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**#2016-011**

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**UNU-MERIT Working Papers**

**ISSN 1871-9872**

**Maastricht Economic and social Research Institute on Innovation and Technology  
UNU-MERIT**

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# Inclusive Labour Market: A role for a Job Guarantee Scheme<sup>1</sup>

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Joan Muysken<sup>\*\*</sup>

## Abstract

In the European labour market there is a clear scope for improvement in activity rates. Moreover, sustainable employment is impeded by the pervasiveness of temporary work, self-employment and part-time work. As a consequence there is a clear role for active inclusion policies, complemented by stimulating macroeconomic policies. However, the implementation of appropriate policies, initiated in 2008, never really took off and stagnated due to the austerity measures enforced after the financial crisis. For that reason we propose to experiment with Job Guarantee (JG) projects. On the one hand, JG projects should provide a macroeconomic stimulus to the economy by employing everybody who is out of work in JG jobs at the minimum wage. On the other hand, JG projects could stop the downward trend in job quality and foster inclusive labour markets by providing quality jobs and sustainable employment. We propose to finance the JG Scheme by redirecting social security (administration) funds, by including JG elements in the European Investment Plan (also known as the Juncker Plan) and to spend part of the € 60 billion which the ECB is injecting each month in the Euro Area on job guarantee projects.

Key words: inclusive labour market policies, job guarantee, sustainable employment

JEL codes: J48, E6, J21, J68

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J. Muysken thanks Caritas-Europe for financial support with the project

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<sup>1</sup> We would like to thank the participants of the economics seminars at the University of Würzburg and at the IAB, Nürnberg for their critical comments.

## 1. Introduction

There is a widespread concern about the persistence of poverty and joblessness leading to apprehension about sustainable employment in the European Union. In that light the European 2020 Strategy moved the creation of more and better jobs and greater social cohesion to the top of the agenda, thereby emphasising the importance of active policies to promote smart, sustainable and inclusive growth (COM 2010, 2020 and COM 2012, 173 final). Also the OECD is worried about labour market performance and well-being. In fact, the major part of her annual Labour Employment Outlook is devoted to questions presented in chapter titles like “Sharing the pain equally?” (OECD, 2014, Ch. 2), “How good is your Job?” (OECD, 2014, Ch. 3) and the “labour market divide” (OECD, 2014, Ch. 4).

In this paper we applaud these concerns. We show in section 2 how over time the labour market situation in the European Union has deteriorated in terms of providing sustainable employment and better jobs. Although labour market participation has increased, in particular due to higher participation of women, this was mostly in low quality jobs. Moreover unemployment increased sharply after the crisis starting in 2008. The incidence of low quality jobs and unemployment is especially high in certain groups (youngsters and low education persons) and in some countries (Greece, Italy, Ireland, Portugal and Spain). Inclusive activation policies, leading to sustainable employment and better jobs, therefore are warranted.

We associate in section 3 the concern for inclusive activation policies with the notion of full employment which was dominant in the first decades after WWII in all European countries. We show how after the reforms in the 1980s this notion was replaced by the notion of ‘full employability’, leading to less concern for the quality of jobs and to in-work poverty. The current policy stance on active inclusion is somewhere in between both notions. Moreover due to the financial crisis and the austerity measures, active inclusion policies seem to have stagnated. Both observations induce us to argue in favour of experimenting with a Job Guarantee Scheme as a leap forward to restore full employment.

In section 4 we further develop the idea of introducing Job Guarantee Experiments with the aim to secure the availability of good quality job at the minimum wage level for all those who are able and willing to work. First we briefly discuss (positive) experiences with existing job guarantee programmes, in particular in Argentina, India and the Netherlands and with the EU Youth Guarantee Scheme. We then propose to implement job guarantee experiments in the EU, thereby stressing the context of sustainable employment with quality jobs, consistent with the earlier introduced notion of full employment. Finally we argue that job guarantee experiments can be partly financed by redirecting social security (administration) funds and by including job guarantee elements in the European Investment Plan (also known as the Juncker Plan). We will point out that this is a very good way to spend part of the € 60 billion which the ECB injects each month in the Euro Area.

Section 5 concludes.

## 2. Challenges for an inclusive European labour market

For obtaining full sustainable employment at least three preconditions need to be fulfilled. We will use these preconditions as backbone for our analysis of the challenges EU Member States are facing in terms of realising inclusive labour markets. The first precondition is that persons have to be willing to look for a job. This shows up in the activity rate which we discuss in section 2.1. Second persons have to find a job. For that reason we look at the unemployment rate in section 2.2. Finally the jobs should lead to sustainable employment, that is, employment “promoting quality jobs and preventing in-work poverty” and “helping people stay in work and advance in their careers”.<sup>2</sup> Sustainable employment and the nature of jobs are discussed in section 2.3.

In our discussion we focus on the EU15 since for this group of countries data are available for a longer period (since 1995). For individual countries we compare the EU12, since for these countries data are available in most cases since the mid-1980s.<sup>3</sup> Moreover, this group of countries covers the four types of welfare states distinguished in Urbé (2012, Ch. 1): the liberal “Beveridge” system (with Ireland and the UK), the conservative, corporatist “Bismarck” system (with Belgium, France, Germany, Luxembourg and, to a certain extent, the Netherlands), the social democratic or Scandinavian (Nordic) regime (with Denmark) and the “Mediterranean” Model which puts a larger burden of the social well-being on the family (with Greece, Italy, Portugal and Spain).

### 2.1 Labour force participation

From Figure 1 one sees how the rate of labour force participation has been steadily increasing in the EU15, from 67 per cent in 1995, of the population aged 15 - 64 years, to 73 per cent in 2013. As is illustrated in Figure 2, the variation across countries is quite large in the EU12: It ranges from 63 per cent in Italy in 2013 to almost 80 per cent in the Netherlands. Moreover, compared to 1986 participation did hardly increase in Italy, whereas it increased dramatically in the Netherlands and in Spain – by almost 20 per cent points in both countries.

Figure 1 Labour force participation and employment in EU 15, 1995 - 2013

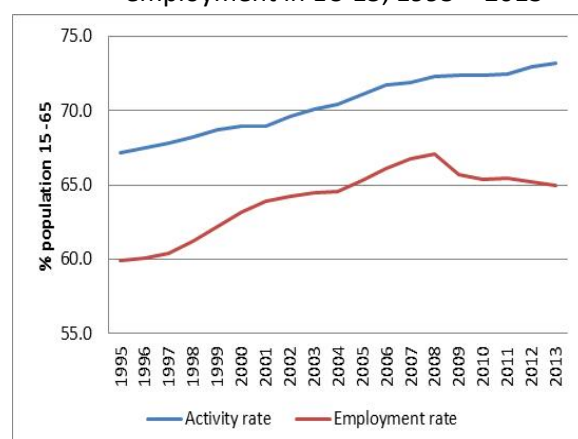
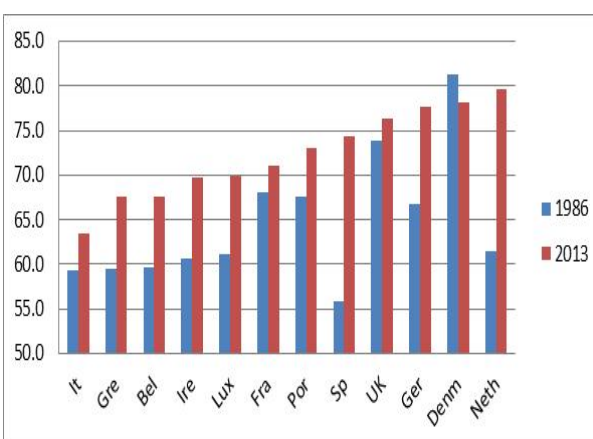


Figure 2 Activity rates of the EU12, 1986 - 2013



<sup>2</sup> Retrieved from the definition of inclusive labour markets on the EU web site:

<http://ec.europa.eu/social/main.jsp?catId=1134&langId=en>

<sup>3</sup> The EU12 consists of Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom. The EU15 also includes Austria, Finland, and Sweden. The data used in this chapter are taken from Eurostat.

