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THE PROBLEM WITH A FEDERAL JOBS GUARANTEE (HINT: IT'S NOT THE PRICE TAG)

Proposed legislation guaranteeing a job to anyone who wants one, at $15 an hour plus benefits, aims to eradicate underemployment

By Greg Ip
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In 1944, Franklin D. Roosevelt proposed a second bill of rights enshrining the right to a job and a decent income. More than 70 years later, many on the left say it is time to deliver.

Vermont Sen. Bernie Sanders, a Democratic presidential candidate in 2016 and likely again in 2020, is drafting legislation that would guarantee a job to anyone who wants one, at $15 an hour plus benefits. New Jersey Democratic Sen. Cory Booker has proposed a somewhat less ambitious version.

Why now? Unemployment was 20 percent or more when Roosevelt put millions to work through the Civilian Conservation Corps and Works Progress Administration. Nowadays, full employment is part of the Federal Reserve's mandate, and while its record has blemishes, today it can claim mission accomplished. With the unemployment rate now at 4.1 percent, mainstream economists consider the U.S. effectively at or beyond full employment; Letting unemployment go lower risks shortages and inflation.

But the big thinkers behind the federal jobs guarantee have their eyes on a bigger prize. That 4.1 percent only represents the 6.6 million who are unemployed under the Labor Department's official definition. Another 5.1 million don't meet it but want a job, and 5 million work part time because they can't find full-time work. Eradicating these last vestiges of un- or underemployment "would fundamentally transform the current labor market," write Mark Paul, William Darity and Darrick Hamilton in a paper for the Center on Budget and Policy Priorities, a left-of-center think tank. Their proposal, which forms the basis of Mr. Sanders's bill, would "significantly alter the current power dynamics between labor and capital" by forcing all employers to match the federal standards for pay and benefits.

Yes, a job guarantee would cost a fortune, but ignoring the obvious political impediments, the price tag isn't the catastrophe some critics claim. To hire all the official and unofficial unemployed and half the involuntary part timers at $15 an hour plus $3 an hour for benefits would cost around $450 billion, or 2.3 percent of gross domestic product. The actual cost could be much lower: Many of the unemployed won't take up the federal offer because they expect to get something better, don't like what's being offered, or face some sort of obstacle (family, disability, etc.).

Also, some of what gets spent on salaries will be saved in reduced Medicaid, tax credits, unemployment insurance and other safety net outlays. Five scholars at the Levy Institute, a think tank, have advanced a plan they say will cost just 1 percent to 1.5 percent of gross domestic product. The federal government spends three times that on Social Security and twice that on defense.

The price tag would jump in recessions as laid-off people flock to the program. That's a feature, not a bug: By automatically injecting public money into the economy, it would prop up spending, private employment and tax revenue, lessening the recession's severity. And unlike universal basic income, another fashionable idea for reducing inequality in which everyone gets a check regardless of whether they work, a jobs guarantee gets the taxpayer something in return: workers.

That, however, is also the problem.

Here's why. According to the Economic Policy Institute, 39 percent of the workforce, some 54 million people, now earn $15 an hour or less. All would have an incentive to quit and join the federal program.

Of course, most wouldn't because their employers would, grudgingly, raise pay to keep them, then pass the cost on to customers, a de facto inflation tax. Indeed, advocates say the job guarantee accomplishes the same thing as a $15 minimum wage without the job loss.

Nonetheless, potentially millions of workers would end up on the federal payroll instead of in the private sector. And there's the rub. Utopians would argue jobs exist to give people dignity and a decent standard of living. The reality is more mundane: Jobs are how people, as producers, satisfy their needs as consumers. Low-paid work such as brewing coffee, cleaning hotel rooms and flipping hamburgers gets a bad rap but it satisfies a genuine demand: People want coffee, clean hotels and hamburgers.

A federal make-work program would crowd out many of those private services. Crowding out is fine when the government is providing something more valuable, Roger Farmer and Dmitry Plotnikov, economists at the University of California at Los Angeles, wrote in 2010.

For example, military spending crowded out private consumption during World War II, when the U.S. "was fighting for its survival."

In ordinary times, that is a harder case to make. A 2011 study by Lauren Cohen, Joshua Coval and Christopher Malloy of Harvard Business School found that when a member of Congress takes over an important committee, his state often enjoys an influx of federal spending. But that benefit is offset by a contraction in private investment and employment, evidence of crowding out.

Enabling workers to make a decent living is a noble goal; even better is enabling them to do so while serving the needs of a market economy. Small steps could include curbing barriers to employment such as excessive incarceration and inadequate child care, and providing more generous earned-income tax credits to top up low wages. One big step: for the Fed to get unemployment below 4 percent, and keep it there.