# A European job guarantee to foster wellbeing

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Giorgos Argitis and Nasos Koratzanis 7 January 2021

**Short-time working has saved many livelihoods during the pandemic. But the EU needs to go on to the front foot with a job guarantee programme.**

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Short-time-working (STW) schemes have been key components of responses to the pandemic in Europe. Such schemes however have two major drawbacks, making them inadequate to the employment crisis caused by Covid-19 and the development challenges of our times.

First, STW represents a 'defensive' labour-market intervention: it aims to preserve, not *create*, jobs. Full implementation would at best imply the return of employment to pre-pandemic levels.

Even this, though, is uncertain. The underlying logic, which is contested, is that labour demand crucially depends on labour cost. Several other factors are disregarded—such as consumer demand or firms' profit expectations and financial situations—which equally affect job creation, especially in times of uncertainty.

Secondly, STW schemes lack any development orientation. Indeed, they take for granted the idiosyncratic structural characteristics of the national economy, merely providing cost incentives to firms to maintain jobs within the existing institutional setting.

Hence, such schemes cannot incorporate, by design, arrangements to facilitate restructuring. While this may arguably help the labour market adjust swiftly to shocks, it leaves intact several factors in the divergence of living standards within the European Union.

## New economic governance

Bolder and better-targeted fiscal interventions in labour markets are required. The institutionalisation in the EU of Hyman Minsky's idea of an employer of last resort, in the form of a Job Guarantee Programme (JGP), could be one such measure. Not only could it counteract the socio-economic shock of the pandemic but, more importantly, it would influence key dimensions of wellbeing. A JGP could thus help the EU keep apace with the broader developmental needs of our times and become a pillar of a new economic governance centred on promoting wellbeing.

A JGP is a fiscal intervention to fight joblessness, whereby the state offers to all involuntarily unemployed individuals a decent job. Dissociating job creation from firms' profit-seeking behavior and creating perfectly elastic labour demand, it can thus bridge more effectively any employment gap, while limiting labour-market asymmetries typically caused by conventional expansionary policies.

A public JGP could also incorporate employment-protection regulations, thus improving job quality for beneficiaries. And, given that participation would be open to all jobless, the JGP could force private firms to adjust their workers' terms of employment to those applying to the programme. Consequently, it could become a device for upgrading *job quality* in the whole economy.

A JGP operates as an automatic stabiliser of economic fluctuations since, by design, its size is endogenous to the business cycle. By safeguarding *full employment* and sustained income flows, the JGP is also conducive to increasing households' living conditions and *material wellbeing*. This also helps the private sector maintain sustainable refinancing terms, thus solidifying *financial stability*.

Moreover, contrary to various income-support schemes, a JGP increases the output of the economy, thus reducing the risk of demand-pull inflation due to supply-side bottlenecks. This can also be achieved by changing the programme's wage, which actually is the economy's minimum wage. Thus, a JGP can *tame inflation* in periods of accelerating growth, while preventing deflation during economic contractions.

## Flexible design

The JGP could be flexibly designed, in response to specific socio-economic or spatial needs, thus promoting inclusiveness and *quality of life*. Additionally, since it is intended for all unemployed, a JGP would help ordinary people secure their fundamental right to work, while combating income inequality, social prejudice and discrimination.

As a public intervention, the design of a JGP could entail strict implementation criteria relating to environmental protection which might not be affordable for private firms. Furthermore, it could be applied to activities which in themselves enhance *environmental sustainability*, such as recycling and cleaning operations.

Moreover, a JGP could promote more eco-friendly spending. For instance, by improving firms' financial conditions, it could encourage private investment in sustainable production techniques. Similarly, by increasing households' income, a JGP could consolidate more sustainable consumption.

Contributing to macroeconomic stability, adoption of a JGP could also set the conditions for the mobilisation of private investment in a range of economic activities, thus enhancing and modernising productive capacity. In this context, and given its flexibility of implementation, a JGP could become part and parcel of a wider national development plan to foster restructuring, specialisation in high-value-added sectors and structural *competitiveness*.

The fact that a JGP keeps people employed and enables firms to absorb skilled labour to expand production further exploits this potential. It thus upgrades the developmental role of fiscal policy, potentially improving efficiency, competitiveness and resilience.

### Solid basis

The high volume of guaranteed liquidity provided by the EU recovery plan, along with the broader shift in attention to wellbeing, is arguably a solid basis for establishing a JGP mechanism in the EU. This is reinforced by the growing popularity of new theoretical approaches which propose a viable financing framework.

To achieve it, national rivalries, structures of power and preconceptions about ‘sound’ policy must of course be overcome. Issuing joint EU debt to finance socially inclusive policies would however have been wishful thinking just a little while ago, yet the challenges posed by the pandemic have made it a reality. Adopting a new economic paradigm, including a JGP to foster wellbeing, may now constitute the most critical challenge facing the union.

### About Giorgos Argitis and Nasos Koratzanis

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