Figure 3 Reasons for inactivity in EU15, 1996 - 2013

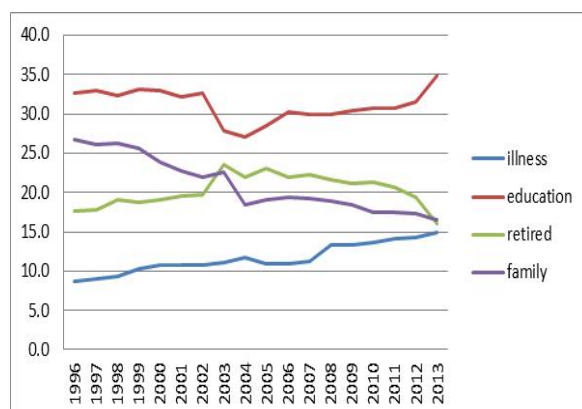
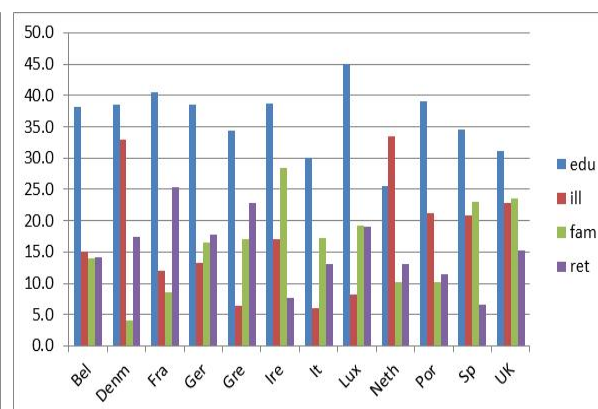


Figure 4 Reasons for inactivity in EU12, 2013



From Figure 3 one sees that the main reason for inactivity is education. The higher incidence of this reason since the economic crisis in 2008 is consistent with the notion that more young persons are extending their education in a situation of increasing unemployment (ILO, 2012). The second reason for inactivity is family-related, like looking after a child or dependent family member. The impact of this reason has declined systematically, reflecting an increasing participation of women on the labour market (often in part time work) – see Appendix A1. The impact of the third reason, early retirement, has decreased – this is consistent with increased labour participation of the age group 55 – 64 (Appendix A1). Finally, illness and disability have increased systematically as a reason for inactivity, with a small jump after the financial crisis.

The incidence of inactivity in the EU15 amongst educational groups is shown in Appendix A1. The high rate of inactivity amongst low educated persons is striking: labour force participation is less than 60 per cent, almost 20 percentage points below that of medium educated persons.<sup>4</sup> Surprisingly enough this phenomenon is also observed amongst the young, aged 15 -24. Finally, the country of birth has a low impact on labour force participation, as can be seen from Appendix 1.

The incidence of reasons for inactivity shows a large variation across countries as appears from Figure 4 (see also Appendix A2). Education is the dominant reason in all countries, except in the Netherlands, and has been increasing. Family reasons are above 20 per cent in Ireland, the United Kingdom and Spain, but below 10 per cent in the Netherlands, Portugal, France and Denmark. Retirement is above 20 per cent in France and Greece, but below 10 per cent in Ireland and Spain. The largest variation is found in illness and disability as a reason for inactivity, varying from over 30 per cent in the Netherlands and Denmark, over 20 per cent in the United Kingdom, Portugal and Spain, to far below 10 per cent in Greece and Italy. Moreover the incidence of this reason has increased in all countries except the United Kingdom and Luxembourg.

When analysing the reasons of inactivity no explicit attention is paid to the so-called discouraged worker effect. This is remarkable in view of the fall in the employment rate after the financial crisis

<sup>4</sup> These groups are “Less than primary, primary and lower secondary education (ISCED levels 0-2)” and “Upper secondary and post-secondary non-tertiary education (levels 3 and 4)”, respectively.

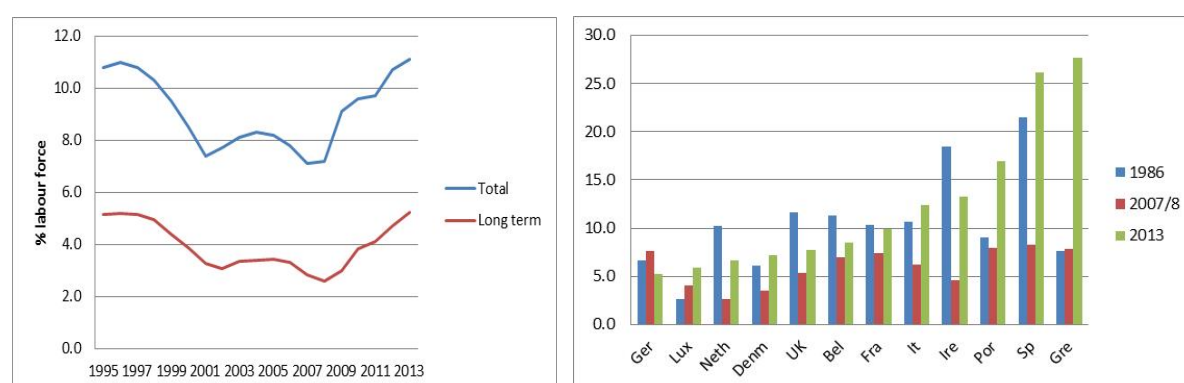
in 2008 (see Figure 1). The increase in unemployment rates corresponds to a clear slow-down in the increase of the activity rate: Whereas it increased by 2.2 per cent point in the five years prior to the financial crisis, it increased by 0.9 per cent point only afterwards. The strong increase in unemployment after the financial crisis probably discouraged many potential job-seekers to enter the labour market (Watt, 2013; Christl and Kucsera, 2014).

## 2.2 Unemployment

As is well-known unemployment in Europe has risen dramatically in the aftermath of the financial crisis. In the EU 15 unemployment decreased after the recession in the early 1990s from almost 11 to 7 per cent in 2000, after which it remained stable till 2007 – see Figure 5. However, after the financial crisis in 2008 it rose sharply to a level above 11 per cent in 2013. As can be seen from Figure 5 the rate of long-term unemployment also increased, even stronger than proportional.

In Appendix B we show some figures to illustrate that the unemployment incidence is higher amongst foreigners and young persons: in 2013 unemployment in EU 15 amongst the age group 15-24 was 32 per cent for foreigners compared to 23 per cent for the total, and unemployment amongst foreigners in general was 18 per cent compared to 11 per cent for total unemployment. There are no clear gender differences in unemployment.

Figure 5 Unemployment in EU 15, 1995 - 2013    Figure 6 Unemployment in EU12, 1986 - 2013



One observes from Figure 6 that there is a large variation in unemployment across countries after the financial crisis,<sup>5</sup> compared to a much smaller variation just before the financial crisis. In particular Spain and Greece are severely affected, with unemployment rates above 25 per cent in 2013. The dramatic increase in unemployment in the so-called GIISP countries after the financial crisis (doubling in Italy and Portugal and tripling in Ireland, Spain and Greece) is in our view an indication that the main cause of unemployment is demand deficiencies imposed by austerity measures (Stiglitz et al. 2014; de Grauwe and Ji, 2015), rather than labour market rigidities, as the dominant view suggests.<sup>6</sup> As we will argue below, this has important implications for the inclusive labour market policies.

<sup>5</sup> A similar phenomenon is reported for long-term unemployment in Appendix B.

<sup>6</sup> For instance OECD (2014 pp. 21-22) claims “OECD estimates of the NAIRU (Non-accelerating inflation rate of unemployment) suggest that it has tended to increase since the start of the crisis in several OECD countries and particularly in Greece, Portugal and Spain.” However, the OECD also recognises that in most countries “Weak aggregate demand accounts for a significant part of the persistence of high unemployment.” For a

## 2.3 Sustainable employment and quality of jobs

As we mentioned in the introduction, a third precondition for realising inclusive labour markets is the availability of sustainable employment and reasonable working conditions. We briefly analyse below the incidence of temporary employment, self-employment and part-time employment, since they feature higher job insecurity and may hamper sustainable employment. We also consider the quality of jobs in the EU12 as represented by ‘in work at risk of poverty’ and ‘physical and mental well-being at work’.

