

A JOB GUARANTEE

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This note sets out the case for a job guarantee by looking at:

- A. The problems which it helps to solve
- B. How it could be implemented, and
- C. What it would cost

A. THREE KEY PROBLEMS

1. Preventing long-term unemployment

Previous recessions show that the main danger is the build-up of long-term unemployment. Once people are long-term unemployed, they become increasingly difficult to place. So the build-up of long-term unemployment makes it difficult to have a quick recovery that is not also inflationary.

We need to prevent long-term unemployment by adopting the activation approach, in which after some point it becomes impossible to receive support except through activity.

Evidence in the OECD Employment Outlook (2005 and 2007) shows the power of this approach to reduce overall unemployment – as in Denmark and the Netherlands, where not only is unemployment much lower than here but employment much higher.

2. Preserving welfare-to-work

When jobs are scarcer, it will be difficult to maintain the pressure on unemployed people to get work. But negative attitudes can be prevented (in Jobcentre Plus and among job-seekers) if we offer an ultimate guarantee that a job will be there.

3. Preventing despair

Inactivity breeds misery and despair. Common humanity requires us to offer meaningful activity when the regular economy does not. We must make it clear that, whatever happens, there will be a job within a reasonable period.

If we intend to follow this approach, there is everything to be said for **announcing it now**. The alternative is to come up with a new commitment every 6 or 12 months, which would be far less impressive. We should use a new term '**The Job Guarantee**' which will resonate with people, rather than have headline talk about modifications to the New Deal, which is pretty arcane to most people.

B. THE PROPOSAL

We should build on the New Deal for Young People and on the Flexible New Deal (FND). We propose a Job Guarantee after 12 months for 18-25, and after 18 months for 25 plus. It would last for 6 months. Thus for Youth we would continue the NDYP but include in it the guaranteed option of a job. For 25 plus the job guarantee would fit within the Flexible New Deal and be delivered through FND contractors.

So this is the sequence:

18-25	0-6 months	JSA regime
	6-12 months	Gateway
	12-18 months	Job Guarantee
	18 months on	Follow-up
25 plus	0-12 months	JSA regime
	12-18 months	Flexible New Deal
	18-24 months	Job Guarantee
	24 months on	Flexible New Deal (cont.)

1. Regular jobs

The whole aim is to get people off benefits and into regular jobs. Only if this fails do we provide fall-back jobs through the Job Guarantee.

To increase the off-flow into regular jobs, we have recruitment subsidies for unemployed people and we can have extra public sector jobs soon with specific quotas for LTU. But, if we have failed to secure regular jobs for all, the Job Guarantee kicks in and benefit ceases.

2. ‘Job Guarantee’ jobs

These are jobs created for this purpose by government money.

- (i) They must of course be **useful**.

There is a mass of **low-tech maintenance** which needs to be done on public housing, schools, hospitals and roads, by LTU given 1-2 weeks’ training. Similar there is a mass of **social care** (e.g. home help) which can be usefully provided by LTU. The work needs to be managed professionally with a visible leader at the centre.

Job search should be encouraged during the Job Guarantee. This is important.

- (ii) Workers must be **paid the rate for the job** (mainly MNW), as happened on the Community Programme.

This is **essential** for the credibility of the job. If the worker is paid benefit-plus, the image would be of workfare:

“You are only entitled to your dole money if you work for it”

If the job were waged, the image would be:

“You are now entitled to a job and you get paid for it”.

C. COST

It would be essential to achieve:

By October 2009 18-25 Job Guarantee (a smallish extension of NDYP)

By April 2010 25-plus Job Guarantee

So we will focus on the cost in the financial year 2010-11.

1. Flows

The expected annual flows, based on experience in the early 1990s, are roughly

18-25	Past 12 months	250k
25 plus	Past 18 months	350k

2. Exchequer costs

(i) Gross cost per person

Assuming the job is 30 hours a week at the minimum wage, the cost for 6 months is £4,500. This assumes that no-one who starts a guaranteed job leaves within the 6 months. If this assumption was relaxed and the hours reduced, the cost would be less. Adding in the cost of supervision and materials* brings the gross cost to around £7,000 per person.

(ii) Savings per person

During the same 6 months the person would have mainly been on benefit (though on average say 4 months, since some people would find work). The average benefits per person on JSA (including HB) are £3,750 per year, and the taxes paid per worker on the minimum wage as compared to someone on JSA are £3,250 higher. Thus the savings from keeping someone off JSA for 4 months are £2,300. In addition, for young people there is the saving of £1,500 from their not being on Flexible New Deal.

(iii) Net cost per person

Thus, if we assume no subsequent fiscal benefit from the Job Guarantee, its cost per person is £4,700 for 25+ and £3,200 for young people. Notice that we are **ignoring** any effect that 6-month work experience has on the person's future work. So nothing is being claimed in this regard.

(iv) The total cost in 2010/11

The total annual net cost for the Exchequer as compared with present policies would thus be roughly £2.45 billion.

(v) Social benefits

The benefits to society from this measure are much greater than the Exchequer savings. They include:

- The output produced by these jobs
- The greater psychic well-being of people otherwise unemployed
- The prevention of long-term unemployment
- Any 2^d and higher-order multiplier effects of the greater spending by the beneficiaries.

* e.g. for every 10 workers a supervisor paid £500 a week and materials costing £500 a week

Against this there are quite small social costs (mainly the £2,500 for supervision and materials), since most other expenditures are transfers. There is also some limited substitution and displacement. But if displacement of related work did occur, this need not create an offsetting increase in unemployment, if aggregate demand remained the same and thus created more regular jobs elsewhere.

D. YOUNG PEOPLE AGED 16-18

For young people aged 16-18 we need a completely different approach, since all of them should be in education or training, and by 2013/15 will be required to be so by law. Even without the recession, this requirement would have been a massive change. It requires speedy implementation of the Apprentice Guarantee for that age group (which limits our ability to push apprenticeship immediately for people aged 19 plus).

E. CONCLUSION

The Job Guarantee would cost around £2.5 billion in 2010/11. For that money we get:

- (i) General reflation, through spending by people with high marginal propensity to consume
- (ii) Targeted action to prevent long-term unemployment and to provide work and hope in a time of potential despair.

We would do better to announce it soon, rather than to respond to the crisis by a sequence of small steps.