

Dēmos

BACK TO WORK

A PUBLIC JOBS PROPOSAL
FOR ECONOMIC RECOVERY

PHILIP HARVEY

ABOUT DEMOS

Dēmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Dēmos works with advocates and policymakers around the country in pursuit of four overarching goals: a more equitable economy; a vibrant and inclusive democracy; an empowered public sector that works for the common good; and responsible U.S. engagement in an interdependent world. Dēmos was founded in 2000.

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Introduction

Over a year and a half has passed since the official end of the Great Recession, yet both the level and rate of unemployment remain distressingly close to their peak levels. Almost 14 million active job seekers remain unemployed. Another 6.4 million people who are not actively looking for work (and therefore are not counted as unemployed) say they want jobs. Among workers who are lucky enough to have jobs, 8.3 million are employed part-time but want full-time jobs. Taken together, there are well over 28 million people in the United States for whom the economy has failed to perform its most important function — providing enough jobs to go around.

The pace of the economy's recovery from the recession has been distressingly slow. It took only 18 months for the nation's unemployment rate to climb from 5.0 percent to its peak of 10.1 percent in October 2009. In the 16 months since then the rate has made up less than a quarter of that loss. Still, it's important to remember that we dodged a far more lethal bullet. The Great Recession could have turned into another Great Depression. The fact that it did not is attributable to the federal government's forceful macroeconomic intervention in late 2008 and early 2009. Economists Alan Blinder and Mark Zandi (one a former Clinton appointee to the Federal Reserve Board of Governors, and the other a former economic advisor to Senator John McCain) have estimated that the nation's unemployment rate would have reached 16 percent rather than its actual 10.1 percent in the absence of this intervention.¹

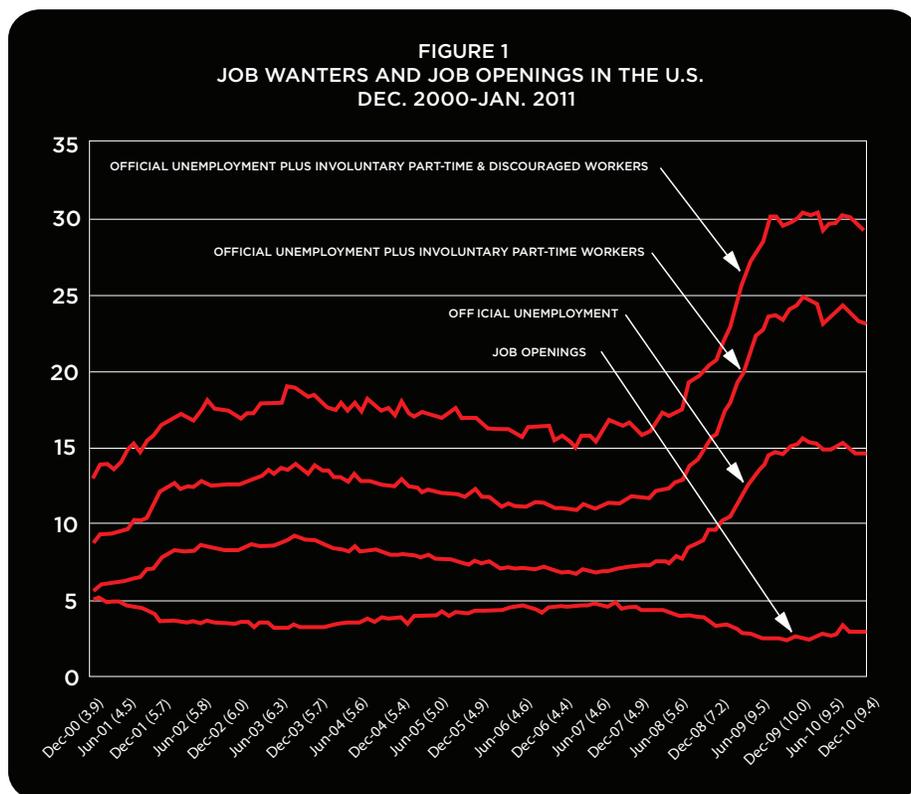
The dimensions of the government's response have been larger than most people realize, largely because of the poorly understood role of the Federal Reserve System (the "Fed"), which can create money and use it to purchase financial assets without Congressional action and without increasing the public debt. Blinder and Zandi identify \$11.9 trillion in asset purchases, loan guarantees and stimulus spending undertaken by various arms of the federal government through mid-year 2010, with over half of that total (\$6.7 trillion) attributable to the Fed alone.

Because of the contingent nature of most of these commitments, the amount actually disbursed was far less. Still, Blinder and Zandi estimate that the federal government actually laid out \$3.5 trillion by the end of June 2010, with the Fed accounting for \$1.8 trillion of the total. Once the financial assets purchased by the government are resold and loans extended by the government are repaid, Blinder and Zandi estimate that the total cost of these initiatives will net out at \$1.6 trillion, with the Fed accounting for only \$15 billion of the total. But the importance of the Fed's contributions lie in their timing and the fact that they do not require formal political approval by either the legislative or executive branches of government, a point underscored by the Fed's recent decision, at a time of political paralysis in Washington, to purchase \$600 billion in long-term U.S. Treasury Bonds at a rate of about \$75 billion per month, in order to boost the availability of investable funds, lower long-term interest rates, and increase U.S. exports by driving down the value of the dollar.

The coordinated efforts of the Fed, the Treasury Department, Congress, and both Presidents Bush and Obama were arguably crucial in rescuing the nation's financial sector and stabilizing an economy in free-fall during the autumn and winter of 2008-09. Ironically, that success has only added to the public's sense of injury. The banks got a bailout. What have the unemployed or the nation's

small businesses been given? Unemployment Insurance (UI) protection has been extended (so far), but only about 60 percent of the nation's approximately 13.7 million unemployed are receiving benefits, and that percentage is dropping as people exhaust their benefits. Even those who are lucky enough to receive UI benefits are getting less than half their former wages on average. On the job creation front, the Obama Administration's signature initiative — the \$787 billion American Recovery and Reinvestment Act (ARRA) — has failed utterly to reassure the public that the government is looking out for ordinary people as well as the banks. The program unfolded slowly, the employment it created has come in anticlimactic dribs and drabs, and the 3-4 million jobs it has saved or created haven't even been enough to keep the unemployment rate from rising above — well above — the 8.1 percent level at which it stood when the program was enacted in February 2009.

THE PERSISTENT JOB GAP



Author's Calculations From BLS Data

individuals who want full-time work but are employed part-time because their hours have been cut or because they haven't been able to find full-time jobs (Involuntary Part-Time Workers), and (3) people who want jobs but are not looking actively for work (identified as Discouraged Workers in Figure 1, though that designation is defined more narrowly in government statistics).

The good news plainly visible in Figure 1 is that the job gap stopped expanding when the recession officially ended in the late spring of 2009, and it didn't come close to the level Blinder and Zandi suggest it would have reached in the absence of the federal government's anti-cyclical efforts. The bad news, also plainly visible in Figure 1, is that the recovery has been painfully slow at best.

The dimensions of the nation's unemployment problem are graphically portrayed in Figure 1, which shows the extent of the economy's shortage of jobs — its "Job Gap" — over the past decade. In Figure 1 that gap is defined as the difference between the number of job vacancies employers are seeking to fill (Job Openings) and three different categories of individuals who want jobs: (1) jobless individuals who are actively seeking work (the Officially Unemployed), (2) employed

THE UNEQUAL IMPACT OF THE RECESSION

Some population groups face labor market conditions even worse than those portrayed in the Job Gap Figure. Table 1 shows that disadvantaged workers bear a disproportionate share of the joblessness caused by the economy's job gap. "Depression" would not be too strong a word to describe the labor market conditions faced by young adults, people of color, persons without any college experience, and other disadvantaged population groups.

TABLE 1
COMPARATIVE UNEMPLOYMENT RATES
NOVEMBER 2010

National Average Unemployment Rate	9.8%
Youths aged 16-19	
Black aged 16-19	46.5%
White aged 16-19	20.9%
All persons aged 16 & over	
Black	16.0%
Hispanic	13.2%
White	8.9%
All Persons aged 25 and Older	
Less than high school diploma	15.7%
High School Graduates, No College	10.0%
Some College or Associates Degree	8.7%
Bachelor's Degree and Higher	5.1%

Source: BLS

This highlights an important fact about our economy's performance. Although the overall level of joblessness depends on the size of the economy's Job Gap, the way that burden is shared among different population groups depends on the advantages and disadvantages with which they compete for available jobs. In a game of musical chairs, handicapped players are more likely than others to be left standing; and the same is true in the "game" of musical jobs. The members of disadvantaged population groups suffer disproportionate levels of joblessness for the simple reason that their disadvantages make it less likely that they will "win out" in the competition for scarce employment opportunities. On an individual level, disadvantaged job seekers face daunting odds in their struggle to find work. On a collective level, disadvantaged population groups suffer a disproportionate share of the harm this recession is dishing out.

