cFEPS

ECONOMIC DEMOCRACY INITIATIVE

Center for Full Employment and Price Stability Research Archive

Job or Income Guarantee?

WP 29

Pavlina R. Tcherneva

Associate Director, CFEPS

Bard

Job or Income Guarantee?

by
Pavlina R Tcherneva*

Working Paper No. 29

August 2003

*University of Missouri – Kansas City

Job or Income Guarantee?

Pavlina R. Tcherneva

This paper evaluates the strategies of providing unconditional basic income support and those of guaranteeing employment. It begins with a cursory examination of the key ideas behind job guarantee (JG) and income guarantee (IG) proposals. Since much discussion has centered on whether we can afford either program, and how much each may cost, we address the issue of financing head-on. A clear understanding of modern money and the functional operation of sovereign currencies reveals that there are no financial constraints to implementing either a JG or an IG. Therefore, questions of whether we can "afford" these policies can be addressed more adequately by distinguishing between *financial expenditures* and *real costs*, as both high unemployment and deficient household income bring about substantial economic, social and political real costs.

The main task of the paper is to offer a comparative analysis of these policy stances, concentrating in particular on the Employer of Last Resort (ELR) and the Basic Income Guarantee (BIG) alternatives. It is argued that the two goals of ensuring adequate income and guaranteeing a job are not mutually exclusive. Quite to the contrary, they can be complementary and compatible, as they share some important common benefits.

There are, however, several clear advantages of job guarantee programs over policy proposals of universal basic income. In particular, there are three critical advantages under consideration. First, an ELR program is a much more powerful stabilizer of the business cycle than any other income support scheme. A second, and closely linked to the first, benefit is the fact that the ELR program, not only eliminates unemployment, but also enhances price stability by counterbalancing inflationary and deflationary pressures. And third, ELR provides an important anchor for the value of the currency. Basic Income Guarantees do not address adequately any of these three important economic problems.

Job Guarantees and Income Guarantees: A Brief Overview

I. Employer of Last Resort (ELR)

In modern economies, the primary way for individuals to provide for their families' (and their own) well-being is through paid employment. Unemployment, by contrast, has a dire impact on the jobless, which brings tremendous social, political and economic costs to society as a whole.

History offers an abundance of direct job creation programs that have aimed to deal with the problem of unemployment. Although they vary greatly in purpose and design, three common objectives can be discerned:

1) reduce unemployment, whether it is cyclical or structural,
2) target a specific demographic group that is considered to be particularly disadvantaged (i.e. the long term unemployed, those below the poverty or indigency line, the young, the elderly, women, and aboriginal people),

3) provide a socially valuable service or good that would not be produced otherwise by the private sector or other government programs.

Job creation programs are usually of limited duration. They either specify a fixed participation term for the beneficiaries (from a few months to a few years) or expire (and/or are disbanded) altogether.

There has been a recent revival of interest in specific job creation programs, in particular, employment guarantee schemes that are known under the names of the Employer of Last Resort (ELR), Job Guarantee (JG) or Public Service Employment (PSE) (Mosler, 1997-98; Wray, 1998; Mitchell 2000 and 2001; Harvey 2000). These will be the focus of our study.[1] The programs differ from their predecessors in that they are universal, face no time limit, and benefit from a design that ensures both full employment *and* enhanced price stability.

The idea of ELR is certainly not new. Hyman Minsky long argued that a full employment strategy ought to be developed by the government, whereby the primary goal is to create an infinitely elastic demand for labor at a floor or a minimum wage that is independent of business profit expectations (Minsky 1986, p. 308).

The Center for Full Employment and Price Stability has advanced such a proposal, which has six key ingredients (quoted from CFEPS *Digest*, 2001:2:1):

1. *The program offers a job to anyone who is ready, willing and able to work regardless of race, gender, education, work experience, or immigration status, and regardless of the performance of the economy.* Just listing those conditions makes it clear why private firms cannot possibly offer an infinitely elastic demand for labor. The government must play a role. At a minimum, the national government must provide the wages and benefits for the program, although this does not actually mean that ELR must be a government-run program.

2. *ELR hires off the bottom.* It is an employment safety net. It should not compete with the private sector or even with non-ELR employment in the public sector. It is not a program that operates by "priming the pump", that is, by raising aggregate demand. Trying to get to full employment simply by priming the pump with, e.g. military spending could generate inflation. That is because military Keynesianism hires off the top. But by definition, ELR hires off the bottom; it is a bufferstock policy—and like any bufferstock program, it must stabilize the price of the bufferstock—in this case, wages at the bottom.