Temporary work is an important threat to sustainable employment (OECD, 2014: 143).<sup>7</sup> Yet, the incidence of temporary work has increased in the EU15 from just above 11 per cent in 1995 to 15 per cent in 2005 – see Figure 7. After the financial crisis it stabilised around 14 per cent. In Appendix C we show that there is a strong variety across the EU12 countries, with an incidence of above 20 per cent in 2013 in Spain, Portugal and the Netherlands. In 2013 less than 20 per cent of the temporary workers in the EU15 indicates that temporary work is a voluntary choice and over 60 per cent indicates that they accepted temporary work because they could not find a better job – see Figure 8.<sup>8</sup> Finally, OECD (2014, p. 143) notes that these jobs “are still disproportionately held by younger, less-educated and lower-skilled workers...”.

Figure 7 Temporary and self-employment in EU 15, 1995 - 2013

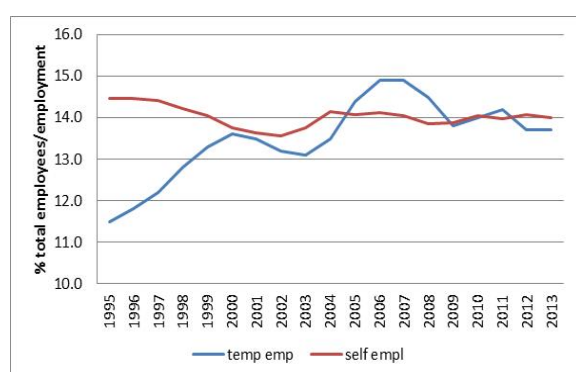
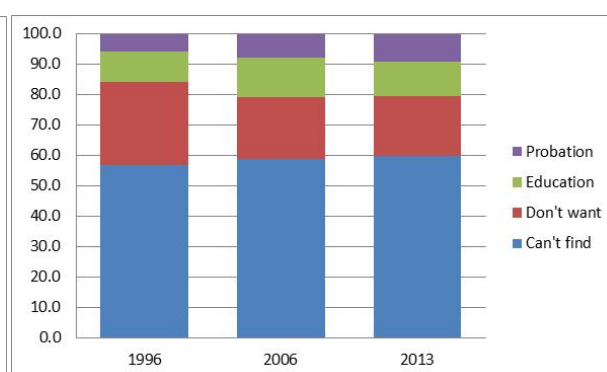


Figure 8 Reasons temporary employment 1986 - 2013 in EU12



As appears from Figure 7 self-employment is also an important phenomenon in the EU15, representing about 14 per cent of total employment. A substantial part of these self-employed consists of so-called own account workers. However, the data are quite unreliable and provide an underestimation of their true number (OECD, 2014, Ch. 4) – we present these data for the EU12 countries in Appendix C – this shows that its incidence generally increased after the financial crisis. There are no further data available at European level to analyse the employment perspectives for

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critical assessment of the OECD approach to the NAIRU we refer to Mitchell and Muysken (2008). We also show in Appendix B how the wage share in national income has decreased for the GIIPS countries till the financial crisis – except for the case of Greece, which has an exceptionally low wage share, however. The small upturn after the financial crisis in some countries is due to lagged adjustment of employment.

<sup>7</sup> In this section we mainly refer to the OECD (2014) findings, since the OECD provides a comprehensive overview and can hardly be seen as a source which is biased in favour of emphasising problematic labour market outcomes.

<sup>8</sup> The notion that a probationary period leads to a permanent job is often mistaken as is indicated in OECD (2014, Ch. 4).



this group in more detail,<sup>9</sup> but as OECD (2014) observes this category of workers has *de facto* the lowest degree of job protection of all dependent workers. As they “are not employees, the labour standards or other protection conferred by labour law, are not normally applicable to them. (OECD, 2014: 169)

A final threat to sustainable employment is the increasing incidence of part-time work – see Figure 7. It is generally recognised that part-time work goes hand in hand with higher labour market insecurity (OECD, 2014, Ch. 3). It also can be involuntary since part-time persons might want to work longer hours than available on the job. One sees from Figure 8 that almost one third of the workers in EU15 indicates that part-time work has been accepted because no full-time job was available. This is probably an underestimation since part-time work due to “care” will be influenced by the availability of child-care facilities. The importance of “care” and “other family responsibilities” as reasons for part-time employment is consistent with the high incidence of female part-time workers as appears from Figure 7.

Figure 9 Part-time employment in EU 15, 1995 - 2013

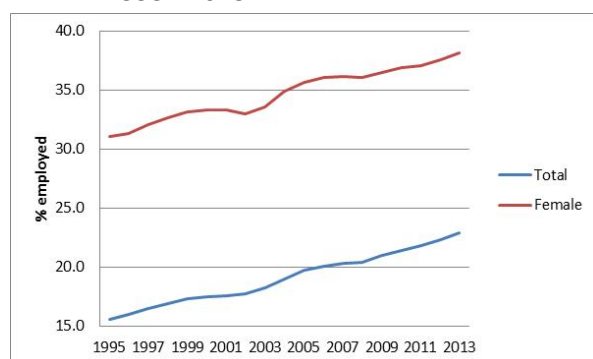
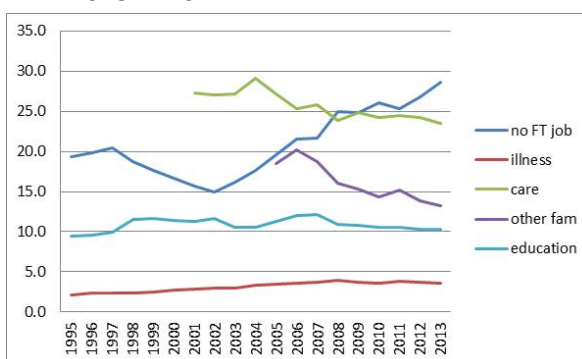


Figure 10 Reasons part-time unemployment 1986 - 2013 in EU12



Turning to the quality of jobs, one of the indicators used by Eurostat is the so-called in work at risk of poverty, which is the share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold.<sup>10</sup> This share increased for the EU15 from 7.5 per cent in 2005 to 8.6 per cent in 2013. The variety of the share amongst the EU12 countries is large. One sees from Figure 11 that Greece, Italy, Portugal and Spain are amongst the five countries with a share above 10 per cent in 2013. Hence in these countries at least one out of ten persons who have a job, are at risk of poverty.

Another indication of the quality of jobs is negative well-being at work, measured by the share of persons reporting exposure to factors that can adversely affect physical or mental well-being. The results presented in Figure 12 for the EU12 are quite surprising, since not only the GIIPS countries score high on this list, but also the UK, the Netherlands and in particular France. We could not find a precise reason for this result. However, excluding the outlying result for France, the average reported negative well-being for the EU27 was 35 per cent in 2007 for physical reasons and 23 per cent for mental reasons.

<sup>9</sup> An interesting overview for several countries is presented in Eichhorst et al. (2013).

<sup>10</sup> This threshold is set at 60 % of the national median equivalised disposable income (after social transfers).

