JOBS AND THE ECONOMIC CRISIS

This is a talk given by Bill Barclay at the November 15th National Convention of the Democratic Socialists of America (DSA). The talk is a summary of a longer paper by the Chicago Political Economy Group titled "A Permanent Jobs Program for the U.S." The current version of the paper can be found at www.cpegonline.org Other members of CPEG include Ron Baiman, Sid Hollander, Haydar Kurban, Joe Persky, Elce Redmond and Mel Rothenberg.

INTRODUCTION: FDR AND THE IMPORTANCE OF JOBS

In July 1932 the Democratic Party met in Chicago to nominate their candidate for president. The Party had won the presidency only four times since the 1850s. Chicago, the city in which they met, was under economic siege: 45% of the workers who had been employed two years earlier were out of work. Nationally, over 30% of the non-agricultural labor force was out of work. After internal squabbling they nominated a political lightweight, a man known as a "trimmer," one who avoided taking stands on the issues. That man was, of course, Franklin Delano Roosevelt.

FDR didn't talk much about jobs and employment in the 1932 campaign. In fact, he spent more time attacking Herbert Hoover for running up the federal deficit. However, Chicago and the nation's jobless had made an impact on him. Shortly after coming into office he called his staff together and said he wanted to put 500,000 young men – and it was men – to work by the summer. Remember, FDR didn't come into the presidency in January but in March – summer was not very far away. He was told this was couldn't be done; the army said it was logistically impossible. FDR went away and came back a few days later and said, ok, 250,000. His 500,000 number wasn't based on any analysis – FDR was not an economist – and there were, after all, about 10 million unemployed. They set to it and by the end of June almost 300,000 had been put to work in what we know as the Civilian Conservation Corps. This was the first installment on the almost 3,000,000 that the CCC would employ during its existence.

FDR wasn't an economist, but he understood the need for people to have jobs and also understood that jobs put money into peoples' pockets and that in turn was good for the economy. In this intuition he was right. U.S. GDP, which had declined by 25% between 1929 – 1933, grew by 60% in the 1933 – 1940 period.

TODAY: JOBS AGAIN AT THE CENTER OF OUR ECONOMIC CRISIS

Our level of joblessness today is not what FDR faced, although when the officially unemployed are added to the underemployed and the discouraged workers who have given up looking for jobs, the rate was nearly 20% in November 2009. What is the same, however, is that today, as for FDR, it is jobs – their lack – that are once again at the center of our economic crisis.

But the problem is not simply the result of the over 8 million jobs lost since December 2007; it is much deeper. That is why the proposal that the Chicago Political Economy Group (CPEG) developed and that I am going to outline below goes well beyond what mainstream policy thinkers are looking at.

CPEG started thinking about a jobs program in early 2008, well before the cascades of lost jobs made the front pages. We developed our program based on six factors that we concluded, from our work and analysis, characterize the U.S. political economy.

First, the private economy has consistently failed to generate sufficient "good" jobs – in terms of pay, benefits, or control over working conditions - or at least the past three decades. This period coincides with the rise of the financial sector and the decline of manufacturing as well as the shift of the U.S. from a net creditor to net debtor position, internationally. (Financial sector profits as a share of total business profits more than doubled between 1978 – 2005, accounting for almost 45% of the total in the latter year).

Second, the private economy has failed to generate sufficient good jobs, and access to the jobs created is unevenly distributed across the segments of the U.S. labor force. Our working population is segmented by race, gender and ethnicity; the result is inequality in access to jobs, especially good jobs. Some quick measures: the median wage for a woman working full time is only 67% of that for a male working full time. The median wage for an African American working full time is only 63% of that for a Caucasian working full time.

Third, the lack of good jobs is not the result of a lack of useful work to be done that would meet social needs. This need is evident in the decay of our bridges and roads, the poor condition of our hospitals and schools, our lag in developing the new energy technologies that are necessary to replace increasingly costly fossil fuels. Another way to see this need is to visit a national park and read the plaques that tell you when the work to develop the park was done, when the trails were built or the campgrounds were created. You will be struck by how much of this work was done in the 1930s through the job creation programs that FDR created – and how little has been done since then.

Fourth, from points #1 and #2, it follows that the government, particularly at the federal level, has an essential role in remedying both the macro level failure of the private economy to generate sufficient good jobs and the labor market level failure to insure access of all sectors of the working population to the good jobs available.

Fifth, since the failure of the private sector in job creation is long term, so the role of government in remedying that failure must necessarily be long term. CPEG's jobs program is not a temporary, stop gap measure. It s designed to restructure the U.S. political economy so that our society looks different after the "Great Recession" than it did prior to that time.

