

BACK TO WORK: A PUBLIC JOBS PROPOSAL FOR ECONOMIC RECOVERY

PHILIP HARVEY

RATIONALE

Today there are almost 29 million people in the United States for whom the economy has failed to perform its most important function: providing enough jobs to go around. This reality is dimming the lights on the American Dream. It threatens to steal from an entire generation the dignity that comes from a hard day's work. Our political leaders have effectively accepted this situation, turning from the moderate job creation strategies of 2009-2010 to an austerity agenda that will cost as many as 1 million more jobs.¹

Meanwhile, the corporate sector has largely recovered from the recession—with profits at an all-time record of \$1.659 trillion in the third quarter of 2010.² The private sector is currently cash-rich, yet all indications are that businesses are still reluctant to begin hiring or investing in major capital improvements. Nearly a year and half past the official end of the Great Recession, it's clear that the private sector is not going to provide jobs for everyone who needs them and wants to work.

The scale of the jobs crisis is large: Almost 14 million active job seekers remain unemployed. Another 6.6 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, 8.4 million are employed part-time but want full-time jobs. The jobless are not a perfect mirror of our society—the toll is much greater among less educated workers and communities of color.

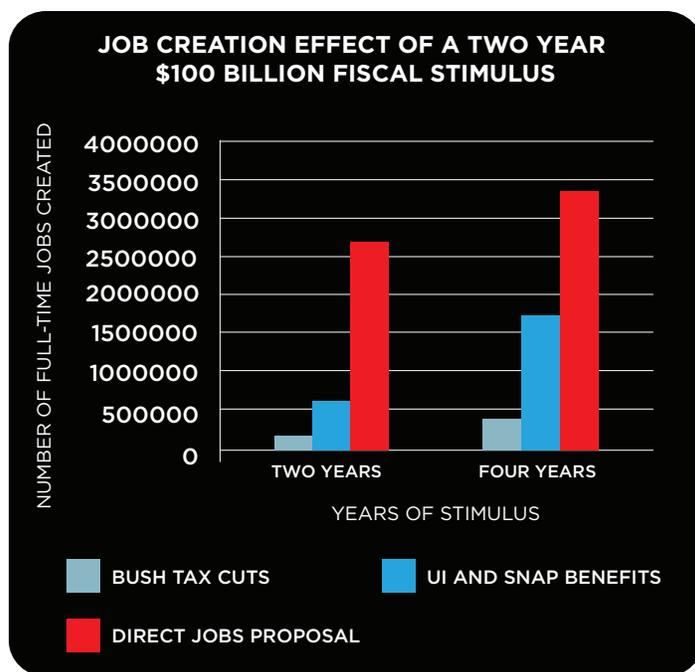
In order to return unemployment to 4.5 percent and restore consumer demand, approximately 8.2 million additional jobs must be created. At the pace of current job creation, it would take at least 20 years to reach full employment.³ The toll joblessness has had already on communities and families has been severe. We can no longer afford to wait idly for recovery to happen. Instead, we must fuel a recovery by putting America back to work.

Our **direct public jobs proposal** is conceptually simple: the public sector can directly create jobs quickly, serve vital community needs and target those hurt most in this economy. The benefits are multiple. Americans without jobs get meaningful work until a true recovery takes place, and communities get urgent and long-ignored needs met. Our nation ensures that the talents and skills of our workers do not atrophy, and our families and communities recover from the deepest recession since the Great Depression.

THE ADVANTAGES OF DIRECT PUBLIC JOBS

1. It's Cost-Effective

A comparison of three different stimulus approaches illustrates the power of the direct job-creation strategy. The two stimulus methods most recently enacted were tax cuts and extended benefits programs like unemployment insurance and food stamps. \$100 billion spent on tax cuts would indirectly generate 136,000 full time jobs within two years, while \$100 billion spent on benefits would indirectly generate 714,000.



The third option -- \$100 billion spent to directly hire Americans workers -- would create 2.6 million full-time jobs over two years: 2.1 million directly and an additional half million indirectly.