Figure 11 In work at risk of poverty in EU 12, 2005 - 2013

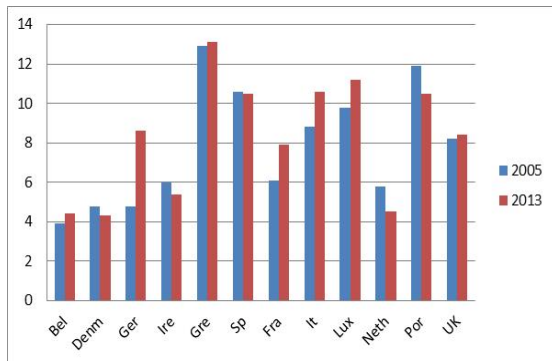
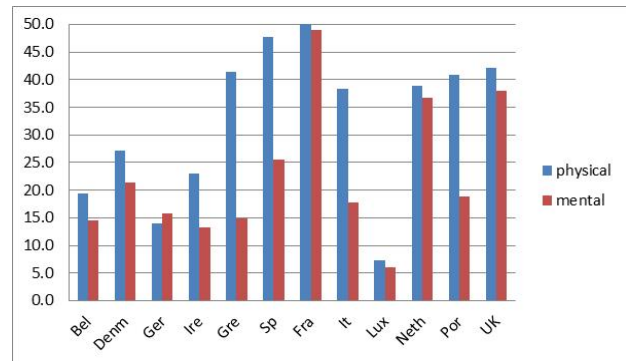


Figure 12 Negative well-being at work in EU12, 2007



OECD (2014) devotes a long chapter to the assessment of job quality, where three dimensions are distinguished: earnings quality, labour market security and quality of the work environment. Two interesting findings are that “across countries it does not appear to be the case that better job quality is achieved at the cost of fewer jobs. Countries that perform well in terms of overall job quality also tend to perform well on job quantity (as measured by the employment rate), and vice versa.” (p. 81) [...] “The worst off are youth and low-skilled workers. They cumulate poor performance in terms of employment rates with poor outcomes along all three dimensions of job quality. [...] Temporary employment contracts are associated with lower job quality in all three dimensions.” (pp. 81-82).

Looking at the GIISP countries compared to the EU12 we derive from the OECD findings that Spain, Greece, Ireland and Italy have the highest job insecurity (OECD, 2014, Figure 3.5), Greece, Spain, Portugal (France) and Italy have the highest job strain (*ibid.*, Figure 3.8) and, assuming a medium inequality aversion, Portugal, Spain, Greece (Austria) and Italy have the lowest earnings quality (*ibid.*, Figure 3.2B). Hence most GIISP countries have a remarkably high level of job insecurity and job strain and a remarkable low earnings quality.

### 3. Active inclusion and the return to full employment

It is important to understand how the welfare state in most European countries has developed in order to appreciate the emergence of the notion of inclusive labour markets and the potential role of job guarantee experiments therein. For that reason we briefly sketch in section 3.1 how the focus of the welfare state shifted from ‘full employment’ in the first decades after WWII towards ‘full employability’ since the mid-1980s. In section 3.2 we then argue that the notion of inclusive labour markets is on the one hand firmly rooted in the tradition of full employability, but also contains elements of a possible return to full employment. Finally we present in section 3.3 the job guarantee scheme as a possibility to enhance inclusive labour markets with a stronger emphasis on full employment.

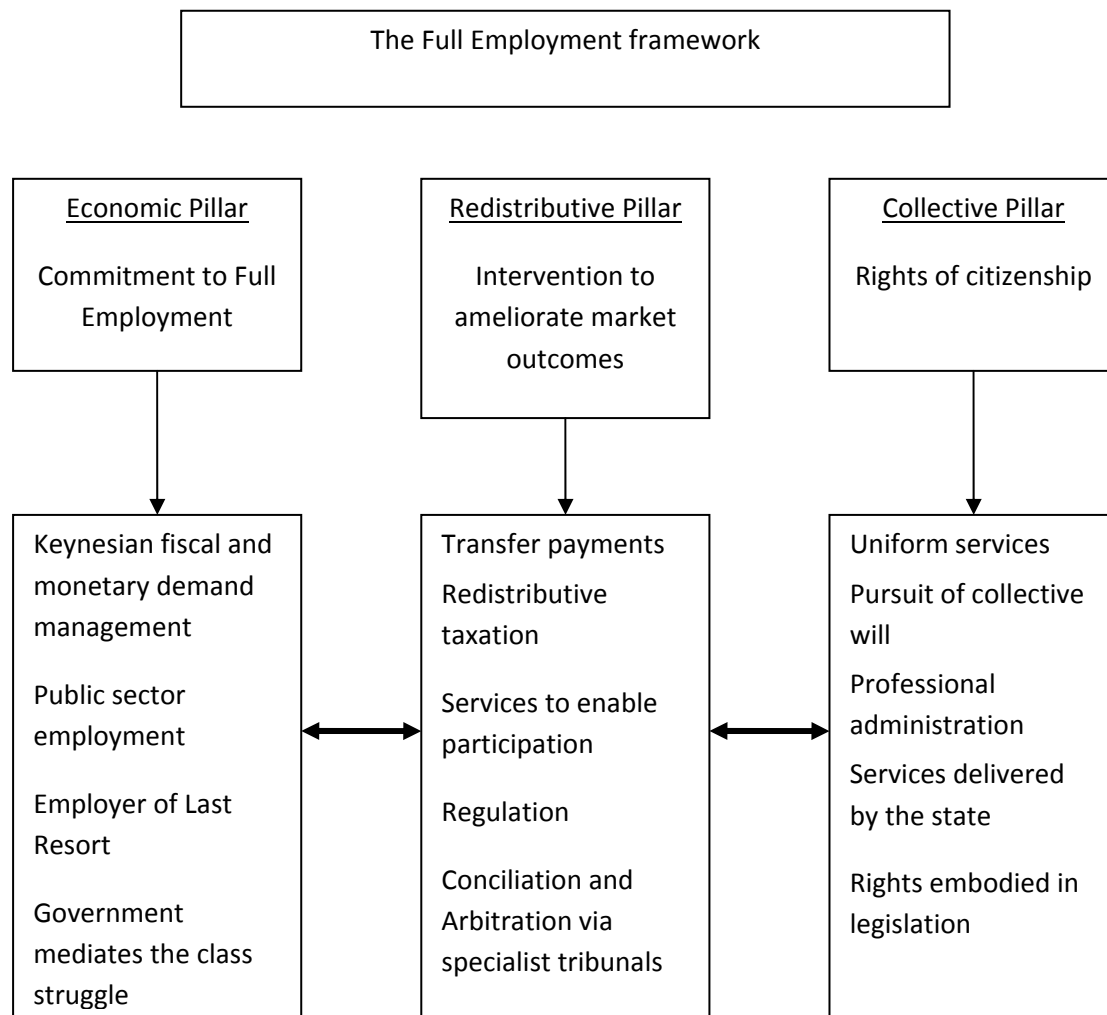
#### 3.1 The shift from ‘full employment’ to ‘full employability’<sup>11</sup>

In Figure 13 we reproduce the *Full Employment framework* developed in Mitchell and Muysken (2008). It represents how the welfare state in most European countries in the decades after WWII

<sup>11</sup> This section relies heavily on Mitchell and Muysken (2008; 2010) – see also Judt (2010) and Atkinson (2015) for similar observations.

was based on three main pillars. The *Economic Pillar* was defined by a serious commitment to full employment, which after the oil crises became blurred in the debate about the trade-off between inflation and unemployment. The *Redistributive Pillar* was designed to amend market outcomes, motivating equity intervention by governments in the form of income support and wage setting norms. The *Collective Pillar* provided the philosophical underpinning for the Full Employment framework, based on the intrinsic rights of citizenship and on solidarity.