Finally, just as the jobs program must be redistributive in the creation and access to good jobs, so it must be redistributive in the financing of the program.

CPEG'S JOBS PROGRAM: HOW MANY, WHAT AND WHAT KIND OF JOBS?

The core of CPEG's "A Permanent Jobs Program for the U.S.: Economic Restructuring to Meet Human Needs" is the creation of 4 million new jobs/year over each of five years, with 3.5 million of these jobs the result of direct of indirect government action. (The paper contains the technical notes by which we derive these numbers. Here it is sufficient to say that the Bureau of Labor Statistics projects 1.5 million jobs/year created by the private economy; we estimate a loss of 1 million jobs/year because of the wage levels in CPEG's proposal – see below – and government action to create 4 million jobs/year).

CPEG targets three areas for the new jobs. These areas reflect both the segmented nature of the U.S. working population and the importance of a forward-looking industrial policy.

The first area for new jobs is a traditional one: **social investment in new and updated infrastructure**. Since the 1930s, the U.S. has accumulated a social investment deficit. We need new and/or rebuilt roads and bridges. We need rehabbing of hospitals, schools and parks. Most of these jobs are in construction and, given that about 95% of construction jobs are held by males (disproportionally white, although less so than 10 years ago), these workers would be the primary initial beneficiaries of this part of our jobs program. To date, these workers have accounted for almost 2 million of the 8 million jobs lost since December 2007. Many, perhaps most, of these jobs would be in the private sector as a result of government contracts.

Equally important, however, is the need for substantially increased **investment in human services.** We need teachers and teacher's aids, we need elder and child care workers, we need nurses and CNAs, and we need an expanded public health work force. And we need them to be trained with the possibility of career ladders. These will be primarily public sector jobs; it is clear that the private market is unable to generate good jobs in most of thee areas. Thus CPEG's proposal includes a significant expansion of the public sector. And again, the current segmentation of the U.S. labor force – over 74% of health care workers and 75% of education workers are female – means that the initial beneficiaries of these jobs will be female with many of these workers African American (25% of health care technical and support workers) or Hispanic. The resulting expansion of the public sector must be accompanied by an emphasis on accountability and transparency.

The third target area is organized around an **industrial policy** to develop the new technologies of energy and agriculture. Green energy technologies are important here, but they do not exhaust the possibilities. We need regional transportation networks and more efficient, less resource-intensive food production. In this job creation target area, there would be a mixture of private and public sector employment.

It is worth taking a minute to emphasize the idea of an industrial policy for the U.S., because it is so foreign to most U.S. policy thinking. Despite the conventional wisdom, however, industrial policies work – just ask the Scandinavians, Japanese or more recently, the Chinese. In fact, such policies have even worked in the U.S.: we have had a de facto industrial policy for the last three decades – the development and expansion of finance. During this period, the profits of financial sector businesses have gone from less than 25% of all business profits in the 1970s to 45% in 2005; there has been some decline since then, but the financial business profit share is still dramatically above the long term U.S. average. There have been some benefits – we were able to export part of our financial crisis to the rest of the world through selling asset-backed securities abroad. But I think we can all agree that the net returns to this policy have clearly been negative.

GOOD JOBS – WHAT DO WE MEAN?

Probably the first thing we think of when labeling a job “good” is the wage level. Is it sufficient to support a family with some provision for future needs? Since the jobs to be created are permanent and are designed to fulfill the failure of the private economy, they should pay well. We have used the median hourly wage in 4Q08 as the basic pay level for these jobs: $18.00/hr. This is $37,500 for an annual salary.

In thinking about wage levels and the target population, we need to consider the reality that our program is designed to address not only the current surge in unemployment but also the longer term lack of jobs. We will draw into the labor force a significant number of people who have limited or perhaps no work experience and may lack training and skills necessary for some of the jobs we want to create. Therefore we include “on-ramps” for new or inexperienced labor participants with an initial training wage level of $11.15/hr., the breaking point between poverty wages and

Good jobs are more than well paying jobs, however. They must also include benefits that are important to insuring a life that is not one of constant dread that a child will get sick, a parent will have an accident and the family finances will be destroyed with loss of home and possibly bankruptcy following. All the jobs created under CPEG's program should be eligible for whatever health program finally makes it out of the convoluted process of the U.S. legislature. Finally, workers in these jobs should also have the right to associate together to articulate their needs in the organizational form of their choice, most likely unions.

HOW MUCH WOULD CPEG'S PROGRAM COST – AND HOW CAN WE PAY FOR IT?

