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Abstract: This article evaluates the strategies of guaranteeing unconditional basic income against those of guaranteeing employment. It is argued that, moral justifications notwithstanding, an open-ended implementation of these universal guarantees does not stand a chance without a clear grasp of their macroeconomic effects and institutional aspects. Drawing on the tax-driven approach to money (also known as 'modern money') the paper explains that government funding for either proposal is not 'operationally' constrained. Financing, however, is important as it produces disparate economic outcomes, depending on the program design of the universal guarantee. A modern money critique of the basic income proposal reveals that, in a monetary production economy, the unconditional supply of the monetary unit is inherently inflationary. By contrast, job guarantees can provide an important safety net by simultaneously stabilizing prices. Additionally, job guarantees offer an institutional vehicle for achieving other social goals that are important to all advocates of universal assurances. The paper offers further points of comparison and concludes that, to provide for all members of society, a joint policy option is necessary. Thus, the broad contours of what such a policy might look like are herein advanced.

1 Introduction

As modern economic systems continue to leave many members of society behind, support grows for policies that guarantee a just standard of living to all. The two specific proposals discussed here are those aiming to secure unconditional basic income for all and those aiming to guarantee employment. Both proposals are motivated by compelling visions of social justice and, although there is heated debate over the effectiveness of each, they share some important common ground. First, both policies envision an open-ended commitment to universal government assurances, which are not means-tested. Second, both share many similar and highly-desirable social and economic objectives. For example, they aspire to bring viable alternatives to the inadequate modern welfare policies, as well as to the failing, and often exploitative, labor market mechanisms. In addition, the proposals aim to enhance individual freedom, economic opportunity, advanced citizenship, and social inclusion. They also target similar specific outcomes such as poverty eradication, human capital enhancement, community revitalization, and environmental renewal.

But how all of this can be accomplished is vigorously contested. There are multiple sources of the disagreement. Basic income supporters object to job guarantees on the grounds that modern economies are moving towards increasingly precarious labor markets and thus jobs cannot be the answer to a better life (Aronowitz and DiFazio 1994). Furthermore, it is argued that any just policy must enhance *real freedom*, which ultimately allows individuals to determine their own destiny and choose their own pursuits. Real freedom then requires that all people have equal access to endowments, *without* the coercion to work for income (Van Parijs 1995). A just system, in other words, cannot force some people to work for income, while others have access to all necessary resources, yet remain exempt from employment due to inheritance, for example. Consequently, real freedom also means the power to say 'no' to demeaning, coercive or simply compulsory labor (Widerquist 2004). There are many other reasons why basic income supporters consider capitalism to be inherently unjust, but the dependency on work for income is critical. Thus, the core objective of the basic income policy is to sever the link between the two.

By contrast, job guarantee supporters argue that basic income advocates have misconstrued the problem of income insecurity (Harvey 2003, Mitchell and Watts 2004). A well-structured guaranteed employment that offers opportunities for meaningful work at a living wage unavoidably counters the precariousness of the labor market, by eliminating unemployment, drastically reducing poverty, and enhancing the individual freedom to say 'no' to bad jobs. In other words, many of the observed labor market problems stem from insufficient availability *and* quality of jobs. Only after the right to work has been secured for all, can we adequately evaluate the failures of market and welfare policies (Harvey 2003).

The other set of objections from the job guarantee camp concerns the economic viability of basic income proposals. The main charge is that basic incomes are inherently inflationary with potentially disastrous consequences for the currency (Mitchell and Watts 2004, Tcherneva and Wray 2005a). The present article elaborates on this last objection to stress the crucially important context of modern finance.

The argument proceeds as follows. The first section draws on the literature of tax-driven money to dispel flawed notions of public finance, which underpin most basic income proposals. The next section argues that, because basic income supporters misunderstand the nature of sovereign financing, they are not cognizant of the destabilizing potential of their proposals. Specifically, it explains the inherent inflationary character of the basic income guarantee and the possibility for setting off stagflation. By contrast, the job guarantee proposal advanced here provides the mechanism for stabilizing the currency, prices, and the business cycle.

After drawing out the macro-implications of each policy, the paper proceeds with additional comparisons of the two, stressing certain advantageous institutional characteristics of the job guarantee, conspicuously missing from the basic income proposal. Since it is a shared goal to provide a decent standard of living to all (and not just to the economically active population), the paper concludes with a joint policy proposal, which is economically feasible and environmentally friendly. The discussion suggests some of the features of such a policy, which can foster individual freedom, enhance human capital and provide opportunities for meaningful pursuits benefiting both the individual and the community.

2 Can we pay for basic income or job guarantees?

False notions of public finance are perhaps the single most important obstacle to implementing important government policies. Similarly, universal job or income guarantees are not likely to yield the necessary support, unless we dispel misconceptions about the effects of modern government spending.

Before explaining the principles of modern finance, it is important to identify the type of income and job guarantees that will be examined here. The basic income guarantees (BIG) of interest are those which supply a universal payment to each citizen, irrespective of gender, marital status or market participation.[1] Secondly, the income support is at a level sufficient to purchase the basic necessary standard of living.[2]

The job guarantee program discussed here is one where the government offers a job to anyone who is ready, willing and able to work but who has not found adequate private sector employment. It provides a living wage and decent working conditions. The program is essentially the same as most proposals for public service employment (PSE), buffer stock employment (BSE), and the government as the employer of last resort (ELR).[3]

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[1] Partial basic income guarantees and the negative income tax (NIT) are two similar income guarantee proposals. The former is unconditionally provided to everyone but insufficient to purchase the minimum necessary standard of living. The latter ensures that individuals' incomes do not fall below a certain tax threshold, and if they do, people receive a negative tax to bring them up to the minimum basic income that was promised. The NIT, however, is contingent on labor market participation—a condition that most basic income supporters want to eradicate. Thus these two proposals will not be discussed here.