The nature of that harm is well documented. In addition to inflicting lasting damage on an individual's labor market prospects,² unemployment is associated with increased rates of physical and mental illness, alcohol and drug abuse, child and spouse abuse, failed relationships and family dissolution, suicide and attempted suicide, and a host of other personal and social ills.³ All sectors of the unemployed suffer an increased risk of experiencing these problems, but since unemployment itself is distributed unequally among population groups, with disadvantaged workers bearing more than their fair share of its immediate burdens, so too are they destined to bear more than their fair share of its painful, longer-term consequences.

The existence of our current job shortage also makes it harder for us to dig our way out of the recession. The economy's Job Gap is not only an effect of the recession. Once established, it becomes a self-perpetuating drag on the process of economic recovery. Today's Job Gap prevents the housing market from rebounding and the housing industry from recovering. It forces the consumer sector to wait anxiously for customers. It keeps capital goods producers waiting for a plausible

growth sector to serve. And it makes the financial sector fearful to lend. Businesses may invest on the margin in response to increased tax and regulatory incentives, but until they see customers with disposable income on the horizon, their appetite for risk will remain limited. What businesses need to move forward and create jobs are customers with money to spend. The economy's Job Gap denies them that key ingredient of a robust economic recovery.

THE WAY FORWARD: REDUCING JOBLESSNESS TO ADVANCE THE RECOVERY

But is there anything more we can do to break out of this trap? If the ARRA's \$787 billion price tag is only buying us 3-4 million jobs, would we have to spend double that amount over again to create the 6-8 million additional jobs needed to get unemployment back down to 5 percent and consumer demand back up to pre-recession levels?

There is, in fact, a far less expensive way to create jobs than the strategies adopted so far to combat the Great Recession. This alternative approach doesn't require us to wait for the economy to recover in order to put people back to work. It puts people back to work as a way of nourishing the recovery. It's a strategy for producing a *job-led* recovery rather than the *jobless* recovery we have been experiencing so far.

The recovery strategy described in this report is conceptually simple: Create jobs for the unemployed directly and immediately in public employment programs that produce useful goods and services for the public's benefit. What this does for the unemployed is obvious. They get decent work while they wait for the recession to run its course. But in addition to this direct job creation effect, the strategy can simultaneously deliver a fiscal stimulus to the economy that is comparable in its indirect job creation effect to the types of stimulus spending included in programs like the ARRA.

When jobs program participants spend their wages and program administrators purchase materials and supplies for program projects, the benefits delivered in the first instance to unemployed workers trickle up to the private sector, inducing private sector job creation that supplements the immediate employment effect of the job creation program itself. In fact, a fiscal stimulus delivered to the private sector using this strategy is likely to be especially effective in promoting a balanced economic recovery. The bottom line is that compared to more conventional stimulus initiatives, the direct job-creation strategy is capable of putting many more people back to work during a recession. It can create the jobs people need far more quickly. Finally, it can fill the gap in private sector demand (and thereby boost private sector hiring) much more evenly across the economy.

The advantages of the direct job-creation strategy are explained in Part II of this report. The cost of implementing the strategy is discussed in Part III. Part IV uses a Q&A format to address a series of practical questions concerning the design of the jobs program required to implement the strategy. The history of the strategy is discussed in two shaded boxes—one on its New Deal origins, the other dealing with the 1970s-era CETA program—and a Technical Appendix explains the enhanced job creation effect of the strategy in more detail.

The Advantages of Direct Public Jobs

The advantage of the direct job-creation strategy lies in its unique ability to serve the goals of anti-recessionary fiscal policy at the same time that it is serving the social welfare needs of jobless workers. There is no other anti-recession strategy that can do either of these things as well as a direct job-creation program, let alone combine them in a single programmatic initiative.

The key to this double advantage lies in the way the strategy delivers its otherwise conventional fiscal stimulus to an economy. The normal way governments do this is by cutting taxes, expanding social welfare transfers, and/or increasing purchases of goods and services produced by the private sector. Then everyone waits for the multiplier effect of these tax cuts and expenditures to boost aggregate demand enough to induce private businesses to hire more workers.

The problem with the conventional strategy is that it requires a lot of spending to achieve relatively modest effects on employment; it doesn't target its employment creation effect where it is most needed; and it requires jobless workers to wait for newly created jobs to become available—possibly for years. The strategy proposed in this report overcomes these problems by using a heavy dose of front-loaded, direct job creation to kick off the multiplier effect of jobs-program spending. The result is substantially more job creation per dollar of stimulus spending. It also allows the government to offer work where it is most needed and to those individuals who most need it. Finally, it allows these jobs to be made available to people immediately, when they need them, rather than requiring them to wait for the economy to recover before they can put their lives back on track. Moreover, we shall see that the way the fiscal stimulus provided by this dose of direct job creation is delivered to the private sector carries special advantages. In short, the direct job-creation strategy achieves a serendipitously balanced and mutually reinforcing fusion of social welfare and macroeconomic policy measures during a recession.

A BATTLE WORTH WAGING

But is the enhanced job creation effect of the direct job-creation strategy significant enough to justify the political and administrative difficulties associated with its implementation? To answer that question, Table 2 compares the job creation effect of a \$100 billion fiscal stimulus delivered to the economy in three different ways over a two-year period. The first way is by reducing taxes (a strategy favored by conservatives and exemplified by the recently-enacted payroll tax cut and continuation of the so-called Bush-era tax cuts). The second is by increasing transfer payments to individuals and families that have been harmed by the recession (a strategy favored by progressives and exemplified by increasing expenditures for things like Unemployment Insurance (UI) and the Supplemental Nutritional Assistance Program (SNAP)). The third way of delivering a fiscal stimulus shown in Table 2 is to use the money to fund a direct job creation program.

Several different measures of the job creation effect of these three stimulus strategies are estimated in Table 2. The first is the effect of the stimulus on the overall level of employment, an effect that would peak towards the end of the second year of the stimulus initiative and then fade away unless the economy started to grow on its own or the stimulus was continued beyond two years. The second measure of job creation estimated in Table 2 is the total number of job-years of employ-

ment the stimulus would add to the economy over a 2 or 4-year period in newly-created jobs, but without regard to whether the employment would be part-time or full-time. The third measure is the number of full-time equivalent (FTE) job-years of employment the stimulus would create in the economy over a 2 or 4-year period, again without regard to whether the employment would be part-time or full-time but, in this instance, including any additional hours of work the stimulus would generate for already-employed workers.

TABLE 2
JOB CREATION EFFECT OF A 2-YEAR \$100 BILLION FISCAL STIMULUS
(NUMBER OF JOBS CREATED)

Job Creation Effect	Type of Stimulus		
	Direct Job Creation	UI and SNAP Benefits	Bush Tax Cuts
Peak Effect on Payroll Employment*	1,519,000	568,000	108,000
Directly-Created two-year jobs (available immediately)	1,075,000	—	—
Indirectly-Created Jobs (peaks towards end of second year)	444,000	568,000	108,000
Job-years of Payroll Employment** Created During First 2 Years	2,635,000	619,000	118,000
Directly-Created Jobs	2,151,000	—	—
Indirectly-Created Jobs	484,000	619,000	118,000
Job-years of Payroll Employment** Created over 4 years	2,635,000	1,130,000	216,000
Directly-Created Jobs (available exclusively during first 2 years)	2,151,000	—	—
Indirectly-Created Jobs	884,000	1,130,000	216,000
Job-years of FTE Employment*** Created over 2 years	2,709,000	714,000	136,000
Directly-Created Jobs	2,151,000	—	—
Indirectly-Created Jobs	558,000	714,000	136,000
Job-years of FTE Employment*** Created over 4 years	3,374,000	1,564,000	299,000
Directly-Created Jobs (available exclusively during first 2 years)	2,151,000	—	—
Indirectly-Created Jobs	1,223,000	1,564,000	299,000

* Payroll employment equals the number of persons employed as of a particular date, regardless of how long their employment lasts or whether it is full or part time.

**Job-years of payroll employment equals 52 weeks of employment, regardless of whether the employment is full or part time.

