



Policy Note

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FULL EMPLOYMENT THROUGH SOCIAL ENTREPRENEURSHIP: THE NONPROFIT MODEL FOR IMPLEMENTING A JOB GUARANTEE

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Status Quo Fiscal Policy

Anyone with even a cursory understanding of the contemporary policymaking landscape will notice that the borders of the possible outline increasingly cramped terrain. This is particularly true with respect to fiscal policy, where our choices seem to be limited—at best—to two options, one of them disastrous and the other woefully inadequate. For the most part, austerity (attempting to achieve expansion through fiscal contraction) and conventional aggregate demand management (enlarging government deficits in an attempt to “prime the pump” of economic growth) mark the boundaries within which fiscal policy ideas are allowed to roam. The results of this limited policy space have been unenviable. While fiscal stimulus under current conditions is to be preferred to the disaster that is austerity, aggregate demand management suffers from marked weaknesses. It fails to achieve true full employment, harbors inflationary tendencies, and does not meaningfully address inequality (it may in fact erode it). We need a novel way of thinking about fiscal policy—one that eschews austerity and moves beyond the limits of conventional pump priming.

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These days, when so many countries are focused on budget cuts and austerity, it may seem odd to regard aggressive expansionary fiscal policy as a member in good standing of the “status quo.” It is, however, the only other fiscal policy option that garners any serious attention from policymakers. When it comes to fiscal stimulus, the conventional approach always centers on tax cuts, investment subsidies, accelerated depreciation, contracts to firms with guaranteed profits, and extensions to unemployment insurance and food stamp programs. Though the specific preferences for certain policies may differ from one political party to the next, the objective remains the same: boost private investment and growth by all means possible and jobs will hopefully follow.

This way of thinking about the problem, however, is precisely upside down. Growth declines when investment and consumption fall. Investment falls when sales fall. Sales and consumption fall when employment falls. To reverse this vicious cycle, policy must begin by fixing the unemployment situation, which will then lead to a recovery in sales and consumption, which in turn will improve business conditions and profit expectations—all of which will finally boost investment and growth. Growth, in other words, is a byproduct of strong employment, not the other way around.

How do we launch a virtuous cycle? One of the most effective ways is through direct job creation in the public sector. John Maynard Keynes spoke of “on-the-spot” employment (Keynes [1982], 171; Tcherneva 2012b), while Hyman P. Minsky proposed the employer of last resort (ELR) (Minsky 1986). In both cases, the objective is to bring the job contract to the worker in distressed areas and regions with high unemployment, and to attain true full employment over the long run. One modern proposal inspired by Keynes and Minsky is the job guarantee (JG), in which the public sector provides a *voluntary* job opportunity, in a community project that serves a public purpose, to anyone who is willing and able to work but unable to find private sector employment.

There is a long line of literature on the benefits of the JG, ELR, and direct job creation in general,¹ yet one question that frequently resurfaces is whether it is at all possible to design and implement these policies without relying on a bloated new federal bureaucracy. To address this issue, I present the broad contours of a model for full employment through social entrepreneurship. It is a model for a job guarantee run through the nonprofit sector. The social entrepreneurs in this proposal

work to address the problems of unemployment and its associated negative externalities. Social entrepreneurial ventures draw on unutilized resources—workers who linger in forced idleness—for the purposes of rebuilding social capital and furthering various social and environmental goals.

New Fiscal Rules, Same Old Problems

To put the need for a direct approach to full employment into context, a few words about conventional fiscal measures are in order. Whereas the JG reenvision the role and function of fiscal policy, conventional support for fiscal intervention argues for increased deficit spending on pro-investment, pro-growth, pro-productivity policies, coupled with income support to the poor and the unemployed. This is all well and good, because, unlike austerity measures, such policies will halt a severe economic decline by improving cash flows to firms and overall aggregate demand. But they are not policies that produce true full employment or long-run stability. They are status quo policies, because they represent the only thinking we have about fiscal policy effectiveness today. They have been tried with generous funding at one point or another in the postwar era and have still failed to make much progress in helping to solve some of the most important economic problems of modern society, such as poverty, income inequality, short- and long-term unemployment, instability, and deteriorating incomes.

