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The Euro Crisis and the Job Guarantee: A Proposal for Ireland

by

L. Randall Wray
Levy Economics Institute of Bard College

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Levy Economics Institute
P.O. Box 5000
Annandale-on-Hudson, NY 12504-5000
http://www.levyinstitute.org

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ABSTRACT

Euroland is in a crisis that is slowly but surely spreading from one periphery country to another; it will eventually reach the center. The blame is mostly heaped upon supposedly profligate consumption by Mediterraneans. But that surely cannot apply to Ireland and Iceland. In both cases, these nations adopted the neoliberal attitude toward banks that was pushed by policymakers in Europe and America, with disastrous results. The banks blew up in a speculative fever and then expected their governments to absorb all the losses. The situation was similar in the United States, but in our case the debts were in dollars and our sovereign currency issuer simply spent, lent, and guaranteed 29 trillion dollars' worth of bad bank decisions. Even in our case it was a huge mistake—but it was "affordable." Ireland and Iceland were not so lucky, as their bank debts were in "foreign" currencies. By this I mean that even though Irish bank debt was in euros, the Government of Ireland had given up its own currency in favor of what is essentially a foreign currency—the euro, which is issued by the European Central Bank (ECB). Every euro issued in Ireland is ultimately convertible, one to one, to an ECB euro. There is neither the possibility of depreciating the Irish euro nor the possibility of creating ECB euros as necessary to meet demands for clearing. Ireland is in a situation similar to that of Argentina a decade ago, when it adopted a currency board based on the US dollar. And yet the authorities demand more austerity, to further reduce growth rates. As both Ireland and Greece have found out, austerity does not mean reduced budget deficits, because tax revenues fall faster than spending can be cut. Indeed, as I write this, Athens has exploded in riots. Is there an alternative path?

In this piece I argue that there is. First, I quickly summarize the financial foibles of Iceland and Ireland. I will then—also quickly—summarize the case for debt relief or default. Then I will present a program of direct job creation that could put Ireland on the path to recovery. Understanding the financial problems and solutions puts the jobs program proposal in the proper perspective: a full implementation of a job guarantee cannot occur within the current financial arrangements. Still, something can be done.

Keywords: Euro Crisis; Financial Crisis in Ireland; Employer of Last Resort; Job Guarantee; Bank Bailout; Irish Debt Crisis; Government Debt Crisis; Minsky

JEL Classifications: E12, E32, E62, E65, G01, H62, H63

It is now more than clear that highly indebted members of the European Monetary Union (EMU) will not be able to service their debts. There is no alternative to debt relief. A few of Europe's leaders have finally started to recognize this inconvenient fact. However, they are not likely to approve any generalized approach to saving Europe. Instead, they want to drag out any resolution as long as possible because any admission of the full scope of the problem means that most of the big banks are hopelessly insolvent. So, they will first deal with Greece and watch as the crisis slowly but surely spreads to the bigger nations—Italy and Spain next. Meanwhile, they impose deathly austerity on the debtors trying to squeeze the last drops of blood to feed what reporter Matt Taibbi calls the blood-sucking vampire squid (he refers to Goldman Sachs, but it is a fitting description of all the biggest banks).

The picture of the European debtors as profligate consumers certainly cannot apply to Ireland and Iceland. In both cases, these nations adopted the neoliberal attitude toward banks that was pushed by policymakers in Europe and America with disastrous results. The banks blew up in a speculative fever and then expected their governments to absorb all the losses. The situation was similar in the United States, but in our case, the debts were in dollars and our sovereign currency issuer simply spent, lent, and guaranteed 29 trillion dollars' worth of bad bank decisions. Even in our case it was a huge mistake—but it was "affordable."

Ireland and Iceland were not so lucky as their bank debts were in "foreign" currencies. By this, I mean that even though Irish bank debt was in euros, the Government of Ireland had given up its own currency in favour of what is essentially a foreign currency—the euro, which is issued by the European Central Bank (ECB). Every euro issued in Ireland is ultimately convertible one to one to ECB euros. There is neither a possibility of depreciating the Irish euro nor is there the possibility of creating ECB euros as necessary to meet demands for clearing. Ireland is in a situation similar to that of Argentina a decade ago, when it adopted a currency board based on the US dollar. Even with a budget deficit that never reached 3 percent of GDP, it was doomed when markets shut off the supply of US dollars. While Ireland is not completely shut off, its borrowing costs exploded as the interest rate it must pay on euro debt rose far above what Germany (for example) must pay. It is a widely recognized rule of thumb that a nonsovereign borrower cannot afford to pay an interest rate that is much above the growth rate. With Irish prospective growth rates at very low levels (and worse now, given the likely collapse of the entire European economy), the debt is quite simply impossible to service.