*** A Job-year of full-time equivalent employment equals 2080 hours of employment (40 hours of employment per week for 52 weeks).

Source: Author's estimates using jobs program cost data from Table 3, multiplier coefficients from Blinder and Zandi,⁴ peak employment effect for a given increase in GDP from Romer and Bernstein,⁵ and ratios of different measures of indirect job creation to one another from Congressional Budget Office.⁶

The estimated job creation effects shown in Table 2 illustrate how greatly the job creation effect of a fiscal stimulus depends on how it is delivered to the economy. The aggregate size of the stimulus matters, of course, but the way it is delivered is just as important. Although tax cuts may be relatively easy to enact during a recession — because they're the only type of fiscal stimulus conservatives are likely to support — it's the strategy with the weakest job creation effect. There are tax cuts that can produce a reasonably vigorous job creation effect, such as temporarily reducing Social Security tax rates, but even those options produce less job creation bang for the buck than positive government expenditures for goods, services and transfer benefits.⁷

The inclusion of a large tax cut component in the ARRA (\$243 billion or slightly less than a third of the entire \$787 billion initiative) is the primary reason for its relatively weak job creation effect, and this short-coming is even more pronounced in the tax cut stimulus the Obama Administration recently negotiated with Republican Congressional leaders. Whether or not the President could have struck a better deal, it would be helpful for the public to know how many jobs we won't create because of the need to satisfy Republican demands. Spending on UI and SNAP benefits would create more than 5 times as many jobs per dollar spent as the same fiscal stimulus delivered by extending the Bush-era tax cuts. Other progressive stimulus strategies, such as contracting with private firms to complete infrastructure improvements, have job creation effects nearly as great.

Still, using stimulus dollars to fund transfer payments is not the most effective way to create jobs during a recession. That distinction belongs to the direct job creation strategy. Depending on how the job creation effect of the stimulus initiative is measured, the direct job creation strategy would create 2 to 4 times as many jobs as increased spending on UI and SNAP benefits, and between 10 and 20 times as many jobs as extending the Bush-era tax cuts.

Possibly even more important, the direct job creation strategy would create those jobs far more quickly than either tax cuts or increased spending on transfer benefits. This may not affect the strategy's long-term macroeconomic impact, but it is vitally important to the social welfare function of stimulus initiatives during a recession. Such initiatives command broad public support not because the public is persuaded that boosting GDP is desirable for its own sake. It's the promise of job creation and the social welfare benefits those jobs provide that garners the public's support — and the sooner those jobs are provided the better.

Economists describe money as having “time value” in order to explain why people are willing to pay interest to borrow it; but the time value of money is nothing compared to the time value of jobs during a recession. Measured in the currency of human well-being, every job created for an unemployed worker during a recessionary contraction is worth far more than the same job created 2 years later. By then, a house may have been lost. A drinking problem may have surfaced. A marriage may have failed. A child may have been traumatized in ways that will resonate throughout his or her life.

Whatever the discount rate used to measure the “present value” of future income, a larger discount rate should be used to measure the “present value” to an unemployed worker of a job promised a year or two (or more) in the future. The jobs created immediately in a direct job creation program are simply more valuable to the people who occupy them than jobs created at some point in the future due to the multiplier effect of stimulus spending.

Nor is the quickness and larger size of the direct job-creation strategy its only advantages compared to more conventional stimulus initiatives. It also has a natural tendency to target its benefits in a way that optimizes their effectiveness in both social welfare and macroeconomic terms. Three types of targeting warrant special notice in this regard.

JOB CREATION FOR THOSE WHO NEED IT MOST.

The first of these advantages is the strategy's natural tendency to target its job creation effect on those individuals, population groups and communities that most need jobs. As noted above, the burdens of joblessness are far from being equally distributed. Disadvantaged population groups bear substantially more than their fair share of the pain of joblessness, and, unfortunately, the job creation effect of conventional stimulus strategies does little or nothing to correct this imbalance. The same economic forces that cause private sector job losses to be concentrated among disadvantaged workers tend to direct private sector job gains away from them. A direct job creation program can overcome this problem quite easily with eligibility requirements that take the length of time a person has been unemployed and their need for work into consideration in allocating employment opportunities.

This wouldn't be necessary, of course, if enough jobs were created to provide work for all unemployed workers (as President Roosevelt's Committee on Economic Security proposed in 1935) but a smaller direct job-creation initiative could target the neediest of the unemployed (as the Roosevelt Administration's direct job creation programs did in practice). Moreover, tailoring the strategy to serve this population would increase its multiplier effect and, consequently, its stimulus effect on private sector employment.

DELIVERING STIMULUS DOLLARS WHERE THEY ARE MOST NEEDED IN THE PRIVATE SECTOR.

Another targeting advantage of the direct job-creation strategy is the way it distributes its indirect fiscal stimulus. The revenue losses that businesses suffer during a recession flow primarily from the problem of unemployment, rather than being directly caused by whatever economic reversals precipitated the recession in the first place. This is how even well-managed, healthy businesses can end up in trouble during a recession, whether or not their business practices played any role whatsoever in causing the recession. A distributor of cardboard containers in Peoria may end up in bankruptcy because of excesses on Wall Street. The fiscal stimulus provided by a direct job creation program would reverse this process. The resumption of ordinary consumer spending by re-employed workers would tend to fill precisely the same gap in the balance sheets of local businesses that rising unemployment rates created in the first place.

Why does this matter? Under conventional stimulus approaches, the government increases spending in places and in ways that bear little immediate connection to the losses most businesses have suffered (for example, new infrastructure projects). Eventually the multiplier effect of the stimulus spending spreads through the economy, but it takes time, and this delay can mean the difference between life and death for stressed businesses. Because it would deliver its fiscal benefits to the very same segments of the economy that suffered income losses as unemployment grew, the direct job-creation strategy would help insulate otherwise healthy firms from the negative effects of the recession, and in so doing, it would provide a more stable foundation of healthy businesses to support a resumption of economic growth.

SHORT-CIRCUITING THE RECESSIONARY SPIRAL.

The last, and potentially most important targeting advantage of the direct job-creation strategy is its ability to stop recessions from feeding on themselves. The rapid deployment of a large, direct job creation program at the beginning of a recession could reduce the severity of the recession dramatically. This is because, as noted above, most of the job losses and attendant economic harm that occur during a recession are the follow-on results of earlier job losses rather than being linked to the tendencies or events that triggered the economic contraction in the first place. It's this downward spiral of job losses leading to further job losses that turns a business correction into a recession. If the initial job losses associated with a recession could be stopped from triggering further job losses, periodic slowdowns in economic activity still would occur. There might even be recessions, but they wouldn't be as deep as those we now experience. By offering immediate reemployment to laid-off workers, a direct job-creation program would prevent their job losses from triggering further job losses. That alone might be enough to stop a recession in its tracks, but even if it did not, it would lessen the intensity of the recession.

A SOLUTION IDEALLY TAILORED TO THE PROBLEM

Think how different our experience of the Great Recession would be today if the \$787 billion Congress allocated to the ARRA in February 2009 had been used instead to fund a direct job-creation program. Enough jobs could have been created immediately to reduce the unemployment rate to its pre-recession level, and the rate of unemployment could have been kept at that level ever since, while businesses sorted their way out of the economic mess in which the recession left them. Two years later the private sector still would have a long way to go before it could replace all of the jobs lost to the recession, but jobless Americans would not have been forced to wait for that to happen in order to restore a semblance of normalcy to their lives. President Roosevelt was not re-elected by landslide margins in 1936 and 1940 because the New Deal ended the Great Depression. He was reelected because the New Deal helped people survive the depression. It gave them a better present, and that gave them both hope and confidence in a better future. The proposal advocated in this report could perform the same function today.

The Cost of the Public Jobs Proposal

To provide a yardstick for gauging the cost of variously sized direct job creation initiatives, Table 3 provides an estimate of (1) the annual cost of creating a million temporary jobs for unemployed workers in a government-administered, direct job creation program; (2) the net annual cost of such a program after taking into consideration the additional revenues and savings it would generate; and (3) the number of jobs such a program would create indirectly via the multiplier effect of program spending.

This cost estimate depends, of course, on the characteristics of the jobs program. The design features of the program whose cost is estimated in Table 3 are described in the note below the table. A different set of design choices would result in a different bottom line. Nevertheless, the significance of the estimate reported in Table 3 does not depend on the particular design features selected. As explained above, the job creation advantage of the direct job creation strategy is so great, that even a far more costly program design would still retain that advantage.