[2] A full basic income will be set at least at the subsistence level (Van Parijs 1992: p. 237n27) or at the official poverty line (Clark 2004). For Van Parijs, however, maximization of individual opportunities and freedom requires that it is set at the *highest sustainable* level (Van Parijs 1992, 1995, 2004).

[3] History offers an abundance of direct job creation programs. However, most have been limited in duration and subject to punitive means-tests – two features which job guarantee supporters strongly oppose. The 'green jobs' proposal advanced by Forstater in the inaugural issue of the *International Journal of*

There has been much discussion about the costs of these universal guarantees.[4] Lending support to a certain program based on the size of its costs, however, diverts attention from the important aspects of public finance. This section demonstrates, as Wray 1998 and Mitchell and Watts 1997 have emphasized, that any government with sovereign control over its own currency can afford to pay for its program of choice, no matter how 'expensive' it is. Although the ideology of the 'tax-payer's money' is entrenched in all contemporary discourse, it is crucial to dispel its false premises, to understand adequately the nature of the universal guarantees. This is the purpose of this section.

I will not discuss in detail the modern money approach; instead, I will isolate the key ideas behind the tax-driven nature of money to make three points. First, governments with sovereign control over their currency face no technical constraints to financing either a basic income or a job guarantee. Second, sovereign governments can set the terms of exchange of their currencies and, therefore, determine their value. And, third, unemployment is a monetary phenomenon which can be effectively addressed by embracing the principles of modern finance.[5]

2.1 Sovereign currency control

There is no great mystery behind government spending and taxation, but to fully grasp the logic of sovereign financing, one must make the analytic distinction between the government and non-government sectors. For the private sector, spending is indeed restricted by its capacity to earn revenue or to borrow, but this is not the case for the public sector, which 'finances' its expenditures in its own money. This is a reflection of the single supplier (or currency monopoly) status of the latter. Modern money is tax-driven money; the purpose of taxation, however, is not to 'finance' state spending, as it is commonly believed. This is because for modern sovereign governments, such as in the United States, United Kingdom or Japan, the currency (the dollar, pound, and yen, respectively) is not a limited resource of the government (Mosler 1997-98: p. 169). Taxation today functions to create demand for otherwise unbacked state currencies so that the money-issuing authority can purchase requisite goods and services from the private sector. Taxation is, in a sense, a vehicle for moving resources from the private to the public domain.[6]

Environment, Workplace and Employment, is one example of the public service employment policies advocated here. See also Harvey 1989, Mitchell 1998, and Wray 1998.

[4] See, for example, debates between Clark (2003) and Harvey (2003).

[5] The modern money approach is also known as chartalism, neochartalism, tax-driven money, or money as a creature of the state. It is most closely associated with the writings of George. F. Knapp ([1924] 1973) and Abba. P. Lerner (1947), but finds support in much of the economic literature from Adam Smith to J.M. Keynes. (For chartal notions in the history of thought, see Forstater 2006.) Modern contributions to this body of work include Mosler (1997-98), Wray 1998, and Goodhart 1998, among others.

[6] This means that government spending in sovereign currency systems is not limited by the ability of the state to 'raise' revenue. Rather spending in currency can be seen as supplying tax credits to the population, which faces, in the example of the U.S., a dollar-denominated tax liability. Thus, government spending provides to the population that which is necessary to pay taxes (dollars). The government need not collect taxes in order to spend; rather it is the private sector, which must earn dollars to settle its tax liability. The consolidated government (including the Treasury and the Central Bank) is never revenue constrained in its own currency. It has also been demonstrated that bonds do not 'finance' government spending either. Bond

If the purpose of taxation is to create demand for state money, then logically and operationally, tax collections cannot occur before the government has provided that which it demands for payment of taxes. In other words, spending comes *first* and taxation follows *later*. Another way of seeing this causality is to say that government spending 'finances' private sector 'tax payments' and not vice versa.

Thus, the three important insights of the tax-driven nature of money are:

- Sovereign governments have a public monopoly over the domestic currency.
- Government spending precedes taxation. Spending always creates new money while taxation always destroys it; therefore, *taxes are never stockpiled and cannot be re-spent in order to 'finance' future expenditures.*
- Any budget balance is an ex-post accounting result as spending and taxation are two independent operations. Whether a policy is 'budget-neutral' is entirely irrelevant, because budget-neutrality aims to gauge this ex-post accounting outcome and gives no knowledge of the economic consequences of that policy.

The tax-driven nature of money reveals the consequences of universal guarantee policies for the value of the domestic currency. While governments are not operationally constrained, it is still important which programs they choose to finance. Furthermore, as sole suppliers of the currency, they also have the responsibility for maintaining its value, and certain policies are better suited to do that than others.

2.2 The value of the currency

Since taxes create demand for government money, they also impart value to it. Innes stressed that: 'A dollar of money is a dollar, not because of the material of which it is made, but because of the dollar of tax which is imposed to redeem it' (1914: p. 165). He also argued that 'the more government money there is in circulation, the poorer we are' (ibid.: p. 161). In other words, if government money in circulation far exceeds the total tax liability, the value of the currency will fall. So it is not only the *requirement* to pay taxes, but also the *difficulty* of obtaining that which is necessary for payment of taxes, that give money its value.[7]

This important relationship between leakages and injections of high-powered money (HPM), however, is difficult to gauge. Since the currency is a public monopoly, the government has a direct method at its disposal of determining its value. For Knapp, payments with state fiat measure a certain number of units of value (1973 [1924]: pp. 7-8). For example, if the state required that, to obtain 1 unit of HPM, a person must supply

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sales maintain the target interest rate by draining excess reserves of high-powered money (HPM), which have been created through government spending (for details, see Wray 1998, Mosler 1997-98, Bell 2000).