3. *The goal is full employment, but with loose labor markets.* This is virtually guaranteed if ELR hires off the bottom. With ELR, labor markets are loose because there is always a pool of labor available to be hired out of ELR and into private firms. Right now, loose labor markets can only be maintained by keeping people out of work—the old reserve army of the unemployed approach.

4. *The ELR compensation package should provide a decent standard of living even as it helps to maintain wage and price stability.* We have suggested that the wage

[1] The paper will use the acronym ELR to refer to all of these programs, as they share a very similar design.

ought to be set at $6.25/hr in the USA to start. A package of benefits could include healthcare, childcare, sick leave, vacations, and contributions to Social Security so that years spent in ELR would count toward retirement.

5. *ELR experience prepares workers for post-ELR work—whether in the private sector or in government*. Thus, ELR workers should learn useful work habits and skills. Training and retraining should be an important component of every ELR job.

6. *Finally, ELR workers are engaged in useful activities*. For the U.S.A. we have proposed that they focus on provision of public services, however, a nation like Argentina may have much greater need for public infrastructure; for roads, public utilities, health services, education. ELR workers should do something useful, but they should not do things that are already being done, and especially should not compete with the private sector. (pp. 15-26)

These are the basic features of an ELR program. Many other questions remain to be examined, but this task is beyond the scope of this paper.[2]

II. Basic Income Guarantee (BIG)

The literature on income guarantees is equally abundant with proposals. Interest in such programs too has reemerged in recent years. Basic Income Guarantee (BIG) is the generic name used to refer to the wide range of schemes. Despite their differences, BIG programs share a common objective: to provide "a government ensured guarantee that no one's income will fall below the level necessary to meet their most basic needs for any reason" (Widerquist, 2003).

Income is viewed as a central dimension to human well-being. Types of income guarantees usually fall in one of two categories. The first are those "that attempt to define in absolute terms some level of income necessary for providing a minimum standard of living—that is providing a subsistence income" (Baetz, 14, 1972). For the second type, the cardinal test is "its conduciveness to bring about income equalization within the broader context of the distribution of resources, both material and nonmaterial, in the community" (Katz, 45-46, 1972). In other words, proponents of these income guarantee schemes tend to regard poverty in more relative than absolute terms, whereby the ultimate objective is reducing the disparities in the distribution of income among the entire population (Baetz, 15, 1972).

Although the basic income guarantee in its pure form aims to replace all social security benefits, there is recognition in the literature that, whichever method of defining a basic income guarantee is chosen, a single colossal income maintenance plan cannot achieve this objective for all. It has been suggested that a BIG must be combined with other types of programs, like health, housing, social insurance and other social services. It is expected, however, that a BIG will replace (or modify) the need for some of the already existing such schemes.

[2] Such questions will address who will administer the program, who will do the hiring and exactly what kind of work the ELR employees will do?

Atkinson (1995) discusses several main arguments advanced in support of BIG. First, a basic income guarantee helps low-paid workers whose tax allowances are inadequate and those individuals out of work who do not qualify for social security benefits. BIG replaces tax allowances with a refundable tax credit. Furthermore, BIG is an independent and universal system, that provides benefits regardless of marital or employment status. There will be no special payment to the unemployed and those returning to work will not lose their benefits. Finally, a widely proclaimed advantage is its administrative simplicity. Since benefits are not means-tested, the costs associated with screening will arguably disappear.

Here too other questions need to be addressed. What will be the effect of BIG on wages and labor force participation? Will it introduce incentive problems? What are its economic and social implications?

Baetz outlines what he considers to be six essential criteria for realizing guaranteed income programs:

1) Do the programs lend themselves to efficient administration?
2) Will they provide most help to those who need it most?
3) Are they equitable (fair to all concerned)?
4) Do they enhance human dignity and a spirit of community?
5) Are they economically feasible?
6) Are they politically acceptable? (Baetz, 20, 1972)

I will later assess how well (comparatively) job guarantee programs fulfill some of these criteria. Our next task is to discuss the issue of financing for these programs.