Using the program design described in Table 3, a million jobs could be created for a total budgeted cost of \$46.4 billion per year. The same \$46.4 billion in program spending would also trigger a multiplier effect that would create an additional 414,000 jobs outside the program. Nor is that the end of the story. Another point the table illustrates is that our failure to provide jobs for people who want them isn't cheap either. Even a partial list of the revenues and savings a direct job creation program would generate underscores the fact that the strategy's net cost, after taking these additional revenues and savings into account, would be well below its budgeted cost. The list of savings and additional revenues noted in Table 3 would reduce the net cost of creating a million temporary jobs by an estimated \$17.8 billion; and that's a low estimate since it disregards a number of other savings the direct job-creation strategy would generate.⁸ Using this estimate, though, the actual net cost to the government of the job creation initiative described in Table 3 would total only \$28.6 billion.

Because some of these savings would counteract the fiscal impact of jobs program spending, the 414,000 indirect job creation figure reported in Table 3 may be a bit high. Still, whatever adjustment may be required in the table's indirect job creation figure to correct for these savings, the program still would constitute a far more efficient means of creating jobs than alternative stimulus strategies.

TABLE 3
ANNUAL COST OF CREATING 1 MILLION JOBS* IN A DIRECT
JOB CREATION PROGRAM, PLUS AN ADDITIONAL
414,000 JOBS* OUTSIDE THE PROGRAM

Direct Job Creation Program Costs		
Estimated Avg. Hourly Wage of UI Recipients Employed in Program	\$ 17.46	dollars
Estimated Avg. Hourly Wage of Other Program Participants	\$ 11.70	dollars
Annual Wage Bill	\$ 26.8	billion
Employer's share of FICA taxes	\$ 2.1	billion
Cost of Providing Federal Employees Health Benefits (FEHB)	\$ 5.9	billion
Non-Labor Costs (space, materials, transportation, etc.)	\$ 11.6	billion
Total Jobs Program Budget	\$ 46.4	billion
Additional Govt. Revenue and Savings Attributable to Program		
Estimated Social Security & Income Taxes Receipts	\$ 5.4	billion
Estimated UI Savings	\$ 6.1	billion
Estimated Medicaid and CHIP Savings Due to FEHB Enrollments	\$ 1.6	billion
Estimated Revenue from Goods & Services Produced @ avg. of 10¢/dollar	\$ 4.6	billion
Total Additional Govt. Revenue and Savings	\$ 17.8	billion
Net Cost of Job Creation Program	\$ 28.6	billion
Indirect Job Creation Effect of Direct Job Creation Program	414,000	jobs
Source: Author's calculations using BLS and DOL data.		
* Approximately 85% of the jobs in the program (851,000) would be full-time positions. The other 15% (149,000) would be part-time. The jobs created indirectly outside the program probably would mirror the full- to part-time ratio for the labor force as a whole, approximately 81% of whose members normally work full time (more than 35 hours per week) and 19% of whom normally work part time.		
<u>Assumptions</u>		
This cost estimate assumes that jobs program participants could elect to work either full-time or part-time, that they would be offered jobs consistent with their skills and experience, and that they would be paid the same hourly wage that similarly qualified and experienced workers receive as new hires in comparable jobs in the regular public and private sector labor market (except that upper-level managers would receive the equivalent of public rather than private sector managerial salaries).		
The estimated average hourly wage of former UI recipients enrolled in the jobs program is based on their estimated prior earnings in covered employment. The average hourly wage for which other program participants would qualify (officially unemployed individuals who are not receiving UI benefits, involuntary part-time workers, and persons who want a job but are not actively looking for one) is assumed to equal that of persons employed part-time in existing jobs in the economy. The estimate assumes that all officially unemployed workers would accept employment in the program if it were offered to them, but only 75 percent of involuntary part-time workers and 50 percent the group identified in Figure 1 as discouraged workers. The program cost estimate assumes that the program workforce would be a cross section of these three groups of likely candidates.		
The estimate assumes that program participants would be liable for income, Medicare and FICA taxes on their wages, and that the government would pay the employer's share of their FICA taxes as it does for other federal employees. The estimate also assumes that program participants would receive the same fringe benefits, including health insurance, as other federal government employees.		
Finally, the program cost estimate assumes that 1 dollar would be spent on non-labor costs (supplies and materials) for every 3 dollars in labor costs. That was the average ratio of non-labor to labor costs in New Deal direct job creation programs, and it would allow for a reasonable mixture of public goods and services to be produced by the program today.		
The program's indirect job creation effect has been estimated using a multiplier of 1.29 for expenditures on program wages, ⁹ 1.5 for program expenditures on health insurance benefits, 1.5 for purchases of supplies and capital goods for the program, and 0.0 for payments by the program of the employer's share of Social Security and Medicare taxes. The composite multiplier effect of overall spending on the program based on these partial multiplier effects is estimated at 1.31. It is assumed that payroll employment outside the program would increase by one million jobs for every 1% increase in GDP caused by the multiplier effect of program spending.		

Practical Questions Concerning the Public Jobs Proposal

WHERE WOULD THE MONEY COME FROM?

Media commentary on economic policy during the lead-up to and aftermath of the 2010 mid-term elections assumed that any further policy interventions to combat the recession would have to be low-budget undertakings. The size of the federal budget deficit simply ruled out another large-scale fiscal stimulus package. Then President Obama announced his \$858 billion tax cut deal with Republican leaders, and we learned that the federal budget deficit wasn't the insurmountable economic hurdle we thought it was. This episode should put to rest any notion that the barriers to funding an expansive direct job-creation initiative are anything but political. If Congress and the President were willing to fund a direct job-creation initiative, it could be done the same way the \$787 billion ARRA and the \$858 billion tax cut compromise were funded—with additional deficit spending.

Nor is this a bad idea. Maximizing the indirect job creation effect of the direct job-creation strategy (or any other fiscal stimulus) requires that the program be funded with deficit spending. Adopting this budgeting stance during a recession is not only understandable given the government's reduced tax collections; it's good economic policy. The notion that the federal government should try to reduce its budget deficit at this point in the current recession is just as senseless as President Roosevelt's premature decision to cut federal spending in 1937, and it would threaten consequences just as dire if spending actually was cut (see shaded box).

Still, it would be possible to fund a direct job creation initiative without increasing the budget deficit if political considerations required such a course of action. We currently need about 8.2 million more jobs to reduce the nation's unemployment rate to 4.5%. Creating that many jobs in a program like the one described in Table 3 would require a net increase in federal spending of about \$235 billion during the first year of the JLRS initiative. If the Bush-era tax cuts had been allowed to expire at the end of 2010, the federal government would have collected about \$295 billion in additional revenue during 2011.¹⁰ This would have been more than enough to cover the cost of the jobs program. Moreover, using the Bush-era tax cut money in this way also would increase employment outside the program by an additional 3.1 million. If those jobs became self-sustaining — as it is reasonable to hope they would — then during 2012, the jobs program would need to provide only 5.1 million jobs to keep the unemployment rate at 4.5 percent. The net cost of providing those jobs would be about \$147 billion, while tax collections, if the Bush-era tax cuts had been allowed to expire, would be about \$322 billion higher, more than twice as much as would be needed to fund the jobs program that year.

It also would be possible to establish a trust fund to pay for the program—spreading its cost over the entire span of the business cycle. A modest stock transfer tax could be used to replenish the fund (recognizing the role often played by securities speculation in precipitating recessions) or even a payroll tax such as we now use to fund unemployment insurance benefits. Nor does this exhaust the potential funding sources. The point to remember is that the direct job-creation strat-

egy would be surprisingly easy to fund, even on a pay-as-you-go basis, if the political will to create jobs really did animate the political establishment.

WHO WOULD ADMINISTER THE PROGRAM?

A variety of administrative structures are possible and mutually compatible, so no one structure would have to be used to the exclusion of others. The largest New Deal jobs programs were operated by the federal government (which meant that program participants were federal employees) but most of the projects undertaken by these programs were proposed and sponsored by local governments who shared part of their cost. Projects also were sponsored by federal agencies. The Department of the Treasury, for instance, sponsored the WPA's famous Public Works of Art Program which provided jobs for unemployed writers, artists and performers. It also would be possible for a federally operated program to undertake projects proposed and sponsored by non-governmental organizations.

