

Medium

Guaranteed Jobs: An Explainer

It sure sounds like a great policy idea. Until you look a little closer

Ed Dolan

The idea of a national job guarantee (JG) is about to go mainstream.

The concept is far from new, but for the first time in decades, it is being endorsed by politicians with national stature. Bernie Sanders has promised to submit a legislative proposal. Other Democratic presidential hopefuls are showing interest. Academics, including Levi Economic Institute's L. Randall Wray and think tanks like the Center for Budget and Policy Priorities have provided detailed blueprints for a national JG program.

Yes, it would be nice if everyone who wanted to work could find a job, but before we start to beat the drum for a full-bore national job guarantee, we need a reality check. It turns out that a job guarantee is one of those ideas that sounds great until you look closely.

How Many Would Really Want A Guaranteed Job?

The unemployment rate is low right now, but advocates say that job guarantees are not just about putting the officially unemployed back to work. They like to point out, correctly, that the official rate understates the number of people who are not working but would do so if only a job were available.

It is true that there are millions of non-workers who are not officially counted as unemployed because they are not actively looking for work.

What is more, the employed share of the population has been falling since the beginning of the century, after a 50-year upward trend. As the following chart shows, that pattern holds both for the adult population as a whole and for prime-aged workers.

But is the pool of potential candidates for a JG program really as large as this chart makes it seem? The answer is no.

Of 95 million adults who were not in the labor force as of April 2018, only 5 million said they wanted a job now. Many of the rest were retired, in school, or medically incapacitated. Others were financially secure due to savings or earnings of other family members and preferred to spend their time in activities other than paid work.

The remaining 5 million who were out of the labor force but said they *did* want a job cited various reasons for not working.

Many of those are reasons that would make it harder to draw them into public service jobs. Based on annual data for 2017, 20 percent of them reported that school, family responsibilities, ill health, lack of transportation, or other reasons kept them from looking for jobs. Only 9 percent reported that their reason for not working was discouragement about the availability of work, fear that private employers would discriminate against them, or similar reasons.

In some cases, these barriers to work could be overcome by a JG program that offered extensive support services, but it would be unrealistic to think that all 5 million could easily be slotted into public service jobs.

Realistically, a JG program might absorb half of those who want a job but are not currently in the labor force, plus at least some of the officially long-term unemployed—those who have been looking for work for six months or more without finding it. But that would be fewer than 4 million people, of whom not more than 3 million would come from the prime age group.

Giving all of those people jobs would raise the share of the prime-age population who are employed only to about 62 from its current level of 60.3, leaving it still well below peak rates of the past.

Don't Underestimate Administrative Costs

Critics of job guarantees rightly worry about potentially high administrative costs, a problem JG proponents like to brush aside.

On this, it is the critics who are right. The experience of other federal programs suggests that a JG program would not reach its goals without intense—and expensive—administrative support.

For example, consider programs that try to increase employment by means of work requirements, which use a stick to move people into the labor force, rather than the carrot used by JG. Even so, their target demographic is the same: people who are able to work but are currently jobless.

Consider, for example, the welfare reforms of the 1990s, which offer the largest and best-studied example of the effects of work requirements.

At the time of those reforms, researchers conducted rigorous controlled experiments to measure how variations in program design influenced effectiveness. Each experiment compared the employment experience of a group of welfare recipients subject to work requirements to that of a group who received the same welfare benefits without the work requirements. (For more, see my article for the Milken Institute Review earlier this year.)

The experiments found that work requirements did have some effect, although not a large one, on the number of people who worked. For example, in Portland, Oregon, 85.8 percent of those in the group subject to work requirements worked during at least one calendar quarter of the 20 quarters of the experiment, compared to 81.7 percent of those in the control group. In Oklahoma City, the number who worked in the experimental group was actually lower than in the control group. In five of 11 experiments, the difference was statistically insignificant.

One key takeaway from the experiments of the 1990s, confirmed by more recent experience with work requirements for food stamps, is that there are no bright lines between “able but unwilling to work,” “willing and able to work but not working” and “unable to work.”

Many willing welfare recipients face practical barriers to work, such as child care or lack of transportation. Other barriers to work include physical or mental health problems that fall short of full disability, emotional issues, criminal records, substance abuse, and low skills.

With or without work requirements, people with such problems tend to move in and out of work frequently, even when jobs are available. They do not move through welfare-to-work programs in a simple, linear fashion, from unemployed to trainee to permanent job holder. Frequent failures and backsliding undermine the best-intentioned policies.

The experiments of the 1990s have made it clear that success requires adequately funded administrative support and well-trained staff. The best results were obtained when case workers and other administrators did more than simply monitor eligibility, participation, and compliance with program rules. Instead, they need to be proactive and to stress self-sufficiency.

However, such efforts come at a cost. Results were disappointing in cities like Oklahoma City and Detroit where administrative support was underfunded.