And yet the authorities demand more austerity to further reduce growth rates. As both Ireland and Greece have found out, austerity does not mean reduced budget deficits—because tax revenues fall faster than spending can be cut. Is there an alternative path?

In this piece I will argue that there is. First, I will quickly summarize the financial foibles of Iceland and Ireland. I will then—also quickly—summarize the case for debt relief or default. Then, I will present a program of direct job creation that could put Ireland on the path to recovery. Understanding the financial problems and solutions puts the jobs program proposal in the proper perspective: a full implementation of a job guarantee cannot occur on the current financial arrangements. Still, something can be done.

QUICK OVERVIEW: HOW WE GOT HERE

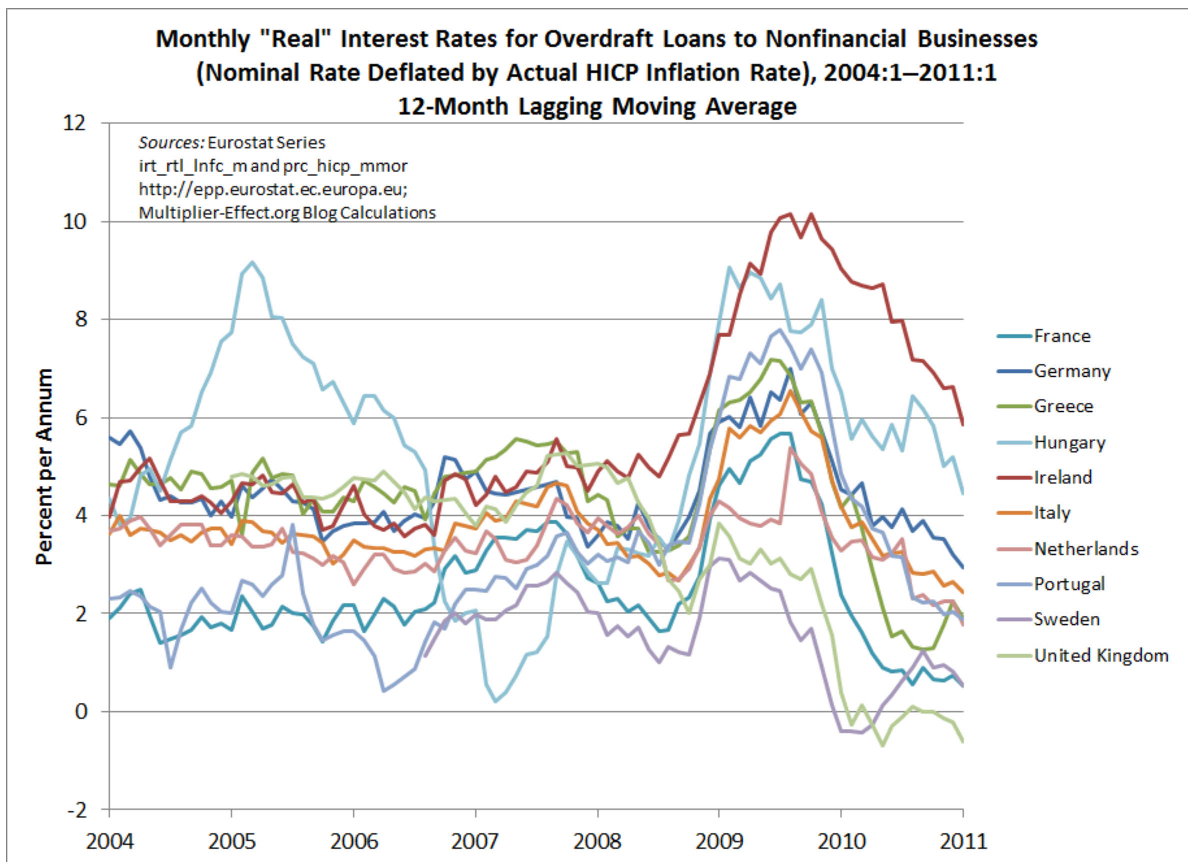
Voters in Iceland wisely rejected their government's attempt to foist on them the costs of bailing out foreign creditors. Iceland's oversized big banks had made bad loans throughout Euroland and when they failed, uninsured depositors were on the hook. Governments in countries like the United Kingdom and the Netherlands bailed out their depositors and demand that Iceland reimburse them. However, Icelandic voters have now rejected that proposition twice. They felt they have suffered enough already from a financial crisis created by largely unregulated financial institutions that lent indiscriminately in foreign currency. Iceland does not use the euro, and its tiny economy cannot be expected to cover all the euro-denominated debt run-up by private financial institutions. Those foolish foreigners who took risks by holding uninsured euro-denominated deposits in Icelandic banks with no access to a government back-stop in euros should take the loss. In my view, the voters have responded in a rational and responsible manner. After all, that is what market discipline and sovereignty are all about. If a saver does not like risks, she should hold only safe assets guaranteed by a sovereign power.

