about 100 identities,” or macroeconomic variables. The primary purpose of these models is to forecast the performance of the actual US and global economies. A secondary use has been to run “policy experiments.”

The result of the Levy report’s own “policy experiment” predicts nothing but greater prosperity for the American economy at large under a federal job guarantee. For example, the program they tout as a “de facto minimum wage” of fifteen dollars per hour is predicted to create several million private sector jobs.²⁹

The Levy report distinguishes between “direct spending” and “net budgetary impact.” The latter accounts for job-guarantee enrollees already receiving entitlements such as Medicaid, and the

ability to tax the money the government is giving to participants.

One would think a net budgetary impact would also consider the cost of the program, either as a tax or an increase in deficit spending. One would be wrong. It is worth quoting the Levy report at length:

Figure 3.7 presents the net budgetary impacts of the PSE program in nominal dollars, via averages for the 2018–22 and 2023–27 subperiods. It also presents these impacts net of the change in government debt service from the baseline simulation. Normally, the former is referred to as the government deficit and the latter as the impact on the primary government deficit. However, a PSE program does not necessarily require the government to be in deficit any more than does national defense spending (for example). But because the government’s budget position is already in deficit in the Fair model’s baseline simulation, adding the PSE program without any additional revenue adds to this deficit. If, on the other hand, the baseline budget position were a surplus, part or all of the additional debt service shown in Figure 3.7 would not be incurred. Separating the additional debt service that results from the PSE program from the net budgetary effects without additional debt service, as Figure 3.7 does, provides a clearer picture.

Evidently, the simulation results presented in the Levy report are also contingent on either large tax increases or cuts in other government spending that would result in a further counterfactual in which the United States does not run a budget deficit. However, neither of those options are factored into the model.

Models such as Professor Fair’s are frequently debated but are no doubt serious works of research. However, the validity of a model’s results depends on how one uses them, and it is very difficult to believe there would be nothing but benefits from a “policy experiment” when one has failed to include the costs as an input.

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Notes

1 Paul et al. (2018)

2 Wray et al. (2018)

3 While we use “CBPP report” and “Levy report” often as shorthand, we acknowledge that these authors’ views do not necessarily represent the views of their research institutes as a whole. (<https://www.cbpp.org/blog/cbpp-didnt-propose-job-guarantee-program>)

4 New Deal spending estimated from 1933 to 1939; see Dupor (2017).

5 Krugman (2018).

6 See, for example, McElwee et al. (2018).

7 See, for example, Milgrom and Roberts (1988) and Williamson (2002).

8 The Levy report includes, somewhat arbitrarily, 25 percent of all full-time workers earning at or below the prevailing federal minimum wage, but no full-time workers earning anywhere between that wage and \$15 per hour. The CBPP report includes currently employed earners at low wages only to the extent they are counted as underemployed in the U-6 data series.

9 While the CBPP report allows entry into its job-guarantee program at \$11.83 per hour, this is still greater than the hourly rate earned by at least 20 percent of Americans as reported by Gould (2018).

10 While the Levy report uses a more complex approach to project enrollees, its inputs are fundamentally similar to the U-6 rate. Since its current enrollment projection exceeds that of the CBPP report, we would expect even higher numbers using data from the past two decades.

11 Bureau of Labor Statistics (2018).

12 This measurement problem also underscores the informational challenges that would be faced by program administrators.

13 The most recent figure for total US taxable income released by the IRS was for 2014. To make the figure comparable with current program-cost estimates,

we adjust it upward for both inflation and real GDP growth.

14 In his analysis of multiple job-guarantee proposals, Sturgis (2018) writes that these four requirements cannot be simultaneously achieved and form an “impossible quadrilateral.”

15 If one thinks of these projects as public goods, we can also say that they must be projects that all levels of government have lacked the political will to fund with taxpayer dollars.

16 Bureau of Labor Statistics, county-level data.

17 Wikipedia (n.d.).

18 Because county-level U-6 data are unavailable, we estimate the U-6 percentage by adjusting it in the same proportion to the ratio of Hampden County’s unemployment rate to the national rate.

19 NAICS 712.

20 Massachusetts Department of Education (n.d.).

21 US Census (n.d.).

22 Graham (2017).

23 Boston Globe (2015).

24 AffordableHousingOnline.com (n.d.).

25 Levine (2010).

26 Other New Deal programs such as the Public Works Administration and Civilian Conservation Corps focused on even larger-scale infrastructure projects, with even higher capital intensiveness.

27 Bondar (2016).

28 See, for example, Krueger (1974).

29 A forthcoming paper by Levy coauthor Fullwiler promises greater detail on assumptions and alternative simulations to accompany results presented in the Levy report.

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