[7] For example in discussing the experience of the American colonies with inconvertible paper money, Smith recognized that excessive issue relative to taxation was the key to why some currencies maintained their value while others did not (for details see Wray [1998: pp. 21-22]). Wray explains: 'it is the acceptance of the paper money in payment of taxes and the restriction of the issue in relation to the total tax liability that gives value to the paper money' (1998: p. 23).

1 hour of labor, then money will be worth exactly that – one hour of labor (Wray 2003: p. 104). As a monopoly issuer of the currency, the state can determine what money will be worth by setting 'unilaterally the terms of exchange that it will offer to those seeking its currency' (Forstater and Mosler 1999: p. 174).[8]

What this means is that the state has the power to exogenously set the price at which it will provide HPM, i.e., the price at which it buys assets, goods and services from the private sector. While it is hardly desirable to set the prices of all goods and services it purchases, it nonetheless has this prerogative. As it will be discussed later, through the job guarantee, the money monopolist need only set *one* price to anchor the value of its currency. By contrast, the basic income guarantee does not set *any* terms of exchange for the sovereign currency; instead it provides it unconditionally.

2.3 Unemployment: a monetary phenomenon

The last point to make in this section is that unemployment is a monetary phenomenon. This has been well-demonstrated by Keynes in the *General Theory*, but the tax-driven approach to money sheds new light on what Keynes meant by 'money is a bottomless sink of purchasing power…[and] there is no value for it at which demand [for it] is diverted … into a demand for other things.' (Keynes 1964 [1936]: p. 231).

Government deficit spending necessarily results in increased private sector holdings of net financial assets. If the non-government sector chronically desires to save more than it invests, the result will be a widening demand gap (Wray 1998: p. 83). This demand gap cannot be filled by other private sector agents, because in order for some people to increase their net savings, others must decrease theirs. In the aggregate, an increase in the desire to net save can only be accommodated by an increase in government deficit spending. Mosler explains:

> Unemployment occurs when, in aggregate, the private sector wants to work and earn the monetary unit of account, but does not want to spend all it would earn (if fully employed) on the current products of industry… Involuntary unemployment is evidence that the desired holding of net financial assets of the private sector exceeds the actual [net savings] allowed by government fiscal policy. (Mosler 1997-98: pp. 176-177)

Similarly, Wray concludes that 'unemployment is *de facto* evidence that the government's deficit is too low to provide the level of net savings desired'. In a sense, unemployment keeps the value of the currency, because it is a reflection of a position where the 'government has kept the supply of fiat money too scarce' (1998: p. 84). While traditional economists argue that we must force slack on the economy in order to maintain the purchasing power of the currency, as this paper will explain, well-designed full employment government policies can do the job.

To sum up, sovereign governments are not operationally constrained in funding public programs. And as the money monopolists, they also have the responsibility of maintaining the value of the currency. Because presently, they do not set the terms of exchange for the currency, they use unemployment to maintain its purchasing power. Unemployment is a monetary phenomenon and a reflection of keeping the currency too

[8] Wray notes: 'If the state simply handed HPM on request, its value would be close to zero as anyone could meet her tax liability simply by requesting HPM' (2003: p. 104).

scarce. With this in mind we can evaluate the economic impact of implementing basic income and job guarantees.

3 Macroeconomic effects of the basic income guarantee

A focal point of the basic income proposal is its budget-neutral stance (Atkinson 1995, Van Parijs 2004). Such analysis presumably stems from efforts to quash neo-liberal objections to government deficit spending (Mitchell and Watts 2004: p. 8). This section argues that preoccupation with budget-neutrality is wrong-headed for two reasons. First, it obfuscates the inflationary nature of BIG by relying on conventional notions of public finance. Second, because taxes are largely endogenous, attempts to 'raise' sufficient tax revenue to counterbalance the increased spending on BIG is likely to be self-defeating with perverse macroeconomic effects.

3.1 The inflationary nature of the basic income guarantee

As the tax-driven approach to money makes clear, taxes impart value to the currency by creating demand for it. Additionally, currency's value is determined by what is required to obtain it. In the case of BIG, there is no such requirement, as income payments are disbursed universally and unconditionally. If a program is instituted whereby the population can obtain freely the unit, which fulfills the tax obligation, the value of the currency will deteriorate sharply. While this may not happen overnight and may take months or years to occur, the value of an unconditionally provided currency will ultimately tend to zero. It must be stressed that the basic income guarantee is not inflationary because it is financed by 'fiat' money, but because the currency is essentially provided for 'free' (Tcherneva and Wray 2005a). Some would object that governments today supply 'free currency' through programs such as unemployment insurance or social security, which do not require anything in exchange. Do those programs similarly devalue the currency? The answer is 'no,' because these programs are limited by the number of the elderly or the unemployed, and therefore currency is not promised on demand to everyone. In other words, in the presence of a tax requirement, at the margin, there are still people who need to work (or sell goods and services to the government) to obtain the unit which settles the tax liability. If everyone had the option of requesting and receiving social security or unemployment insurance on demand, these programs will clearly devalue the currency the same way basic income does. In the case of BIG, at the margin, no one needs to work to get that which is required to pay taxes.

If we institute a basic income of $20,000 today, it does not mean that everyone will suddenly stop working for money; but the logical conclusion of the tax imperative behind money is that people need not sell to the government to get dollars. The provision of the currency for 'free' via a basic income guarantee invalidates the purpose of taxes—to create demand for the government's currency. We can then easily envision a scenario where private sector agents re-price their transactions in terms of some other (stronger) currency, as the value of the domestic unit deteriorates to its logical limit of zero.