What about Ireland—which faced a similar situation? Should its voters have rejected a taxpayer bailout of foreign creditors? Like Iceland, it faces a crushing debt because its government took on the liabilities of its oversized banks who also had lent indiscriminately throughout Euroland. However, unlike Iceland, Irish bank liabilities are denominated in the currency used in Ireland, the euro.

Ireland abandoned its sovereign currency when it joined the Euro. Effectively, it became like a US state—think Louisiana—within the EMU. This means it has little domestic policy space to use monetary or fiscal policy to deal with crisis. If we go back to 2005,

Ireland's government had the second lowest ratio of debt to GDP (national output or income) in the EU-15, with only Luxemberg having a lower debt ratio. The government paid an interest rate similar to that paid by the French and German governments; it had a strong AAA rating on its debt. In fact, it was running a huge government surplus of 2.5 percent of GDP (similar to that run by the Clinton administration in the late 1990s in the US).

Fast forward to last spring. The government deficit ratio was about 12.5 percent of GDP and credit default spreads on the government's debt (equivalent to betting on default) reached almost 43 basis points over those of Germany, and it paid 6 percentage points higher to borrow than Germany did (on March 22 the spread on two year bonds hit a record 835 basis points—8.35 percentage points—over the rate on equivalent German debt). See the following graph:



Here's the problem. There is a fundamental relation between economic growth and ability to pay interest to service debt. To be safe, a government should not pay an interest rate that significantly exceeds its growth rate. If we compare Ireland to the situation of Germany, because the Irish government pays 6 percentage points more, it needs to grow 6

percentage points faster than Germany does. To be sure, this is a rough rule of thumb and there is some leeway. But the prospects for Ireland to grow that much faster than Germany—say 8 percent growth rate for Ireland versus 2 percent for Germany—approach a zero probability.

Indeed, the conventional way to generate government revenues needed to service debt is to cut government spending and raise taxes—which will only hurt Irish growth. Further, what Ireland needs is to increase the flow of euros in its favour through its foreign balance, i.e. by reducing imports and increasing exports to the EMU. The conventional prescription is slow domestic growth to reduce imports and enhance international competitiveness. This, too, further reduces domestic growth even further below the interest rate paid on government debt.

Finally, with the exception of the BRICs (Brazil, Russia, India and China) recent economic data across the globe have not been good—and it looks like even the BRICs are slowing. It is clear that Europe is imploding—it is unlikely that growth will be much above zero this year. And while recent US data look better, I still expect a "double-dip" recession to be triggered by renewed financial crisis, perhaps coming from Europe this time. That makes it harder for Ireland to export its way out of debt—which is the least painful path. I do not see alternatives that are without substantial suffering.

Unfortunately, slow growth of the economy usually means slow growth of tax revenue. It is fairly easy to imagine a scenario in which domestic austerity actually makes the budget deficit worse, which raises interest rates on government debt. A vicious cycle can be created, with debt service blowing up as growth continues to slow and interest rates rise with credit ratings agencies downgrading government debt.

What I am going to say next sounds controversial—but it is a point I've been making for nearly a decade and a half. Ireland transitioned from a government budget surplus of 2.5 percent of GDP to a deficit of 12.5 percent of GDP, which I am arguing is a disaster. The US government has had a nearly identical transformation (from 2.5 percent surplus in the late 1990s to a deficit peaking near 12.5 percent of GDP), but it faces no insolvency constraint and no default risk. The reason this is controversial is because we do face deficit hysteria in the US and credit ratings agencies disposed to downgrading US government debt. Congress nearly refused to extend the self-imposed debt limit on the federal government—and it is still possible that the government might get shut down if Congress refuses to raise the limit in the future. So, it might look like the US and Ireland are in a similar pickle.

But they are not. All problems in the US are self-imposed. Irish problems are largely imposed by "markets"—by market assessment that there is a very real chance of involuntary default. That is why Irish borrowing rates are so high, while US government interest rates actually fell (!) after the downgrade. The only path to US default is political—failure of Congress to raise debt limits. (Yes, we went through that, and we could have another stand-off. It is difficult to rule out political stupidity, but I think Congress will not allow default to actually happen.) The path to Irish default is "economic"—spiralling interest rates with low growth rates.

