

Job Guarantee as model for strengthening the welfare state

The case of The Netherlands

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Introduction

In March 2016 almost 21.5 million men and woman in de EU were unemployed. The unemployment rate was 8.8%. The rates are declining, but still a lot of people have no job. Throughout Europe national social security programs provide cash benefits to replace lost income as a result of unemployment (ISSA 2014). Some of these programs are employment-related, some universal and others means-tested. Employment-related programs are based on periodic payments on length of (self-)employment by the employee and/or the employer. In a means-tested program the household resources are measured against a standard of subsistence needs. Only who satisfy the means test receives the benefit. In the Netherlands two programs providing the unemployed people a benefit. The Social Insurance Program is an employment-related program. The amount of the benefit depends on the early salary. The duration of the benefit depends on how long someone has worked, with a max of 37 month. If the benefit is less than the social minimum or the benefit stops, the unemployed person can apply for social assistance, a means-tested supplement.

The unemployment rate in the Netherlands (May 2016) is 6,4%. But in the past employees and employers misused the Disability Act to receive a higher and permanent benefit for employees who lost their job due to economic crises. After the turn of the century new legislation has blocked this route. Still, a lot of disabled unemployed people are able to work. The prospect is that the number of unemployed (disabled or not) will not decline. This is a burden for the national government and therefore for the welfare state. How to diminish the cost of the unemployment benefit programs. One of the possible solutions is changing both programs into a job guarantee program (JG). The basic JG concept is developed last century by some post-Keynesian economists in the US and Australia, particularly Hyman Minsky (1986), Randall Wray (1998) and Bill Mitchell (1997). A modern JG proposal provides the ability to strengthen both the social and economic foundation of the welfare states.

Concept of Job Guarantee

The concept Job Guarantee (JG) is developed in the 80's, particularly in the United States and Australia in the post-Keynesian tradition. Major post Keynesians as Hyman Minsky (1986), Randall Wray (1997) and Bill Mitchell (1997) have made a significant contribution. On the characteristics of the JG concept, there is a broad consensus in the literature. Kaboub (2007) defines JG as follows: "The government guarantees a real job opportunity for anyone ready, willing and able to work at a fix socially-established basic wage (plus benefits), thus exogenously setting the price of labor" (pg 11).

This JG concept is a specific part of the Keynesian tradition about the comprehensive government task to manipulate macroeconomic incomes and spending by increasing and / or decreasing public spending and / or taxes to reach full utilization of production capacity in order to achieve full employment. In the Keynesian tradition unemployment – if higher than the number of vacancies – stands for under-utilization of the labor factor of production. Which, so is the argument, can be raised by increasing public spending or reducing taxes, or using both instruments at the same time. This policy creates a larger government deficit - or a lower government surplus. The increase of public debt would not be inflationary in this approach, because the economy is in a phase of underspending, in which only deflation needs to be feared. In the opposite case with unemployment lower than the number of vacancies there is overspending, a tight labor market and the risk of inflation. In such a situation the government should reduce its spending and / or have to raise taxes in order to restore the economic balance and to avoid inflation.

From the Keynesian point of view, it is understandable that the JG policy got attention in the United States in the 80's when it has become clear that the post-war period from 1950 to 1980 of Keynesian government policy to full employment (final) had come to an end. In almost the entire western world the Keynesian government approach was replaced for a policy combating inflation. The ambition of full employment through fiscal and monetary policy was released. The new strategy became strengthening the potential of economic growth by neoclassical and neoliberal lines.

The post Keynesians have not accepted the new (neoclassical) policy approach to unemployment. In the Non Accelerating Inflation Rate of Unemployment approach (NAIRU) unemployment is attributed not only and primarily to demand factors but to structural and supply factors. In the NAIRU approach balance on the labor market is achieved at the so-called natural rate of unemployment, in which case neither inflation nor deflation occurs. This natural rate of unemployment in the country is, according to the neoclassical vision, determined by the structure of the labor market, labor law, social security arrangements, the level of the minimum wage, the tax system and the organization and functioning of labor policy and cooperation between government, employers and employee organizations. Only structural and reform policies can therefore in this vision reduce the natural rate of unemployment.

The JG concept has hardly received any attention in the European economic literature. Presumably this has to do with the principle choice made in the West European welfare states for income guarantees in combination with reintegration arrangements in case of involuntary unemployment.