The task for economists today is doubly challenging. Not only must we explain the benefits of fiscal policy intervention in the face of radical austerity measures around the world, but we must also choose the type of policies we wish to defend. What should fiscal policy look like? The status quo policies described above are policies that prime the pump; that push a pro-investment, pro-growth agenda without explicitly targeting unemployment. Indeed, priming the pump is seldom sufficiently aggressive to get us anywhere close to full employment. And when it is, it tends to be inflationary, which is why policy intervention generally aims to keep the economy below its full capacity, in what Keynes called a “quasi-slump.” And though such policies are often called Keynesian, they have little to do with what Keynes actually advocated. “The right remedy for the trade cycle,” he argued, “is not to be found in abolishing booms and thus keeping us permanently in a quasi-slump; but in abolishing slumps and thus keeping us permanently in a quasi-boom” (Keynes 1964 [1936], 322).

This status quo quasi-slump also means that the persistence of some measure of unemployment is deemed acceptable by conventional economic wisdom. Relabeling a condition of, say, 5 percent unemployment as “full employment” (see, for example, the Congressional Budget Office’s estimates for the nonaccelerating inflation rate of unemployment, or NAIRU) is essentially a rhetorical device adopted by the economics profession to sidestep a problem it has failed to solve. A more sensible definition of full employment is a condition where everyone who *wants* to work has a job, not a condition where 5 percent of the workforce wants to work but cannot find employment. Still, the unemployment problem is so formidable today that pundits and policymakers seem to be satisfied with a 6.7 percent unemployment rate (Weidner and Williams 2011), calling such a condition “the new normal.”

Our thinking about the unemployment problem is at least 80 years old—it is the offspring of the old Hydraulic Keynesian approach (also known as the ISLM approach), which advocates a *buffer stock of unemployment* as the stabilizing element in the business cycle. To produce the optimal buffer stock of unemployment (or what is known euphemistically as the “natural” rate), so the argument goes, the policymaker must fine-tune the economy using various fiscal rules, and “new” fiscal rules seem to be the hot new topic of the day. But it seems that economists are reinventing the wheel when it comes to policy responses to the unemployment problem. Priming the pump, by whatever fiscal rule, up to the desired buffer stock unemployment level based on some version of Okun’s law is the hallmark of the ISLM approach and all of its modern neoclassical descendants who favor fiscal policy intervention.²

Though modern calls for aggressive fiscal policy intervention seem to have been drowned in a sea of austerity rhetoric, one must still wonder whether the “new” fiscal rules approach is able to offer anything genuinely novel. Some advocates of new fiscal rules argue that deficits are sustainable and governments can spend without facing hard budget constraints. But that idea is not new. The ISLM economists of the postwar era who took Abba Lerner seriously knew this well. Even modern New Consensus economists such as Michael Woodford and Ben S. Bernanke seem to understand this (see Tcherneva 2010, 2011). The clearest contemporary statement on why governments with sovereign control over their currencies do not go bankrupt can be found in the approach known as Modern Monetary Theory. But recognizing that governments can spend

without binding budget constraints is a necessary but insufficient condition for understanding the nature of fiscal policy effectiveness.

We also require new ways of thinking about policy design. Do the proposals for fine-tuning the economy through spending in accordance with some “new” fiscal rule offer such a novel policy design? Hardly. That is just old wine in a new bottle. Automatic hydraulic fiscal policies that adjust spending and taxation throughout the business cycle are trademarks of postwar fiscal intervention. Yet they have failed to deliver sustained stability or full employment, even in the best of times. Priming the pump, whichever way you dress it, works extremely poorly. It is trickle-down Keynesianism, which erodes the income distribution and fails to address unemployment and poverty, no matter how well intentioned it is. We need to reorient fiscal policy from the conventional “top-down” to a new “bottom-up” approach.