If Ireland had its own sovereign currency, the size of the government deficit or debt ratio would not be relevant to ability to pay. I will return to that below. But since Ireland gave up its currency in favour of the euro, it is not in the position of a USA or a Japan or a Turkey. It has far less domestic policy space—to run up budget deficits to boost growth, and to set low domestic interest rates. Nor can Ireland devalue the currency—the value of its euro is set at equal to the euro used throughout the EMU. As we have seen, crises in various EMU nations (Greece, Portugal, Spain, Ireland) do not cause the euro to depreciate. That might sound counterintuitive, but what matters is that there are relatively safe havens for those who want to buy euro-denominated debt, such as Germany. The "periphery" nations have to pay big premiums over the interest rates paid by Germany—and the euro remains (too) strong.

Let us look at how Ireland got into this mess. Ireland was the "paragon of virtue" just 6 years ago—its total outstanding government debt was just 8 months of tax revenue (publicly held debt was only 21 percent of GDP) and it was actually running budget surpluses. Then the financial crisis hit. That would have worsened the budget balance significantly—and probably would have generated a budget deficit. However, the government chose to guarantee its banks—which were vastly oversized relative to the size of the economy. That "busted the budget" and generated the current problems. In important respects, Ireland reproduced the Icelandic problem, with similar results.

As we know, the people of Iceland have voted to undo the bank bailout. The question is how Ireland might respond to the will of its voters. Any rational response should try to undo the mess created by guaranteeing bank debt.

A report by Finnish bank expert Peter Nyberg avoids naming names (by contrast, the US official report on the crisis—the Financial Crisis Inquiry Report does so) but says that guaranteeing the banks was based on "insufficient information" (Nyberg 2011). Well, that information is now sufficient to conclude that the bailout was a mistake. It needs to be

unwound. The documents must be made public. The guilty need to be prosecuted. Funds need to be recovered. Guarantees of crooks need to be withdrawn.

So how should the government deal with loan repayments to the EU? I would encourage the government to unwind its guarantees of bank debt. If this cannot be done, then Ireland must have a bailout and debt relief provided by the ECB or the EMU through some other entity. That is actually in the interest of the EMU since much of the bank debt guaranteed by Ireland's government is held externally by EU banks. The last resort alternative is default on debt and possible expulsion from the EMU. That will be painful. There isn't anything Ireland can be expected to do without support from the EU—except for default. Greece is now paving the way to show how default can be done. The EU is going to accept writing down Greek debt. That probably will not prove to be sufficient. But it opens the possibility for Ireland to also cut a deal.[1]

Ireland can also learn from the Icelandic example. Both are heavily indebted because their banks were far too large and made too many foreign loans. A difference is that Iceland still has its own currency; however its banks made loans in foreign currencies. But in important respects, so did Irish banks since the euro is a foreign currency from the perspective of Ireland. Iceland's citizens are pressuring its government to undo the bail outs. Ireland's population can learn by example.

The Irish voters should demand accountability of government, including investigation of the bailout of banks. Government should pursue debt relief on all fronts. Voters should resist austerity programs. If all else fails, they should demand either default or withdrawal from the EMU (in practice these probably amount to the same thing).

And they should demand jobs at decent pay. A Universal Job Guarantee program either funded by a newly sovereign Irish government, or funded by the ECB or other EMU institution is necessary to help revive the economy and to relieve suffering caused by high unemployment. Let us now turn to a comprehensive jobs program.

TOWARD A UNIVERSAL JOB GUARANTEE

Ireland needs jobs. A universal job guarantee is the best approach. The jobs would pay basic wages and benefits with a goal to provide a living wage. It would take all comers—anyone ready and willing to work, regardless of education, training, or experience. Adapt the jobs to the workers—as the late Hyman Minsky said, "take the workers as they are" and work them

[1] Indeed, after Greece got its deal, Ireland began to insist it should get similar treatment; see: http://www.reuters.com/article/2012/02/08/ireland-ecb-idUSL5E8D89QY20120208

up to their ability, and then enhance their ability through on the job training (Minsky 1965; Kelton and Wray 2004). In this section the details will be discussed.

The program needs to be funded by the central government. Wages would be paid directly to the bank accounts of participants for working in the program. Some national government funding of nonwage costs could be provided. I would decentralize the program to allow local governments and not-for-profit service organizations to organize projects.