History is replete with such examples. Take the case of the Turkish currency, the lira. The policy of the Turkish government of continually providing rising interest payments on public debt is Turkey's main tool of unconditionally supplying the domestic

currency. Part of the rationale is that the interest rate is to compensate asset holders for the deteriorating purchasing power of the currency and prevent flight to foreign assets. In the 90s, for example, interest rates on public debt had often outstripped the rate of inflation, sometimes by more than 30 percentage points (Mitchell 2002). This policy, as the tax-driven approach to money informs, has disastrous consequences for the Turkish lira. The 'free' supply of liras further devalues the currency necessitating additional increases in interest rate payments to catch up with inflationary pressures. Turkey is thus caught in an on-going inflationary spiral. The consequence is that, in the face of what is essentially a worthless currency, all private sector transactions are denominated in dollars and, even though the lira continues to circulate, its purchasing power is negligible. This is but one example of the effects of the unconditional provision of currency. Uncollateralized lending in some Easter European countries during the transition period from planned economy is another example of such inflationary (and sometimes hyperinflationary) practices. Similarly, the massive failure of the Russian government to collect tax revenue in the late 90s precipitated the Russian ruble crisis (Hudson 2003). In all of these cases, the common denominator for these devaluations is the phenomenon of 'free currency'. And such is likely to be the case with BIG, especially if it is large enough to attempt to buy the minimum necessary standard of living for all.

As we have demonstrated previously (Tcherneva and Wray 2005a), if the government paid a public worker $20,000 year (for approximately 2000 hours of work), the value of the currency would be equal to the effort expended to earn this income, i.e., $10 an hour. In other words, $1 would buy 6 minutes of work. In the case of BIG, it may take up to 30 minutes to get the BIG check of $20,000, go to the bank and deposit it into one's account. The value of the currency would then be infinitesimally small, as $20,000 purchase only 30 minutes of work, i.e., one dollar buys 0.0015 minutes of work (30min/$20,000).

As we will show, with the job guarantee, each additional worker knows exactly what she is going to earn by offering her labor in the public sector—the fixed wage. In the case of BIG each additional recipient (regardless of labor market participation) knows that they must only expend half an hour of work (running to the bank) to get the benefit. This will likely induce workers in some $20,000-paying jobs (after tax), to opt out of the labor force (especially if those are 'bad' jobs). So the next question to investigate is the impact of the basic income guarantee on labor force participation, market wages, prices and economic activity.

3.2 Labor force participation, prices, wages and economic activity

Since tax-collections are largely endogenous, the preoccupation with budget-neutrality of BIG policies can produce tax schedules that may have perverse market effects. In fact, it may prove impossible for the BIG proposal to be budget-neutral.

Some have proposed that the basic income guarantee is 'financed' by a flat tax (Clark 2002, 2004, Atkinson 1995). It is reasonable to expect that the provision of $20,000 basic income guarantee will induce some people in 'bad' $20,000-paying jobs to exit the market (a desirable effect according to BIG advocates). The resulting impact on employment, income and tax collections will be negative. Budget deficits will result when tax revenues fall, and, although deficits do not in themselves pose a problem, the

compulsion will be to raise tax rates to achieve intended budget-neutrality. This tax increase would induce a new cohort of workers now earning $20,000 after-tax income to leave the labor market in hope to live on the BIG benefit. All additional tax rate increases attempting to compensate for the falling tax revenue and pay for BIG will further deteriorate employment and output (again, with a logical limit of zero).

If taxes are progressive (as advocated by Aronowitz and Cutler 1998, Aronowitz and DiFazio 1994, for example), this substitution effect may take somewhat longer to materialize, but if they are regressive (as proposed by Van Parijs 1995 and Meade 1989), the labor force drop-out rate will be considerably higher, since regressive taxes carry larger disincentives to work in low-wage jobs. In any event, BIG is unlikely to achieve budget-neutrality because of the endogenous nature of tax collections.

The impact on the labor force and output is also negative. It may seem that this voluntary exit from the labor force is BIG's solution to unemployment. This is a contrived result, as full employment is achieved by 'engineering artificial reduction in labor supply' (Mitchell and Watts 2004: p. 13). In effect, full employment takes the form of 'forced inactivity.' In order to coax BIG recipients back into the labor market, some employers will need to offer higher wages (which, at first approximation, is a desirable result). However, soon thereafter, these same employers will also raise prices, to cover the increases in wage costs. As a consequence, rising prices will erode the purchasing power of the BIG payment, which will affect particularly those recipients who did not return to the labor market. To maintain the objective of the universal guarantee and provide just levels of standard of living, there will be pressure to revise the BIG benefit upward. If this happens, it will further induce some exit from the labor market, drop in output, a compensatory rise in wages and prices and further drop in BIG purchasing power. This vicious cycle renders the income guarantee self-defeating. Note that, if the benefit is continually increased—the income guarantee becomes not just inflationary, but hyperinflationary.

Simultaneously, if taxes are raised, to achieve budget-neutrality, they will also induce workers on the margin to exit the labor force. The negative effect on the labor force participation due to the rising BIG benefit and tax rates, coupled with the rise in prices would lead to increasingly lower output, lower employment, and higher prices than before BIG was implemented. If policy makers continually increase the benefit to compensate recipients for the loss of purchasing power and simultaneously continually increases taxes to 'fund' this rise in expenditure, the likely result will be stagflation—low employment and high prices.[9]

Since BIG never quite manages to give people the necessary purchasing power, some individuals will be forced back into the labor market and quite possibly into 'bad' jobs. So the implementation of BIG will probably produce an environment of involuntary unemployment *and* higher prices.