Kaboub (2007) provides an interesting overview of the economic literature of the unemployment problem. He discusses the two main JG experiments: Plan Jefes in Argentina and the National Rural Employment Guarantee Act in India. More real live experience with JG is actually not available.

Mitchell and Muysken (2008) criticize the neoliberal politicians and governments and neoliberal orthodox economists. They argue that the release of the full employment policy has resulted in low economic growth, high structural unemployment and the creation and expansion of a social underclass. This policy is described as an attack on the welfare system and a violation of the Universal Declaration of Human Rights. In their proposals, they stress out the possibilities of restoring the full employment approach. First, the governments of the OECD countries should leave the disastrous orthodox neoliberal policy. It is in their view important in particular that fiscal policy can again play a prominent role. Budget deficits of the state are essential if the private sector has a savings surplus. Furthermore, they perform a plea for introducing a JG program as a necessary response to the fixed basic right to decent work. In economic terms they emphasize that it is important to connect strongly the JG concept to the Post Keynesian Modern Money Theory (MMT). In this theory - which is hardly supported to our knowledge among academic economists in Europe –

the financing of public expenditure for the purpose of achieving full employment is not considered a (financing) burden, not an increase of public debt with repayment and interest obligations, but in a sense as "free" money. Condition is that the country has its own international flexible currency. Partly for this reason, in this theory, the formation of the Eurozone is critically reviewed (Mitchell, Dystopia, 2015).

In recent years there is further theoretical development of the JG concept (Forstater and Murray 2013). JG isn't regarded solely as a Keynesian instrument (combating cyclical unemployment) but also seen as a supply-side tool to combat structural and long term unemployment. JG can play an important role in maintaining and improving - through training, training-on-the-job and retraining - the work skills and competencies of unemployed. Wisman and Pacitti (2014) note that massive government spending, according to a classic Keynesian approach can reduce the economic crisis and unemployment, but that " ...it is far inferior to instituting a comprehensive program guaranteeing employment and the retraining necessary to enable workers to find employment in the regular economy ..." (pg 686). They combine a budget oriented approach by the government, with stimulating demand (job creation) and a structural reinforcing supply policy (training and retraining). Training and retraining of skills is important in a fast technological and social changing labor market. Wisman en Pacitti decline the provision of social assistance if unemployed refuse a job. In their view the refusal of a guaranteed job is to be considered as an option for voluntary unemployment. De Beer (2015) comes to the conclusion that it is unwise to implement an integral solution as job guarantee (or basic income) because of the high costs associated with these systems. He pleads for a compromise of certain elements of basic income and guaranteed job for different groups.

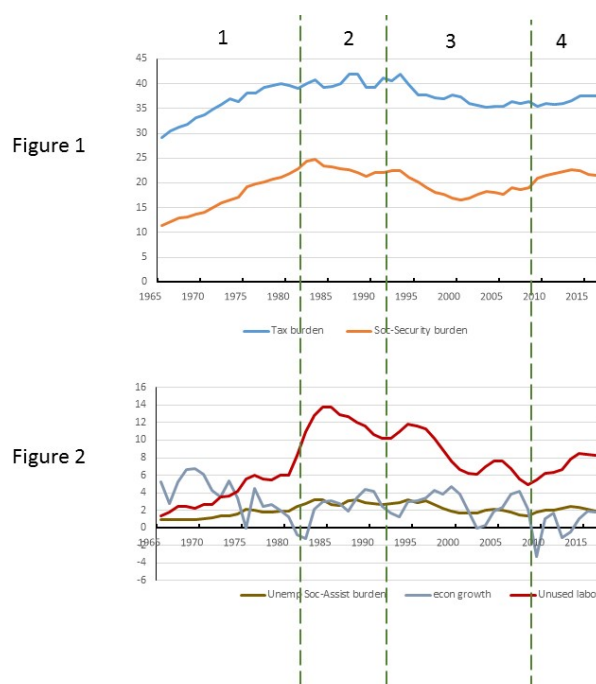
A historical analysis of the Dutch Welfare State.

In the decades after the Second World War there was in Europe a broad political and societal commitment for redesigning the old welfare system. A system that protects citizens for poverty because of age, unemployment or disability. The solid structural economic reconstruction, with help from the Marshall plan, was the financial base for implementing all over Western countries social security systems to protect the vulnerable citizens. The welfare state was born. In the Netherlands the completion of the welfare state ended with the implementation of the Social Assistance Act (de Algemene Bijstandswet) in 1965 and the Disability Act in 1967.

