Chapter 4

The Costs and Benefits of a Job Guarantee: Estimates from a Multicountry Econometric Model

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The Job Guarantee (Mosler 1997–1998; Mitchell and Muysken 2008; Wray 1998; hereafter JG) is a policy proposal designed as an alternative to the neoclassical natural rate of unemployment or Nonaccelerating Inflation Rate of Unemployment (NAIRU). Whereas that approach presumes that some positive percentage of the total labor force must be sustained as involuntarily unemployed in order to avoid accelerating inflation, the JG literature argues instead that a buffer stock of the employed can enable true full employment without compromising price stability, with the additional benefit of mitigating the economic and social costs of involuntary unemployment.

The core of the proposal is for the government to offer a job at a base wage to anyone willing and able to work (i.e., the JG would ideally not be means tested). Proponents argue that a JG should be financed by a national government that spends in its own currency under flexible exchange rates, since such a government can always afford to provide an inelastic demand for labor at a base wage. This does not mean, however, that the program should be necessarily run by a federal government; indeed, jobs programs in India and Argentina have been quite decentralized in their operations. Further, jobs do not necessarily have to be provided by the government sector; for instance the nonprofit sector will generally have intimate
knowledge regarding community needs while often being short of available workers (or funds to hire workers) to meet these needs (Tcherneva 2012). The JG is a specific application of Abba Lerner’s (1943) theory of functional finance, whereby government deficits are to be judged on their effects upon the economy rather than the more typical criteria of “sound finance” (Nell and Forstater 2003). Consistent with the functional finance view, proponents argue that for a currency-issuing government that can always afford a JG program it is the macroeconomic costs and benefits of the program that must serve as the criteria for judging the policy, not the deficits that might (or might not) result, \textit{per se}.

Consequently, analysts and proponents of policy proposals must be able to provide an indication of the effects, costs, and benefits of their preferred policies if they expect that policy makers will advocate and ultimately implement them. One way to obtain such information is via simulation using a large macroeconometric model of the economy. Any estimate of a policy proposal not already in place necessarily relies on counterfactuals—that is, comparing the macroeconomic outcomes of the program relative to not having the program—even when there are similar or at least related programs in place elsewhere (such as programs in India, Argentina, and South Africa, for instance, or Great Depression–era programs). A related reason for simulating a policy proposal is that it illustrates the logic of how a proposal is supposed to actually work. This is useful both for proponents and critics of a policy, as it provides a test of sorts with respect to one’s understanding of a proposed policy within the context of an accepted understanding of how the macroeconomy functions.

The purpose of this chapter is to provide such estimates derived for the first time from a model that places the US economy in a global context with dozens of other countries. To do this, the JG is simulated within the multi-country version of the Fairmodel (Fair 2004).

\textbf{A Brief Overview of the Fairmodel}

The Fairmodel is a large macroeconometric model developed in the 1970s by Ray Fair. The model is dynamic, nonlinear, and simultaneous and it incorporates household, firm, financial, federal government, state and local government, and foreign sectors of the economy. The US portion of the model combines 28 stochastic equations that are estimated using the Two Stage Least Squares (2SLS) method with another 100 identity equations. National Income and Product Account (NIPA) and Flow of Funds data are completely integrated into the model within the identity equations; balance sheet and flow of funds constraints are thus fully accounted for. There are 128 endogenous variables and over 100 exogenous variables.