Administrative responsibility for running the jobs program also could be delegated to state and local governments, but special precautions would be needed under this model to prevent government officials from using the program, either directly or indirectly, to replace public employees paid from local funds. If left unchecked, this "fiscal substitution" tendency could counteract the program's job creation effect entirely. Providing fiscal relief to state and local governments is important and entirely consistent with the goals of the job-creation strategy advocated in this report, but it should be done directly and transparently rather than by allowing government officials to divert job creation funds to provide local tax relief. A third possible model for administering the jobs program would be to contract with non-profit organizations to provide the needed jobs at government expense. An example of this structure that has worked very well for many decades is the federal Work Study program and its New Deal predecessor, the School Work Program administered by the National Youth Administration (a division of the WPA). Another good example is the use of not-for-profit organizations to provide jobs funded by the Summer Youth Employment Program.

WHAT KIND OF WORK WOULD PERSONS EMPLOYED IN THE JOBS PROGRAM DO?

Since the program is designed to create jobs for unemployed individuals in the communities where they live, it is naturally well-suited to fill unmet needs in those communities. This linkage is fortuitous, since unmet community needs tend to be greatest in communities with the highest levels of unemployment.

Some of these needs would involve the delivery of services to program participants themselves — such as the provision of child care. Meeting these needs probably would comprise the program's first projects, and since these services would be needed by other workers in addition to program participants, providing them to the community in general would be a useful function for the program to undertake.

Other community needs would involve construction work (e.g., the rehabilitation of abandoned or sub-standard housing), conservation measures (e.g., caulking windows and doors in private dwellings), the construction of new affordable housing units, the improvement of existing public

parks, the construction of new parks, and the beautification and maintenance of indoor and outdoor public spaces.

The program also could expand and improve the quality of public services in areas such as health care, child care, education, recreation, elder care, and cultural enrichment. Special projects could be undertaken in each of these areas, and existing levels of service delivery could be enhanced. Instead of being forced to cut public services during a recession, government agencies could offer better services than in non-recessionary periods.

The possibilities are well-illustrated by the accomplishments of the Civil Works Administration (CWA), an emergency job creation program that operated for about four months over the winter of 1933-34 in the United States. Established by President Roosevelt in early November, 1933, the CWA went from a mere proposal to a fully operational program with over 4 million employees in less than two months.

Despite its hurried implementation, the program's achievements are truly astounding. In Chicago, over 11 thousand CWA workers laid brick pavements in a major street-improvement project. Approximately 60,000 public buildings were repaired or constructed, two thirds of them schools. Almost 2300 miles of sewer lines were laid or repaired. Swamp-drainage projects to fight malaria employed 30,000 CWA workers, and 17,000 unemployed coal miners were employed sealing abandoned coal mines to protect ground-water supplies. Over 3700 playgrounds and 200 public swimming pools were constructed along with countless comfort stations, park benches and water fountains.

The CWA's white collar projects included education projects within existing schools that provided jobs for 50,000 laid-off teachers. Another 13,000 kept small rural schools open through the winter when normally they would have closed. Thirty-three thousand teachers were employed in adult education classes and in program-operated pre-schools. The adult classes served 800,000 learners and the pre-schools were attended by 60,700 children.

A nationwide child health study was staffed with 23,000 unemployed nurses, and 10,000 more were employed in a variety of other programs. The U.S. Coast and Geodetic Survey sponsored a triangulation and mapping project that employed 15,000 unemployed workers. An aerial mapping project charted hundreds of U.S. cities and employed another 10,000. The National Park Service and the Library of Congress undertook a survey of the nation's historic buildings that provided work for 1200 architects, draftsmen and photographers. Over 70,000 people were employed in pest-eradication campaigns, and a group of 94 Alaskan Indians were employed restocking the Kodiak Islands with snowshoe rabbits.

The Department of the Treasury sponsored a highly-regarded Public Works of Art Project which provided work for 3000 unemployed visual and performing artists. Actors staged dramatic works in hospitals, schools and libraries. Opera singers toured the Ozark mountain region. Program orchestras gave free concerts in major cities. The program also provided staffing assistance to public libraries and research assistance for scholarly projects. The Smithsonian Institution employed 1000 program workers at archeological excavations in 5 states. The Department of Commerce employed 11,000 program workers to conduct a census of real property in 60 cities. An Urban Tax Delinquency Survey documented the fiscal condition of 309 cities. And the program's own Statistical Division employed 35,000 program participants to collect and record data and documentation

concerning program operations, labor market conditions, and the nation's public relief problem.

Useful work can be found for jobs program participants. All it takes is a willingness to solicit and share good ideas, accompanied by a determination to overcome whatever barriers stand in the way of realizing those ideas. The latter spirit is exemplified by the efforts required simply to deliver pay checks to program participants. At the time the CWA was established, the federal government was writing an average of about 33 million paychecks a year. During the next four and a half months an additional 60 million were issued. To insure that the first batch of one million would be available on time, President Roosevelt ordered several federal agencies to suspend normal operations in order to provide the CWA what it needed. The U.S. Government Printing Office undertook its largest single order ever in delivering enough check-writing paper. The Bureau of Printing and Engraving scheduled triple shifts to print the checks which were then flown by the Postal Service's fledgling pilot corps (often through adverse weather) to local Veterans Administration offices – the agency designated to serve as the program's paymaster because it was the largest and most heavily automated federal disbursing system then in existence.¹¹ That is the kind of commitment and effort that made the CWA possible.

ISN'T THERE A DANGER THAT SUCH PROJECTS WOULD DEGENERATE INTO (OR BE PERCEIVED AS) "MAKE-WORK"?

Yes, this danger does exist. Indeed, no matter how valuable the goods and services produced by a direct job creation program, critics of the program would assail it as a boondoggle. The only way to counter attacks of this nature is to make sure the program doesn't deserve the criticism and to engage in equally concerted efforts to publicize the program's accomplishments.

Critics of direct job creation should be challenged to identify any other recovery strategy that provides a similarly expansive combination of benefits. First, it provides unemployed workers with jobs when they otherwise would have none. Second, it delivers a fiscal stimulus to the private sector that is at least as effective as other types of government spending in boosting private sector demand. Third, it provides the public with goods and services they otherwise would not receive. To criticize such a program as "make work" ignores both the multiple benefits it produces and the inability of other policies to match these benefits.

WHAT WAGES WOULD THE PROGRAM PAY – AND WHY?

My cost estimate is based on the assumption that program participants would be paid approximately the same wage that persons with similar qualifications and experience reasonably can expect to receive in the regular labor market. Unemployed school teachers would receive the same wage that school teachers with similar educational backgrounds, skills and experience receive when they are employed. Unemployed factory workers would receive the same wage that factory workers with similar educational backgrounds, skills and experience receive when they are employed. And high school drop-outs entering the labor market for the first time would receive the same wage that similarly qualified and experienced individuals receive when they are employed.

This does not mean that individual program participants would be guaranteed the same wage they enjoyed in their last job. They would be paid the prevailing wage for the positions they were offered based on their qualifications and experience. That wage could be higher or lower than the

wage they earned in their last job. The wages paid to managerial employees would be based on salary norms for public sector managers rather than private sector managers.

It is not essential that a direct job-creation program adopt this wage policy, but the equal pay for equal work principle argues in its favor, and it also would optimize the program's counter-cyclical effect. Where budget constraints are a limiting factor, reducing average hours of work generally is a better policy to pursue than reducing hourly rates of pay. The New Dealers had considerable experience with this issue, and that was the solution they generally adopted when called upon to spread job creation dollars farther.

WOULD THE PROGRAM PAY A “LIVING WAGE”?

Whether a jobs program that paid market wages could guarantee people what progressives refer to as a “living wage “ depends on the availability of employee benefits and wage supplements for those workers who need them. My cost estimate includes employer-provided health insurance, and I also assumed that the program would furnish child care services to its workforce. My assumption that program earnings would be treated like any other wage income for tax purposes means that low-income program participants would be eligible for the Earned Income Tax Credit (EITC) and SNAP benefits (formerly known as food stamps). I also assume that the program would help those members of its workforce who were eligible for these benefits apply for them. Add a Section VIII housing voucher or an equivalent housing subsidy to this package of publicly-funded wage supplements, and I believe program participants would be guaranteed the equivalent of a living wage.

Paying above-market wages might be morally satisfying, but it wouldn't guarantee a decent standard of living for all workers. Public benefits still would be needed to achieve that goal. It also would be hard to justify such a wage policy to workers employed in regular jobs. Why should they be paid less than similarly qualified workers in the jobs program? It's possible, of course, that their resentment would be channeled into efforts to win higher wages from their own employers, but it's also possible that their resentment would be directed at the program's workforce, undermining public support for the program itself.