It is important to note that the failure to provide jobs for people who want them isn't cheap either. The Great Recession was responsible for nearly two-thirds of the 2009 deficit.⁴ Accordingly, aggressive action to lower unemployment will be the most effective, fair and sustainable way to close the

deficit: for every million unemployed Americans who goes back to work, the deficit falls by \$54 billion.⁵

2. It Puts Americans Back to Work *Now*

Public jobs have “time value” because they are jobs created immediately. Tax cuts, benefits payments and other indirect stimulus approaches do not start “working” on job creation immediately; they require the recipients to spend the money at their discretion, which eventually aggregates to increase overall demand in the economy. This in turn results in businesses hiring workers in order to meet the increased demand. Economists often use the term “time value” with regards to money to explain why people are willing to pay interest to borrow it. 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 two years later. By then, a house may have been lost. A marriage may have failed. A child may have been traumatized in ways that will resonate throughout his or her life.

3. It's Targeted to Those Who Need Jobs Most

The undeserved pain of this economic crisis has not been felt evenly. While the jobless rate in our nation's capital was 9.6 percent in December 2010, it was twice as high in Hancock County, Georgia and three times as high in Imperial County, California.⁶ Young workers, workers without a college degree and workers of color at all education levels are considerably more likely to be unemployed than the average American.⁷ Unemployment in the financial industry is only 7.5 percent, but is over 22 percent in construction.⁸ There are roughly four million "99ers" collecting whose job search has outlasted their unemployment insurance⁹ —which doesn't even capture the at least 56 percent of workers who don't qualify for unemployment.¹⁰

Indirect stimulus measures such as tax cuts and benefits payments do not guarantee that the jobs will be created in the communities, sectors and populations hardest-hit by the recession. The **strategy** can be designed to target these job-seekers, reducing inequality and blunting the most extreme suffering felt in our nation.

Eligibility requirements could consider the length of time a person has been unemployed and their financial need for work, to ensure that those who are hurt most by private sector job losses are the first to benefit from the program. The program could also be designed to recruit workers with skills from sectors with high job losses, such as construction and manufacturing.

4. It Meets Vital National and Community Needs

The proposal is designed to create jobs that fill unmet needs in the job-seekers' own communities. These unmet needs include weaknesses in our human and physical infrastructure. For example, U.S. ranks 27th—nearly last—among developed countries when it comes to investments in education, health care and other vital social needs¹¹, and 46 states have recently cut back on social services funding due to budget shortfalls.¹² Putting Americans directly to work in areas such as health care, child care, education, recreation, elder care, and cultural enrichment could expand and improve the quality of these vital public services.

Our physical infrastructure is also unworthy of our nation. One out of every three U.S. roads is in poor or mediocre condition.¹³ At least 26,000 schools are in need of major repairs.¹⁴ Direct public job creation would help rebuild America's infrastructure -- an economic investment in and of itself -- with improvements to schools, roads, bridges, and energy efficiency in buildings and homes nationwide.

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.

WHAT WOULD A DIRECT PUBLIC JOB STRATEGY LOOK LIKE?

Direct job creation isn't a new idea to the United States. A direct jobs program was first enacted by President Roosevelt in late 1933 to counter the record unemployment levels of the Great Depression, prime the pump of business and tame growing political unrest. A modern direct job-creation program faces new challenges, but could include the following characteristics:

- **Direct Administration.** A variety of administrative structures are possible and mutually compatible, but projects would generally be undertaken by the federal government and agencies in partnership with local governments. Precautions would be required to prevent local officials from using the program to replace public employees with federally-funded program workers. Contracting with non-profit organizations would also be possible.
- **Reasonable Pay and Benefits.** The jobs would ideally pay approximately the same wage that persons with similar qualifications and experience earn in the regular labor market. It would also provide employer-provided health insurance, child care services, guaranteed paid sick leave, and access to the Earned Income Tax Credit and SNAP for low earners.

HOW CAN WE AFFORD DIRECT JOB CREATION?

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. The damage widespread unemployment is inflicting on the federal budget demands the question: how can we afford to not put Americans back to work? In fact, because direct job creation would make more Americans taxpayers again, the *net* cost of the a \$46.4 billion **proposal** would be \$17.8 billion lower than the initial outlay.

The cost to produce the 8.2 million jobs needed to put Americans back to work would be \$235 billion. 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. 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 would also increase

**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.		

employment outside the program by an additional 3.1 million jobs. 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 at a net cost of \$147 billion.

CONCLUSION

Every day that it drags on, the jobless recovery is violating core American values of hard work, family economic security and greater opportunity for the next generation. It doesn't have to be this way. The near-record corporate profits, obscenely juxtaposed against near-record unemployment and wage inequality demonstrate that we simply can not wait for the private sector to put our fellow Americans back to work. A true American economic recovery must start with jobs. Direct public job-creation offers a pragmatic, cost-effective and morally urgent solution to the greatest problem of our time.

