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## The case for a job guarantee policy in Germany: A political-economic analysis of the potential benefits and obstacles

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# **The Case for a Job Guarantee Policy in Germany – a political-economic analysis of the potential benefits and obstacles**

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Working Paper, No. 150/2020

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# **The Case for a Job Guarantee Policy in Germany – a political-economic analysis of the potential benefits and obstacles**

*Jannik J. Landwehr*

## **Abstract**

As a bottom-up approach, a Job Guarantee policy can tackle the issue of unemployment on the macroeconomic, socioeconomic, and individual level in a unique way and promote the social inclusion of the unemployed. This paper aims at analysing the potential obstacles – namely inflationary pressure and financing – of a Job Guarantee policy implementation in the case of Germany. A Job Guarantee's impact on inflation depends on excess production capacities of economic sectors as well as collective wage bargaining structures. In this regard, this paper concludes that under a correct policy design inflationary pressure is no major obstacle. Strengthening workers' bargaining power in Germany through a Job Guarantee policy could even contribute to reaching the inflation target and prevent deflation. However, deficiencies of the European institutional setup and the analogous restrictive fiscal mantra at European and national level limit the political scope for financing a Job Guarantee policy. Notwithstanding, a small to medium size Job Guarantee programme – comprising up to all currently unemployed willing to work – is politically and legally feasible.

## **Keywords**

Job Guarantee, Employer-of-Last-Resort, Public Works, Unemployment, Underemployment, Full Employment, Inflation, Fiscal Policy, Debt Brake

## **JEL Classification**

E24, E62, H63, J68

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## 1 Introduction

The Resolution for a Green New Deal for the US, initiated by Alexandria Ocasio-Cortez, literally calls for “guaranteeing a job with a family-sustaining wage, adequate family and medical leave, paid vacations, and retirement security to all people of the United States” (Ocasio-Cortez, 2019, p. 13). The concept of a federal Job Guarantee (henceforth JG) – also referred to as Employer-of-Last-Resort – reached the public debate as well as the political agenda of progressive politicians in the US. Being a central part of Modern Monetary Theory (henceforth MMT), attention for the concept of a JG rose with the growing popularity in the political discourse of MMT itself and the theory’s radical political conclusions (Lavoie, 2013).

Back in 1948 the “right to work” and the “free choice of employment” were already written into article 23 of the *Universal Declaration of Human Rights* (United Nations, 1948). The core idea of the JG approach is that a government should offer employment to everybody ready, willing and able to work for a living wage in the last instance as an employer of last resort (Tcherneva, 2018). Projects should be administered in a decentralised manner on a local level but federally funded. Jobs should be designed with regard to the needs and characteristics of the local community, considering local industrial, social and environmental infrastructure as well as skills of participants.

At its core, the concept tackles the systemic characteristic of unemployment in capitalist societies,<sup>1</sup> an aspect already addressed by John Maynard Keynes (2018 [1936]) and Michał Kalecki (1943). One of the most substantial JG proposals has been formulated by Hyman Minsky (2008). In his book *Stabilizing an Unstable Economy*, the author outlines that “the main instrument of such a policy is the creation of an infinitely elastic demand for labor at a floor or minimum wage that does not depend upon long- and short-run profit expectations of business” (Minsky, 2008, p. 343).

The comprehensive benefits of the JG approach render such a policy socially and economically attractive. To name a few, the JG as a bottom-up approach reduces poverty most effectively for the lowest income classes (Minsky, 1965; Tcherneva, 2018). Apart from material issues, unemployment has multiple impacts on the well-being of individuals (Tcherneva, 2017, 2018). The socioeconomic costs, the deprivation of human and social capital and the impacts on physical and mental health lead to vicious cycles of unemployment (Darity, 1999; Tcherneva, 2017). By providing a constant esteemed employment opportunity, a JG scheme, as a concept of social

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<sup>1</sup> Whereas a JG might not prevent frictional unemployment, full employment can be understood as the abolishment of structural and cyclical unemployment (Wray, 1998).

inclusion, thwarts social deprivation and the vicious dynamic of unemployment (Tcherneva, 2017, 2018).

Furthermore, a JG is based on the separation of employment and profitability, allowing for the investment in public goods and social services and the potential to tackle various socioeconomic issues – namely women’s empowerment, caretaking for certain social groups (elderly, disabled, homeless, etc.), community cohesion and environmental work (Abukhadrah, 2017; Tcherneva, 2013, 2018).

The policy is not just a social investment, but also a public investment to attenuate the breadth of the business cycle (Tcherneva, 2018). According to Mitchell (1998), the JG labour pool functions as a buffer stock for the private labour market. In times of economic upswing, the JG labour pool shrinks as workers shift to the private sector. On the contrary, in a recession, the buffer stock absorbs workers, who drop out of the private sector. This improves macroeconomic stability (Mitchell, 1998; Tcherneva, 2018).<sup>2</sup>

In early 2020, Germany experienced the lowest unemployment rates (5.3%) since reunification (BA, 2020a). However, the ubiquitous presence of unemployment is indisputable, as in absolute terms 2.4 million people are unemployed, almost 3.3 million people are considered underemployed and 9 million workers are part of the low-wage sector, with approximately 1.8 million earning less than the minimum wage (henceforth MW) (BA, 2020a; Burauel et al., 2017; Grabka & Schröder, 2019). The current unemployment benefit system, including the so-called “Hartz IV” reform of 2010, is under continuous critique and demonstrates several shortcomings regarding dignity and social inclusion.

Policies that comprise features of a JG have already been debated and enacted in several countries. For instance, France established an experiment close to the JG concept for long-term unemployment prevention in 2017 (ETCLD, 2018). Most prominent examples are the 1930s work programmes in the US, the *Plan Jefes y Jefas de Hogares* in Argentina, the *National Rural Employment Guarantee Act* in India or the *Productive Safety Net Programme* in Ethiopia. All

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<sup>2</sup> Interestingly, unemployment has some geographical manifestations as mass dismissals in one area create higher unemployment rates in surrounding areas. In particular the JG counteracts contagion effects, as JG projects are concentrated in areas with high unemployment/low economic activity, such that incomes and spending patterns are stabilized geographically (Lavoie, 2013; Tcherneva, 2017).

examples showed significant beneficial impacts on poverty alleviation, macroeconomic stability, socioeconomic issues, well-being and resilience. Surprisingly, contributions to a JG policy discussion in Germany are rare.<sup>3</sup>

Main institutions which provide research about the JG concept are the Centre of Full Employment and Price Stability (CFEPS), the Centre of Full Employment and Equity (CofFEE), and the Levy Economics Institute of Bard College in the USA (Lavoie, 2013). The origin of the JG concept, its characteristic and benefits are outlined in much detail in many introductory papers to the topic already. See for example among others the work of Kaboub (2007, 2013), Tcherneva (2012, 2013, 2017, 2018), Tcherneva & Wray (2007) or Wray (1998, 2007, 2015).