Modern Money and Financing for JG and IG

Much discussion has been devoted to financing job or income guarantee schemes. Charley Clark (2003) estimates that the program costs of running a BIG in the United States in 1999 would have averaged about $2 trillion. Harvey (2003) offers his own calculations of running a Public Service Employment program for 1999 and compares them to Clark's estimates, arriving at about a tenth of the cost (for details see Clark 2003 and Harvey 2003). Wray alternatively approximates that an ELR program would cost about $50 billion a year (Wray, 1998) and for Australia, Mitchell and Watts (1997) argue that a job guarantee will run about A$7.4billion a year.

While the size of these estimates is not immaterial, especially for political considerations, the specific purpose of this section is to show that any government with sovereign control over its own currency can afford to pay for any program no matter how 'expensive' it is.

I will not to argue here whether government spending can be too large or too small. What I will contend is that, operationally, governments face no financial constraints for programs funded in their domestic currency. A clear understanding of the working of modern monetary systems is advanced by the State Money theory, also known as the taxes-drive-money or Chartal approach, outlined in Wray (1998), Charles A. E. Goodhart (1997), George. F. Knapp ([1924] 1973), and Abba. P. Lerner (1947).

To use Abba Lerner's words, money is "a creature of the state" [Lerner 1947, 312-317]. Any government chooses the unit of account and defines what serves as money and what satisfies the tax liability (i.e. what it will accept in payment of taxes). When modern states impose taxes denominated in the state's monetary unit they transfer goods and services from the private to the public sector. Governments need to spend – they need a navy, police force, and social workers, to name a few. To ensure that it is able to buy the services of private agents, the state imposes a tax liability, which creates a *demand* for the Government's money. In turn, government spending provides the *supply* of that which is required to pay taxes.

Understanding modern money and its operation has some important implications. Since the government is the single issuer of its currency, spending always comes *first*, while taxation follows *later*. Governments cannot tax *before* they spend; neither can they tax *more* than they have already provided to the public. Furthermore, deficits are a normal condition of the system. Balanced budgets are the theoretical minimum that can be achieved. A surplus in the first year of the currency's operation is impossible; surpluses in subsequent years are limited to the sum of the previous years' deficit spending. Private sector hoarding pf government money ensures that deficits are generated; that is, the desire to net save causes deficits. Since spending is independent of taxation, there are no financial constraints in the domestic currency. The market demand for the currency determines the size of the deficit. *Attempts to operate on a fixed quantity rule (i.e. placing caps on expenditures or otherwise restricting the issue of the currency) results in unemployment.* Furthermore, the value of the money is determined by what is required to obtain it. In the current system, the pool of unemployed maintains the value of the dollar. This means that there is a pool of reserve labor that finds it hard (in the case of the unemployed, impossible) to obtain the dollars necessary to pay taxes. Some economic agents are able to obtain and hoard dollars, others are not, and are therefore unemployed.

It has been demonstrated previously by Wray (1998), Bell (2000), and Bell and Wray (2002-3) that government spending creates high-powered money, while taxation destroys it. In other words, a balance sheet approach to government spending reveals that government purchases lead to reserve credits to the banking system and tax payments lead to reserve debits. Operationally, sovereign governments *do not* stockpile tax collections for future spending. Spending and taxation are two independent processes. Governments spend simply by crediting bank accounts or by writing treasury checks, which are later deposited in some private agent's bank account.

To summarize, money is a creature of the state. Governments tax to generate demand for their currency. The primary function of sovereign currency is to allow governments to spend and consume (i.e. to transfer real goods and service from the private to the public sector).

The discussion of how modern money works is extensive.[3] However, from what has been said thus far it should be clear that there are no 'financial' constraints to implementing either a job guarantee or an income guarantee program.

[3] For a historical background of the taxes-drive money approach, see Wray 1998, Ingham 2000, Innes 1913. For a brief comparative overview of the contrasting views on money, see Tcherneva 2001.

Comparative Study of ELR and BIG

Both programs share important common benefits. Both provide a powerful demand-side economic stimulus. They target low-income groups and hold the promise of resolving many issues associated with high levels of unemployment and poverty. Furthermore, both programs are guaranteed universally at an income or a wage that aims to provide for the most important basic needs of the population and to establish a decent minimum standard of living. In addition, both will likely reduce the cost of other social programs significantly, albeit not eliminate them entirely.