Instead of targeting some *buffer stock of unemployment* (like the natural rate), why not target a *buffer stock of employment*? That will happen when, for example, instead of keeping individuals in forced idleness, the public sector designs a program that will put the unemployed directly to work for the public purpose. Experience has shown that similar programs tend to deliver the greatest benefit to those individuals who are at the bottom of the income distribution and who experience the most precarious labor market conditions. Such a buffer stock employment program would operate at all stages of the business cycle, with the buffer stock of labor shrinking in expansions, as the private sector hires people out of the JG program; and expanding in recessions, as private payrolls shrink (Mitchell 1998). This buffer stock acts as a preventative measure that stabilizes demand quickly without allowing a condition of mass unemployment to develop. By stabilizing employment and incomes at the bottom, fiscal policy effectively stabilizes demand at the bottom, which then bubbles up through the economy, stimulating consumption, investment, and overall growth.

Such a buffer stock employment model, however, does not require that the federal government design, manage, and execute the projects. Though the federal government would fund the program, the actual projects can be created, designed, and run by the nonprofit and social entrepreneurial sectors, with a strong contribution from the unemployed themselves. The overriding objective of these social entrepreneurial ventures would be to put those individuals whom the private sector has

declined to employ into socially useful projects that fill some unmet public need.

Such entrepreneurial projects that employ and release workers in a countercyclical fashion are fundamentally different from conventional countercyclical fiscal policies. Trying to adjust public spending and taxation through some new fiscal rules in order to nudge the private sector to hire the last man and woman standing in the unemployment line is inefficient, and never manages to employ all those who want to work. Fine-tuning is an inferior policy that is akin to shooting darts blindfolded: some of them will hit the target, some won't, but a whole lot of time, effort, and resources will be wasted in the meantime. This was well understood by Minsky (1986) and Michal Kalecki (1971), who addressed the difficulties with fiscal fine-tuning policies, especially those that are pro-investment, pro-growth.

Alternative Fiscal Policies: Why the Job Guarantee Is Superior

Minsky's and Kalecki's insights can be used to demonstrate why conventional fiscal policies are inferior to direct job creation in general, and the JG and ELR in particular (Tcherneva 2012a). The Post Keynesian markup model can be used to study the effects of different fiscal policies on prices and income distribution. Minsky often argued that in the modern era, government is both "a blessing and a curse"—it stabilizes profits and output by imparting an inflationary bias on the economy, without stabilizing it at or near full employment. In Tcherneva 2012a, I consider several distinct functions of government: (1) as an income provider, (2) an employer, and (3) a buyer of goods and services. The inflationary and distributional effects of each of these fiscal policies differ considerably. The paper first examines the effects of income transfers to individuals and firms (in the form of unemployment insurance and investment subsidies, respectively). Next, it considers government as an employer of workers (direct job creation) and as a buyer of goods and services (indirect job creation). Finally, it modifies the basic theoretical model to incorporate fiscal policy à la Keynes and Minsky (JG, ELR, "on-the-spot" employment), where the government ensures, through direct job creation, full employment of all of the unemployed unable to find private sector work, irrespective of the phase of the business cycle.

The model illustrated that conventional pump-priming policies are more inflationary and inequitable than direct job creation. Pro-investment policies in particular add upward pressure to prices and skew the income distribution toward the capital share of income. The paper also models the ELR/JG and derives a fundamental price equation for a full employment economy with government. The model presents a "price rule" for government spending that ensures that the ELR/JG is not a source of inflation. Indeed, the fundamental equation illustrates how in the presence of such a price rule, at full employment, inflationary effects are observed from sources *other than* the public sector employment program.

When evaluating conventional fiscal policies, their inflationary and income distribution effects must enter the assessment. Why should the policy status quo be defended? Why should a policymaker stick to conventional pro-investment, pro-growth fiscal policies that produce higher markups and worsening income distribution, instead of giving jobs in a productive project to the unemployed?

The JG/ELR literature has explained the features of these programs, simulated their countercyclical effects, and studied their macro effects by turning to real-world public employment programs that mimic the ELR. Nevertheless, there are loose ends that keep coming up in the debates about the pros and cons of direct employment schemes: namely, how they should be designed to (1) avoid the problem of creating inefficient and enormous new government bureaucracies, (2) make them consistent with the American entrepreneurial spirit, and (3) foster the principles of a participatory democracy.