ENDNOTES

1. Rebecca Theiss, “*Republican proposal to “right our fiscal ship” throws more workers overboard*” Economic Policy Institute, February 9, 2011, accessed on February 28, 2011 at http://www.epi.org/analysis_and_opinion/entry/6756/.
2. Catherine Rampell, “Corporate Profits Were Highest on Record Last Quarter,” the New York Times, November 23, 2010, accessed on February 28, 2011 at <http://www.nytimes.com/2010/11/24/business/economy/24econ.html?adxnnl=1&adxnnlx=1298664083-QpJm6uSGwDYama5cBIFotw>.
3. Heidi Shierholz “Job growth improves, but pace leaves full employment 20 years away,” Economic Policy Institute, November 5, 2011, accessed on February 28, 2011 at http://www.epi.org/publications/entry/job_growth_improves_but_pace_leaves_full_employment_20_years_away.
4. Kathy A. Ruffing and James R. Horney, “Critics Still Wrong on What’s Driving Deficits in Coming Years,” Center on Budget and Policy Priorities, June 28, 2010, accessed on February 28, 2011 at <http://www.cbpp.org/files/12-16-09bud.pdf>.
5. Office of Management and Budget, “The Budget for Fiscal Year 2009: Historical Tables” <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2009/pdf/hist.pdf>.
6. Bureau of Labor Statistics, **Local Area Unemployment Statistics, December 2010, accessed on February 28, 2011 at <http://www.bls.gov/lau/>**.
7. Bureau of Labor Statistics, “Current Population Survey” accessed on February 28, 2011 at <http://www.bls.gov/cps/>.
8. Bureau of Labor Statistics, “Industries at a Glance” accessed on February 28, 2011 at http://www.bls.gov/iag/tgs/iag_index_naics.htm.
9. Council of Economic Advisors, Executive Office of the President, “The Economic Impact of Recent Temporary Unemployment Insurance Extensions,” December 2, 2010, accessed on February 28, 2011 at <http://www.whitehouse.gov/sites/default/files/microsites/20101202-cea-economic-impact-temp-ui-extensions.pdf>.
10. Nightly Business Report, “Majority of Unemployed Don’t Get Unemployment Insurance,” PBS, August 20, 2009, accessed on February 28, 2011 at http://www.pbs.org/nbr/blog/2009/08/majority_of_unemployed_cant_ge.html.
11. Organisation for Economic Cooperation and Development, Social Expenditure Database, accessed on February 28, 2011 at http://www.oecd.org/document/9/0,3343,en_2649_34637_38141385_1_1_1_1,00.html.
12. Nicholas Johnson, Phil Oliff and Erica Williams, “An Update on State Budget Cuts,” Center for Budget and Policy Priorities, February 9, 2011, accessed on February 28, 2011 at <http://www.cbpp.org/cms/index.cfm?fa=view&id=1214>.
13. Report Card for America’s Infrastructure, “Roads,” accessed on February 28, 2011 at <http://www.infrastructurereportcard.org/fact-sheet/roads>.
14. Rebuild America’s Schools, “Schools in Need,” accessed on February 28, 2011 at <http://www.rebuildamericasschools.org/Need.html>.

ABOUT DĚMOS

D ěmos is a non-partisan public policy research and advocacy organization. Headquartered in New York City, Děmos 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. Děmos was founded in 2000.

In 2010, Děmos entered into a publishing partnership with The American Prospect, one of the nation's premier magazines focussing on policy analysis, investigative journalism, and forward-looking solutions for the nation's greatest challenges.

ABOUT PHILLIP HARVEY

Professor Harvey received his B.A. degree from Yale University, his Ph.D. in economics from the New School for Social Research, and his J.D. from Yale Law School. After clerking for the Honorable Robert L. Carter in the Southern District of New York, he worked as a Litigation Associate specializing in employment disputes at the New York law firm of Debevoise and Plimpton. He also has been a Visiting Scholar at the Russell Sage Foundation, a Visiting Professor of Law and Economics at the Yale School of Organization and Management, and was the first Joanne Woodward Professor of Public Policy at Sarah Lawrence College. Professor Harvey's research focuses on public policy options for securing economic and social human rights, with a particular emphasis on the right to work. He teaches Contracts, Labor and Employment Law, Law & Economics, and Social Welfare Law and Policy.