A commitment to insure all workers a decent standard of living is inherently more desirable; and the easiest way to satisfy that commitment would be to guarantee all workers access to the public benefits they need to live in dignity — regardless of whether they are employed in the jobs program or a regular job. With the prospective inclusion of affordable health insurance in the set of public benefits to which workers have access, the most important remaining income gap they face involves access to affordable child care, affordable housing and paid sick leave. I noted above that a jobs program could satisfy the child care needs of all workers. The easiest way to guarantee access to affordable housing would be to turn the Section VIII housing voucher program (or its equivalent) into a legal entitlement. This would cost about \$50 billion a year. Finally, all workers could be guaranteed paid sick leave through appropriate amendments to the Family Medical Leave Act (FMLA) and the creation of an analogous public benefit for employees who are not covered by the act.

WHAT ARE THE IMPLICATIONS OF THE DIRECT JOB-CREATION STRATEGY FOR UNIONIZED WORKERS?

Unions are rightfully leery of job-creation programs because of fears they will be used to replace existing public and private sector workers with lower-paid jobs-program participants. These fears would not apply, however, to a direct job creation program designed along the lines described in this report. In fact, the effectiveness of the direct job-creation strategy described in this report depends on it being designed and implemented in a way that combats rather than facilitates the kind of worker substitution unions fear.

The purpose of the strategy advocated in this report is to add to total employment, not to substitute program jobs for other jobs. This means that project selection and program administration would have to be carried out in ways that would prevent the kind of worker substitution from which the CETA program suffered (see shaded box). It also means that close monitoring would be required to insure that program resources were used to supplement rather than replace private contracting expenditures by governments. The direct job-creation strategy described in this report is designed to provide more bang for the fiscal buck than other economic recovery strategies. In that way it will save the public money; but it is not designed to allow governments to reduce either regular public employment or private contracting. To allow program resources to be used for those purposes would undermine its effectiveness.

Both the direct and indirect job-creation effect of this strategy would add to government revenues while expanding aggregate demand. Regular employment in both the public and private sectors would grow. That's the recovery goal the strategy is designed to achieve, and it would benefit unionized workers as much as non-unionized workers.

It also is important to distinguish the the direct job-creation strategy advocated in this report from job-creation initiatives founded on the notion that joblessness is caused by a lack of marketable skills or initiative on the part of unemployed workers. Many employment programs try to combat joblessness by offering unemployed workers training and encouragement to seek work. While that strategy may be effective in helping individuals find employment, the strategy advocated in this report is based on the recognition that those individual successes will not reduce the level of unemployment unless the economy's job gap is shrunk at the same time. If you want everyone in a game of musical chairs to find a seat you have to add chairs to the circle. Offering special training and encouragement to players who fail to find a seat may help them compete more effectively when they play the game, but it will do nothing to reduce the number of people left standing at the end of a game. That's a function of the availability of chairs.

This also means there's no good reason why the jobs provided by a direct job-creation program should be inferior in any respect to regular public and private sector employment. Program employees should have the same rights and enjoy the same benefits as all other workers—including the right to unionize.

HOW DOES THE DIRECT JOB-CREATION STRATEGY ADVOCATED IN THIS REPORT COMPARE TO DIRECT JOB-CREATION INITIATIVES LIKE REP. GEORGE MILLER'S PROPOSED "LOCAL JOBS FOR AMERICA ACT" (111TH CONG. H.R. 4812) AND REP. JOHN CONYERS PROPOSED "21ST CENTURY FULL EMPLOYMENT AND TRAINING ACT" (111 CONG. H.R. 5204)?

The Miller bill would have appropriated approximately \$81 billion to preserve local public-sector jobs, approximately \$18 billion to support additional hiring by local community-based organizations in the not-for-profit sector, and \$500 million for additional on-the-job training slots in the private sector. Its principal focus, therefore, was to stem public sector job losses at the local level.

It makes good sense for the federal government to provide this kind of support to state and local governments during a recession, not just to save the jobs of public-sector employees, but to prevent their job losses from triggering further job losses in both the private and public sectors. However, as the CETA program illustrates (see shaded box), the effectiveness of job preservation or job creation measures of this type depends on the enforcement of anti-substitution and maintenance-of-effort requirements that are inherently difficult to enforce.

If this fiscal-substitution pitfall could be avoided, the direct and indirect job creation attributable to the Miller bill would be similar to those attributable to the direct job-creation strategy described in this report. On the other hand, relatively little of the Miller bill's immediate (direct) job-creation benefits would have gone to job losers in the private sector. One of the advantages of the strategy described in this report is that it would provide jobs equally for unemployed public and private sector workers. For this reason, the stimulus strategy embodied in the Miller bill would complement the strategy described in this report, but it's not the same thing.

The Conyers bill would use revenues from a new securities transfer tax to create a trust fund from which moneys would be released for direct job creation (2/3 of the released funds) and job training (1/3 of the released funds) if the nation's unemployment rate does not decline rapidly enough to meet certain targets specified in the bill. The job-training funds would pay for programs administered under the Workforce Investment Act of 1998. The job-creation funds would be made available to local governments for the purpose of funding direct job-creation initiatives by public or private entities that address community needs. Jobs funded with trust-fund money would be limited to individuals who had been unemployed for more than 6 months or who had been unemployed for at least 30 days and also satisfied a low-income test.

As with the Miller bill, the effectiveness of the Conyers bill in reducing overall levels of unemployment would depend on the degree to which fiscal substitution tendencies could be curbed. The Conyers bill includes anti-substitution language, but it also relies on the strategy employed in the late 1970s to reduce fiscal substitution in the CETA program (see shaded box). That is, it decreases the attractiveness of using program workers to perform functions normally performed by regular public employees by restricting program employment to disadvantaged workers who are less likely to have the requisite skills and experience required to perform those functions. This strategy did limit CETA's fiscal substitution problem, and it had the advantage of increasing employment opportunities for individuals who faced the greatest barriers to finding regular employment, but it also limited the program's political appeal and made it less suitable for use as a means of closing the economy's overall job gap—the goal of the proposal advanced in this report.

If the Miller bill is best understood as complementing the strategy advocated in this report, the Conyers bill is best understood as a truncated version of that strategy. The direct and indirect job creation effects of the Conyers bill would be similar in kind to those described in this report, but its immediate benefits—its direct job-creation effect—would reach only a segment of the unemployed population. If funds were scarce, limiting the program to those with the greatest need would make sense, but limiting the program in this way would only prolong the recession.

The reliance of both bills on local governments to administer the job-creation effort also highlights the advantages of the New Deal administrative model. Combining federal project administration with local project selection would make it easier to avoid fiscal substitution problems and allow the program to capitalize on the expertise of an agency dedicated to the task of running employment projects.

Technical Appendix

The reason a direct job-creation strategy can create jobs faster than other stimulus initiatives is because its multiplier effect is kicked off with a heavy dose of front-loaded, direct job creation. The reason the strategy can create more jobs than other stimulus initiatives is partly because its direct job creation effect is more powerful in and of itself than the indirect job creation effect of more conventional stimulus strategies, and partly because this direct job creation effect is supplemented by a conventional, multiplier-driven indirect job creation effect that is reasonably strong in its own right.

The way in which the direct and indirect job creation effects of the direct job-creation strategy interact is easiest to see if it is compared to the use of transfer payments to deliver a fiscal stimulus to the economy. The more complicated case of government purchases and contracted public works spending is addressed further on below.

The fiscal stimulus provided by increased spending on UI and SNAP benefits begins when the individuals who receive the benefits use them to purchase food and other consumption goods and services. By increasing aggregate demand, these purchases induce the businesses involved in the production and marketing of the goods and services in question to hire more workers and purchase more intermediate goods and services. This in turn leads to further rounds of spending as newly-hired workers (and workers whose hours of work have increased) spend their additional income, and as the businesses that benefited from the first ripple of increased demand add a ripple of their own by increasing their own hiring and their own purchases of intermediate goods and services. In this way, each round of spending induces another round of spending and, with it, another round of hiring.

Each of these ripple effects is smaller than the last, however, because not all of the money spent generating a ripple is respent. Some of the income people or businesses receive is used to pay taxes, reduce debt, or build up savings. The result is a finite multiplier effect, limited in both size and longevity.