An ELR program like the one suggested in this paper shares most of the benefits of a BIG, without some of its drawbacks. Moreover, the ELR design carries three critical features which are not present in income guarantee schemes: 1) ELR provides an anchor for the value of the currency, 2) it stabilizes the business cycle far better than universal income support programs and 3) it enhances price stability.

I. ELR provides an anchor for the value of the currency

As the taxes-drive-money approach suggests, the value of the currency is determined by what is required to obtain it for payment of the given tax liability. In the case of a BIG, there is clearly 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.

By contrast, in the ELR program the value of the currency is linked to the public sector wage. In Argentina, the current Heads of Household program pays 150 pesos per month, whereby recipients are required to work for about 20 hours a week, making for a basic public service hourly wage of about 1.89 pesos (we round up to 2 pesos for ease of calculations and assume that the program is accessible to all, as per the suggested design above). To illustrate the effect of a change in the wage on the value of the currency, let's assume that instead of paying 150 pesos a month, the government decides to pay 300 pesos a month. The hourly wages jumps from 2 to 4 pesos. Given the same level of tax liability and stable prices, it now takes workers half the time to earn what they used to before the increase in the public sector wage. The value of the currency, therefore, falls sharply. If, by contrast, the government cuts the monthly wage in half to 75 pesos, workers will need to work twice as much to obtain the same amount of pesos as before. It becomes harder to obtain the currency, which raises its value.

Thus a Job Guarantee program can be designed in such a way as to provide a stable benchmark for the value of the domestic currency.

II. ELR stabilizes the business cycle far better than universal income support programs.

Note that the government's spending on public employment fluctuates countercyclically. In downturns, private business establishments lay-off workers who then find employment in the public sector. As a result, government spending automatically increases, providing for the necessary economic stimulus. Conversely, as the economy improves and the private sector expands, it pulls workers out of the public employment pool, shrinking government spending and reducing deficits. This serves as a powerful automatic stabilizer that operates to ensure that government's spending is just at the right level to maintain full employment.

A basic income guarantee can act as a countercyclical stabilizer if it were to target the unemployed or if it acted as an incremental supplement depending on the size of an individual's income. In its purest form however, BIG will have no stabilizing effect to the economic cycle since it pays a basic income guarantee to all recipients regardless of their income size of employment status.

III. ELR enhances price stability, while BIG does not.

Both ELR and BIG are criticized as demand-side government programs which can cause inflation. Policies of "priming the pump," such as military Keynesianism, may very well be inflationary as they primarily hire from the top (competing for the most desirable workers) (Wray 1998, p. 179). Programs such as ELR or BIG which hire off the bottom or target low-income groups will not introduce the same inflationary pressures. The difference between the two, however, is that there is nothing inherent in BIG programs which promises that they will not be inflationary. The most we can say about income guarantees is that their effect on prices is ambiguous. By contrast, ELR ensures that its implementation itself will *not* introduce inflationary pressures and will, in fact, *enhance* price stability.

There are two main reasons why this is the case. The first is that ELR is a bufferstock program, which operates on a fixed price/floating quantity rule. The second is that any government deficit spending associated with a public employment program will always be at the *right* level. We explain:

1) *A bufferstock program with a fixed price/floating quantity rule:*

Economists usually fear that high levels of employment can introduce wage-price spirals. Thus, it is necessary to show how ELR actually contributes to wage stability, thus, promoting price stability. As Wray explains (*ibid*, 135-137), the key is that the ELR scheme is designed as a "bufferstock" program, which operates on a fixed price/floating quantity rule. The idea is to use labor as the bufferstock commodity, and, as is the case with any buffer stock commodity, the program will stabilize that commodity's price.

As discussed above, the wage offered to public sector employees is fixed exogenously and does not compete with wages in the private sector. This ensures that when demand for labor in the private sector rises, wages are bid up and workers are hired away from public sector jobs (the bufferstock is "sold"). Conversely, when the private sector lays off workers, they find employment in the public sector (the bufferstock is "bought"). In other words, when there is an upward pressure on the bufferstock's price, the commodity is sold, and when there are deflationary forces, it is bought. Thus the program provides the countervailing pressure on prices by ensuring wage stability in the public sector and a powerful counter-cyclical mechanism.

The program operates on a *fixed price/floating quantity rule*, because the price of the bufferstock (the public sector wage) is fixed, and the quantity of the commodity (the public sector employment) is allowed to float. The exogenous public sector wage is perfectly 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.