Now here is the problem. A sovereign government with its own currency can always financially afford such a program. Ireland could fund such a program with its own sovereign currency. In current circumstances this is problematic because Ireland abandoned its currency in favour of a foreign currency, the euro.

The big advantage of a sovereign currency is that government can "afford" anything for sale in its own currency. Government then spends through "keystrokes," crediting bank accounts.

Before all the Zimbabwean hyperinflation warriors attack, let me say that too much government spending can be inflationary and can create pressures on the currency. But by design, a job guarantee program only hires people who want to work because they cannot find higher paying jobs elsewhere. It sets a wage floor but does not drive wages up. As such, it can never cause hyperinflation—it hires "off the bottom" at the program fixed wage, only up to the point of full employment. It never drives the economy beyond full employment.

For a sovereign currency nation, the interest rate is a policy variable and has no impact on solvency. Government can keep rates low (it sets the overnight rate directly, and can if it desires issue only short maturity bonds near to that rate) and pays interest through "keystrokes" by crediting bank accounts with interest. It can never run out of keystrokes, so it will never fail to make interest payments unless it chooses to do so for noneconomic reasons.

For Ireland, this is a very serious problem. It does not have a sovereign currency. It cannot control its borrowing rates, which are set in markets. Nominal interest rates should not exceed nominal GDP growth rates. But as we know, markets have pushed rates as high as 10 percent. For Ireland to service debt at 10 percent interest rates, it would need Chinese growth rates. That seems unlikely.

In the event that Ireland stays on the euro, and is not able to fully resolve its debt problem, is there anything she might do with respect to job creation? I will come back to that at the very end: yes, Ireland can adopt a limited job creation program, and can use creative finance to fund it.

What is the best way to guarantee long-term stability for the Irish economy? Full employment with reasonable price stability—something a universal job guarantee program can deliver. Let us turn to details.

THE JOB GUARANTEE: PROGRAM DESIGN AND BENEFITS

The benefits of full employment are numerous and include production of goods, services, and income; on-the-job training and skill development; poverty alleviation; amelioration of many social ills associated with chronic unemployment (health problems, spousal abuse and family break-up, drug abuse, crime); community building and social networking; social, political, and economic stability; and social multipliers (positive feedbacks and reinforcing dynamics that create a virtuous cycle of socioeconomic benefits). A "Job Guarantee" program would restore the government's lost commitment to full employment in recognition of the fact that the total impact would exceed the sum of the benefits.

The program has no time limits or restrictions based on income, gender, education, or experience. It operates like a buffer stock: in a boom, employers will recruit workers out of the program; in a slump it will allow those who lost their jobs to preserve good habits, keeping them work-ready. It will also help those unable to obtain work outside the program enhance their employability through training. Unemployment offices will be converted to employment offices, to match workers with jobs that suit them and to help employers recruit staff.

Although the program must be funded by the federal government, its implementation can be decentralized. All local governments and registered nonprofit organizations can propose projects; proposals will be submitted to a newly created office within the national government's labor ministry for final approval and funding. The office will maintain a website providing details on all pending, approved and ongoing projects, and final reports will be published after projects are complete.

Participants will be subject to all national work rules, and violations will lead to dismissal. Anyone who is dismissed three times in a twelve-month period will be ineligible to participate in the program for a year. Workers will be allowed to organize through labor unions.

Workers won't have to leave their communities to seek employment. The program will meet workers where they are and take them as they are: jobs will be available in local communities and will be tailored to suit employees' level of education and experience

(though with the goal of improving skills). This will prevent communities and sometimes larger cities from being deserted. Project proposals should include provisions for part-time work and other flexible arrangements for workers who need them, including but not restricted to flexible arrangements for parents of young children.

The program could provide for flexible working conditions such as part-time and seasonal work and other arrangements as desired by the workers. The package of benefits would be subject to congressional approval, but could include health care, child care, payment of social security taxes (or other retirement), and usual vacations and sick leave. The wage would be set by congress or parliament and increased from time to time similar to how the national minimum wage is usually legislated.

The advantage of the uniform basic wage is that it would limit competition with other employers as workers could be attracted out of the JG program by paying a wage slightly above the program's wage. Obviously, higher skilled workers and those with higher educational attainment will be hired first. In an economic boom, employers will lower hiring standards to pull lower-skilled workers out of the program. The residual pool of workers in the program provides a buffer stock of employable labor, helping to reduce pressures on wages—and as wages for high skilled workers are bid up, the buffer stock becomes ever more desirable as a source of cheaper labor.

