



**Centre of Full Employment and Equity**

# The Job Guarantee: A superior buffer stock option for government price stabilisation

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## Outline of talk ...

- Macroeconomic stability framework - full employment and price stability.
- Efficiency – micro and macro losses.
- Buffer stocks and macro stability.
- Superiority of employment guarantees.
- Job Guarantee – what is it?
- Employment versus income guarantees.

# What is a sovereign government?

- A sovereign government:
  - Enjoys a currency-issuing monopoly;
  - Issues a non-convertible currency; and
  - Operates within a flexible exchange rate regime.
  - Sets its own interest rate.
- A sovereign government is not revenue-constrained – it is not like a household!
- A sovereign government faces no solvency risk in its own currency.
- Constraints are real not financial.

## Fiscal deficits and nation building ...

- Government deficit (surplus) exactly equals non-government surplus (deficit).
- Public deficits fund non-government desire to save.
- Nation-building typically requires the national government to run deficits.

## Problem of income insecurity ...

- Insecure income is largely due to unemployment.
- How we construct the problem is crucial to devising the solution.
- Reflects a systemic failure to provide enough work as a result of poor macro policy – individuals are powerless.
- Should we solve this by ensuring everyone who wants to work can or by providing cash transfers?
- The solution has to be in the context of a macroeconomic stability framework.
- That requires us to understand buffer stock mechanisms.

## Buffer stock options ...

- A currency-issuing government which aims to stabilise prices has two available buffer stock options:
  - Unemployment buffer stocks (NAIRU approach).
  - Employment buffer stocks (Job Guarantee approach).

# Unemployment buffer stocks

- Neo-liberal period characterised by the Non-Accelerating Inflation Rate of Unemployment (NAIRU) approach.
- Unemployment - a policy instrument rather than a policy target.
- Disciplines spending and/or distributional struggle.
- Extremely costly approach - huge net income losses.
- Huge social costs.
- Buffer stock deteriorates – lessens effective supply.
- Encore?

## Benefits of full employment ...

- Income stability.
- Personal risk management.
- Psychological well-being (social inclusion, self esteem etc).
- Training and skill development in a paid-work context.
- Poverty alleviation.
- Community building.
- Intergenerational stability.



## Employment buffer stocks ...

- Job Guarantee – an unconditional and universal offer of a public job at a socially inclusive minimum wage to anyone who wants to work.
- Represents the minimum government spending necessary to achieve “loose” full employment – hiring off the bottom.
- There is only one MMT Job Guarantee!

## In-built inflation control ...

- The JG is more than a job creation scheme – in fact part of an integrated macroeconomic policy framework.
- It solves the Phillips curve conundrum – negates the so-called inflation-unemployment trade-off – can have full employment and price stability.
- The fixed JG wage provides an in-built inflation control mechanism – NAIBER replaces the NAIRU.
- When the private sector is contracting, the government uses its fiscal authority to increase the JG pool.
- It is a high quality anchor – maintains an effective labour supply.

## Some micro benefits...

- Reduces the hiring costs to private business.
- Reinforces intergenerational advantage.
- Can provide career and training paths.
- Has spatial advantages - can underpin community development.
- Can support environmental sustainability.
- **It is not the panacea to everything.**
- But it is better than the unemployment buffer stock option.

## What is the real cost of the JG?

- How can government afford it?
- Need to understand what a cost is!
- Nominal entries in fiscal statements ('budgets') 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.

## Other criticisms ...

- Coercive.
- Neo-liberal mechanism.
- Workfare?
- Incomes policies?
- Administratively impossible.
- Boondoggling – what jobs?

## What about public investment stimulus?

- Produces beneficial multiplier effects – crowding-in of private investment.
- But too inflexible to ensure continuous full employment, given private sector spending ebb/flow.
- Public investment unlikely to create work for the most disadvantaged workers in economy.
- Spatial targeting difficult.
- No inflation anchor.

## Radical nature of Job Guarantee ...

- End of the full employment model?
- Provides framework for re-evaluating what we mean by productive work.
- Allows a host of activities that do not support capitalist profit to be considered worthwhile and productive.
- Examples.
- Which then feeds into the employment versus income guarantee debate.
- Income guarantees are inferior solutions to mass unemployment.

## Why not a Basic Income Guarantee?

- Supported by many progressives and CEOs of companies that have punitive labour relations.
- The BIG solves income insecurity with an unconditional income payment above subsistence level to all citizens.
- Its underlying economics are rooted in neo-liberalism.
- Surrenders to the neoliberal myth that government can do nothing to create more employment.
- In fact, government chooses the unemployment rate.



## Basic Income approach is not progressive

- It is an individualistic rather than collective approach.
- “I just want to do my art”!
- Financing – tax employed because they have priced workers out of jobs!
- No nominal anchor? NAIRU buffer stock retained.
- Creation of passive consuming agents - the BIG ‘buys the unemployed off’.
- Denies workers the opportunity to work.

## More to work than income

- Work is a social construct – there is more to work than earning an income.
- Work is central to identity and independence.
- Social networks.
- Only the JG provides a price anchor with (loose) full employment.
- The JG creates a bridge between current social attitudes and broader concepts of work.

# Conclusion

- How do policy proposals to solve income insecurity relate to macroeconomic stability?
- BIG – no inflation anchor.
- General expansion – no inflation anchor.
- Job Guarantee – inflation anchor and a bridge between the cultural present and a progressive future.

**END OF TALK**

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WILLIAM MITCHELL is one of the world's leading heterodox economists and Professor of Economics at the University of Newcastle, Australia. His books include *Eurozone Dystopia*. THOMAS FAZI is a writer, journalist, researcher and author of *The Battle for Europe*.

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