The total multiplier effect of increased spending on UI or SNAP benefits is the summed effect on GDP of all these steadily diminishing rounds of spending. For example, the macroeconomic model that Blinder and Zandi used to estimate the effect of the federal government's overall anti-recessionary efforts since the fall of 2008 assumes that a dollar in additional deficit spending on UI added about \$1.61 to GDP, while a dollar of spending on SNAP benefits added about \$1.74 to GDP.¹²

The reason why the multiplier effect of spending on these two programs differs underscores the importance of respending in determining the size of the effect. The multiplier effect of increased spending on SNAP benefits is a bit larger than the multiplier effect of increased spending on UI benefits because SNAP recipients spend a larger percentage of their benefit income than do UI recipients. Consequently, the initial round of multiplier spending attributable to increased spending on SNAP benefits will be a little bit larger than the initial round of multiplier spending attributable to increased spending on UI benefits, and the result of that difference is that each subsequent

round of multiplier spending also will tend to be a bit larger on the SNAP side of the ledger.

Why do SNAP recipients spend a larger percentage of their benefit income? One reason is because SNAP benefits are tax free, whereas UI benefits are treated as taxable income (thereby reducing the effective amount of the benefit). Recipients of SNAP benefits also tend to be poorer than UI recipients and consequently have less room in their budgets for saving or debt payments than UI recipients. The fact that SNAP benefits are received in the form of a debit card balance that can be spent only on food also makes it harder for SNAP recipients to shift the extra income provided by their benefits to other uses that do not increase aggregate demand (such as paying off debt).

The role of tax payments in reducing the multiplier effect of increased government spending on UI benefits also explains why the net multiplier effect of increased government spending of a particular type is affected by how it is funded. If increased spending on SNAP benefits is funded by raising taxes, the multiplier effect of the SNAP spending will be counteracted to some degree by reduced spending by taxpayers. If the increased spending on SNAP benefits is funded by increased borrowing by the federal government, its net multiplier effect will not be diminished by reduced spending by someone else in the economy—at least not during a recession when a combination of depressed demand and Fed policy makes loanable funds available to the government without constraining anyone else’s ability to borrow.

The amount of job creation attributable to the net multiplier effect of government spending on UI and SNAP benefits depends on how much it adds to aggregate demand, and hence to aggregate output in the economy (GDP). A rough rule of thumb is that a 1 percent increase in GDP will add a million jobs to payroll employment a year or so hence.¹³ This means \$100 billion in additional deficit spending on UI and SNAP benefits, spread over two years and divided equally between the two programs, as modeled in Table 2 above, would generate an approximately 568,000 increase in payroll employment by the end of the second year ($\$25 \text{ billion per year} \times 1.61 + \$25 \text{ billion per year} \times 1.74 \approx \$84 \text{ billion} \approx .568\% \text{ of GDP} \approx 568,000 \text{ jobs}$)

But this peak-employment figure doesn’t tell us how many “job years” of employment would be created in either the short or long run. Based on the Congressional Budget Office’s analysis of the job creation effect of the ARRA,¹⁴ an increase in payroll employment of 568,000 jobs would create the approximate number of job-years of employment indicated in Table 2.

Now consider the job creation effect of spending \$100 billion over two years on a direct job creation program configured along the lines indicated in Table 3 above. Based on the annual cost estimate of \$46.4 billion per million jobs reported in Table 3, a 2-year fiscal stimulus of \$100 billion could create about 1,075,000 jobs lasting two years each.

But in addition to the 1,075,000 two-year jobs created directly in the jobs program itself, the multiplier effect of program spending would cause other jobs to be created indirectly in the regular labor-market. The best way to gauge the approximate size of that multiplier effect is to estimate how much of the \$100 billion program budget would be respent by program workers from their wages and by program administrators in purchases of supplies and capital goods for use in the program.

The indirect job creation effect reported in Table 3 assumes a multiplier of 1.29 for program expenditures on wages (based on the assumption that program workers would spend about the same

percentage of their after-tax wage income as UI recipients do of their pre-tax benefits), 1.5 for expenditure on health insurance benefits, 1.5 for purchases of supplies and capital goods for use in the program, and 0.0 for the program's payment of the employer's share of Social Security taxes for program employees. The weighted multiplier effect of overall program spending based on these partial multiplier effects would be 1.31. Based on this multiplier, jobs program expenditures totaling \$100 billion over two years would increase payroll employment outside the program by about 444,000 jobs by the end of the second year.

This is a smaller indirect job creation effect than the 568,000 increase in payroll employment that a similar level of spending would generate if it were spent on UI and SNAP benefits; but this somewhat smaller indirect job creation effect would be separate from and in addition to the much larger direct job creation effect achieved by the direct job creation strategy.

Comparing the direct job creation strategy to increased spending on UI and SNAP benefits highlights the different way in which direct and indirect job creation effects flow from stimulus spending. This distinction is less clear in the case of other types of stimulus spending, because they may include direct as well as indirect job creation effects, and both of these effects may occur in the private sector.

The most obvious example of direct job creation found in conventional stimulus initiatives is the use of private contractors to complete infrastructure projects. Direct or nearly-direct job creation also may occur when governments purchase goods and services from private contractors. Indeed, public works contracting is simply a special category of government purchase. Channeling stimulus money to state and local governments also may result in direct job creation, or at least in the preservation of jobs.

Although each of these examples of stimulus spending involve some direct or nearly-direct job creation, they also suffer from limitations that prevent them from achieving either the speed or level of job creation attainable via the operation of government-administered, direct job creation programs.

An important limitation of contracting arrangements with private sector firms is that it takes considerable time if it is done right (i.e., using a competitive bidding process). This time lag delays both the direct and the indirect job creation effect of work performed by the contractors. It was precisely for this reason that the Roosevelt Administration implemented its first large-scale direct job creation program in the late fall of 1933 (see shaded box). Another limitation of private contracting is that funded projects tend to be more capital intensive than those undertaken by a direct job creation program, a difference that reduces the job creation effect of the private contracting. Private contractors also have a tendency to give their existing work-force additional hours of work in preference to hiring new workers. Finally, it's hard to target the direct job creation effect of private contracting on particular communities or population groups because hiring decisions are made by the contractor.

The multiplier effect of public works spending and government purchases also is likely to be reduced compared to a similar level of spending devoted to a government-administered direct job creation program. This is because private firms and their employees tend to respond less of what they receive from the government than employees and administrators in a government-administered direct job creation program.

The job-saving effect of grants to state and local governments also tends to be limited in practice, though for different reasons. Public budgets are likely to be stressed across the board in a time of recession, so only a fraction of the stimulus money that state and local governments receive is typically spent keeping public employees on the payroll. Indeed, the history of the CETA program (see shaded box) shows that even federal budget allocations expressly reserved for additional job creation can be diverted to other purposes indirectly. This “fiscal substitution” tendency can be controlled, but doing so requires the development of detailed regulations and close monitoring of state and local government spending—something legislators too often overlook when authorizing funding of this sort. Finally, because laid-off private sector employees are likely to resent any special treatment accorded to public-sector employees, political support tends to be thin for the use of stimulus money to save public-sector jobs.

For these reasons, the direct-job creation effect of private contracting, government purchases of goods and services, and grants to state and local governments provides a poor substitute for the immediate job creation effect of a direct job-creation program.

1930'S: A SUCCESSFUL CASE STUDY FROM THE NEW-DEAL

The direct job-creation strategy was not conceived by economists. It was the brainchild of two social workers, Harry Hopkins and Aubrey Williams, the Director and Deputy Director of the New Deal agency created in the spring of 1933 to distribute federal dollars to shore up the states' public relief programs. Dissatisfied with the narrow range of reforms their agency was empowered to make in the nation's existing public relief system, Hopkins and Williams developed an alternative strategy over the summer and early fall of 1933.

In a conceptual memo to Hopkins, Williams wrote that “[r]elief as such should be abolished.” Instead, the unemployed should be offered real jobs paying good daily wages, doing useful work suited to their individual skills. In other words, instead of offering public relief to the unemployed, they should be offered quality employment of the sort normally associated with contracted public works. However, to minimize both the cost of this undertaking and the amount of time needed to launch it, the government should serve as its own contractor, and the projects undertaken should be both less elaborate and more labor-intensive than conventional public works.¹⁵

MIXED MOTIVES

As winter approached, the New Deal's conventional public works program (the Public Works Administration or PWA) had yet to stick a shovel in the ground, and Hopkins pitched his proposal to President Roosevelt. To Hopkins' surprise, Roosevelt accepted the idea on the spot, and a week later the Civil Works Administration (CWA) was formally established by executive order, with Hopkins at its head and a budget allocation of \$400 million diverted from the PWA.

Roosevelt's motives were different from Hopkins' and Williams'. They wanted to reform the nation's public relief system permanently and totally. Roosevelt wanted a temporary employment program to make up for the PWA's slow start, tide the unemployed over the winter, and “prime the pump” of business activity. Also concerned about growing political unrest among the unemployed, Roosevelt embraced Hopkins' proposal — but only as an emergency measure.