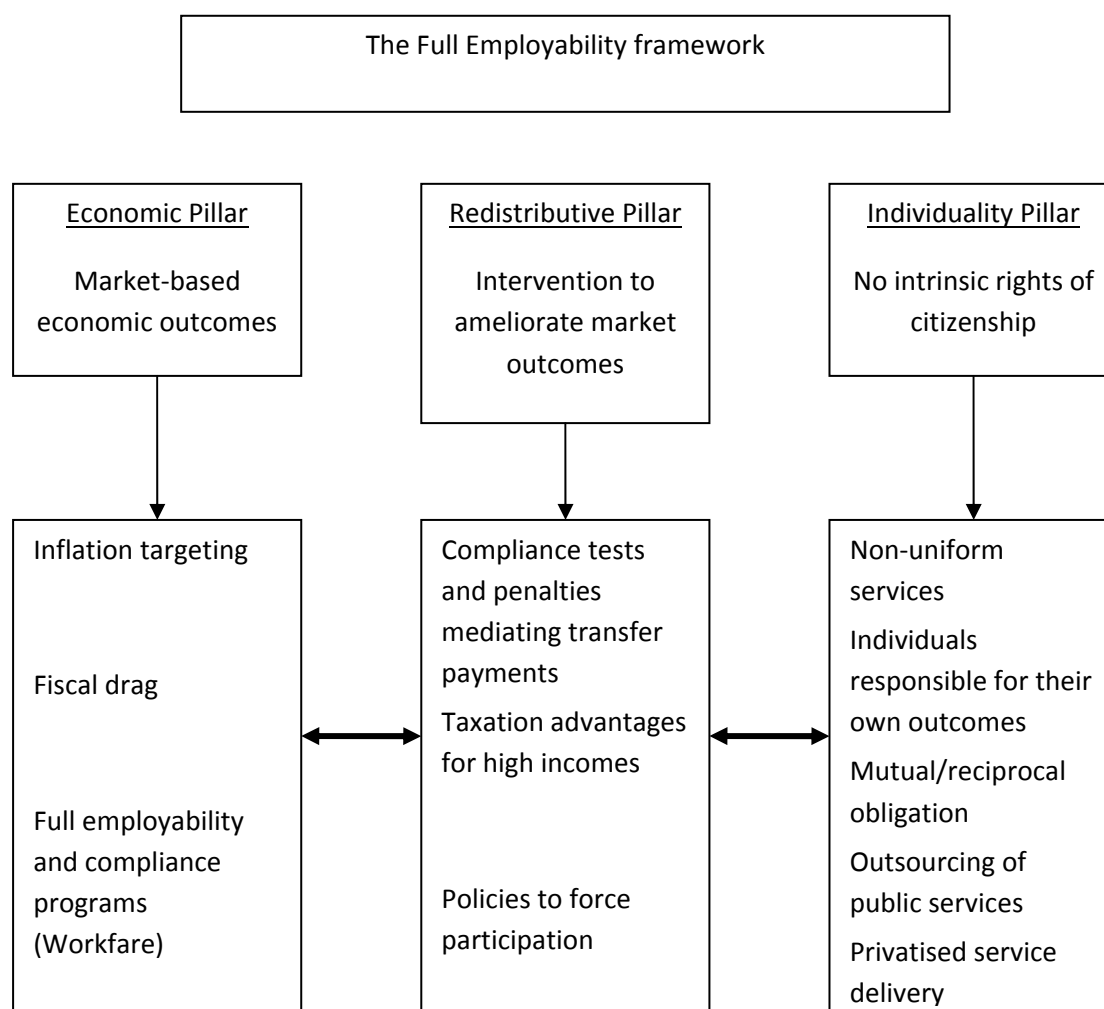
Figure 13 The Pillars of the Full Employment framework



Source: Mitchell and Muysken (2008: Figure 1.1).

Mitchell and Muysken (2008) discuss at great length how the reforms initiated in the Reagan-Thatcher era in the mid-1980s had serious implications for social policies all over Europe and led to labour market reforms as advocated by the OECD's "Jobs Study" (OECD, 1994). Mitchell and Muysken (2010) claim that, in the spirit of these reforms, the only way to resolve the pressures on the Redistributive Pillar was to reduce the public commitment to income support and the pursuit of equity. This shift in focus required a major recasting of the concept of citizenship which underpinned the Collective Pillar and had been an essential part of the rationale for the system of social security in the post-war period. Eventually, this development resulted in a shift from the 'Full Employment' framework to the 'Full Employability' framework – the latter is represented in Figure 14.

Figure 14 The Full Employability framework



Source: Mitchell and Muysken (2008: Figure 1.3).

Under the 'Full employability' framework collective will has been usurped by the primacy of the individual. Unemployment is seen as a problem of welfare dependence rather than a deficiency of jobs. As a consequence individuals now face broader obligations: they have to accept responsibility, be self-reliant, and fulfil their obligations to society. In many countries reciprocal obligation was developed as a leading principle, aiming at reintegration in the labour market. That is the receipt of benefits is contingent on meeting behavioural criteria and providing services community – often in an almost punitive, disciplinary context.

There are two major shortcomings in the full employability framework. First, the asymmetry in the reciprocal obligation is that the government does not have the obligation to ensure that there are enough jobs for all those wanting work. Second, the impact of macroeconomic circumstances on unemployment is not recognised: In times of a shortage of aggregate demand aggregate unemployment is inevitable. These shortcomings are modified by the introduction of the concept of inclusive labour markets as we argue below.

### 3.2 Inclusive labour market policies

The concept of inclusive labour markets was introduced as one of the strands of the EU Commission Recommendation of 3 October 2008 on the active inclusion of people excluded from the labour market. The Recommendation advocated an integrated active inclusion strategy based on three pillars: adequate income support, access to quality (social) services and inclusive labour markets. Member States were encouraged to develop and implement comprehensive policies built around the mutually reinforcing roles of each of the three strands. This approach gained gradual acceptance as a key reference point of the EU's current approach towards combatting poverty and social exclusion, which has been embedded in the inclusive growth pillar of the Europe 2020 strategy (Frazer and Marlier, 2010; Klosse, 2013; Natali, 2014).

In the light of the discussion in the previous section, it is interesting to read carefully the following statement, derived from the EU Commission Recommendation on active inclusion:

“The persistence of poverty and joblessness and the growing complexities of multiple disadvantages call for comprehensive, integrated policies. With a view to modernising social protection systems, adequate income support needs to be combined with a link to the labour market and access to quality services in an integrated active inclusion strategy. This strategy is fully complementary to the flexicurity approach, while targeting those excluded from the labour market. It contributes to the Lisbon strategy by facilitating the activation and the mobility of the workforce, and represents a building block in the social dimension of the EU's sustainable development strategy.”

This statement reveals the ambivalent character of the active inclusion concept (Marlier and Natali, 2008). On the one hand, the Recommendation recognises (a) the persistence of poverty and joblessness (although it does not link this to macroeconomic failures) and (b) the need of adequate income support and a link to the social dimension of the EU's sustainable growth strategy. Both can be seen as steps towards the full employment framework. However, on the other hand, (c) the reference to the flexicurity approach and (d) the focus on activation and mobility of the workforce seem more in line with the full employability framework. This ambiguity is in line with the observation by Marchal and Van Mechelen (2014) that the Recommendation “aims to connect activation recipes to enhanced social protection and the broader set of welfare provisions aimed at social inclusion.” (p. 5).<sup>12</sup>

The evaluation by Marchal and Van Mechelen on active inclusion in European minimum income schemes provides some further insights. They take the three pillars which constitute active inclusion policies, i.e. adequate income support, inclusive labour markets and access to affordable and quality services as point of departure for their analysis. They show how these three pillars can be used as a classification scheme in order to assess the variation in activation strategies pursued in EU member states. However, they argue that the inclusive activation strategy has two dimensions, which should be explicitly distinguished. The first dimension has a focus on incentives to enhance participation in the labour market (with a strong focus on stimuli to lower the reservation wage). The second dimension emphasises human capital formation (with a strong focus on education and vocational

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<sup>12</sup> The same ambiguity is also visible in Guideline 10 of the Europe 2020 Integrated Guidelines on promoting social inclusion and combating poverty: COM 2010,193 final. See Klosse (2013: 506).

training). “It favours improving individual capacities, rather than inducing behavioural change.”(Marchal and Van Mechelen, 2014: 4). Together these distinctions then amount to four aspects of social inclusion, summarised in the column headings of Table 1.

Their general findings on each of the four aspects of active inclusion for 20 countries are that most countries do not provide adequate income support. Also the provision of affordable services is not sufficient. This is consistent with our earlier observation of the shift away from the Full Employment Framework in the direction of the Full Employability Framework. The latter is also reflected in the more directly labour market related aspects of active inclusion. All countries show at least some adherence to the inclusive labour markets pillars, and generally, substantially so. Especially in the incentives sphere, most countries reach high membership scores, whereas membership scores in the enabling dimension are less outspoken (Marchal and Van Mechelen, 2014: 14). These findings are reflected in Table 1 for the countries of the EU12 which Marchal and Van Mechelen studied.<sup>13</sup>

Table 1 Scores on active inclusion labour market policies

	Adequate income	Enabling	Incentives	Services
BE	0,20	0,75	0,84	0,82
DE	0,26	0,75	0,57	0,43
FI	0,38	0,87	0,34	0,55
FR	0,00	0,75	1,00	0,13
IT	0,00	0,50	1,00	0,45
LU	0,51	0,75	0,84	0,27
NL	0,81	0,50	0,67	0,36
PT	0,00	0,47	0,97	0,00
UK	0,39	0,50	1,00	0,00

Source: Marchal and Van Mechelen (2014: Table, 7).