Leaving out the benefits of a JG, this paper aims at discussing the feasibility of a JG policy implementation in Germany based on the main theoretical objections. The following section addresses the necessity of a JG policy in Germany with regard to labour market dynamics. Section 3 provides a critical discussion of the JG approach, with a focus on price stability and financing. A JG policy implementation is treated as additional fiscal spending by the German government. Finally, section 4 evaluates the political space for financing a JG policy, including a costs calculation and an outline of fiscal restrictions. Section 5 concludes.

## **2 The Necessity for a JG Policy in Germany**

To assess the necessity for a JG in Germany, the prevailing section outlines the current labour market situation regarding unemployment and potential JG job fields. Undoubtedly, the present Covid-19 pandemic has had and will have major effects on the economy and particularly the labour market. However, the following content is based on statistics from February 2020, which do not include the effects of the Covid-19 pandemic.

### **2.1 Aspects of Unemployment in Germany**

To begin with, an unemployment rate of 5.3% (February 2020) is relatively low – in 2019 unemployment figures reached their lowest point since the reunification of East and West Germany (bpb, 2019) – but still mirrors about 2.4 million jobless individuals (BA, 2020c).<sup>4</sup> This is far from being only frictional unemployment. About 30% – 714.000 in absolute terms – of the unemployed have the status of long-term unemployment, a situation which is almost impossible

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<sup>3</sup> One example is the article by Ehnts & Höfgen (2020) in the German online magazine Makroskop. On another note, Picek (2020) proposes a JG approach for Austria.

<sup>4</sup> Unemployed is everybody, who works less than 15 hours per week.

to overcome under prevailing market forces (BA, 2020a; Tcherneva, 2017).<sup>5</sup> Furthermore, official unemployment statistics hide vital groups of people and underrepresent the actual unemployment rate (Dantas & Wray, 2017). The German unemployment statistics exclude people searching via private job associations (and not the “Bundesagentur für Arbeit”), individuals in further training, the so-called one-euro workers<sup>6</sup>, individuals older than 58 which are unemployed for longer than a year – the official current retirement age is 65 – and people which are simply not captured by the statistical office<sup>7</sup> (Rose, 2018).

A more realistic representation of the unemployment challenge in Germany might be the number of employable recipients of unemployment benefits, namely 4,562,000 in February 2020 according to preliminary projections (BA, 2020a). The high deviation from the number of unemployed itself proves that vital groups are hidden in the unemployment statistics, as outlined above. Additionally, the underemployment rate, which is 7.2% or 3.34 million in absolute terms, comprehensively represents the deficit of regular employment (BA, 2020a, 2020c). The underemployment rate includes the unemployed and participants of labour policy measures (excluding short-time work).

Furthermore, a JG policy implementation would affect the German low-wage sector, which is one of the largest in Europe with 9 million workers (Grabka & Schröder, 2019). By definition, the low-wage sector encompasses everybody whose contractual gross hourly wage is lower than two-thirds of the national gross hourly median wage. Hence, in Germany, a worker with an hourly wage of €10.80 (based on estimations of 2017) is counted as working in the low-wage sector (Grabka & Schröder, 2019). Assuming that the JG compensation would be equal to the current MW of €9.35, technically, a JG implementation would not affect workers of the low-wage sector. However, this assumption does not hold in practice. First, JG projects can have a role model function in terms of working conditions (Wray 2015; Tcherneva 2018). Second, in real terms, over 1.8 million low-wage sector workers earn less than the MW, due to difficulties in legal enforcement (Burauel et al., 2017). Often, there is no contractual wage for mini-jobs. Additionally, in many cases with a contractual wage, employers let workers do overtime without compensation (Burauel et al., 2017). In the presence of the prevailing unemployment benefit system workers might accept such conditions, whereas JG projects would provide an alternative to private low-wage jobs. Currently, one in six people in Germany is under the

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<sup>5</sup> Long-term unemployed is someone whose unemployment status exceeds 12 months (BA, 2020a).

<sup>6</sup> Those who receive unemployment benefits but top them up with mini jobs. In most cases, compensation per hour is not higher than one or two euros (Rose, 2018).

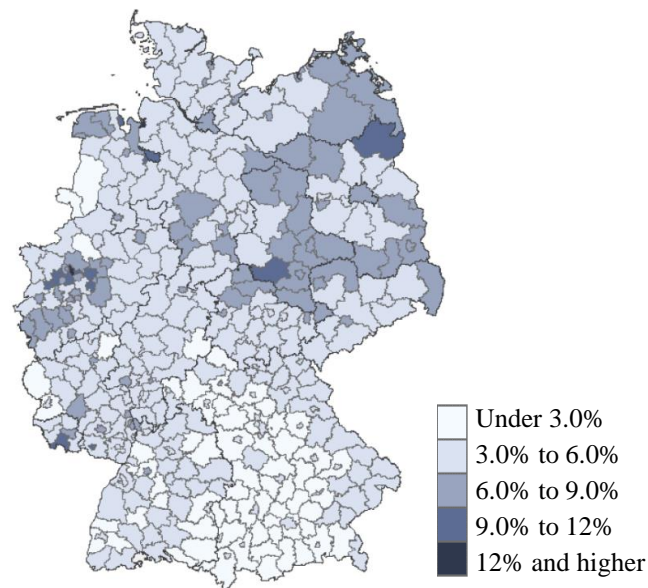
<sup>7</sup> The dark figure includes for example parents (mainly mothers) who want to reenter the labour market but cannot find work (Rose, 2018).



relative poverty line and earns less than 60% of the median income (WSI, 2019). A JG programme is capable of providing a system of social inclusion and improves the socioeconomic situation of communities and individuals (Tcherneva, 2017, 2018).

Yet, political measures could not overcome structural differences between the former eastern and western part of Germany. The unemployment statistics reflect these differences, as shown in Figure I. The February 2020 unemployment (underemployment) rate in the former West Germany was 4.9% (6.8%), whereas it was 6.6% (9.1% ) in the former East Germany (BA, 2020a). JG projects would concentrate, relative to the population, more in the former eastern states and contribute to a further rapprochement between both parts.

