



## **Issues Paper**

# **Job guarantee: Concept and implementation**

**Jobs for Europe:  
The Employment Policy Conference**

**Stream C: Pathways to full employment**

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## Main challenges

Although the Europe 2020 Strategy sets an employment rate target of 75% for those aged 20-64, **full employment** is the ultimate aim of the EU, based on balanced economic growth, price stability and a highly competitive social market economy (Article 3 TEU). As Europe's workforce shrinks in the decades ahead due to demographic trends, achieving the 75% employment target by 2020 and surpassing it thereafter will be – together with significant improvements in productivity – essential if Europe is to maintain its current level of prosperity.<sup>1</sup>

There is a strong tendency, both in classical and Keynesian economic theory, to look at unemployment as a regulator for wages and inflation. Against the background of high and persistent unemployment, proponents of the Job Guarantee<sup>2</sup> claim that it is not economically cost efficient to maintain large stocks of unemployed or under-employed people on benefits, and that they should be offered a job. The basis of the Job Guarantee proposal is that a public sector job should be given (at minimum wage or equivalent to unemployment benefit) to the unemployed, thus maintaining a **"buffer stock of employed (and re-employable) workers"** who could be hired by the private sector once the economic situation improves. According to this perspective, "the budget deficit is too small if there is unemployment", but fiscal costs of job guarantee schemes are estimated to be small compared to the increase in GDP and national well-being that can be generated.<sup>3</sup> Much of the academic debate concerning the Job Guarantee concept has centred on whether or not it has an impact on price stability. However, its feasibility and possible implementation modalities also raise a number of challenges. An extended role of public employment services is seen as crucial in this respect.<sup>4</sup>

## What has the Commission done in this field?

A full-scale Job Guarantee has not been implemented in the developed world, although some policies increasing public sector employment in times of crisis might go some way in that direction.<sup>5</sup>

- All Member States have **activation policies** which are in principle eligible for co-financing by the **European Social Fund**, and which include training, hiring incentives and measures supporting self-employment. Also included is employment creation for vulnerable groups (especially young people, long term unemployed, disabled) in the (semi-)public sector.
- In addition to a set of demand-side measures supporting job creation, such as hiring subsidies, the **Employment Package** has identified substantial growth potential in **personal and household services**, and pointed at means to

<sup>1</sup> See e.g. J. Peschner (2012), "Exploring conditions for EU growth given a shrinking workforce", in OECD, Free Movement of Workers and Labour Market Adjustment: Recent Experiences from OECD Countries and the European Union, <http://bit.ly/QhK9nT>.

<sup>2</sup> The Job Guarantee is particularly associated with post-Keynesian economists, e.g. Prof. Bill Mitchell, University of Newcastle, Australia - <http://bit.ly/dkcUwZ>. P. Gregg & R. Layard (LSE) also supported the Job Guarantee in a call by the TUC in 2010.

<sup>3</sup> <http://bit.ly/SIyEYG>

<sup>4</sup> "Under the Job Guarantee scheme, people of working age who are not in full time education and have less than 35 hours per week of paid employment would be entitled to the balance of 35 hours paid employment, undertaking work of public benefit at the minimum wage. The aim is to replace unemployment and under-employment with paid employment, so that those who are at any point in time surplus to the requirements of the private sector (and mainstream public sector) can earn a reasonable living rather than suffer the indignity and insecurity of underemployment, poverty and social exclusion." - The Job Guarantee in practice, Centre of Full Employment and Equity, University of Newcastle, 2006, <http://bit.ly/pSUovF>.

<sup>5</sup> One relatively well-known example of an Employer of Last Resort programme was the *Plan Jefes y Jefas de Hogar Desocupados*, developed in Argentina in early 2000s in response to soaring unemployment. See e.g. <http://bit.ly/OGMqbS>.

organise such services at low cost for public budgets (e.g. through service vouchers).

- The Employment Package also encourages **pooling of resources** and HR functions by groups of employers with similar recruitment and training needs as a potentially cost-effective way to improve employment.<sup>6</sup>
- The Commission's **Social Business Initiative** sets out an agenda for supporting the development of social enterprises as major potential drivers of inclusive job creation and social innovation.<sup>7</sup>
- The gap to full employment can be partly bridged also by **transforming undeclared work into regular employment**. The Employment Package foresees a possible creation of an EU-level platform between labour inspectorates and other enforcement bodies while underlining the need to help undeclared workers integrate in the regular labour market.
- The concept of a **Youth Guarantee** goes in the direction of a Job Guarantee. A Youth Guarantee means that education and labour market institutions function in such a way that all young people receive a good quality offer of a job, traineeship, education or (re-)training within a few months of leaving school. The Commission is preparing a proposal for a Council Recommendation on Youth Guarantees by the end of 2012.

## Best practices

Some countries, e.g. Latvia, expanded public sector employment in early stages of the present crisis in order to keep harder-to-place job seekers connected to the labour market and/or support unemployed people not receiving benefits.<sup>8</sup> An evaluation of Latvia's programme has suggested that the programme did help mitigate the impact of the unemployment crisis but its scale was small relative to the crisis' magnitude.

However, it is also debated to what extent publicly provided jobs substitute those which would have been created under market conditions. Such debate is ongoing, for example, in Germany with reference to the Working Opportunities (Arbeitsgelegenheiten, or 1-Euro-Jobs) provided in public services to long-term unemployed. There used to be more than 300.000 in of those jobs in the crisis year 2009, now still around 120.000.

## Questions

- What are the main obstacles in Europe to the implementation of job guarantees or similar schemes as instruments of genuinely macroeconomic significance, addressing the unemployment crisis and improving the society's well-being? Could these obstacles be overcome?
- In what areas could/should public jobs be developed for unemployed people in economically and socially cost-effective ways, without creating unnecessary or unfair competition for private initiatives? What should be the difference, if any, between workers' pay in such jobs and the corresponding minimum wage?
- How long should it take before an unemployed person is given a public sector job? How long should such job last for? Would retraining or up-skilling not be a preferable investment to such a job?

<sup>6</sup> See e.g. <http://en.cerge.eu>.

<sup>7</sup> <http://bit.ly/nEMrZ5>

<sup>8</sup> See e.g. <http://bit.ly/P9nsDH>