All participants will obtain a social security number (or equivalent) and maintain a bank account in an approved bank. Weekly wages will be paid by the national government directly to participants' accounts. The government will also provide funding for benefits as well as approved expenses up to a maximum of 10 or 25 percent of wages paid for a project (to cover the cost of administrative materials and equipment; the exact percent would be set centrally, and could vary by type of project). Because the primary purpose of the program is to create jobs, the national government should cover only a relatively small portion of nonwage costs.

Estimated spending will be 1–2 percent of GDP (perhaps higher in a deep recession and lower in an expansion), with economic, social, and political benefits several times larger. Net program costs will be even lower, since with the institution of a JG program spending on unemployment compensation and other relief will be reduced—this program will pay people for working, rather than paying them not to work. The promise of increased national productivity and shared prosperity should far outweigh any fears about rising deficits. To fulfill this promise, we need to put workers back to work.

The JG will not only help achieve full employment, but will ensure that all of society's needs are satisfied, regardless of whether they constitute profitable business opportunities or not. More generally, it can be used to provide goods and services that are too expensive for low income households or that markets do not provide. Examples include social services (child and elder care, tutoring, public safety), small scale public infrastructure provision or repair (clean water and sewage projects, roads), low income housing and repairs to owner-occupied housing (following the lead of Jimmy Carter's Habitat for Humanity), and food preparation ("soup kitchens," local bakeries). The JG won't compete with private businesses and jobs, but will rather fill the gaps left by the private sector. Only community needs and imagination would limit the ability to provide adequate and useful jobs. Forstater (1999) has emphasized how JG can be used to increase economic flexibility and to enhance the environment by creating green jobs in the framework of the program. In addition, for a country that relies on tourism, the JG can be used to enhance the environment and public infrastructure in a way that promotes tourism. Similarly, projects can also enhance the general economic environment to promote exports if that is desired.

While neoliberals and their ancestors have managed to taint the memory of the US New Deal's job creation programs, the truth is that these programs provided lasting benefits. The naysayers actually began to fabricate falsehoods about the program and its participants from the very beginning. With corporate funding and ready access to the media, they painted a picture of lazy tramps leaning on shovels. But the evidence is still plain to see for any visitor to the US, in the form of public buildings, dams, roads, national parks, and trails that still serve America. (A similar story can be told about Australia, for example, which also engaged in public works programs during the Great Depression.) For example, workers in the WPA (Works Progress Administration)

> shouldered the tasks that began to transform the physical face of America. They built roads and schools and bridges and dams. The Cow Palace in San Francisco, La Guardia Airport in New York City and National (now Reagan) Airport in Washington, D.C., the Timberline Lodge in Oregon, the Outer Drive Bridge on Chicago's Lake Shore Drive, the River Walk in San Antonio….Its workers sewed clothes and stuffed mattresses and repaired toys; served hot lunches to schoolchildren; ministered to the sick; delivered library books to remote hamlets by horseback; rescued flood victims; painted giant murals on the walls of hospitals, high schools, courthouses, and city halls; performed plays and played music before eager audiences; and wrote guides to the forty-eight states that even today remain models for what such books should be. And when the clouds of an oncoming world loomed over the United States, it was the WPA's workers who modernized the army and air bases and trained in vast numbers to supply the nation's military needs. (Taylor 2008, p. 2)

The New Deal jobs programs employed 13 million people; the WPA was the biggest program, employing 8.5 million, lasting 8 years and spending about $10.5 billion (Taylor 2008, p. 3). It took a broken country and in many important respects helped to not only revive it, but to bring it into the 20th century. The WPA built 650,000 miles of roads, 78,000 bridges, 125,000 civilian and military buildings, 700 miles of airport runways; it fed 900 million hot lunches to kids, operated 1500 nursery schools, gave concerts before audiences of 150 million, and created 475,000 works of art. It transformed and modernized America (Taylor 2008, pp. 523-524).

We do not want to overemphasize public infrastructure investment, however. In many of our highly developed nations, the needs today are at least as great in the area of public services, including aged care, preschools, playground supervision, clean-up of public lands, retrofitting public and private buildings for energy efficiency, and environmental restoration projections.

A new universal direct job creation program would improve working conditions in the private sector as employees would have the option of moving into the JG program. Hence, private sector employers would have to offer a wage and benefit package and working conditions at least as good as those offered by the JG program. The informal sector would shrink as workers become integrated into formal employment, gaining access to protection provided by labor laws. There would be some reduction of racial and gender discrimination because unfairly treated workers would have the JG option; although, JG by itself cannot end discrimination.