*Figure I: Unemployment Rate in German districts*



*Source: Bundesagentur für Arbeit (BA, 2020b, p. 1)*

## 2.2 What kind of Jobs?

Table I depicts potential job areas and concrete examples of JG projects. The table's content is mainly influenced by the French experiment of zero long-term unemployment territories, in French "Territoires zéro chômeur de longue durée" (henceforth TZCLD). Major job fields are environmental green jobs (including the circular economy), work in community projects and the social service sector.<sup>8</sup> Jobs should be created based on local necessities and the skills of available workers (Tcherneva, 2018). However, JG job creations must comply with the premise

<sup>8</sup> Also, public infrastructure building and maintenance is needed almost everywhere. Hence, the state could create a basic public infrastructure company based on the JG principle – perhaps with specific skill requirements and a wage above the MW.

not to undermine existing (private and public) jobs or the necessity of well-paid skilled positions in the social field (Palley, 2015).

Social service jobs should focus on simple tasks, where helping hands are needed, but few skills. An example could be the work with homeless people to promote their reintegration into society. Since the stream of refugees to Europe grew significantly in 2015, the integration of migrants is a politically controversial topic, which was used by right-wing parties to gain popularity. JG projects could help refugees with their integrational challenges and promote cultural cohesion.

*Table I: Possible JG Job Fields and According Examples*

<b>Job Field</b>	<b>Job Example</b>
Circular Economy	Computer reconditioning, auto repair, car repair and recycling, waste sorting, valorisation and recycling, reclamation of materials, community-based recycling, and industrial recycling
Environmental Work	Nature guard, gardening, forestry, maintenance of green areas, urban furniture, neighbourhood clean-up (playgrounds, parks, sidewalks, etc), park maintenance, environmental safety monitoring (e.g. test water safety, removal of certain types of environmental contamination, fire detection and prevention), soil erosion prevention, flood control, environmental surveys, species monitoring and removal of invasive species, weather-proofing of homes, monitoring of environmental legislation
Services Sector	Concierge, mini-jobs, security, artisan services, burial assistance, window cleaning, school coaching, school supervision, public school classroom assistant, housing renovation, library assistance
Social Services	Household assistance and home visits, transport, social mediation, assistance for people with disabilities, companion for elderly (conversation, playing games, helping in the household), but also for bedridden, orphans and mentally or physically disabled, family support, work with at-risk youth, integration of former inmates, helping homeless people, care talking, assistance and integration of refugees
Infrastructure	Restoration of public infrastructure (e.g. patching holes in city streets), restoration of historical sites, construction of playgrounds, establishment of solar arrays
Food Production and Sale	Bazaar, Vegetable growing for communities, vegetable growing for individual sales, homemade pastry production, distribution of organic products, urban agriculture, support for local fisheries, food waste programmes, nutrition surveys in schools
Craft and Manufacturing	Metal or wooden creations, carpentry, furniture production for social sale
Business and administrative Work	Administrative assistance, secretary, accounting, customer relationship, car wash
Tourism	Management of leisure activities – animation, nature hikes, guided tours
Community Work	Local committee work, social café, local services, artist and musician in the framework of community projects – celebrating local culture, community cultural historian (e.g. talks with elderly to write a community history), community theatres, rooftop and community gardens, establishment of co-working spaces, tool lending libraries, organisation of car-pooling, assistance to community sport schemes

*Source: The table contains a selection of jobs, listed by a report about the TZCLD experiment in France (ETCLD, 2019) as well as jobs collected out of concrete JG proposals from Wray (1998), Tcherneva (2018) and Forstater (2003) and a few ideas by the author.*

With advancing age, it becomes more likely to lose ties with family and friendship networks, consequences can be loneliness or even depression (Singh & Misra, 2009). Communities form an important social basis for the elderly but also for the cultural and social life of all. JG projects could promote active communities and foster local social cohesion.

One of the biggest structural challenges is the transition to a low-carbon economy. The introduction of the *Green Deal for Europe* in December 2019 demonstrated that awareness of this crucial issue has now increased among the political leaders of Europe.<sup>9</sup> A JG policy can complement such a transition from a social, economic and ecological perspective. First, a comprehensive JG policy makes structural economic changes less socially disruptive – because of increased socioeconomic security and a lower fear of job loss – and establishes structural flexibility (Forstater, 2003). Second, JG projects could actively support the mitigation of carbon emissions by creating green jobs (see 2<sup>nd</sup> row of Table I) (Forstater, 2003). Third, the transition to a low-carbon economy requires a different set of skills. Active social and political support for workers whose livelihood depends on carbon-intensive industries is needed (ILO, 2018). The phase-out of German coal production depicts such a situation, as around 70,000 jobs are directly or indirectly affiliated with the coal industry (WiWo, 2018). The JG approach is well suited to complement a green transition, by providing directed training, education opportunities and a comprehensive social safety net (Forstater, 2003).

These are just a few examples of many potential applications of JG projects. Regarding the institutional setup, the current unemployment centres – the “Bundesagentur für Arbeit” – could be transformed into employment centres (Ehnts & Höfgen, 2020). The basic task of these centres is to evaluate the local needs, the skill profile of unemployed and the application for project funding to the government (Ehnts & Höfgen, 2020). The cooperation with respective NGOs, organisations and institutes could help to establish qualitative surveys regarding national and regional socioeconomic shortcomings and reasonable working fields. As Ehnts & Höfgen (2020) point out, criteria for project funding – coordinated by the ministry of labour – are the societal value, the creation of sufficient jobs and the degree of competition with existing jobs.

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<sup>9</sup> See: [https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_de#manahmen](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_de#manahmen)

### **3 A Critical Discussion of a Potential JG Policy in Germany**

#### **3.1 Practical Objections**

The literature provides several practical objections toward a JG policy. These are outlined in the following. While these are not regarded as impeding the implementation of a JG in Germany, practical objections rather point to the need for comprehensive considerate policy design. Also, the following objections did not impede any successful project implementation in the empirical examples mentioned in section 1.

One objection regards the transition between the JG work and the private labour market. As JG projects provide socially useful jobs, which do not compete with already existing private jobs (Wray, 1998), the work experience does not depict a high value for the private sector (Kadmos & O'Hara, 2000) – however, at least soft skills are enhanced or maintained (Tcherneva, 2018). Also, the administration of JG projects needs to incorporate the fact that active job search for private labour market jobs might require much time (Sawyer, 2003). For existing public sector jobs, the jeopardy is high to replace jobs with initially higher compensation and skill requirements. In such a case, a cheaper JG worker undermines existing public sector pay arrangements (Palley, 2015).