The CWA's lack of permanence, which Hopkins understood from the beginning, made what he and his staff accomplished all the more impressive. With an effective lifespan of just four months (mid December 1933 - early April 1934) the CWA remains the largest public employment program ever established in the United States. With a peak employment of 4.2 million out of a labor force of 51 million, the CWA provided employment to about 8 percent of the nation's work force during the winter of 1933-34. A program of similar relative size today would have to create 12.6 million jobs.

FROM CWA TO WPA

A more complete elaboration of the direct job-creation strategy followed the termination of the CWA. Two months later, in June 1934, Hopkins was named to a presidential “Committee on Economic Security” (CES) chaired by Secretary of Labor Frances Perkins. The following January, the committee handed the President a report that, although best remembered for proposing the establishment of Social Security, also called for a comprehensive, two-legged social welfare strategy

to address the major sources of economic insecurity that people endure in a market economy. The first leg of the proposed system would provide American workers with “Employment Assurance,” which the Committee characterized as the “first objective in a program of economic security.” Under the Committee’s proposal (which grew out of the plan that Hopkins and Williams had developed a year earlier), the Federal Government would do what it could to stimulate private employment, while, as a backup, promising “public employment for those able-bodied workers whom industry cannot employ at a given time.”¹⁶

The second leg of the social welfare system conceived by the CES was designed to provide income security for persons who were not expected to be self-supporting. This was the part of their proposal that included the establishment of the nation’s Social Security system.

President Roosevelt forwarded the Committee’s report to Congress with his endorsement, and Congress responded with a burst of new legislation. Still, budget concerns prevented the full implementation of the CES proposal. The publication of John Maynard Keynes’ *General Theory*, which explained how deficit spending could be used to combat recessions, was still a year in the future and several years away from being assimilated by the President’s economic advisors — so the legislation adopted by Congress was enacted against a backdrop of rising concern about government spending and the size of the federal budget deficit. (That, too, may ring a contemporary bell.) Instead of providing Employment Assurance to all workers, Roosevelt decided to adopt the more limited goal of providing jobs for unemployed workers who otherwise would qualify for public relief — i.e., those with demonstrated “need.” For this purpose, Congress established the Works Progress Administration (WPA), and Roosevelt appointed Harry Hopkins and Aubrey Williams to run it.

THE PERILS OF SUCCESS

During the balance of the 1930s, the WPA and other direct job creation programs provided work for an average of a third of the nation’s unemployed. As explained above, this strategy was pursued mainly for social welfare purposes, but the economy also benefited. This benefit was graphically demonstrated in 1937 when Roosevelt arguably made the most significant mistake of his Presidency. Following the advice of economic advisors who argued that it was time to balance the federal budget, employment in the WPA was cut by more than 25 percent and PWA expenditures were cut by more than 50 percent. The economy responded by plunging back into recession with unemployment jumping by a third in a few short months. The Federal Government responded by increasing its spending, and WPA employment subsequently reached its all-time peak of 3.2 million, but it wasn’t until 1940 that the unemployment rate fell once again to the level it had reached before Roosevelt’s disastrous decision to try to balance the federal budget before the economy had achieved a complete recovery.

If Roosevelt’s economic advisors had assimilated Keynes’ teaching more quickly, they not only could have avoided this mistake; they also might have realized that fully implementing the Employment Assurance strategy proposed by the CES would have constituted not only good social welfare policy but good economic policy as well. If they had followed that path, the Great Depression might have ended five years sooner. Unfortunately, the widespread support currently being expressed for reducing the federal budget deficit threatens to do the same kind of harm to our own currently fragile recovery that Roosevelt’s mistake did in 1937.

1970'S: LESSONS FROM A LESS SUCCESSFUL CASE STUDY (CETA)

The synergistic virtues of direct job creation as an anti-cyclical strategy that simultaneously serves important social welfare and fiscal policy functions has never been adequately appreciated. War-time spending during the early 1940s showed that a large enough fiscal stimulus could generate a quick economic recovery regardless of how the money was spent, and this encouraged the misperception that it doesn't really matter (at least not very much) how a fiscal stimulus is spent. This was Keynes' own view, embodied in his famous quip that the policies he advocated could be implemented just as well by burying pound notes in empty bottles at the bottom of abandoned mines and inviting private sector business firms to dig them up.¹⁷

Given the prevalence of this misperception, it is not surprising that public employment has mainly been used for job-training purposes among disadvantaged population groups rather than as an anti-cyclical strategy. The only time subsequent to the New Deal that the direct job-creation strategy was used on a significant scale to combat cyclical unemployment was during the recession of 1974-75; and the only reason the policy was adopted then was because that recession was accompanied by high levels of inflation (remember "stagflation" and the "misery index"?). Economists feared that a large dose of deficit spending would aggravate inflationary tendencies then present in the economy. Using direct job creation to expand employment was perceived as less inflationary, a view that carried the day in Congress after it was endorsed by the Chairman of the Fed, Arthur F. Burns.¹⁸

But why is direct job creation less inflationary than conventional deficit spending? The principle reason is because it costs less to create a given number of jobs directly than by increasing aggregate demand via increased deficit spending. This allows a government to achieve a targeted increase in employment during a recession without as much deficit spending.

Congress adopted the New Deal's direct job creation strategy in Title II of the Comprehensive Employment and Training Act of 1974 (CETA). Unfortunately, this job creation initiative was hobbled by a serious design flaw. Unlike New Deal direct job creation programs which were administered directly by the Federal Government, Congress decided to delegate authority to run CETA's Public Service Employment (PSE) program to state and local governments. The result was that in many cases, and perhaps most, PSE funding was used during the recession of 1974-75 to pay for jobs that state and local governments would have continued to fund out of local tax revenues in the absence of the program. Because of this "fiscal substitution" tendency, the PSE program's net job creation effect was greatly reduced, virtually to zero by some estimates.¹⁹ In other words, rather than a job creation program, the PSE component of CETA functioned in practice during the recession of 1974-75 as a revenue sharing program that delivered a small fiscal stimulus to the economy by allowing states and local governments to maintain services and employment levels at a time when declining tax revenues otherwise might have led to cutbacks.

The PSE component of CETA survived until the end of the 1970s, but only because its mission was changed following the end of the recession. Instead of providing jobs for cyclically unemployed workers, it was transformed into an employment program for severely disadvantaged workers. Program wages were reduced, time-limits on program employment were imposed, and enrollment was limited to individuals who had suffered long-term unemployment and lived in poverty-level households. The program functioned quite successfully in this form, providing jobs

for an average of almost 700,000 disadvantaged workers a year in 1978 and 1979,²⁰ but the elimination of fiscal substitution opportunities and the challenges involved in administering the program in its new form reduced CETA's popularity among local government officials, and the program was terminated following Ronald Reagan's election to the Presidency in 1980.

The New Dealers anticipated the fiscal substitution problem and designed their direct job creation programs to avoid it. Most of the projects undertaken by the New Deal programs were proposed and sponsored by local governments, but proposals were vetted to ensure that program participants did not replace regular public employees, and all hiring and project administration was performed by the federal government itself in order to avoid fiscal substitution and other abuses (political patronage, kickbacks, etc.). This doesn't mean that the only way fiscal substitution can be avoided in a direct job creation program is to have the federal government administer it, but if program administration is delegated to state and local governments, strict regulations are needed to avoid the problem.

Endnotes

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3. For citations to this literature, see Philip Harvey, "Combating Joblessness: An Analysis of the Principal Strategies that Have Influenced the Development of American Employment and Social Welfare Law During the 20th Century" *Berkeley Journal of Employment and Labor Law*, 21: 675, 677-78 (2000).
4. Blinder and Zandi, *op. cit.*, p. 16, Table 11.
5. Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 9, 2009.
6. Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2010- through March 2010 (May 2010), p. 6-7, Table 2.
7. Blinder and Zandi, *op. cit.*, p. 16, Table 11. Compare Congressional Budget Office, *op. cit.*, p. 6-7, Table 2.
8. For a more detailed discussion of the additional revenue and savings a direct job creation program of the sort described here would generate, see Philip Harvey, *Securing the Right to Employment* (Princeton U. Press, 1989), pp. 45-50; Philip Harvey, "Paying for Full Employment: A Hard-Nosed Look at Finances," *Social Policy*, Spring 1995, pp. 21-___.
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13. Romer and Bernstein, *op. cit.*, p. 3.
14. Congressional Budget Office, *op. cit.*, p. 2, Table 1.
15. *Ibid.*, p. 36.
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