A. The Cost of the Program

First, remember that this is a five-year program, hence cost aggregates over time. Second, in addition to the base wage of $18/hr, there will be some supervisory labor that will expect to be paid at a higher rate. Finally, there would also be some individuals employed at the training wage for a period of time. In order to be conservative in our analysis, we included a managerial increment but did not reduce expenditures for training wages. Putting these factors together yields a per cohort cost of $175.5 billion, about 1.25% of GDP in 2008 when we designed the program. By the fifth year – and thereafter – the annual cost is $877.5 billion, or 6.25% of 2008 GDP. (GDP would obviously grow as those employed under our program spent their wages for clothes, shelter, food, etc.)

As I said, we developed this program in 2008; in fact we came to these numbers in August 2008, before the Great Recession was widely noticed. When we met to talk about these results of our analysis, our first reaction was "Wow, that's really a lot of money!"

Of course, two months later, during the financial panic of October 2008 and the Bush bailout of the banks, we discovered that this really wasn't that much money, after all. As then presidential candidate John McCain said, if it's need for the American people, the money will be found. It is a question of political will.

B. Paying for the Program – the Willie Sutton Philosophy

During his career, Willie Sutton robbed over 100 banks. At one time a reporter asked him "Why do you rob banks?" Sutton (supposedly) replied: "Because that's where the money is." Whether or not this exchange ever occurred, the lesson is instructive. Despite what conservatives may say, the fiscal cupboard is not really empty. We start by remembering our sixth principle: the program should be redistributive not only in its impact but also in its funding.

In 1989 two economists wrote a paper advocating a tax on financial transactions, i.e., on the trading of stock, debt, currencies and derivatives of each. They argued that such a tax could be set at a level small enough that it did not undermine incentives to investors, although it might have some dampening on the activities of short term traders (day traders in today's terms). These economists were Larry and Victoria Summers – yes, that Larry Summers, Obama's Chief Economic Advisor.

The idea was a good one then – and it is an even better one now. In 1989, when the Summers published their article, total value of stock trading in the U.S. was approximately $2 trillion. A lot of money, yes, but compare that with 2008 when the total value of stock trading on the New York Stock Exchange and NASDAQ Stock Market was $72 trillion. A 0.25% transaction tax on stock trading, levied on both the buy and sell sides of each trade, would have raised $360 billion. And stock trading is probably the smallest of the three big markets that would be covered by a financial trading tax, the other two being debt and currencies. When all three of these markets are included, as well as derivatives of each, this tax conservatively would raise at least $600 billion. Further, this tax would not represent a subtraction from GDP, since the value of these trades is not part of the $14 trillion GDP of the U.S. Also worth noting is the excellent pedigree of a financial transaction tax: variants of it have been advocated by John Maynard Keynes and Nobel prize-winning economist James Tobin. And today by the UK's Prime Minister Gordon Brown – although probably too late to save his political career.

How else could we raise the funds to pay for our jobs program? First, we can go back to a proposal that appeared in the Obama presidential campaign and has since apparently vanished: the idea of an income surcharge of 5% on the households receiving – I refuse to say earning – over $250,000/year, about 2.5% of all households. This would raise an additional $100 – 125 billion/year. Second, we must reinstate the Estate Tax. (The right calls it the "death tax." But it is actually the "Paris Hilton Tax" – she inherited her wealth rather than creating it -- and it can save us from being inflicted with more such beings.) Even with a relatively conservative level of progressivity and with the trigger level indexed to inflation, the tax will raise $50 -100 billion/year. I want to dwell on this tax for just a minute. This is the only wealth tax that is in effect in the U.S. – right? Wrong - almost all of us pay a wealth tax. It is called the property tax and whether you (and maybe also the bank) own a home and pay it directly or you rent and pay it indirectly, you pay this wealth tax. However, for most of us this is a tax on or largest single asset - our primary residence. For those households in the top 3 – 5% of the income and wealth distribution, however, the primary residence is a relatively small portion of their wealth. Why don't we institute a wealth tax that reaches these households also? A 0.5% wealth tax on the top 1% of households by wealth – those with approximately $5 million or more in assets – would yield $75 billion/year.

All of the above are directly redistributive – and these taxes will fall primarily on the segments of the population and those institutions that got us into this economic crisis to begin with. There two other sources of revenue that can also be applied to funding CPEG's jobs program. First, shifting $50 – 100 billion from the $1 trillion military budget and, second, levying an excess profits carbon tax on the major energy producers. Together these would generate $100 – 200 billion.

CONCLUSION

In sum, we are proposing a permanent jobs program for the U.S. that is redistributive in its impact (making available good jobs for all) and in its financing (who pays). Thus we are seeking to take the U.S. political economy in a new direction. This new direction seeks to create a political economy that meets the needs of our people rather than serves the avarice of a small elite. Isn't that what the purpose of any economy should be?