Don't Overpromise

Optimists contend that a jobs guarantee program would provide a huge boost to the economy, but they should not overpromise.

For example, Wray estimates that a national job guarantee with 15 million participants would add \$560 billion dollars to GDP, about 3 percent, with little impact on inflation. However, the bulk of any gains in GDP achieved by a job guarantee would very likely be illusory.

The thing is, JG participants would not be put to work doing things like sewing shirts, where their output would be easily measured. Instead, almost all JG participants would be given public service jobs.

In a working paper for the Levy Economics Institute, Pavlina Tchernevadescribes a JG program as a "National Care Act." The jobs would focus on care for the environment, communities, and people—jobs like conducting environmental surveys, maintaining parks, removing invasive species, planting rooftop gardens, cleaning up vacant properties, establishing tool lending libraries and community theaters, caring for the elderly, organizing afterschool activities in schools, and shadowing teachers, coaches, hospice workers, and librarians to learn new skills

All of these are worthy activities. Millions of public employees and volunteers engage in them every day. But how can we measure their contribution to GDP when we can't put dollar value on the removal of invasive species or accurately measure the quantity and quality of output of an oral history project?

The answer is that national income accountants don't even try to measure the output of public service workers. Instead, they measure the value of their contributions to GDP by adding up the costs of the labor and other inputs that go into producing the services.

If city workers are assigned to composting food waste from school cafeterias, their contribution to GDP is measured by the salary they are paid. It doesn't matter whether the compost turns out to be useless, or instead turns out to be black gold that enormously boosts the output of lettuce in a community vegetable garden.

Following standard accounting procedures, then, paying each of 15 million people \$30,000 per year to perform tasks from Tcherneva's list would produce a \$450 billion bump to GDP regardless of the value of the services the workers produced.

Accounting by cost rather than output greatly increases the possibility of overstatement of a JG program's contribution to GDP.

If a community arts group employs ten JG workers at \$30,000 a year, its contribution to GDP would be measured as \$300,000 whether the art is of good quality or bad. If the arts group adds an 11th worker to take care of the children of the first 10, its measured contribution to GDP goes up by \$30,000, even if the amount of art the group produces is unchanged. If it adds a 12th employee for administrative duties, its contribution to GDP goes up again, whether or not it produces more or better art.

The potential for exaggeration is even greater if we consider that some of the services that would be supplied by a JG program are already being produced, but not for pay, by the same people that the program would employ.

For example, imagine two single parents, each of whom has been staying home to care for two young children. If a JG program hires one of them at \$30,000 a year to work in a community tool-lending library and hires the other as a daycare worker to care for all four children, the measured amount of new GDP produced will be \$60,000. However, the only *new* services produced are those of the tool-lending library. The daycare services were *already* being produced by the parents themselves, but not for pay.

In addition, some of the services produced by a JG program would duplicate, or displace, work now done by America's vast army of volunteers.

According to a Bureau of Labor Statistics report on volunteering in America, some 62 million people aged 16 and older participated in volunteer work in 2016. Of those, 5.9 million each spent more than 500 hours a year volunteering—a huge amount of work. Much of that was spent on exactly the kind of jobs that would be targeted by JG programs.

In some cases, people who are now out of the labor force and who volunteer as wildlife monitors would happily take paid jobs as JG wildlife monitors. In other cases, people who are already employed but volunteer on weekends would find they are no longer needed to pick up trash in the local park, since a JG worker is already doing the job. They would go jogging, instead.

Any way you look at it, at least part of the program's addition to GDP would, to that extent, be illusory.

Caution Is The Bottom Line

I do not mean to be completely dismissive about public service jobs. Volunteers are great, but they are not always enough to monitor water quality or maintain historical sites.

The idea that local governments should keep a list of "shovel-ready" jobs in reserve to serve as fiscal stimulus in hard times is nothing new. But a full-scale national job guarantee—one that employs tens of millions during downturns and does not go to zero even in the best of times—is something else entirely.

When you do the numbers, you find out that many of the people you want most to help are not good candidates for public service jobs. When you look at past efforts, you see that welfare-to-work programs of any kind are unlikely to succeed without expensive investments in staffing and administration. And when you do the accounting, you find that many of the supposed benefits of putting millions of people to work in new public service jobs are illusory.

In short, we should think twice, three times, or more, before we let ourselves get carried away with enthusiasm for a national job guarantee.

Meanwhile, we are far from exhausting the alternatives to JG. Based on international best practices, we could do more with job placement, training, and other active labor market policies. We could reform and consolidate existing antipoverty programs in order to reduce disincentives to work. We could make tax policy more work-friendly by expanding earned income tax credits and easing regressive payroll taxes. And we could recognize that cash assistance makes more sense than make-work jobs for many who need help most.

Ed Dolan, Follow Economist, Senior Fellow at Niskanen Center, Yale Ph.D. Interests include environment, health care policy, social safety net, economic freedom.