Let's Create a Real Job Czar for the Jobless

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Mounting job losses have finally caught the attention of politicians within and outside the Washington beltway. President Bush recently shrugged off questions about the rising government deficit, arguing that "I am more concerned about somebody finding a job than I am about a number on paper." With nine million officially unemployed, and with millions more outside the labor force because they do not believe it is possible to find a job, the President's political future may well rest on his ability to create new jobs.

In that light, his announcement that he would create a new undersecretary of commerce post devoted to job creation is a step in the right direction. Unfortunately, much of the discussion in the press has centered around stemming the flow of jobs to low wage nations, and placing the new Job Czar in Commerce does raise the possibility that attention will be diverted to our trade with other nations. A worst case scenario would see the Job Czar's efforts focused on restricting imports or on favoritism for US exporters—both of which are designed to raise prices to American consumers. Such an approach is not in the interests of Americans, nor is it in the interests of the rest of the world. The US (along with China) has been the major source of demand that has permitted global economic growth over the past decade. With Euroland now in a deep recession, and with continued sluggish growth (or worse) in most of the rest of the world, restriction of imports by the US would be a disaster.

American workers need jobs, not protectionism and the higher prices that would result. A real stimulus package that put more disposable income into the hands of consumers would help to create private sector jobs. However, at least for the near term, even well-designed tax cuts will not create the millions of jobs needed. Timely increases in federal government spending and federal transfers to the states would generate more new jobs than tax cuts are likely to create. The rapid increase in defense spending accounted for 70% of GDP growth in the second quarter, and that will continue to help spur recovery. However, this should be supplemented with additional public spending in areas such as education and public infrastructure that have long-lasting impacts on our nation's productivity.

Still, there is a better way to ensure full employment. A real Job Czar would be put in charge of direct job creation. Democratic Candidate Kucinich has called for public works projects similar to the New Deal's jobs programs in order to rebuild highways, schools and the country's energy system. This is on the right track, but the focus of such a program today should be reoriented toward provision of public services: education and supervised recreation for our young, elder care, environmental monitoring and clean-up, and public safety and beautification projects for our cities. These can be good jobs that provide living wages, and they cannot be "outsourced" to low-wage nations. Creation of such a program would give a Job Czar a real opportunity to respond in a constructive manner to unemployment and job loss.

For an example of what can be done, we can look to the recent experience of Argentina. As everyone knows, Argentina had been the darling of the Washington Consensus and of the IMF structural adjustment approach. It opened its economy, freed its markets, privatized government operations, downsized government, adopted fiscal and monetary austerity, and—importantly—adopted a currency board based on the dollar. It did everything "right", but the IMF/Washington Consensus approach was fundamentally flawed and put Argentina into an inherently unsustainable situation. When world financial markets began to doubt the nation's ability to maintain the currency board arrangement, there was a run on the domestic currency. The IMF/Washington Consensus recommended more austerity—which caused unemployment and poverty to explode. Social unrest eventually led to rioting in the streets. Argentina wisely abandoned the dollar, floated the currency, defaulted on some of the debt, and rejected the IMF/Washington Consensus.

The rioting stopped when the government implemented a job creation program designed to provide a social safety net for poor households with children. The program evolved through several stages, with the final phase beginning in April 2002 with the implementation of the *Jefes de Hogar* (Heads of Household) program that provides a payment of 150 pesos per month to a head of household for a minimum of 4 hours of work daily. Participants work in community services and small construction or maintenance activities, or are directed to training programs (including finishing basic education). The household must contain children under age 18, persons with handicaps, or a pregnant woman. Households are generally limited to one participant in the *Jefes* program.

The program's total spending is currently equal to about 1% of GDP, with nearly 2 million participants (about 1.7 million in *Jefes* and 300,000 in *PEL*). This is out of a population of only 37 million, or more than 5% of the population. However, it should be noted that the US spends 1% of GDP on social assistance, while France and the UK spend 3-4% of GDP on such programs. Given a national poverty rate above 50%, and with 9.6 million indigents and a child poverty rate approaching 75%, Argentina's spending is small relative to needs.

According to the World Bank's reviews, the program has been highly successful in achieving a number of goals. First, program spending is well-targeted to the intended population—poor households with children. Second, the program has provided needed services and small infrastructure projects in poor communities, with most projects successfully completed and operating. Third, the program has increased income of poor households. While there have been some problems associated with implementation and supervision of the program cases involving mismanagement or corruption appear to have been relatively rare. Still, there are reports of favoritism, and home country researchers have made serious critiques of program design.

However, surveys show that program participants are overwhelmingly happy with the program.

On November 3, 2003, the Mayor of Istanbul, Turkey, announced his intention to create a similar program to fight the growing unemployment problem in that city. Unemployment imposes severe costs on society—both economic costs in terms of foregone output, but also intolerable social costs in terms of rising crime and disintegrating families and communities. The Mayor recognized that no other social program brings so many benefits as those that accompany a job creation program. It will be interesting to follow the developments in Turkey as a "heads of household" job creation program is implemented.

Any sovereign nation that issues its own floating rate currency can "afford" full employment. (Indeed, one might rightly question whether nations can truly "afford" unemployment.) This is because such a government spends by crediting bank accounts, and taxes by debiting them. There can be no question about the solvency of such a nation—even if a deficit results. Japan's sovereign deficit reaches 8% of GDP; Turkey's sovereign deficit exceeds 25% of GDP. But so long as these nations maintain floating exchange rates, they can always spend and "service" debt by crediting bank accounts. Hence, if there are unemployed resources, including labor, the sovereign government can put them to work.

The big fear, of course, is that full employment will necessarily generate inflation. If full employment is achieved by "pump priming", that is, by trying to raise aggregate demand through tax cuts or general government spending, it can in some circumstances generate inflation. However, if full employment is generated through a job creation program designed like Argentina's *Jefes* program, it cannot be inflationary. This is because such a program sets a fixed basic wage and then hires all who are ready and willing to work at that wage. This operates like a commodities buffer stock program that sets a floor price—it prevents prices from falling through the floor, but does not push up prices. If the private sector expands, workers are hired out of the labor "buffer stock"; when the private sector down-sizes, workers flow into the "buffer stock". Hence, the *Jefes*-type program also provides a strong counter-cyclical stabilizing force. It should be noted that government spending on the program will also be strongly counter-cyclical.

A real Job Czar would be put in charge of a job creation program that would achieve full employment without generating inflationary pressures. Once full employment is achieved, then the pressures to use protectionist measures to fight imports will be diminished. Further, the wage-and-price stabilizing features of a buffer stock approach would reduce reliance on fiscal and monetary austerity to fight inflation. ◆

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