Figure 1 shows the variation of the collective total expenses and conduct of the social security charges for the period 1965-2016. In figure 2 we present the movements of economic growth, the untapped labour (unemployment and assistance) and the costs of unused labour. According to Suyker en Tollenaar (2011) we can distinguish four sub era's.

- The welfare state has been fully implemented in the first period (1965-1982). In this period the tax burden increases to 9.6% of GDP. Almost entirely responsible for this rise in costs are the social security expenditures. This consequence of the social security system rigged during the reconstruction period was surprisingly not foreseen. For example, the Explanatory Memorandum of the Disability Act refers to a maximum of 250,000 people, while in 1990 the total number of disabled persons with a disability benefit reached nearly 900,000 people! At the preparation of the Social Assistance Act in 1965 politicians assumed a maximum of 2% of the households with a social benefit, which was already in 1969 increased to 3% and increased further. Since then only in economic boom years the percentage of social benefit receivers was between 3-4%.

- In the respective second period (1982 -1992) a start is made with retrenchment of the social security benefits. Correction of the rising tax burden occurs early 80s with the Wassenaar Agreement (1982). The cost of running high unemployment, social assistance and disability were challenged with wage moderation, disengagement of benefits and reconstruction of public spending. During this period, the cuts and economizing the social security lead to a stabilization of the overall tax burden and to a slight decline in collective social burden (amounting to 3% of GDP).
- The decrease in the tax burden is really initiated, although still modestly, in the period 1992 - 2009. In those years the economy flourishes, except for a decline in 2002 and 2003, and there are further economizing of the social security system. From 2009, we are faced with the global financial crisis with an obvious, but yet still relatively small increase in the tax burden.



When we look at the course of the unused labour percentage of the last half century we see that the fluctuations are almost similar with the unemployment rate, the Social Assistance and the collective social burden. In the 60s gradually this percentage rises to more or less 2.5% of the labour force. It rises fast to 6% in the 70s, with a explosive grow in the 80s. In 1984 the unused labour percentage reaches the top of 14%. Due to the combination of economic grow and retrenchment of the social security the percentage slowly declines. In 2008, after the economic top year of 2007 and short before the global financial crisis the unused labour percentage is the same as in 1975, 5%. The crisis increases the unused labour rate somewhat. But in spite the recent years of economic recovery the unused labour isn't decreased.

With this briefly historical analyses of the Dutch welfare state we can explain the two major economic issues of a social welfare system:

- The financial sustainability of the system in terms of tax burden
- The economic viability of the system in terms of working capacity unutilized

The financial sustainability refers to the social and financial support of the active labor force and financial stakeholders for the level and the course of tax burden to finance a social security system. For recent and very interesting studies on this topic in the Dutch welfare state we refer to Flip de Kam (2015) and C.A. de Kam and J.H.M. Donders (2014).

Our theme is the other side of the coin of the sustainability of the welfare state and concerns the unused labour and production capacity and therefore unused earning capacity. This development is an unintended consequence of:

- The arrangements of the social security system
- the structure of the labour market,
- the economic policy (by Dutch government and by EU)
- and the more or less exogenous technical and economic developments.

The sum of and the interaction between these characteristics determine the extent of the unused labour capacity.

The Dutch and the other European systems of social security are based on the principle of income guarantee in the case a person or household has too little means to live a decent life. Level and duration of the different income guarantee arrangements determine the unused labour potential. When there are no arrangements everybody is forced to accept any kind of labour to provide an income. The institutional structure of the labour market is another factor that influences the unused labour rate. "In each country the unemployment rate fluctuates around a specific structural level. This structural level is represented by the term 'natural rate of unemployment. "Why are there differences in the amount of structural or natural rate of unemployment between countries? Because the labour market in each country, the arrangements of the welfare state, the tax system, labour law, unions and collective bargaining are organized differently and function differently." (J. Theeuwes 2011, pg 43)

The third factor is the economic public policy. Structural economic policy serves to strengthen the structural growth and may thus diminish the natural rate of unemployment. Short-term economic policy is used to prevent or combat over- and under-utilization, thereby exerting influence on unemployment. It's remarkable to note that the unemployment rate in the Netherlands (but also in other countries) has increased gradually over the half-century. Some economists explain (some of) the cause as a result of deficient structural and cyclical government policy. So Muysken and Mitchell (2008) conclude that Western governments after the oil crisis late 70s have deliberately chosen an anti-inflationary policy and thus have deliberately left the existing full employment policy (paradigm shift from Keynesian to neo-liberal policies). Finally, the impact of more or less exogenous technical economic developments may be mentioned (structural), as developments in world trade, EU monetary policy, EU budget rules and last but not least the continuing technological developments. These and other developments directly and indirectly affect the level and course of structural unemployment.