Similar observations have been made in the evaluation of national policies on active inclusion by Frazer and Marlier (2013). They observe that, while there has been progress in some Member States, this is often uneven and partial. The effective implementation of the Recommendation across the EU is still far away. However, some progress has been made in designing and implementing active inclusion measures for those who can work than for those who cannot work. “As the impact of the economic and financial crisis has deepened and as an increased emphasis has been put on financial consolidation and austerity measures, resources have become tighter and the approach has tended to become (even) more unbalanced. A significant factor in many countries which has limited the implementation of an active inclusion approach has been the introduction of austerity measures in response to the economic and financial crisis.” (Frazer and Marlier, 2013: 7 – see also Crepaldi et al., 2015)

<sup>13</sup> In order to include one Scandinavian country, we included also Finland.

### 3.3 The notion of a Job Guarantee

The previous sections 2.2 and 2.3 revealed the failure of the active inclusion policies to realise inclusive labour markets. In this section we present the idea of a job guarantee as an alternative route forward. The idea of a job guarantee stems from a long tradition in the USA. It was advocated by institutionalists, such as Copeland, Gordon and Minsky. In particular the latter introduced the role of the government as employer of last resort (ELR) – see Minsky (1965). This was taken up by Wray (1998) and has led to active groups based at the University of Missouri-Kansas City (Forstater, 1999; Tcherneva, 2005; Fullwiler, 2007) and at the Levy institute (Kregel, 2009; Godin, 2013; Papadimitriou et al., 2016) elaborating on ELR-policies. Around the same time Mitchell (1998) introduced the notion of a job guarantee in Australia. Bill Mitchell established a group in the Centre of Full Employment and Equity (CofFEE) at the University of Newcastle in Australia which is actively advocating and developing Job Guarantee schemes (Quirk et al., 2006; Coffee, 2008; Watts, 2010; Juniper et al., 2014). All these groups are now cooperating closely and have been joined by CofFEE-Europe based in Maastricht University, which amongst others inspired the present paper (see also Mitchell and Muysken, 2008; 2010). Without acknowledging links to these groups Atkinson (2015) has also embraced the ELR concept and proposed detailed plans to introduce ELR in Britain and in Europe.<sup>14</sup> Finally, there have been various debates on the potential problems with introducing a JG-scheme – see for instance Aspromourgos (2000), King (2001), Palley (2001), Sawyer (2003; 2005) and Mitchell and Wray (2005) for a general debate and see Standing (2005; 2013), Noguchi (2013), Harvey (2005; 2013), Tcherneva and Wray (2005) and Tcherneva (2013) for a discussion in relation to Basic Income.

We briefly summarise the main aspects of the Job Guarantee Scheme below, drawing heavily on Mitchell and Muysken (2008; 2010) to which we also refer for more details. The aim of the JG-scheme is to ban involuntary unemployment. For that reason the government ensures the availability of suitable public sector jobs at the statutory minimum wage level for anyone willing and able to work. In this way the scheme supports continuity of income and labour force attachment, without recourse to social welfare dependence. So instead of wielding a stick to force those on social welfare benefits to accept in many cases low quality work, it provides a carrot in the form of quality jobs. The scheme also provides appropriately structured training activities on the job. As such, a properly designed Job Guarantee scheme can help previously unemployed persons to make transitions into careers in the private sector and also stimulate employers to modify their recruitment behaviour.

A Job Guarantee Scheme can also help to solve the problem of time-related underemployment as it provides the opportunity for under-employed workers to engage in full time employment. In turn, this could place pressure on private sector employers, who have failed to provide sufficient hours of work to satisfy the preferences of their workforces, to restructure their workplaces so as to overcome the discontent that their underemployed workers feel.

As Mitchell and Muysken (2008) emphasise, the Job Guarantee idea is firmly embedded in the notion of full employment, which recognises the basic right of every individual to ‘just and favourable conditions of work’ as expressed in the 1948 Declaration of Human Rights and in the

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<sup>14</sup> Mitchell (2015, Ch. 23) also mentions the Job Guarantee scheme as a possible solution for the European problems, but he is quite pessimistic about the possibilities to implement it due to diverging political views.

European Social Charter. It is also consistent with the notions of social cohesion, social inclusion and human dignity which are listed among the key values and aims of the EU (articles 2 and 3 Treaty of the European Union (TEU)). The Job Guarantee idea should therefore be distinguished from proposals for a basic income. The problem with basic income is that societies do not automatically feel responsible for the well-being of persons they provide a basic income to. This might pose a threat to social cohesion. The basic income does not impose any responsibility on the individuals either and hence also might threaten human dignity. A more elaborate discussion, including macroeconomic considerations, is provided in Mitchell and Watts (2004) – see also the references given above.

Finally, as we elaborate below, using the job guarantee for the provision of collective goods and services might revive the public awareness of their importance and lead to a normal provision of these jobs. In that context, as is stressed in Mitchell and Muysken (2010), an appropriate Job Guarantee Scheme also acknowledges the strains on our natural ecosystems and the need to change the composition of final output towards environmentally sustainable activities. Environmental projects are ideal targets for public sector employment initiatives as they are likely to be under-produced by the private sector due to their heavy public good component. If a portion of Job Guarantee jobs were used to repair and restore the environment, the workers would re-gain personal dignity, and society would gain from the increased provision of goods and services which support sustainability. It is not increased demand *per se* that is necessary but increased demand in sustainable areas of activity.

From a macroeconomic perspective it is important to note that the JG - job will be paid according to the mandatory minimum wage, thus keeping the earnings below the prevailing wage on the labour market.<sup>15</sup> The Job Guarantee acts as a job buffer, ensuring that there is full employment over the business cycle, while inflation is being kept under control. The Job Guarantee does not raise inflation even though there is no (involuntary) unemployment because the wage of the JG is below the market clearing wage. If there would be any inflationary pressure, the government could easily suppress this by tightening its fiscal and/or monetary policy. Since the non-accelerating inflation rate of the unemployment rate under a Job Guarantee Scheme would be much lower than the 'ordinary' NAIRU, it would result in much less wastage of labour resources. All these arguments are elaborated in Mitchell and Muysken (2008). We discuss the financing of the JG in the next section, where we also discuss the various objections that have been raised in the discussions referred to above.

#### 4. Experiments with Job Guarantee policies

The overview of European labour markets in section 2 did show a gradual deterioration of job quality and an increase in work-in poverty, which we associated in section 3.2 with the shift from 'full employment' to 'full employability'. The strong rise of unemployment after the financial crisis also exposed the lack of awareness of the full employability policies for macroeconomic market failures. We argued in section 3.2 that inclusive labour market policies are a step in the right direction. However, we also observed that, due to the austerity measures implied by the financial crisis, the implementation of these policies stagnated. Moreover, the macroeconomic problem of deficient

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<sup>15</sup> The minimum wage should be such that a full time job at the minimum wage does not lead to in-work poverty.



demand still has to be tackled. The introduction of a Job Guarantee Scheme could help to solve both problems. It can generate both sustainable employment in good quality jobs and an adequate income, and it tackles the problem of deficient demand by stimulating the economy. One might wonder, however, whether this will really work out in this way in practice and how such a scheme should be implemented. These issues will be discussed below. We first summarise earlier experiences with Job Guarantee Schemes in section 4.1. Then we elaborate on the implementation of Job Guarantee experiments in section 4.2, where we also discuss how one might deal with the problems raised in earlier discussions. In section 4.3 we discuss the financial implications.

#### 4.1 Earlier experiences with the Job Guarantee Scheme

There have been some rather successful field experiments with the Job Guarantee Scheme in Argentina, South-Africa and India – see Mitchell and Muysken (2008, Ch 9.6) for an overview. An interesting example is the *Plan Jefes* which was implemented in Argentina as a depression solution after the crisis in 2001. The Plan did run until 2008.