2) *Deficit spending on ELR is always at the right level*

What is deemed to be the *right* level of deficit spending largely depends on the goals that are pursued. For BIG supporters the *right* level is the one that will provide a basic income for every member of society. For ELR advocates it is the level which ensures full employment. However, the countercyclical design of the job guarantee program also ensures that deficit spending will counteract inflationary or deflationary pressures. No such provision exists in income guarantee programs.

Inflation or deflation 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 output, no more and nor 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 ensures that spending rises when it is too low and stops increasing the when full employment level of output is reached. By contrast basic income programs cannot claim any such countervailing force to price changes.

3) *Other considerations*

Both BIG and ELR are expected to enhance human capital, alleviate the indirect social costs of unemployment or poverty, and reduce spending on other programs such as welfare, unemployment insurance and other aid. The enhancement of human capital is likely to lead to labor productivity gains which will counter inflationary pressures. ELR however *directly* provides for the maintenance and appreciation of human capital as training and education are explicit features of the program. As Forstater points out: " the enhanced human capital would reduce the productivity-adjusted cost of hiring out of this pool relative to unemployed workers and thereby diminish inflationary pressures" (Forstater, 1999, p 14). Furthermore, by addressing the problem of unemployment head-on, ELR also reduces the social and economic costs associated with it.

Forstater further points out that job guarantee programs place less pressure on prices, since they increase both aggregate supply *and* aggregate demand, while income maintenance programs boost aggregate demand only (*ibid*). And finally, he advances a strategy for economic flexibility, where ELR work enhances private sector efficiency and growth. This can be done through maintaining and developing public infrastructure, providing for costly environmental cleanup or reducing rigidities linked to high levels of capacity utilization. By enhancing private sector productivity, public sector projects will support a non-inflationary environment.

Ensuring price and currency stability and providing a powerful countercyclical stabilizing mechanism are three critical advantages of job guarantee programs over income guarantee proposals.

Other Points of Comparison

Apart from the three key factors discussed above, there are other points of departure between the two programs that are worth considering.

Administration

Some have argued that the administration of an ELR will be a logistical nightmare (Widerquist and Lewis, 1997). It is quite true that mailing out a single check to BIG recipients is administratively much easier 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 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 the Social Security Administration, the total administrative costs are less than 1% of the program's budget.

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. To organize and carry out an ELR program may be more complex than simply writing a government check to BIG recipients. However, the benefits ELR offers of economic, price and currency stability while eliminating unemployment by guaranteeing a job at a living wage, far outweigh those of simply offering a basic income guarantee.

Finally, Philip Harvey correctly observes that a major advantage of administering a universal BIG is the possibility of eliminating the screening process of recipients in attempt to determine who is entitled to income support without having to work (Harvey 2003, p. 22). It is unrealistic to argue, however, Harvey continues, that BIG will end the relative disadvantage certain groups suffer with respect to others. If in this case, more targeted remedial measures are necessary to achieve social justice, the administrative problems associated with screening for eligibility will reemerge (ibid, p. 24). It is thus unclear that BIG truly offers a vast improvement with respect to program management.

Stigmatization

Recipients of various kinds of government assistance have sometimes been subjected to social stigmatization. There is reason to believe that in this respect BIG beneficiaries may suffer more than ELR beneficiaries. Most countries have had experience with two different kinds of income support programs, which we can call '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, p. 2, 2000)

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

Furthermore, it is possible that BIG maybe perceived as a 'dole' payment. Of course, BIG proponents desire to advance a program which offers its recipients the means of a decent living, not the meager pittance of a 'dole' payment that imposes the humiliating work requirement and blames the unemployed for the social problem of unemployment. An ELR program resolves at least some of the problem of unemployment, offering participation to anyone willing and able to work on volunteer basis. The pay is adequate and the work is rewarding. It is much more likely that an ELR program will be associated with other job guarantee or fair work programs. This is not to say that ELR workers may not be stigmatized. It is possible that certain disadvantaged individuals of specific race, gender or age group come to dominate the ELR labor force. The problem of stigmatization cannot be fully avoided but it can certainly be alleviated with active government involvement. First, the program can be marketed as a support program for private sector activities. Second, the kinds of jobs an 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 quite feasible, through various incentives, to create an ELR that is perceived as an advantage on the resume, rather than a stigma (Wray, 146, 1998).