In sum, we have to be mindful of how the government supplies the currency to the population. Erroneous logic of public finance leads to concerns with budget-neutrality

[9] Mitchell and Watts also argue that stagflation is a likely result because of the expected income redistribution and deteriorating inducement to invest brought about by the BIG policy (2004: p. 13).

which tries to *gauge some ex-post accounting identity that says nothing about economic performance*.[10]

4 Macroeconomic effects of the employer of last resort

Keynes argued that 'unemployment develops…because people want the moon;—men cannot be employed when the object of desire (*i.e.* money) is something which cannot be produced and the demand for which cannot be readily choked off' (1936: p. 235). As the tax-driven approach to money further makes clear, unemployment results from the chronic desire of some private sector agents to hoard net financial assets, a desire which can only be accommodated by the government. Minsky recognized that unemployment is a monetary phenomenon, and indicated how desired financial resources can be supplied by simultaneously implementing a successful full employment strategy:

> The main instrument for such a policy is the creation of an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run expectations of business. Since only government can divorce the offering of employment from the profitability of hiring workers, the infinitely elastic demand for labor must be created by government. (Minsky 1986: p. 308)

Lerner also argued that it was the government's job to keep spending 'neither greater nor less than that rate which at the current prices would buy all the goods that it is possible to produce' (1943: p. 39). Spending below this level results in unemployment, while spending above it causes inflation. The goal is to keep spending always at the '*right*' level in order to ensure full employment and price stability.

Two policies, virtually identical in design, that embrace Minsky's full employment strategy and Lerner's functional finance approach are the Employer of Last Resort (ELR) (Mosler 1997-98, Wray 1998) and the Buffer Stock Employment Model (Mitchell 1998).[11] These policy prescriptions aim to eliminate unemployment and simultaneously stabilize the value of the currency. The proposals are motivated by the recognition that sovereign states have no operational financial constraints, can discretionarily set one important price in the economy, and can provide an infinitely elastic demand for labor.

Through the ELR, the government sets only the price of public sector labor, allowing all other prices to be determined in the market (Mosler 1997-98: p. 175). The fixed public sector wage provides a sufficiently stable benchmark for the value of the currency (Wray 1998: p. 131). Since governments are not fiscally constrained, the program is implemented on a fixed price/floating quantity rule, i.e. hiring in the ELR is not limited by budget caps (more below), and spending fluctuates countercyclically.

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[10] This is consistent with Abba Lerner's proposal for 'functional finance'. Lerner (1947) believed that policy should be guided not by antiquated notions of 'sound finance' but by the effect of finance on economic activity. He argued that the state, by virtue of its discretionary power to create and destroy money, has the obligation to keep its spending at a rate that maintains 1) the value of the currency and 2) the full employment level of demand for current output.

[11] ELR is Minsky's terminology, which will be used throughout this paper as a generic term for these job guarantees.

Therefore, the key stabilization features of ELR, missing from BIG proposals, are the ability to stabilize the business cycle, the value of the currency and the overall price level.

4.1 ELR stabilizes the business cycle

With the job guarantee, government spending on public employment fluctuates countercyclically. In downturns, private business establishments lay off workers who find employment in the public sector. Government spending automatically increases, providing the necessary economic stimulus. Conversely, as the economy improves and private sector employment expands, workers are hired away from the ELR pool reducing government deficit spending. This serves as a powerful automatic stabilizer that ensures that government spending is always at the 'right' level to maintain full employment. By contrast, the basic income guarantee has a destabilizing effect on the business cycle, due to its inflationary bias and negative impact on participation rates and output.

4.2 ELR fixes the value of currency

Since the value of the currency is determined by what must be done to obtain it, with an ELR in place, it is linked to the public sector wage ($10/hr in our example above). To illustrate the effect of a change in the wage on the value of the currency, let's assume that instead of paying $20,000, the government decides to pay $40,000 to ELR workers. The hourly wage jumps from $10 to $20/hr. It now takes workers half the time to earn what they used to before the increase in the public sector wage. All else equal, the purchasing power of the currency falls by half (i.e. $10 now buy half an hour of work). If by contrast, the government cuts the yearly salary to $10,000, workers will need to work twice as much to obtain the same amount of dollars as before, which raises the currency's value.

Purchasing power is measured in terms of the labor units currency can buy. As it is with BIG, the implementation of an ELR will cause a one-time jump in prices. However, since the purchasing power of the currency is tied to the labor hours purchased, and thus its value does not deteriorate as it does with BIG, there is no imperative to continually redefine the wage upward. The public sector wage provides an internally stable benchmark for prices.

4.3 ELR enhances price stability

Policies of 'priming the pump' such as military Keynesianism are inflationary, as they primarily hire 'off the top' by competing for the most desirable workers (Wray 1998: p. 179). ELR by contrast hires 'off the bottom' and does *not* introduce these inflationary pressures. In fact, it *enhances* price stability for two main reasons. First, the ELR is a buffer stock program, which operates on a fixed price/floating quantity rule, and, second, deficit spending on public service employment is always at the *right* level.

- *ELR is a buffer stock program operating on a fixed price/floating quantity rule*

Economists usually fear that high levels of employment will introduce wage-price spirals. Therefore, it is necessary to show how the ELR contributes to wage stability which in turn promotes price stability. As Mitchell (1998) and Wray (1998) have stressed, the key is that the ELR is designed as a buffer stock program, which operates on a fixed price/floating quantity rule. The idea is to use labor as the buffer stock commodity, and, as is the case with any buffer stock commodity, the program will stabilize that commodity's price.

In a nutshell, during recessions, jobless workers find employment in the public sector at the fixed ELR wage. Total government spending rises to relieve deflationary pressures. Alternatively, when the economy recovers and non-government demand for labor increases, ELR workers are hired into private sector jobs at a premium over the ELR wage. Government spending automatically contracts relieving these inflationary pressures. In other words, when there is an upward pressure on the buffer stock's price, the commodity is sold, and when there are deflationary forces, it is bought. Public sector employment thus acts as a buffer stock that shrinks and expands countercyclically.