The CPB Netherlands Bureau for Economic Policy Analysis has developed three scenarios for the Dutch economy and the impact of these scenarios on unemployment (CPB 2014):

- Scenario 1 is full recovery of the economic situation with a growth of 2.5% of the BNP and an unemployment rate of 4.25%
- Scenario 2 is moderate recovery with a growth of 1.5% and unemployment of 4.25% (The unemployment rate of the CPB cannot be lower than the natural rate of unemployment)
- Scenario 3 is a delayed recovery with 0.75% growth and unemployment is 6.5%

Meanwhile economic achievements in 2014 and 2015 and estimates of 2016 and 2017 point out that the delayed recovery scenario may have been too pessimistic. However De Kam and Donders (2014) sketch the possibility of very modest economic growth because of a possible continued decline in the growth of labour productivity. Most likely, according to the CPB, the Dutch economy is heading for a medium-term growth of 2% and an unemployment rate of 5.5 - 6%.

In various scenarios the pressure on the financial sustainability of the welfare state expend modestly. If we look in more detail at the categories of expenditure of the government, we see a further aging of the Netherlands until around 2040. Consequences are a permanent structural increase in state pension (AOW) and healthcare costs. To finance these increasing structural cost any other government expenditure, including unemployment and welfare benefits, should be diminished as much as possible.

Assuming a natural unemployment rate of 4.25% and an actual medium-term unemployment rate of 5.5 - 6%, the social assistance rate will move towards more or less 5%. The estimation model of the CPB takes into account the structural increase in social assistance because of young disabled, long-term structural growth unemployment and increased influx of asylum seekers / refugees up with status. At a 5.5% unemployment rate according to the ILO definition, the number of unemployment benefits is about 3% (full benefit of years). We can assume that the untapped labour rate is 8%, which is comparable to the current situation. With a population of about 9 million people in the labour force we are talking about more than 700,000 people.

A modern JG model for a welfare state

What's the future of the welfare state/mixed market economy? A question asked by many scientists when they facing a substantial growth of unemployment in western societies in combination with the expected and feared consequences for employment of new technological developments. The debate seems to be dominated by supporters of two radical different concepts:

- a guaranteed and unconditional basic income for everyone; BIG
- a guaranteed or basic job with minimum wage for everyone who is willing and is able to work; JG.

We reject the concept of BIG because in existing welfare states as the Netherlands there is evidence that conditional guarantee of income on the level of subsistence minimum has negative consequences for the labour supply. People with unemployment benefits put their job search behaviour in a more active mood when they facing the end of the benefit period. This effect will be enlarged when there are less conditional requirement to receive the benefit. The experiments which the followers of BIG in the modern welfare states want to start, are in our opinion therefore unnecessary. What if, as hardliners will remark, the labour supply must decline because the demand of job declines because of technological developments. They neglect the fact that labour productivity growth is in sustainable decline despite the introduction of ICT on the workplace. In the 60's and 70' the growth of productivity was 3% and since then it is stabilized around 1%. Technological innovations have a great impact in some sectors but on macroeconomic level we see moderate effects till now (De Kam en Donders 2014, pg 205).

We opt for JG instead of BIG. Job Guarantee stands for offering by the government a real job with a legal minimum wage on voluntary basis. Some authors point out that refusing the job is a choice for

voluntary unemployment. The government is in that case not obliged to give some sort of income supply. JG has to adjust to the existing social security system of conditional guarantee of income. The adjustments have to compensate the main drawback of the existing system, actually the low reintegration effectiveness. For this purpose, we have to combine specific groups of unemployed or social assistance receivers, the conditional guarantee of income and the (mandatory) acceptance of the 'basic job'. For example, in case someone gets unemployed and gets a benefit he has the opportunity to find a job for a certain period and after that period he will be offered a basic job. Someone with a social assistance benefit is offered the job immediately.