Incentive Problems and Human Development

One objection to income support programs is that they introduce a work incentive problem. What will be the impact of a BIG on labor force participation? How many people will leave their jobs, opting to live on their income support alone? Some have argued that an adequate income guarantee will certainly reduce work incentives, while others believe that it can be designed well enough to provide the monetary incentives for people to seek gainful employment. As Reuben Baetz argues, the incentive problems cannot be adequately evaluated until ample opportunities for meaningful work to all have been provided (Baetz, 16, 1973). To this end, it is impossible to judge what the effects of a BIG on work incentives will be, until all members of society enjoy equal access to employment. For this reason, securing the right to employment must be our first task, *before* we are even capable of evaluating the effects of a BIG in an environment where work really is a choice. As argued above, the ELR can be designed in such a way as to provide a living wage that will address the issue of poverty and allow for a dignified human existence. To the extent that not all members of society can profit from working because they are too young, too old or too sick to work, a form of basic income guarantee is certainly necessary.

Some have questioned the labor market as the appropriate place where humans can truly achieve dignified human existence. Put differently, in a world of job scarcity and because of the demeaning nature of many existing jobs, the right to work is much less appealing that the right to income. Philip Harvey, neutralizes such claims by stating 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). Harvey's contention is analogous to Baetz's argument discussed above. How can we evaluate whether the marketplace offers adequate opportunities for human development, if many people are denied access to employment and income, and thus are largely precluded from taking part in the marketplace activities.

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. At the same time, the wage does not compete with those offered in the private sector, thereby encouraging ELR workers to seek higher remuneration for private sector work. Furthermore, the ELR program creates, maintains and improves the working skills, training and education of the ELR workers, keeping them employable. Additionally, since the goal is not to compete with private sector activities, the nature of the jobs can be designed in such a way so to provide people with various employment opportunities that are oriented more toward social integration and meaningful community involvement. For example these can include jobs that today people may perform only on volunteer basis. With an ELR in place, workers will be able to do much more for their communities because of the access to resources and the support that would not be otherwise available.

In their book *Building America,* Harry Boyte and Nancy Kari have laid out a roadmap to civic duty, community involvement and citizenship that redefines what it means to work: not simply obtaining the means to an end, but thinking about the larger context of what it means to make or produce something (Boyte and Kari, 1996, p.4). These considerations should be included when determining the kinds of activities we incorporate in the design of an ELR program. Work is at the center of citizenship, the authors argue (ibid, p. 7). ELR can incorporate certain forms of work that have not been traditionally remunerated. For example, childcare which currently is not recognized as paid work for many women, can be integrated into the ELR program. Many activities, which stand at the heart of the community, enhance social inclusion and neighborhood commitment can and should be defined as useful ELR work.

ELR Improves the Investment Environment

Both BIG and ELR claim to alleviate the problem of poverty. To the extent that they are successful and poverty is reduced (eliminated according to BIG supporters), many social ills will also be addressed, such as poor health, certain crime activity, homelessness, malnutrition, school dropout rates, racial and ethnic antagonism.[4] With less crime and higher aggregate demand due to the increase in income from BIG or ELR, the investment climate is expected to improve. Less social and political unrest (which too can result from high unemployment and poverty rates) also bode well for investment activity. ELR however, has a clear advantage over BIG as it maintains an *employable* and *visible* pool of labor that can be tapped by private investors should they need trained and skilled workers for their ventures. By contrast, while a BIG may provide the income necessary to sustain a decent standard of living, it does not deal with the loss of skill and

[4] For more on the real costs associated with poverty and especially unemployment, see Forstater 2002.

training and deterioration of human capital that result from unemployment, especially if it is long-term.

ELR further attracts foreign direct investment by promoting maximum output and consumer demand. ELR improves the investment climate by maintaining a large and productive pool of labor available for hire at a stable compensation package. ELR strengthens the economy and hence strengthens and stabilizes the currency. BIG cannot claim to offer either of these results.

Conclusion

To the extent in which we live in wage-labor economies and an increasingly globalized world, where equitable benefits from trade can be reaped only in conditions of full employment, we must secure the right to work as expressly recognized by the Universal Declaration of Human Rights, adopted by the United Nations General Assembly, December 10, 1948.

References:

Atkinson, A.B. 1995. *Public Economics in Action: The Basic Income/Flat Tax Proposal*. Oxford, UK: Clarendon Press.