Furthermore, certain occupations, especially those involving social interaction, like elderly care or assistance for people with disabilities, require comprehensive skills (Kadmos & O'Hara, 2000). In these cases, JG workers have to be carefully checked for their suitability. Especially in the field of social work, the job creation for participants could be a long-lasting challenge (Sawyer, 2003). A further question to address concerns the strategy of projects in the case of uncooperative individuals. As the productivity of workers might be very low and workers come from a demotivating or frustrating social background, difficult cases could arise (Ramsay, 2002).

#### **3.2 The JG and Price Stability**

Wray (1998, p. viii) claims that “[i]t is possible to have truly full employment without causing inflation.” This view is at the core of macroeconomic criticism opposed to the JG approach (Palley, 2015; Sawyer, 2003). The following aims at providing a structured discussion of the potential effects of a JG programme on inflation in Germany.

### 3.2.1 The Phillips Curve Argument – Capacity Utilisation and Bargaining Power

Critics often argue with the rather orthodox concept of the NAIRU (non-accelerating inflation rate of unemployment), which derives from the Phillips Curve, the nexus between unemployment and inflation. Accordingly, a JG policy leads to accelerating levels of inflation as soon as the unemployment rate falls below the NAIRU-level. In the mainstream view, the Phillips Curve illustrates the impact of scarcity and market forces, whereas in Post-Keynesian theory lower rates of unemployment affect price levels through a related increase in the strength of worker's bargaining power (Lavoie, 2014, chapter 8). Staying in the Post-Keynesian view, the following relates to two lines of argumentation, which Sawyer (2003) labelled as two different conceptualisations of the NAIRU.

First, the NAIRU depicts the level of unemployment which disciplines workers and limits their bargaining power to the degree that the target real wage stays stable, such that nominal wage growth is not accelerating beyond productivity growth and expected inflation (Sawyer, 2003). In the case of full employment, the unemployment rate falls under this threshold. Nevertheless, a JG-full-employment situation might not display the same characteristics as a true private-sector-full-employment case. The buffer stock labour under a JG scheme is analogous to the unemployed under present policies (Mitchell, 1998). Similar those currently unemployed, JG workers function as a reserve and provide labour to the private labour market when necessary, while maintaining human capital to a higher extent (Mitchell, 2000). Consequently, the increase in bargaining power is limited to workers at the bottom of the income distribution where the paid private labour market wage is close to the JG wage (Sawyer, 2003).<sup>10</sup>

Second, the NAIRU may indicate the lack of productive capacity for providing full employment without rising inflation (Sawyer, 2003). This view of inflation considers the scale of aggregate productive capacity as well as the sectoral and geographical distribution (Sawyer, 2003). The general idea is that prices are rigid in the short run and firms react to a JG-induced increase in demand with an increase of capacity utilisation (Palley, 2015). Palley (2015) argues for a threshold problem of economic capacity. The author points out that wages, spent by JG workers, induce multiplier effects across sectors. As the economy consists of multiple sectors with different attributes, some are likely to reach the full employment barrier before others (Palley, 2015). Hence, full employment requires an adequate relation between reserve capacity ('equip-

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<sup>10</sup> Additional subjects of collective bargaining are the working conditions of low-income jobs.

ment') and the available labour (Kalecki, 1990, chapter 6). Otherwise, "[i]f the reserve capacities are non-existent or insufficient, the attempt to secure full employment in the short run may easily lead to inflationary tendencies in large sections of the economy because the structure of equipment does not necessarily match the structure of demand" (Kalecki, 1990, p. 361-362).

### 3.2.2 Non-Accelerating Inflation Buffer Employment Ratio

Responding to implications of the NAIRU concept, Mitchell (1998) developed the concept of the NAIBER, namely the 'Non-Accelerating Inflation Buffer Employment Ratio'. The NAIBER is defined as the ratio of JG labour force to total employment which maintains price and wage stability. If the private labour market is tight, the private labour market wage rises relatively to the JG wage and the JG labour pool diminishes. If the size of the buffer employment drops under the NAIBER, an inflation period follows. The level of the NAIBER depends on the interplay of labour and capital with regards to wage bargaining. (Mitchell, 1998)

This implies that a certain scale of JG buffer employment is required to discipline workers and maintain price stability. However, the higher the bargaining power of workers is, the more will the private labour market wage rises above the JG wage<sup>11</sup>, hence the greater are the costs for workers in case of job losses in the private labour market which in turn limits the bargaining power (Wray, 2015). Above this automatic adjustment of bargaining power, the government has to execute inflation control by manipulating the size of JG employment. According to Mitchell (2000), resources can be transferred from the private to the public sector by an increase in the interest rates and/or a fiscal tightening, i.e. demand reduction measures.

This mechanism is also applicable in the case of limited excess capacity in the economy. Palley (2019) disregards in his analysis that a price increase does not automatically trigger an inflationary spiral, which only occurs when a price increase causes wages to rise, such that in turn, through mark-up pricing, a price increase follows and so forth. The link between a price increase and the following wage increase is determined by workers' bargaining power. Consequently, regarding limited excess capacity, the government has to use the mechanisms of the NAIBER to manipulate worker's bargaining power.<sup>12</sup>

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<sup>11</sup> Under the assumption of a constant JG wage growth in line with the national inflation target.