Finally, I would also like to emphasize that a JG program with a uniform basic wage also helps to promote economic and price stability. The JG will act as an automatic stabilizer as employment in the program grows in recession and shrinks in economic expansion, counteracting private sector employment fluctuations. Furthermore, the uniform basic wage will reduce both inflationary pressure in a boom and deflationary pressure in a bust. In recession, workers down-sized by private employers can work at the JG wage, which puts a floor to how low wages and income can fall.

A sovereign nation operating with its own currency with a flexible exchange rate regime (i.e. when it doesn’t peg its exchange rate to another currency or metal, such as a gold standard) can always financially afford a JG program (Wray 1998). So long as there are workers who are ready and willing to work at the program wage, the government can “afford” to hire them. Let’s look at an example—using US currency and institutions. Just like households have checking accounts at their local bank, the banks have “checking”

accounts at the Federal Reserve Banks. Unlike households, the government makes payments by crediting bank accounts. When the government pays $500 to Mrs. Smith, it credits the account of Mrs. Smith's bank at the Federal Reserve Bank by $500. The bank where Mrs. Smith has an account then credits her account for $500. Technically, this amounts to money creation. Tax payments, on the other hand, result in a debit of bank accounts or, in other words, destroy money. If in each period the government credits more accounts than it debits through tax payments, a deficit results. In no sense is the government spending on JG constrained either by tax revenues or the demand for its bonds.

Nor will spending on the JG program grow without limit as some project. The size of the JG pool of workers will fluctuate with the cycle, automatically shrinking when the private sector grows. In recession, workers shed by the private sector find JG jobs, increasing government spending and thereby stimulating the private sector so that it will begin to hire out of the JG pool.

A floating exchange rate provides the "degree of freedom" that allows the government to spend without worrying that increased employment and higher demand will threaten an exchange rate peg—by possibly increasing domestic inflation and/or increasing imports. As discussed above, government deficit spending amounts to net money creation, and if a country is pegging its exchange rate this may lead to a pressure on the exchange rate peg. Thus, with a flexible exchange rate fiscal policy is "freed" to pursue other objectives, rather than being held hostage to maintenance of the peg. This is not to imply that the government will necessarily avoid any consideration of impacts on exchange rates while forming fiscal and monetary policy. However, if achievement of full employment is believed to conflict with maintenance of a constant exchange rate, the government in a floating currency regime *can* choose full employment. On the other hand, on a fixed exchange rate, a government that has insufficient foreign exchange reserves may not be able to "afford" to spend to promote full employment if that might lead to loss of reserves.

The problem, of course, is that Ireland does not have a floating exchange rate, and it does face affordability problems because it adopted the foreign currency—the euro.

DEVELOPING A LIMITED JG FOR IRELAND

Given its high indebtedness and the fact that it does not have its own sovereign currency, Ireland cannot today implement a universal job guarantee. It must worry about effects on the budget and trade balances (since it cannot devalue relative to the euro). There are some steps

that can be taken to minimize such effects. We will outline those and then will turn to a novel way to finance a bigger program.

A nation with a sovereign currency and floating exchange rate has a significant degree of domestic policy independence—both in terms of fiscal policy and in setting of interest rates through its monetary policy. This is because it can choose policy to achieve domestic stability while allowing its exchange rate to adjust to enhance external stability. Ireland, a small and relatively open nation with a pegged currency, however, is severely constrained—its interest rate is set by markets as a mark-up over the interest rate of the strongest euro nation—Germany. "Sound" fiscal policy is required to prevent assessed risk from raising borrowing costs. The best recommendation to such a country is to move toward a floating exchange rate with its own sovereign currency. However, I realize that is not yet an option for Ireland. Can an effectively nonsovereign nation (that is, one without fiscal and monetary policy independence) implement a JG program?

First, let us see how Ireland can reduce impacts on prices, the exchange rate, and the trade balance as it implements JG. It will need to limit the program's impact on monetary demand, which can be done by setting the program's monetary wage close to the minimum wage in the formal sector—which may not be a living wage for many families. However, poverty can still be reduced if the JG total compensation package includes extra-market provision of necessities. This could include domestically-produced food, clothing, shelter, and basic services (healthcare, childcare, eldercare, education, transportation). Because these would be provided "in kind," JG workers would be less able to use monetary income to substitute imports for domestic production.

Further, production by JG workers could provide many or most of these goods and services—minimizing impacts on the government's budget, as well as impacts on the trade balance. These could be supplied at low or no cost to poor families even if they do not participate in the program.