The program operates on a *fixed price/floating quantity rule*, because the price of the buffer stock (the public sector wage) is fixed, and the quantity of the commodity (public sector employment) is allowed to float, i.e., there are no budget caps on program spending. The exogenous public sector wage is internally stable and, since labor is a basic commodity (employed directly and indirectly in the production of every other kind of commodity), it serves as a perfect benchmark for all other commodity prices. It is in this sense that the public sector wage provides a stable anchor for prices in the economy. This important inbuilt feature of the ELR program has no comparable counterpart in income guarantee proposals.

- *Deficit spending on ELR is always at the right level*

This buffer stock mechanism ensures that government spending is, as Lerner had instructed, always at the 'right' level. The tax-driven approach to money informs that there is nothing inherently wrong with running deficits.[12] For ELR advocates the 'right' level of deficit spending is that which ensures full employment. However, the countercyclical design of the job guarantee program also ensures that deficit spending will counteract inflationary or deflationary pressures.

Inflations or deflations occur when aggregate demand is too large or too small relative to aggregate production or productive capacity of the economy. The key to offsetting these pressures is to boost income and spending just to that level sufficient to purchase the entire full employment level of output, not more and not less. By design the ELR program guarantees that any resulting budget deficit is never too big or too small. Government spending will increase until unemployment is eliminated, at which point deficits will stop growing ensuring that aggregate demand does not exceed the full employment level of aggregate supply. Conversely, if unemployment grows again, so will deficit spending to bring the two into equilibrium. In other words, the automatic countercyclical and stabilizing feature of the ELR program guarantees that spending will

[12] In fact, if the non-government sector runs a surplus, i.e., it hoards net financial assets, the government sector (by accounting identity) will run a deficit.

grow only up to the full employment level of output.[13] By contrast, basic income programs cannot claim any such countervailing force to price changes.

ELR projects also support a non-inflationary environment by enhancing human capital and private sector efficiency and growth. Unlike BIG, ELR *directly* provides for the maintenance and appreciation of human capital as training and education are explicit features of the program (more below). Furthermore, by addressing the problem of unemployment head-on, ELR also reduces the social and economic costs associated with it. Finally, private sector productivity is enhanced by directing ELR projects to develop public infrastructure, provide for costly environmental cleanup, and reduce rigidities linked to high levels of capacity utilization.

5 Institutional characteristics and other points of comparison

Ensuring price and currency stability and providing a powerful stabilizer to the business cycle are the key advantages of job guarantee programs over income guarantees. Apart from these macroeconomic effects, the job guarantee also offers an institutional vehicle for a structured and direct response to address other desirable social and economic objectives.

5.1 ELR improves the investment environment

Both BIG and ELR intend to alleviate the problem of poverty. To the extent that they are successful and poverty is reduced (or eliminated, according to BIG supporters), many other social ills will also be addressed, such as poor health, certain 'economic' crimes, homelessness, malnutrition, school drop-out rates, and racial and ethnic antagonism. These added benefits are expected to improve the investment climate. ELR however, has a clear advantage over BIG as it maintains an *employable* and *visible* pool of labor that can be tapped by private firms should they need trained and skilled workers. Furthermore, this large and productive pool of labor is available for hire at a stable compensation package. By contrast, BIG does not deal with the loss of skill and deterioration of human capital that result from unemployment. ELR further enhances the inducement to investment by promoting maximum output and consumer demand.

5.2 Administration

Widerquist and Lewis (1997) have argued that the administration of public employment will be a logistical nightmare. It is true that mailing out a single check to BIG recipients is administratively simpler than organizing, implementing, and coordinating an ELR program. There is little reason to believe, however, that the administrative costs of running an ELR will be large and unmanageable. Currently in the United States, the

[13] There has been some confusion about the operation of the ELR (see Sawyer 2003). It is important to note that ELR eliminates unemployment by offering a job to everyone willing and able to work, not by increasing aggregate demand. While a rise in aggregate demand may result as a consequence of the program, this does not have to be the case. The government can eliminate unemployment via the ELR, while simultaneously reducing its spending on other programs and raising taxes. This is hardly a desirable recommendation, but it illustrates that ELR can eliminate unemployment in the face of falling aggregate demand. It does so by offering a job and *not* by 'pump priming' (for details, see Mitchell and Wray 2005).

social security program involves writing a social security check to beneficiaries, much the same way that the basic income guarantee is proposed to work. The disability part of the social security system, however, involves a very complex and difficult administration as it deals with the thorny issue of screening and determination of eligibility for disability benefits. Regardless of the intricate management of this program, the total administrative cost for OASDI (old age, survivors, and disability insurance) is less than 1% of the total budget (*OASDI Trustee Report* 2005).

As BIG imposes no eligibility requirements for receiving the income benefit, its management is considerably simpler. It is unrealistic, however, to think that BIG will end the relative disadvantage certain groups suffer with respect to others (Harvey 2003: p. 24). To remedy this problem, more targeted remedial measures may be necessary to achieve social justice, in which case the administrative problems associated with screening for eligibility will reemerge (ibid.). It is thus unclear that BIG truly offers a vast improvement with respect to program management.

Difficult administration has not thwarted the implementation of many important policy programs. Managing the military or the national space agency involves very complex administration, but few argue for scrapping these programs. Policy is a matter of national priority and political will. Organizing and carrying out the ELR program may be more complex than simply writing a government check to BIG recipients, but its relative merits are far more compelling.

5.3 Stigmatization

Recipients of government assistance have often been stigmatized. It is likely that both BIG and ELR beneficiaries will suffer from this problem. Stigmatization, however, depends in part on the design of the program. Two popular income support policies are 'workfare' and 'fair work.' Nancy Rose explains the distinction:

> Workfare is shameful and stigmatized, mandatory programs for the 'undeserving' poor to make them prove that they are not 'shirking work', and to therefore end 'welfare dependency'; fair work encompasses voluntary programs for the 'deserving' poor who become unemployed due to recessions, depressions, automation, and natural disasters, i.e., 'through no fault of their own'. (Rose 2000: p. 2)

Both BIG and ELR want to guarantee income or employment universally, without any demeaning means-tests. If BIG is instituted and accepted as a truly universal program, similar to the current social security program in the U.S., beneficiaries will not be stigmatized simply for receiving these benefits. But they will likely be stigmatized for the fact that they are *not* working.