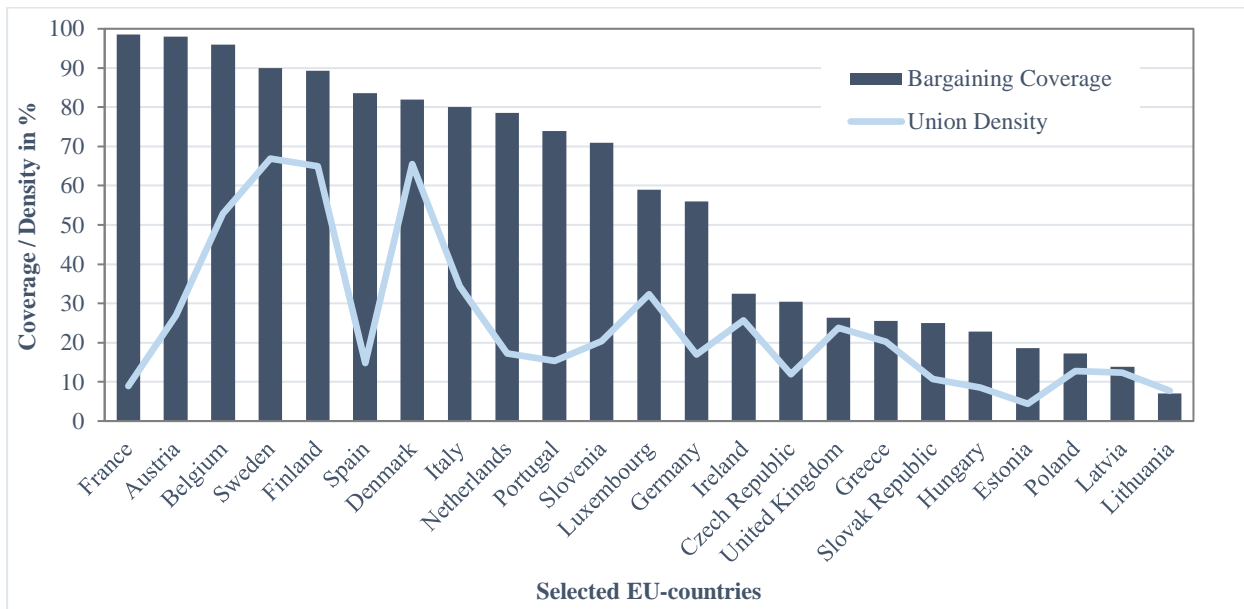
<sup>12</sup> Particularly the case of Sweden demonstrated how to prevent such class conflicts if trade unions, employer and government representatives can agree to common grounds. The so-called Swedish Model of the 1970s and 1980s maintained price stability and unemployment rates around 2% on average and was based on highly centralized wage bargaining as well as active labour market policies (Holmlund, 2009; Kaboub, 2007).

### 3.2.3 Price Stability in Germany

Proponents claim that a JG could even stabilise price levels. Arguments mainly refer to the countercyclical character of the buffer stock, its implications for macroeconomic stability and the introduction of a fixed floor price for labour which cannot generate inflationary pressure on the market wage (Fullwiler, 2007; Mitchell, 1998; Tcherneva, 2018; Wray, 2015). Leaving these aspects aside, the following outlines arguments concerning inflationary effects in Germany, assuming that a JG implementation would affect worker's bargaining power.

Figure II shows the collective bargaining coverage rate and union density in European comparison in 2016. Germany has a relatively low union density and a rather average bargaining coverage, measured by the proportion of all wage earners with the right to bargain. Furthermore, it is a stylised fact that the change in real unit labour costs in Germany is among the lowest in Europe, resulting in a decline of the labour income share (Berger & Wolff, 2017; Flassbeck & Lapavitsas, 2013). On this basis, the situation in Germany would allow for a JG-induced increase in the bargaining power of workers.

*Figure II: Collective Bargaining Coverage\* and Union Density in selected EU-countries in 2016*



*Bargaining Coverage Data: LU refers to 2017; FI, EE, PL and LT refer to 2015; FR, IE and HU refer to 2014*  
 \*'Collective Bargaining Coverage' refers to the proportion of all wage earners with the right to bargain

*Source: Data retrieved from OECD.Stat*

As Table II shows, particularly in the last 7 years, inflation in Germany and the eurozone has been well below the target rate of ‘below, but close to 2%’ for the harmonised index of consumer prices. A JG-induced increase in the bargaining power of workers, hence a rise of private-sector wage demands, could contribute to reaching the inflation target and prevent deflation. Further, an annual growth rate of the nominal JG wage by the target rate of inflation plus the average productivity growth rate would stabilise the inflation rate at the target rate.

In the case of Germany, an increase of workers’ bargaining power could further help to re-balance the eurozone and the global economy through a domestic income – imports channel (Hein & Truger, 2017). A JG policy, as a nominal wage policy, has a distributional effect for the functional income distribution. Under the assumption of heterogeneity of firms and industries the transmission of an average nominal unit labour cost increase into prices will always be incomplete, such that the functional income distribution shifts towards labour income (Hein & Truger, 2017). The JG-induced effect on the functional income distribution influences domestic demand, import growth, net exports and the current account in Germany and reduces imbalances (Hein & Truger, 2017). An expansionary wage policy should not have strong direct detrimental effects on German exports. Particularly in Germany, exports show a high income elasticity due to factors of non-price competitiveness (Horn et al., 2017).

*Table II: Annual Average Inflation Rate – Euro area and Germany*

geo\time	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Euro area countries	3.3	0.3	1.6	2.7	2.5	1.3	0.4	0.2	0.2	1.5	1.8	1.2
Germany	2.8	0.2	1.1	2.5	2.2	1.6	0.8	0.7	0.4	1.7	1.9	1.4

*Source: Data retrieved from Eurostat*

### **3.3 Financing and the European Political Setup**

Another core critique of JG-opponents is the issue of financing such a large federal policy. In fact, most macroeconomic criticism of the JG concept is rather addressed to implications of MMT – see for example Palley (2015, 2019) – than particularly towards a JG.

MMT, also referred to as neo-chartalism, currently features in active debates on public platforms. The approach of a JG policy is very much intertwined with MMT, as the achievement of full employment is one of the main features of the progressive economic paradigm (Lavoie,



2013).<sup>13</sup> Leading neo-chartalist authors are advocates for a JG policy with the argument that “[...] a sovereign nation operating with its own currency in a floating exchange rate regime can always financially afford a JG/ JG program” (Wray, 2015, p. 226). The reason is that such a government has a unique monopoly over the supply of its currency. Thus, sovereign insolvency and bankruptcy are not possible (Tymoigne & Wray, 2013).

However, the creation of the Euro was rather politically and ideologically influenced and does not provide such conditions regarding monetary policy. First, internally, there are no nominal exchange rates for individual countries any more, the adjustment which could be used to tackle current account imbalances.<sup>14</sup> Second, monetary policy is centralised and administered by the European Central Bank (henceforth ECB), whereas fiscal policy is a decentralised matter of state sovereignty (Ehnts, 2017b).

Moreover, the European legal setup limits the policy space of the ECB and the national central banks with regards to deficit spending.<sup>15</sup> The usual procedure of the ECB and the national central banks does not allow for purchasing government securities on the primary market. Thus, the ECB cannot make direct advances to national governments to assist countries which experience difficulties financing their deficits or serving their debt (Lavoie, 2013; Palley, 2015). These conditions make eurozone countries no longer default risk-free and forces them to be dependent on the availability and terms of financial markets, i.e. the budget restraint turns into a constraint similar to those of households (Lavoie, 2013; Palley, 2015).