Still the JG program will impact monetary demand—some of which will leak to imports. Further, production by JG workers might require imports of some tools or other inputs to the production process. Careful planning by government can help to minimize undesired impacts. For example, imports of required tools and materials can be linked to export earnings. Because production techniques used in an JG program are flexible (JG production does not have to meet usual market profitability requirements—see Forstater 1999), government can gradually increase "capital ratios" in line with its ability to finance such imports. Further, JG projects can be designed with a view to enhance the nation's

ability to increase production for export. The most obvious example is the provision of public infrastructure to reduce business costs and attract private investment. In Ireland's case the most likely area to enhance inflows of euros is the tourist sector.

A phased implementation of the program will help to attenuate undesired impacts on formal and informal markets, while also limiting the impact on the government's budget. Further, starting small will help the government to obtain the necessary competency to manage a larger program. For example, Argentina limited its program by allowing participation by only one head of household from each poor family with dependent children. If desired, the program can start even smaller than that, allowing each family to register a head-of-household, but allocating jobs by lottery so that the program grows at a planned pace (10,000 workers the first year, 20,000 the next year, and so on until it provides a universal job guarantee). The phased implementation can also be done on the basis of selecting the best projects proposed by individual community organizations that will employ a given number of heads-of-households from the community (again, with selection of workers by lottery). Decentralization of project development, supervision, and administration can reduce the administrative burden on the central government while also ensuring that JG projects meet local needs. Generally, JG production should not compete with the private sector.

In the economic downturn we have seen some local communities resorting to the creation of "local currency units," sometimes called LETS (loal exchange trading systems). In depressed conditions, local business will often accept local currencies as better than no sales at all. Argentina's provinces had experimented with "patacones," regional currencies used to finance government spending. Even California, under Governor Schwarzenegger, had used "vouchers" to pay employees. Ireland could use these examples to develop a novel method of funding government spending—including wage payments in the JG.

Many economists are coming to understand that "taxes drive money"—the reason that a "fiat" money is accepted is because the government promises to accept it in payments made to the state, chiefly tax payments. That does not mean that taxes are the only reason that euros are accepted, but with the tax systems of the euro-using nations standing behind the currency, it is widely accepted. We can use that understanding to develop two alternatives for Ireland.

The first would be to develop a new currency—let's call it the punt—to be used for government payments of wages in the JG. All levels of government would agree to accept

the punt in payment of taxes, fees, and fines.[2] Assume that at government pay offices the punt is accepted at par for euro tax debts. Let us further presume that punts would be supplied only through government payment of wages to JG workers. Since JG workers as well as anyone with a tax due could use the punts to pay taxes, they would soon circulate widely. The government would not make the punt convertible to euros—it would not supply euros when punts are presented—but in private transactions they would trade at close to par because in payment of taxes they are equivalent.

The government can never run out of punts, so it can make all JG wage payments as they come due. The problem is that government will receive a mixture of punts and euros in tax payments—and so far as servicing its euro debts (at least to foreigners) goes, only euros work. In terms of euros, the government's debt problems could get worse. That would depend on the punt spending on the program (say, 2 percent of GDP), the size of the government spending multiplier (non-JG jobs would be created, too), and the resulting increase of tax liabilities. It is conceivable that a punt-financed JG program would not worsen the euro debt problems because it would stimulate the economy sufficiently that all the punts created would be less than the additional taxes due. But that would depend on complex dynamics and is not a foregone conclusion.

Of course, if the government unilaterally converted all outstanding euro debt to punt debt, its problems would be resolved—but that is effectively a default and would lead to political repercussions. (It is not clear that creation of the punt to pay JG wages would be permitted, either.)

The second alternative would be to pay JG wages in euros and to float bonds to raise the euros as needed. The current problem is that markets are concerned about the possibility of a default on Irish government debts, which is why interest rates are so high. The government can eliminate default risk if it issues special bonds that are acceptable in tax payment. There would be a guaranteed coupon—say 3 percent—so that a 100 euro bond could be used to pay taxes of 103 at the end of the year. This could be combined with limitations on the size of the JG program—ie, the funding raised through the bond sale would determine how many jobs would be created.

In conclusion, Ireland needs both debt relief and jobs. While a universal JG is the best approach, it may not be "affordable" on current arrangements. A sovereign, floating currency is required to ensure affordability. Meanwhile, Ireland can undertake a limited

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[2] In an interesting development, Bristol, England, has created a local currency that can be used in tax payment; see: http://www.bbc.co.uk/news/uk-england-bristol-16852326#story_continues_1

program even on conventional financing arrangements. Or, it could experiment with one of these two unconventional approaches. It could also approach official international lenders, or the ECB, but I am doubtful over the wisdom of the first (Ireland does not need more debt) and the likelihood of approval of the second.

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