Baetz, Ruben C. 1972. "The Nuffield Canadian Seminar and After: A Personal View" in *Guaranteed Annual Income: An Integrated Approach*. The Canadian Council on Social Development, Ottawa, Canada.

Bell, Stephanie. 2000 (September). "Do Taxes and Bonds Finance Government Spending?" *Journal of Economic Issues*. vol. 34. no. 3. 603-620.

Bell, Stephanie and Wray, L. Randall. 2002-3 (Winter). "Fiscal Effects on Reserves and the Independence of the Fed". *Journal of Post Keynesian Economics.* vol. 25. no 2. 263-271.

Boyte, Harry C. and Kari, Nancy N. 1996. *Building America: The Democratic Promise of Public Work*. Philadelphia, PA: Temple University Press.

CFEPS*Digest*. 2001 (Fall). vol. 2. no. 1. Kansas City, MO: Center for Full Employment and Price Stability.

Clark, Charles M.A. 2003. "Promoting Economic Equity: The Basic Income Approach". In *Institutional Analysis and Economic Policy*. Mark R Tool and Paul Dale Bush. (Eds.). Boston, MA: Kluwer Academic Publishers.

Forstater, Mathew. 1999. "Public Employment and Economic Flexibility." *Public Policy Brief No. 50*. Jerome Levy Economics Institute.

Forstater, Mathew. 2002. "Unemployment." *C-FEPS Working Paper No 20*. Kansas City, MO: Center for Full Employment and Price Stability.

Goodhart, Charles. 1997 (March). "One Government, One Money." *Prospect*. 1-3. http://www.prospect-magazine.co.uk/highlights/one_gov_one/index.html.

Harvey, Philip. 2000. "Direct Job Creation." In *Commitment to Full Employment: The Economics and Social Policy of William S. Vickrey.* Aaron Warner, et al. (Eds.). Armonk, NY: M.E.Sharpe.

Harvey, Philip. 2003 (February 21-23). "The Right to Work and Basic Income Guarantees: A Comparative Assessment", presented at the USBIG Conference, New York City. http://www-camlaw.rutgers.edu/misc/harvey.html.

Innes, A. Mitchell. 1913 (May). "What is Money". *Banking Law Journal*. 377-408.

Ingham, Geoffrey. 2000. "Babylonian Madness: on the historical and sociological origins of money" in *What is Money?* edited by John Smithin. London: Routledge.

Katz, Israel. 1972. "Why a Guaranteed Annual Income?" in *Guaranteed Annual Income: An Integrated Approach*. The Canadian Council on Social Development, Ottawa, Canada.

Knapp, George Friedrich. [1924] 1973. *The State Theory of Money.* Clifton, NY: Augustus M. Kelley.

Lerner, Abba P. 1947 (May). "Money as a Creature of the State." *The American Economic Review.* 37: 312-17.

Minsky, Hyman P. 1986. *Stabilizing an Unstable Economy.* New Haven, CT: Yale University Press.

Mitchell, William and Watts, Michael. 1997. "The Path to Full Employment." *Australian Economic Review.* vol. 31 (4) 436-444.

Mitchell, William. 2000. "The Job Guarantee and Inflation Control". *Working Paper No. 00/01*. Newcastle, Australia: Centre for Full Employment and Equity.

Mitchell, William. 2001. "Fiscal Policy and the Job Guarantee". *Working Paper No. 01/09*. Newcastle, Australia: Centre for Full Employment and Equity.

Mosler, Warren. 1997-98 (Winter). "Full Employment and Price Stability." *Journal of Post Keynesian Economics.* vol. 20. no. 2. 167-182.

Rose, Nancy. 2000 (March). "Historicizing Government Work Programs". *C-FEPS Seminar Paper No.2*. Kansas City, MO: Center for Full Employment and Price Stability.

Sawyer, Malcolm. 2002 (July). "Employer of last resort: could it deliver full employment and price stability?" http://129.11.89.221/MKB/MalcolmSawyer/elr.doc

Tcherneva, Pavlina. 2001 (Winter). "Money: A comparison of the Post Keynesian and Orthodox Approaches." *Oeconomicus.* 43-49.

Widerquist, K. and Lewis, M. 1997. "An Efficiency Argument for the Guaranteed Income". *Working Paper No.212*. Jerome Levy Economics Institute.

Wray, L. Randall. 1998. *Understanding Modern Money: The Key to Full Employment and Price Stability.* Cheltenham, UK: Edward Elgar.