In the context of the euro crisis in 2010 certain tools have been established to prevent government defaults, namely the *European Financial Stability Mechanism*, the *European Financial Stability Facility* and the *European Stability Mechanism* (Hein, 2013). Furthermore, as announced by former ECB president Draghi in a famous speech in 2012, the ECB, if necessary, will intervene in secondary bond markets to buy government debt of countries at risk to stabilise interest rates and prevent a collapse of these markets (Hein, 2013). However, these measurements are not unconditional, but rather coupled with austerity measures, in terms of restrictive fiscal and wage policies. Recently, the ECB established the *Pandemic Emergency Purchase Programme* to control the economic risks of the Covid-19 crisis. The programme temporarily

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<sup>13</sup> Other main subjects of MMT are; the origins of money as a creation of the state, the strong role of fiscal policy and the mechanics of the clearing and settlement system (Lavoie, 2013). Also, the field of financial stability could be added to the list (Tymoigne & Wray, 2013).

<sup>14</sup> Lavoie (2014, p. 503) calls it a “peculiar instance of a fixed exchange rate”.

<sup>15</sup> Among others, the legal setup is determined in the *1992 Maastricht Treaty*, the *Treaty of Lisbon* or the *Statute of the European System of Central Banks* (Lavoie, 2013).

allows the ECB to spend up to €750 billion for purchasing government bonds at the market price.<sup>16</sup>

Despite extraordinary measures by the ECB in times of severe crisis, major institutional deficiencies are not resolved as the European institutional setup does not provide an “explicit, permanent and unconditional” legal structure and mechanism which ensures that government bonds are risk-free (Hein, 2013, p. 338).<sup>17</sup> Taking these flaws of the European institutional setup into account, this paper assumes that a JG policy in Germany must be financed by taxes and the issuing of government securities. Consequently, this paper aims at estimating an approximate required budget for a German JG policy to evaluate the political space for such fiscal spending.

## 4 The Costs of a JG Policy in Germany

### 4.1 Cost Calculations in the Literature

Referring to the US, Harvey (1989), as well as Wray (1998), estimated the overall costs of a JG policy to be lower than 1% of GDP. Also, the studies from Gordon (1997), Majewski (2004) and Fullwiler (2007) show that the implementation costs for a JG can be estimated around 1% of GDP.

Based on the 1930s Work Programmes, Tymoigne’s (2014) most comprehensive cost calculation for a federal JG nowadays in the US is 1.39% of GDP with an unemployment rate less than 5% and 3.74% of GDP considering an unemployment rate of 5% - 10%.

In his fairly extensive calculation for the US, Kaboub (2013) considers 23.4 million participants, including individuals who are marginally attached to the labour force as well as involuntary part-time workers. Additionally, the author uses different skill and compensation levels (skilled: 21 \$/hour, semi-skilled: 18 \$/hour and unskilled: 15 \$/hour) as well as an additional annual benefit package of 10,000\$. Subtracting sales tax revenues, income tax and multiple cost reduction affect the programme’s expense amounts to 593.8 billion \$, which is equal to 3.93% of the US GDP in 2013 (Kaboub, 2013).

Tcherneva (2018), who estimates JG expenditures to be between 0.8% and 2% of the US GDP, emphasises the importance of potential savings from main anti-poverty expenditures. In 2015,

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<sup>16</sup> See: [https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318\\_1~3949d6f266.en.html](https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html)

<sup>17</sup> The Five Presidents’ Report introduces the idea of a European Finance Ministry (Juncker et al., 2015). In a hypothetical scenario, this Euro Treasury could issue (risk-free) Eurobonds which can be purchased by the ECB, similar to the *Pandemic Emergency Purchase Programme* mechanism for national government bonds. The Euro Treasury then spends with a view to full employment, price stability and sustainable resource management (Ehnts, 2020).

the US states spent 505\$ billion on social services and income maintenance, not including health care. Moreover, socio-economic impacts like crime reduction might also have financial effects. For instance, New York City spends 169,000 \$ per prison inmate per year which is equivalent to about 4.5 living wage jobs, considering a wage of 15\$ per hour.

#### **4.2 How Much Would a German JG Policy Cost?**

Critics of the JG approach often claim that cost estimations are generally set too low (Aspromourgos, 2000; Sawyer, 2003). Additionally, Sawyer (2003) claims that for example Wray (1998) leaves out material costs of capital equipment and supervisory labour. Moreover, the author points out that hidden unemployment is often disregarded in the cost calculations.<sup>18</sup> First, usually, the measured unemployment is lower than the overall unemployment. Second, the prospect of a living wage and good working conditions might induce people in precarious work to prefer the JG job. Sawyer (2003) states that the number of people, which would join JG projects, could be 2.6 times the number of the actual unemployed. However, proponents argue that the higher income and spending are likely to stimulate the private sector, which would lead to a reduction of the JG labour pool (Kaboub, 2013; Tcherneva, 2018).

Taking these points into account for the cost calculation of a German JG programme, I differentiate four different scenarios, distinguished by the number of participants: 1. long-term unemployed, 2. unemployed, 3. underemployed and 4. underemployed plus 1.8 million workers of the low-wage sector which earn less than the MW.

I assume the paid JG wage to be equal to the current MW of €9.35, which is equal to an annual income of €19,452, considering a 40-hour week (BMAS, 2020b). Regarding capital and administrative costs, I follow the experience of the French TZCLD experiment, which calculates with 8,000 Euros per person per year (ATD Fourth World, 2019).<sup>19</sup> Wage and capital costs are displayed in the first and second row of Table III. For simplicity reasons, I further assume that JG workers do not generate revenues and that there is no part-time work and no skill differentiation for the compensation.