If we want to implement a JG concept in the Netherlands we have to consider the following issues:

- It is important to avoid replacement of employees on the labour market. Therefore, the government reserves the basic jobs only for (semi) public sectors, because these sectors are financed by public money c.q. taxes. An obvious first choice is the care and education sector. Both sectors struggle with limited budgets and a large workload. At a later stage, when sufficient experience is acquired and the approach has been successful, several other public sectors can be involved.
- In the coming decades the cost of healthcare will increase because of the aging population. The need for services by professionals will grow, but also the demand of less skilled staff and volunteer's will increase. If it's possible to do the same work cheaper the large tax burden of health care will not so grow rapidly.
- By creating supportive basic jobs in the Education and Health sectors for social assistance recipients and the unemployed who have little or no chance to find a regular job, two objectives can be achieved: cost and effort in the sectors care and education are limited and unused labour of assistance recipients and the unemployed is used productively.
- Qualified for the basic jobs are assistance recipients and the unemployed. Integration into the existing social security system of conditional income guarantees means, in our opinion, that assistance recipients with working capacity from the outset have an obligation to accept a basic job and the unemployed - of course, with working capacity - have this obligation only after a certain period in which unemployment benefit is received. Mutual agreement between Government, workers and employers have to agree about the length of this period. In an economic sense an unemployed person must be able during a certain period to find a new job by himself, because that is the most efficient. For now we can imagine that unemployed after a period of one year or less, if the duration of unemployment benefit is less than a year, have an obligation to accept a basic job.
- The organization of the basic jobs should put in the hands of the Work Enterprises of the existing 35 labour market regions in the Netherlands. This cooperation of employers, labour unions and government is already responsible for organizing real jobs for people with a disability. Adapting the organization is obviously necessary because the employers that offer the basic jobs are important partners.
- Warranty Jobs are available at the statutory minimum wage (per hour). This is necessary in order to ensure that the JG employees stay focussed on getting a regular job. Moreover, many basic jobs will have a lower productivity than the minimum wage.
- In what way can we approach the expected revenues and projected costs of an JG approach? To this end, we make a comprehensive comparison between the current collective cost of social assistance and the new situation in which at least part of the JG target audience is employed in a JG program.

Let's consider a realistic JG program for The Netherlands.

Starting point is that JG is profitable if the net production of the program exceeds the net extra costs.

Public costs without JG:	$n \times (15.000 \times 1.40) = n \times 21.000$
Public costs with JG:	$n \times (16.000 \times 1.50) = n \times 24.000$

Net extra costs of JG program	$n \times 3.000$

Net production with JG:	$n \times (50\% \text{ basic wage}) = n \times 8.000$

Net revenue of JG program	$n \times 5000$

n = number of fulltime jobs in the JG program
 15.000 = amount of social assistance per year
 1.40 = implementation and reintegration costs without JG
 16.000 = basic wage in the JG program
 1.50 = implementation costs in the JG program
 50% = net added value on average by JG employees

For the purpose of a macro-economic forecast we assume that if we create in year X 100,000 full time basic jobs – 15 % of the unused labour in The Netherlands - we realise a production of 800 million and additional costs incurred of 300 million. The end result is a net additional production of 500 million.

That is 0.7% of the Dutch GDP. Care and Education sectors have a total burden of 14.6% of GDP. This would eliminate about 5% of the collective burden of Care and Education by JG approach in this calculation. That's substantial and promising.

Obviously it is difficult to assess the implementation and supervision costs in the new situation. This exercise is therefore of course global and simple. It is more intended to indicate that, when adequate implementation figures of a JG system a net positive result may be expected.

Conclusion

After the second world war the western European states have built up a so-called welfare state with decent and civilized social security arrangements never shown in history.

Since the eighties and especially since the worldwide financial crisis these welfare states are struggling with unexpected high unemployment and social assistance rates. These high unemployment rates of the total labour force unfortunately disguises the fact that particularly the youth and the elder people suffer from high and persistent unemployment.

In this paper we concentrate on a promising economic instrument for combating unemployment, the JG concept, hardly known in western Europe. Our proposal is to combine the JG programs with the existing social security system of conditional income guarantee. By changing idle labour capacity into production the welfare state is able to compensate the weakest point of the system of income guarantee and that's the low reintegration effectiveness. At that point we finally have restored the full employment policy.

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