The Job Guarantee through Social Entrepreneurship: A Proposal for the United States

A voluntary public employment opportunity for the unemployed need not necessarily be organized and provided by the federal or state government. I propose that the job creation program be run by the nonprofit sector instead. Some incorrectly see the ELR/JG model as a top-down policy: planned, instituted, managed, and administered by the federal government, involving a sizable new bureaucracy. Though ELR supporters do not favor such a top-down approach, the precise nature of the ELR design has not been articulated, in part because there are many different models consistent with the vision of public employment for the public purpose. The particular vision I

offer is one that involves the participation of the nonprofit and entrepreneurial sectors.

It is centered on community-based and community-proposed programs that can be implemented at all phases of the business cycle and that can address different levels of unemployment and community need. This is a bottom-up approach in the truest sense of the phrase—powered by communities, localities, and individuals themselves. The projects will be designed in a way that addresses regional differences and variations in participant education and skill levels. In other words, it is an approach that fits fiscal policy to people, communities, and their needs, rather than a policy that tries to fit people and communities to a “macroeconomic agenda.” Communities, nonprofits, and the unemployed themselves will participate in designing, proposing, and executing the projects. This type of a job guarantee program is thus not only voluntary but also a tangible opportunity for those in forced idleness to actively participate in and contribute to the community.

The federal government will allocate grants to nonprofits that are already on the ground and doing many of the jobs that the public and private sectors have failed to do. These are the same nonprofits that fulfill crucial social needs but lack adequate resources. Note that new nonprofits are organized in an entrepreneurial fashion all the time in order to fill *new* needs like environmental cleanup, sustainable agriculture, and urban farming. Nonprofits are better organized, more familiar with local needs and resources, and always in need of more helping hands. The federally funded grants-based model of the program will mean that the projects will be evaluated for effectiveness and performance according to specific socio-economic measures such as employment creation, environmental impact, public goods provisioning, community development, and physical and human resource creation, renewal, and enhancement.

Community leaders know well that many men and women who live in poverty, have low levels of education, and are deemed “unemployable” by the private sector nevertheless have a good grasp on the pressing needs of their local communities and many good ideas about how to address them. What they don’t have are the opportunities and institutional support to address those needs. To execute a grassroots job guarantee program, one does not need big government planning and decision making. The nonprofit market, whose reason for existence is addressing social needs, can create the needed jobs and implement the projects, so long as it has the resources. What is

required of the federal government is to invite the proposals, assess the projects the way it would with any current private sector contract, perform due diligence in reporting and quality control, and allocate the funding for worker wages and materials (and in many cases the funding need not be 100 percent).

The difference between the nonprofit JG model and conventional fiscal policies is that the former is a long-run program that has an *explicit objective* to deal with the problem of unemployment directly, rather than treating it as a byproduct of growth. Instead of extending contracts to private firms with guaranteed profits that may or may not result in net new employment, the JG model funds nonprofit and social entrepreneurial ventures to design projects for the public purpose and staff them with individuals currently unemployed, at a base wage. Nonprofit work is highly countercyclical, which is why it is well suited to providing the automatic stabilizer discussed above. As the economy slumps, existing unemployment agencies can be used to provide placement of the jobless into these nonprofit projects. As the economy recovers, the same agencies can provide job placement into higher-paying private sector work. There already exists a significant institutional infrastructure in the United States that can help with the execution of a JG.

Certainly, where mass infrastructure improvements are needed, they should be made. Private companies paying prevailing wages will execute some of these projects; some projects will be low skill and will employ workers at a base wage. The nonprofit model I describe above does not preclude infrastructure investments or improvements. Indeed, there is considerable evidence that large-scale public investment projects are sorely needed in the United States, such as a massive green-infrastructure investment. But public works do not guarantee full employment over the long run. Instead, hiring the unemployed directly into a community project run by the nonprofit sector in booms or busts is an effective way to address this outstanding fault of modern market economies.

Designing the JG will not be easy, but we have many models around the world to learn from. At the same time, the knowledge networks and innovations of a rapidly changing nonprofit and social entrepreneurial sector can be tapped for ideas and improvements in program design. There will be many issues to iron out, and policymakers must be cognizant that the JG is not a panacea to all social ills that plague modern economies. Nevertheless, it represents a novel approach to fiscal policy for full employment and macroeconomic stabilization.

Notes

1. See Kaboub 2007 for a historical overview.
2. Recall that Okun (1962) himself cautioned that the link between output and employment growth is very tenuous.

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