Considering deductions due to lower social spending and higher tax revenues, I assume that the implementation of a JG policy reduces federal social spending by the same amount the Ministry of Labour and Social Affairs plans to spend on social transfers for job seekers in 2020, namely

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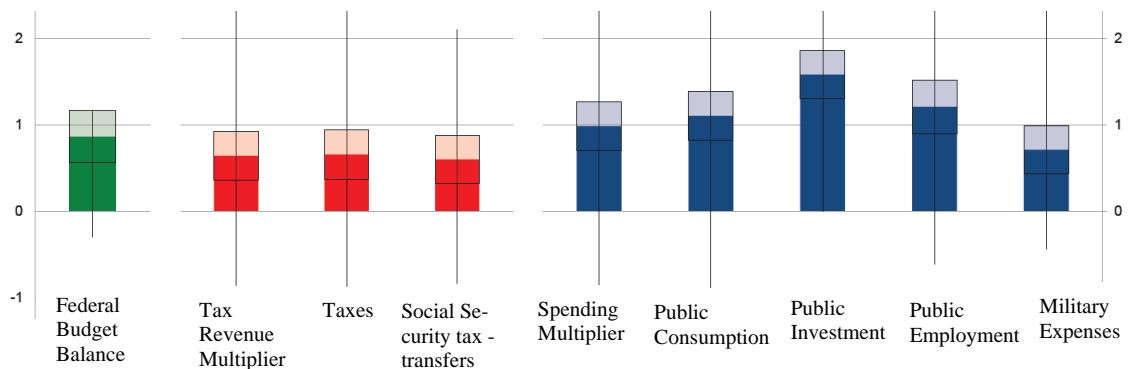
<sup>18</sup> Some groups of the population do not appear in the official statistics, as they are not actively searching for a job. One reason is demoralization. (Sawyer, 2003)

<sup>19</sup> In June 2019, the Berlin parliament approved the launch of a solidary basic income experiment, which creates jobs for long-term unemployed. The administration calculates with annual expenses of €30,000 per participant – see Schupp (2019). This is close to the cost assumptions of this paper.

€38 billion (BMAS, 2020a).<sup>20</sup> Not included are financial resources of the federal Employment Agency, notwithstanding further capital costs reductions – due to a lower administrative effort of current institutions – are not considered. Regarding the first scenario, for example, I assume a social transfer reduction of 29.8% of €38 billion, as long-term unemployed individuals account for 29.8% of all unemployed (BA, 2020a).

For estimating the increase in tax revenues, it is necessary to consider the fiscal multiplier, i.e. the effect of certain budgetary spending on GDP (Gechert, 2017; Horn et al., 2014). The multiplier depends on a complex transmission mechanism of fiscal policy and depends on various aspects, e.g. the reaction of the domestic private sector, crowding-in / crowding-out effect, monetary policy, financial markets and the external sector (Gechert, 2017; Horn et al., 2014). Whereas it is difficult to estimate the exact value of the multiplier of a JG policy, it is possible to have an idea of the approximate range of the multiplier. The work of Horn et al. (2014) estimates several multipliers based on a systematic analysis of 104 studies – the results are displayed in Figure III.

*Figure III: Multiplier Effect of Different Fiscal Impulses*



*Source: Horn et al. (2014), page 8*

In general, the spending multipliers are significantly positive, close to 1 and about 0.3 to 0.4 units larger than tax and transfer multipliers (Gechert, 2015; Horn et al., 2014). In the category of spending multipliers, public investment multipliers are the largest ones. If considering a JG policy as associated with the category of public employment, the multiplier, according to Figure III, even slightly exceeds 1.

<sup>20</sup> Including accommodation and heating services of €7 billion, administrative costs of €5.1 billion, Social transfer “Arbeitslosengeld II” of €20.9 billion and work integration benefits of €5 billion (BMAS, 2020a).

Additional arguments should be considered. On the one side, a measure targeting households with a high marginal propensity to consume, as it is the case for a JG, generally increase the multiplier effect (Gechert, 2017). On the other side, the multiplier of 1 is based on an average import rate of 21%. However, Germany's import rate is about 33%, which reduces the multiplier (Horn et al., 2014). Overall, I will assume a multiplier of 1 for JG budget spending.

In this regard, German GDP would increase by the exact amount of cost of a JG policy. With regards to tax revenues, generated by the additional GDP, this paper chooses a simplistic method.<sup>21</sup> The total amount of tax revenues in 2019 have been €735.9 billion (BMF, 2020a), which accounts for 21.42% of the respective GDP of €3,435.76 billion. This will be used as an average tax rate to calculate the tax revenues of a GDP increase due to fiscal multiplier effects of a JG programme (see row five in Table III). For example, the tax revenues of the first scenario are equal to 21.42% of the total costs (wage payment + capital costs) minus the social spending reduction of €11.32 billion.<sup>22</sup>

*Table III: Total Budget Federal Spending – 4 Scenarios\**

	Long-term unemployed (714,000)	Unemployed (2,396,000)	Underemployed (3,336,000)	Underemployed + 1.8M low-wage workers (5,136,000)
Wage Payment	13.89 billion	46.61 billion	64.89 billion	99.91 billion
Capital Costs	5.71 billion	19.17 billion	26.69 billion	41.09 billion
<b><i>Deductions</i></b>				
Social Spending Reduction	11.32 billion	38 billion	38 billion	38 billion
Potential Tax Revenue Increase	1.77 billion	5.95 billion	11.48 billion	22.06 billion
Spending without tax revenues	8.28 billion	27.78 billion	53.58 billion	103 billion
Total Net Spending	6.51 billion	21.83 billion	42.1 billion	80.94 billion
Spending (Net Spending) as % of GDP**	0.24% (0.19%)	0.81% (0.64%)	1.56% (1.23%)	3.00% (2.36%)

\* All monetary amounts are in Euro, \*\* The 2019 GDP of €3.435,76 billion has been considered.

Source: own estimations

Overall, Table III depicts comparable results with regards to cost calculations in the literature (see section 4.1). Nevertheless, the reader should be aware that the estimations cannot depict a perfectly accurate prediction of a JG policy's costs. The results, shown in Table III, distinguish

<sup>21</sup> Normally, tax structures for households and corporations should be considered.

<sup>22</sup>  $0,2142 \times (\text{€}13,89 \text{ billion} + \text{€}5,71 \text{ billion} - \text{€}11,32 \text{ billion}) = \text{€}1,77 \text{ billion}$

total spending with and without potential tax revenues, as fiscal multiplier effects might be difficult to sell politically. Without potential tax revenues, a JG policy directed at long-term unemployed only costs about 0.24% of GDP, whereas the largest scenario, including underemployed and 1.8 million workers of the low-wage sector, costs about 3% of GDP. Further, a JG with all current unemployed participating costs about €28 billion, which is not even 1% of German GDP. A sum worth spending, considering the social benefits of a JG policy.