Characteristic of the *Plan Jefes* was that it took workers ‘as they are.’ Jobs were provided to heads of households (presumably male), but the intra-household decisions in the majority of cases designated the woman as the head of the household. In 2005, almost 75 per cent of the participants who turned up for work were women. There were no skills means tests and men and women were offered employment into community projects irrespective of their past labour market experience, level of education, or skills. The government had estimated that 500,000 persons would show up for work, whereas, at its peak, *Jefes* had hired 2 million persons. (Tcherneva, 2012:8)

As Tcherneva shows, *Plan Jefes* provided the predicted macroeconomic stabilisation effects and established a wage floor for those workers who transitioned from the *Jefes* program to private sector work. Not surprisingly almost 93 per cent of *Jefes* workers who were hired into private firms were offered a wage above the *Jefes* wage. The majority of *Jefes* projects provided useful community work. In some cases, the projects literally transformed communities. “Projects included improvements in the water supply, sewer systems, and pluvial networks. They made investments in health and educational infrastructure, improved hydraulic defences, clay pits, municipal slaughter houses, recreational and tourist areas, and many others. In many instances, *Jefes* funds were used as seed money by the unemployed to launch their own businesses and micro-enterprises, some of which made toys from recyclable materials, others manufactured clothing for the domestic or export market or set up carpentry and other artisanal shops.” (Tcherneva, 2012:14)

In India, the National Rural Employment Guarantee Scheme (NREGA) started in 2005. It entitles every rural household in India to a minimum of 100 days of paid work per year. This is an unrestricted entitlement with no eligibility requirements. Employment in the scheme increased, spreading out over rural areas, from 21 million households in 2006-07 to 33.9 million households in 2007-08 and 53 million households in 2010-11. Anzar (2012) finds that NREGA has a positive impact on the labour force participation, mainly driven by increased female participation. He also finds a significant positive impact on the wages of female casual workers-real wages of 8% and a modest impact on wages of casual male workers of 1%. Other positive evaluations are provided by Deininger and Liu (2013) and Imbert and Papp (2013). The experiments in India have expanded over time and still continue with success.

We are not aware of Job Guarantee experiments in Western economies. A Dutch program most closely resembling the job-guarantee was the Melkert-jobs program started in 1994. On an annual basis 40 to 60 thousand additional public sector jobs were created, paid by the government. This program was one of the few activation programs that aimed “at participation in a wider sense than labour-market integration only.”<sup>16</sup>(van Berkel and de Schampeleire, 2001:33). Although its name changed to 'ID-Jobs' in 1999, this program essentially ran from 1994 until it was cancelled in 2004 – see also Stiller and van Gerven (2012). An interesting aspect of the Melkert jobs was that they generated many collective services which were cancelled due to austerity measures. The cancellation of these jobs then led to a deterioration in these services which was generally felt as a loss. This latter point is clearly recognised by Atkinson (2015, Ch. 5): JG jobs create genuinely valuable output and should not be evaluated solely on the subsequent labour market success of participants.

Two examples of mistaken interpretations of the JG approach are the “Job Guarantee” proposed in Layard (2009) and the “EU Youth Guarantee Scheme” launched in 2013 (EU, 2012). The first scheme only provides temporary solutions for long-term unemployed young persons. The second scheme seeks to reduce the risk of long-term unemployment amongst young people by inducing the Member States to ensure that all young people under 25 – whether registered with employment services or not – receive a concrete and good-quality offer for a job, apprenticeship, traineeship, or continued education within 4 months after leaving formal education or becoming unemployed. It is too early to evaluate the success of the scheme, but the first indications are not very positive due to a serious lack of funding and jobs of sufficient quality as reported by both the European Court of Auditors (2015) and Escuardo and Morello (2015). “The overwhelming problem with the Youth Guarantee proposal is that it skirts around the main issue, a lack of jobs. It continues the emphasis on full employability .... What is needed in Europe is a large scale job creation program for those who are not in formal education or formal apprenticeship programs.”(Mitchell, 2015: 440)

#### 4.2 Implementing job guarantee experiments

One should always adhere to the spirit of full employment – see section 3.1 above – when implementing a Job Guarantee Scheme. That is, one should aim at sustainable employment in quality jobs, in line with personal capacities and not stigmatising individuals or groups. A detailed proposal of how to implement a JG scheme within the Australian context has been developed in Quirk et al. (2006) and CoffEE (2008: Ch. 13) – see also Atkinson (2015: Ch. 8) for a proposal consistent with the British situation. Both proposals rely heavily on the existing administrative structure and imply a relatively large bureaucracy. That may be a drawback of the JG scheme which is inevitable (Noguchi, 2013; Standing, 2013), although this bureaucracy is also present in the current social benefits system.

For that reason we also encourage local initiatives and exchange of experiences – see also Klosse and Muysken (2014). This means that within a country each municipality or neighbourhood and each

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<sup>16</sup> The authors continue: “It involves promoting participation in unpaid activities such as voluntary or community work. This ‘route’ towards inclusion has hardly been developed in active social policies.” – a similar observation is made in Ochel (2004).

individual could come up with a concrete proposal for work under the Job Guarantee Scheme.<sup>17</sup> Each reasonable proposal should be tried out, within limits, but terminated when it turns out to be a failure. Thus, one can learn from both the successes and the failures of others. Successful experiments may then be implemented on a larger scale and learning from each other should be encouraged.

It is very well possible to involve the social partners (trade unions and employers) in the implementation of a Job Guarantee Scheme. It might thus become a public-private-partnership.<sup>18</sup> There might also be a relationship with activities on the shop floor, such as training – see Gerards, Muysken and Welters (2012) for a successful experiment with a large company in the Netherlands. One should realise, however, that training and education are not a panacea for all evils. As long as there is a shortage of jobs, training is paramount to stirring a cup of tea. But training within a paid employment context, created by the Job Guarantee Scheme, helps to overcome churning unemployed through the current active labour market policies: there always has to be the prospect of a job after training. Training on the job will strengthen the motivation of the worker and will probably yield a higher return. For this reason it is indispensable to involve the employers in the Scheme, since they will have to create trainee posts.

A relevant question is crowding out of private and public sector jobs (Sawyer, 2005; Noguchi, 2013). There are four aspects to this. First of all it is very hard to argue whether crowding out takes place or not. One could argue that when there is no vacancy for a certain job, employing a person in JG-job to do the relevant work implies no crowding out – an example would be a janitor at a primary school which has neither a janitor nor a vacancy for that position. This criterion is often used in the Netherlands (Klosse and Muysken, 2014). One can object to this criterion that previously existing jobs then might be terminated and replaced by relatively cheap JG-employees without posting a formal vacancy. This is indeed a problem that should be recognised and requires careful monitoring, also with help of social partners – see also CofFEE (2008: Ch. 13) and Atkinson (2015: Ch. 8) for more detailed proposals.

Second, implicit in many JG-proposals is the notion that as is explicitly discussed in Noguchi (2013) there is a general lack of public goods and services nowadays, which can very well be provided by JG-jobs. However, if the cycle goes up persons employed in these ‘indispensable’ JG-jobs are drawn into the private market, which leaves an irreplaceable void (Sawyer, 2004). Mitchell and Wray (2004) argue that there can be a hard core of deficient aggregate demand which then can be used to fill these jobs, but that is not very clear. One might hope that the provision of these goods and services revives the public awareness of their importance and leads to a normal provision of these jobs (Noguchi, 2013; Atkinson, 2015).

Third, one should realise that some alleged crowding out is part of labour market dynamics. For instance, Imbert and Papp (2013) show that in India’s rural areas part of the JG-jobs crowd out

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<sup>17</sup> Some examples of possible activities are: (1) informal care for elderly people (e.g., transport, courses, helping with ICT); (2) refurbishing the neighbourhood (e.g., playgrounds, green areas, a neighbourhood platform); (3) designing and developing inner-city plans (banishing cars, reducing energy consumption). See CofFEE (2008) for an extensive list of activities, based on interviews with local community workers.