By contrast, if properly designed, the ELR can be associated with other fair work programs. Stigmatization may still be a problem, especially if disadvantaged groups of certain race, gender or age group become disproportionately represented in the ELR. The problem of stigmatization cannot be fully avoided but it can be alleviated with active government involvement. The ELR program can be marketed as a support program for private sector activities. Also, the kinds of jobs the ELR offers can be creatively designed so as to carry more weight and prestige. Wray suggests that an 'ELR can be promoted as a universal 'AmeriCorps' service, open to all who would like to perform

community service.' It is feasible, through various incentives, to create an ELR that is perceived as an advantage on the resume, rather than a stigma (Wray 1998: p. 146).

5.4 Incentive problems and human development

Some have questioned the ability of the labor market to provide meaningful and dignified work (Aronowitz and DiFazio 1994). The argument is that, in a world of job scarcity and because of the demeaning nature of many existing jobs, the right to work is much less appealing than the right to income. Harvey responds to these claims that 'judgments … made on conditions that exist when the right to work has not been secured … [cannot] call into question the benefits that could be achieved if the right was secured' (Harvey 2003: p. 20). Baetz similarly argues that, we cannot properly evaluate if the marketplace can offer adequate conditions for human development, until ample opportunities for meaningful work to all have been provided (Baetz 1973: p. 16). Thus, we can begin understanding the effect of government policies on work incentives, only after all members of society enjoy equal access to employment. For this reason, securing the right to employment must be our first task.

An ELR program can meaningfully address both the incentive and the human development problems. By offering a carefully determined fixed (but adjustable) wage, it provides the necessary means of subsistence. Simultaneously, since the wage does not compete with those offered in the private sector, it encourages ELR workers to seek higher remuneration from private sector work. Through its training and education component, the ELR program additionally improves the working skills of the ELR workers, keeping them employable. Most importantly, the ELR *sets the standard* for private sector employment: *it determines the requisite working conditions and the minimum necessary wage/benefit package, which private firms must offer if they desire to employ ELR workers.*

5.5 The meaning of work

The design of the ELR recognizes that there is dignity in work; thus the program aims to enhance individual self-esteem by offering people opportunities to do something useful for their communities and for themselves. ELR activities do not to compete with private sector jobs; instead they are designed to promote social integration and community involvement. The ELR enables workers by providing them the institutional support, resources, and services that would not be otherwise available to them.

In *Building America* Boyte and Kari (1996) advance a roadmap to civic duty, community involvement and citizenship, which redefine the meaning of work. It is no longer seen as obtaining the means to an end, but as part of the larger context of social provisioning. These considerations should guide the choice of activities to be included in the ELR program. Work is at the center of citizenship (ibid.: p. 7) and the ELR can incorporate certain forms of socially useful work that have not been traditionally remunerated, such as care for the young, the sick and the elderly.

6 The road to participation and the promise for a joint proposal

Since the goal is to provide for all members of society, and not just for the economically active population, a joint proposal is necessary. To be economically viable, however, it needs to have two key ingredients. First, it must tie the provision of income to public service work, in the form of fixed hourly pay and, second, it must provide unconditional income support for the young, the elderly and the disabled.

Such a proposal is desirable, because inactivity, especially due to involuntary unemployment, has far-reaching consequences beyond the single dimension of a loss of income (Sen 1999: p. 94). Therefore, BIG's focus on the provision of income alone will not offer the necessary remedy. By contrast, ELR's concern with currency stability should not take precedence over the objective of creating 'good' jobs. Given the many common goals income and job guarantees share, a joint proposal is a promising alternative for providing the requisite standard of living to all.

There are many sources we can consult for guidance in designing such a proposal. For example, Atkinson's participation income (1995) and White's civic minimum (2003) offer some possibilities for marrying ELR with BIG.[14] These proposals emphasize the need to define work very broadly, to foster social inclusion, enhance human capital and improve the overall 'socio-economic situation' (Clark 2002, Fitzpatrick 2003). Minsky's vision of the 'the road to participation' also provides some of the ingredients for such a joint policy. For him the road to participation meant creating permanent programs whose main purpose is to provide 'public services, environmental improvements … as well as the creation and improvement of human resources' (1986: p. 312).

This paper explained the economic imperatives which make it necessary to tie the income benefit to the number of hours of public sector work. Nonetheless, this 'coercive' feature will still trouble BIG advocates. So the challenge is to design a proposal which enhances individual freedom by allowing people to determine their own pursuits. One way to do this is to let individuals choose, and even define, the kind of activities they will perform. So although involvement in the community is compulsory, the kind of work performed is not.

To see how this can be accomplished we turn to the job guarantee program, which was recently implemented in Argentina.[15] While this program is only available to the unemployed heads of households, it offers insights for designing a joint policy. The plan (usually referred to as *Jefes*) intended to deal with the massive poverty, unemployment and social dislocation that escalated during the 2001-2002 crisis.

After the decision was made to fund the job guarantee, the federal government only provided the general guidelines for administering the program. The actual management and administration was done at the local and municipal level. The municipalities evaluated the general needs of their communities and the available resources. Subsequently, they made requests for proposals for projects that would provide the goods and services that were most needed in these communities.