### **4.3 Financial Restrictions at the European and National Level**

Do current fiscal restrictions at the national and European level impede the potential implementation of a JG in Germany? The Excessive Deficit Procedure within the Stability and Growth Pact (SGP) – as well as the Maastricht Treaty (Ehnts, 2017a) – limits the total annual budget deficit to a maximum of 3% of GDP (Truger, 2013).<sup>23</sup> Additionally, the SGP sets a threshold for the debt to GDP ratio of 60% and calls for an annual reduction of 5% of the amount of debt beyond this threshold (Truger, 2013). Furthermore, the Fiscal Compact restricts the annual structural deficit – the budget deficit corrected for cyclical measures – to a maximum of 0.5% of GDP. The Compact even calls for an institutional debt brake on the national level, driven by the German example (Truger, 2013).

The German debt brake and the prevailing “black zero” politics until the Covid-19 crisis are the biggest obstacles for financing a comprehensive JG policy. According to the German debt brake, the annual structural budget deficit must not exceed 0.35% of GDP on the federal level and 0.0% on state-level (Hein & Truger, 2014). Depending on the economy’s cyclical position, the threshold adjusts in both directions (Hein & Truger, 2014).

Considering the recent years – and excluding the current Covid-19 crisis for a moment – the federal finance ministry succeeded in running a balanced budget. In 2019 the budget recorded even a surplus of €13.5 billion, which amounts for 0.39% of GDP (BMF, 2020b). Technically, in 2019 there was legal space for 0.74% of additional structural spending. Consequently, a JG policy encompassing all current unemployed at the cost of 0.64% of GDP would have been politically feasible. One should additionally take into account that a JG policy comprises not only a structural investment part but also a cyclical one. With regards to the debt brake, it is necessary to distinguish both parts. Consequently, dependent on the level of expenses due to cyclical unemployment, a JG with the size of the current unemployment force might even be feasible without the tax revenue argument. Surely, a JG policy targeted at the 714,000 long-

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<sup>23</sup> This restriction currently applies to all euro area member states except Estonia, Finland, Germany, Luxembourg and Malta. However, the SGP sets a political guideline for all countries. (Truger, 2013)

term unemployed is politically realistic. For a more comprehensive JG policy, there are certain prospects to discuss.

Theoretically, a JG policy could be financed by shifting public budgets and/or an increase in taxes. Then, the debt brake would be irrelevant. However, at least in the short-term, the necessary financial resources might be too large,<sup>24</sup> require politically unfeasible tax policies and/or reallocations of public budgets. Moreover, the financing environment is extremely favourable, as Germany can currently issue government securities with maturities of more than 10 years at negative interest rates (Bardt et al., 2019).

From a Post-Keynesian viewpoint the balanced budget strategy, including the debt brake, is harshly criticised and many authors pointed to the severe damage caused by public investment cuts (Truger, 2016). Not only that investment cuts result in decreased growth potential, but fiscal policies are necessary for sustainable investments – future generations rely on investments taken today – for the rebalancing of the Euro area and for avoiding deflationary pressure (Hein & Truger, 2014, 2017; Truger, 2016). Furthermore, fiscal spending does not raise the debt to GDP ratio, considering multiplier effects of one or larger (Truger, 2016). Gechert (2017) argues that tax-financed public investments have a positive net effect, as the investment multiplier is higher than the tax revenue multiplier – see Figure III.

A conceptional approach would be the establishment of the so-called “Golden Rule” which allows for excluding net public investment from relevant deficit measures (SVR, 2007; Truger, 2016). The “Golden Rule” should then apply for the SGP, the Fiscal Compact and the German debt brake. The latter is anchored in the constitution and would require a two-thirds majority in the parliament (Hein & Truger, 2014). Pragmatically, a legal opportunity to circumvent the debt brake might also exist. It is possible to establish a legally independent body – fully owned by the federal government – as a federal investment fund (Bardt et al., 2019). If this construct is not a pure financing vehicle but is actually assigned narrowly defined independent purposes<sup>25</sup>, this extra budget does not fall under the rules of the debt brake (Bardt et al., 2019).

Regarding the emergence of the Covid-19 crisis, the debt brake restrictions were recently abandoned, and the cabinet has approved a corresponding supplementary budget to ensure adequate fiscal power for crisis management. The total amount of measures affecting the budget is €353.3 billion and the total amount of guarantees is €819.7 billion (BMF, 2020c). As a consequence, the federal government will borrow around €156 billion (BMF, 2020c). In light of this paper, a

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<sup>24</sup> Especially considering high costs during the implementation phase.

<sup>25</sup> E.g. for the capital equipment of JG projects, etc.

JG policy as part of the crisis management seems to be logical. Compared to the financial amounts for crisis measurements financing of a JG policy seems to be feasible. Moreover, the potential of a JG programme to make an economy more crisis resilient has to be considered.

## 5 Conclusion

The concept of a JG gained much popularity as part of the present MMT discourse. The approach has been included in policy proposals in the US, has been implemented in various forms in several countries and led recently to the launch of an experiment against long-term unemployment in France. A JG policy can uniquely tackle unemployment at a macroeconomic, socioeconomic and individual level. Many costs of unemployment are non-pecuniary to which a JG policy, as a bottom-up approach of social inclusion, provides solutions (Tcherneva, 2017). Moreover, the concept has the great potential of tackling further socioeconomic issues, e.g. the empowerment of women or the cure of environmental deprivation. Given a situation of relatively low but persistent un(der)employment as well as bad working conditions in the German low-wage sector, these benefits point to the necessity to include the JG concept in the political discourse in Germany. This paper further aimed at analysing the potential obstacles and the political feasibility of a JG policy implementation in the case of Germany.

Under the presumption of comprehensive management of the JG policy on the social, political and economic level, including adequate institutional reforms, a JG programme is economically feasible with regards to inflationary pressure. The excess of productive capacity as well as proper wage bargaining structures are decisive. However, rather low levels of inflation and average levels of collective bargaining coverage, under the circumstances of a declining labour income share, point to the absence of potential detrimental effects of a JG policy for macroeconomic stability. Moreover, through a dominant income redistribution – domestic demand – imports channel in Germany, a JG policy could contribute to rebalancing the eurozone and world economy.

Considering deficiencies of the European institutional setup with regard to an explicit, permanent and unconditional guarantee of public debt, this paper sought to estimate the approximate cost for a JG policy implementation in Germany to further evaluate the policy's political feasibility. The SGP, the Fiscal Compact but especially the German debt brake policy impose effective restrictions and limit the political scope. Nevertheless, a JG policy, which comprises all current unemployed (referring to pre-corona crisis levels), is politically and legally feasible.



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