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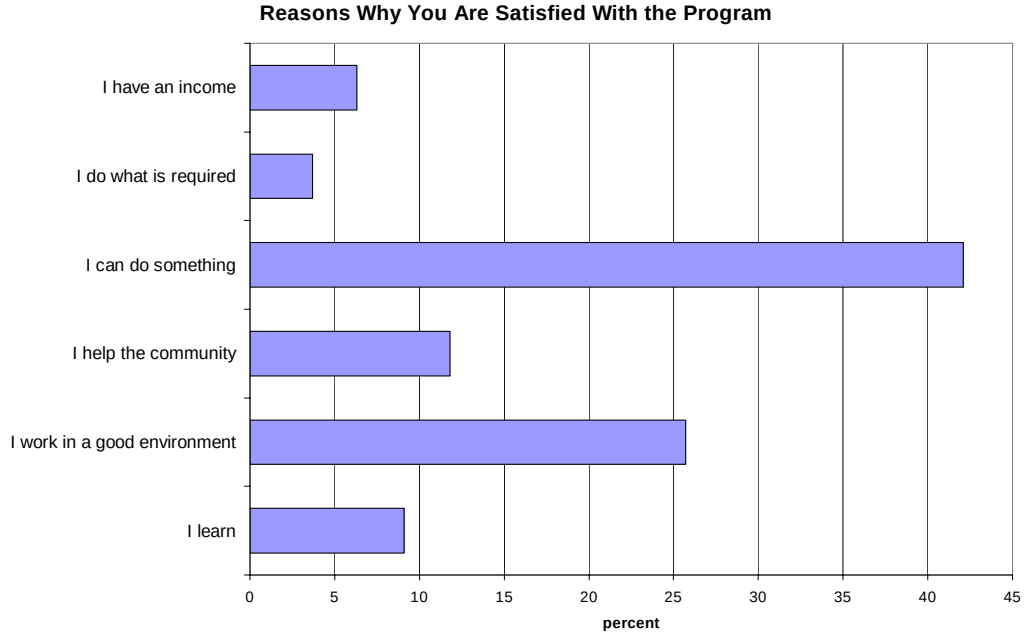
[14] Fitzpatrick (2003), Galston (2001), and Anderson (2001), among others, support some conditionality on the basis that there needs to be a reciprocal obligation on the part of the recipient of the basic income.

[15] The institutional design and macroeconomic effects of this program have been discussed in detail in Tcherneva and Wray (2005b).

The *Jefes* plan was in fact started as a form of basic income guarantee. After all the unemployed heads of households were registered, they immediately started receiving an income. In the transition period, many beneficiaries did not work, as it took some time to design, approve, and implement the proposed projects. However, the program was up and running in four months, and soon thereafter beneficiaries started taking up the newly created public sector jobs.

In fact, most of the actual activities were designed and proposed by NGOs, local government organizations, labor movements and the unemployed themselves. But they had the forum and institutional support which allowed them to organize the kind of activities they wished to do. Naturally, as nutrition is a top priority in the poorest communities, many such projects include community kitchens, bakeries, or pastry shops. Other projects convert previously barren plots into arable land, where the beneficiaries set up their own agro-cooperatives. Yet others, prepare toys for poor kids, organize recreational activities for them, or build libraries with scrapped books and materials from wealthier neighborhoods (for details see Tcherneva 2005).

Official surveys of program participants indicate that having an income is not among the main reasons for satisfaction with the *Jefes* plan. Beneficiaries enjoy being in the program, because they have the opportunity to 'do something', to work in a 'good environment', to 'help the community' and to 'learn'.



SOURCE: Ministry of Labor, Employment and Social Security, Argentina

Our recent evaluation of the gender aspects of this program shows that it brings important benefits to women (Tcherneva and Wray 2005c). Many of them have begun to organize small knitting cooperatives, sewing micro-enterprises, bakeries, tailor shops and other. All women we interviewed (without exception) reported that if given the choice to work for income or to get income without working, they would prefer to work. The

reasons were mostly the same as those of the official survey above. It is worth noting that, those women who wanted private sector jobs, either didn't find any available or those they found were not 'mother ready' (i.e., they did not have flexible hours, proximity to the home, health and other benefits).

In other words, it is possible to design a program that will guarantee an income to all, but which will require able-bodied persons to participate in community work. Such a program can be structured to give people considerable freedom (subject to some general guidelines) to determine the kind of community work they would like to perform. These activities can include not only helping in the community but also engaging in individual artistic pursuits.

By marrying the participation income with the job guarantee, we design a policy which offers the institutional vehicle for achieving many other desirable social goals. Whether the objective is to assist young parents with family planning, or to address issues of domestic violence, spousal and child abuse, or to reduce male high school drop-out rates, public sector jobs can be oriented to deal with such problems. In fact Argentina gives many examples of *Jefes* projects that deal with all of the above. Once the institutional framework for community work is established, it can be directed to address other social problems as well.

Finally, such a joint policy, must be motivated by an awareness that valuable work is not only that which is profitable, but also that which is socially useful. In other words, the activities in this program will be targeted toward adequate social provisioning and not toward profit-making. The 'production for use' in the public sector will not compete with the 'production for profit' of the private market. Government jobs will provide services that are clearly outside the purview of profit making enterprises, such as environmental cleanup, childcare, elderly care, homeless shelters, community kitchens and other.

7 Conclusion

The dichotomy between policies that provide 'only income' or 'only jobs' is no longer constructive. An effective safety net must provide both a guaranteed source of income *and* a guaranteed source of job opportunities for meaningful and life-enhancing work. In a monetary production economy, however, it is important to tie the provision of income to the participation in the community by everyone who is able to contribute. This way the socio-economic situation is improved by creating an economically viable policy which stabilizes the price level, the currency and the business cycle, while simultaneously providing meaningful work and enhanced individual freedom.

Whether universal guarantees stand a chance depends largely on the political will and dominant ideology, but the first step is to gain a full appreciation of their macroeconomic consequences and institutional aspects. Then we can constructively move to designing promising and economically viable universal assurances in the public interest.

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