<sup>18</sup> However, we are quite wary of PPP’s since the partners often have asymmetric positions.

private sector jobs, leading to an increase of the private sector wage. They show that this increases overall welfare.

Fourth, some private sector jobs might offer such unfavourable conditions that employees will prefer to work in JG-jobs. In that case the Job Guarantee provides a minimum standard for job quality which should be recognised as worthwhile and forces private employers to obey that standard (Mitchell and Wray, 2004; Mitchell, 2015).

#### 4.3 How to finance job guarantee experiments

A final question is how to finance job guarantee experiments. In Mitchell and Muysken (2008) it is explained that from a macroeconomic perspective there should be no objection to finance Job Guarantee policies by issuing money by the Central Bank. This has always been highly controversial and branded JG proposals as completely unrealistic.

However, central bank funding is not necessary to start experimenting with Job Guarantee initiatives as the experiments described in section 4.1 have shown. A lot of funds spent on social benefits and the administration system can be redirected to Job Guarantee projects (CofFEE, 2008: Ch. 13; Atkinson, 2015: Ch. 8). Next to that, the European Commission has recently launched “An investment plan for Europe” in which it proposes to invest at least EUR 315 billion in the European economy by 2017.<sup>19</sup> This plan, also known as the ‘Juncker plan’, can very well be used to incorporate JG-jobs – for instance by requiring that 5 per cent of each investment is spent on employing persons belonging to vulnerable groups (Social Return).

Second, one should realise that the ECB is currently injecting € 60 billion in the Euro Area each month (amounting to over 6 per cent of GDP on an annual basis) and recently has extended that QE program. This measure has been strongly criticised for many reasons, but we focus here on the argument that by providing the injection through bond purchasing programs, there is a threat of a new asset bubble of which only the already wealthy persons will profit. This objection inspired Muellbauer (2014) to propose that the ECB hands out a check to every Euro Area citizen instead of buying bonds – that would have better distributional consequences in his view. We share Muellbauer’s objection, but think that handing out a cheque to every Euro Area citizen also has questionable distributional consequences. Using (part of) this money to finance Job Guarantee projects would be in line with the macroeconomic analysis in Mitchell and Muysken (2008) and would directly stimulate the economy in the strongest possible way. It could also provide additional capacity to the large investment plan of the European Commission. The latter is in line with the proposal of the Grauwe (2016) who argues that “while QE was and is necessary, it is insufficient. It has to be seconded by fiscal policies, ... , it is precisely public investment that is key to the recovery in the eurozone. ... our grandchildren will ask us why we did not invest in alternative energy and public transportation, and thereby made their lives miserable, when we faced historically favourable financial conditions to do so.”<sup>20</sup>

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<sup>19</sup> See Commission document COM(2014) 903 of 26.11.2014

<sup>20</sup> To be fair, de Grauwe (2016) definitely does not propose a JG-scheme and his implicit proposal for using the QE-program to finance public investments is confined to “countries, like Germany, France, Belgium and the Netherlands”. There is a fierce discussion on the alleged financing of JG-programs by ‘printing money’ between

## 5 Concluding remarks

From our analysis of the European labour market we learned that there is a clear scope for improvement in activity rates when comparing different countries, although one should recognise the variation in underlying reasons for inactivity when proposing improvements for different countries. This implies a clear role for active inclusion policies. However, these policies should be complemented by stimulating macroeconomic policies since there has been a strong increase in unemployment, in particular in the GIISP countries, due to a fall in aggregate demand. This problem is exacerbated by the observation that there is probably an interaction between inactivity and unemployment, leading to hidden unemployment.

Active inclusion policies are also warranted by the observation that sustainable employment is impeded by the pervasiveness of temporary work, self-employment and part-time work. The incidence of temporary work and part time work has increased systematically and is often accepted due to a lack of better jobs. Although self-employment is relatively stable at 15 per cent of total employment, the vulnerable group of own account workers amongst them has increased. Moreover the share of 'work at risk of poverty' jobs has increased, in particular amongst foreigners, low educated persons and youngsters – who also have a high incidence of inactivity and unemployment. Finally most GIISP countries have a remarkably high level of job insecurity and job strain and a remarkable low earnings quality.

Against this background we deplore that the implementation of active inclusion policies, initiated in 2008, never really took off and stagnated due to the austerity measures enforced after the financial crisis. For that reason we propose to experiment with job guarantee (JG) projects, which on the one hand should provide a macroeconomic stimulus to the economy by employing everybody who is out of work in Job Guarantee jobs at the minimum wage. On the other hand by providing quality jobs and sustainable employment, also encouraging local initiatives, the downward trend in job quality observed by the OECD Employment Outlook can be stopped and inclusive labour markets will be fostered. We propose for that reason to finance the Job Guarantee Scheme by redirecting social security (administration) funds, by including Job Guarantee elements in the European Investment Plan (also known as the Juncker Plan) and to spend part of the € 60 billion which the ECB is currently injecting each month in the Euro Area on job guarantee projects.

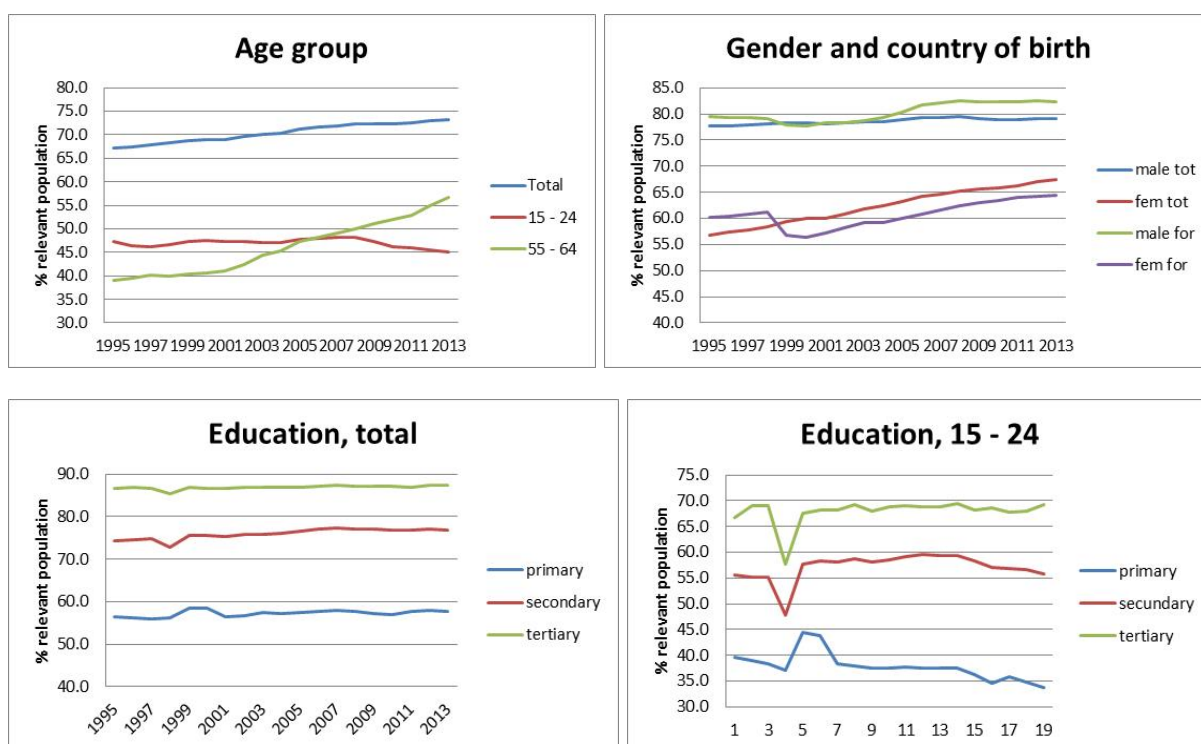
We should keep in mind the finding of OECD that “across countries it does not appear to be the case that better job quality is achieved at the cost of fewer jobs. Countries that perform well in terms of overall job quality also tend to perform well on job quantity (as measured by the employment rate), and vice versa” (OECD, 2014, p. 32).<sup>21</sup> This should be an additional stimulus to experiment with job guarantee projects.

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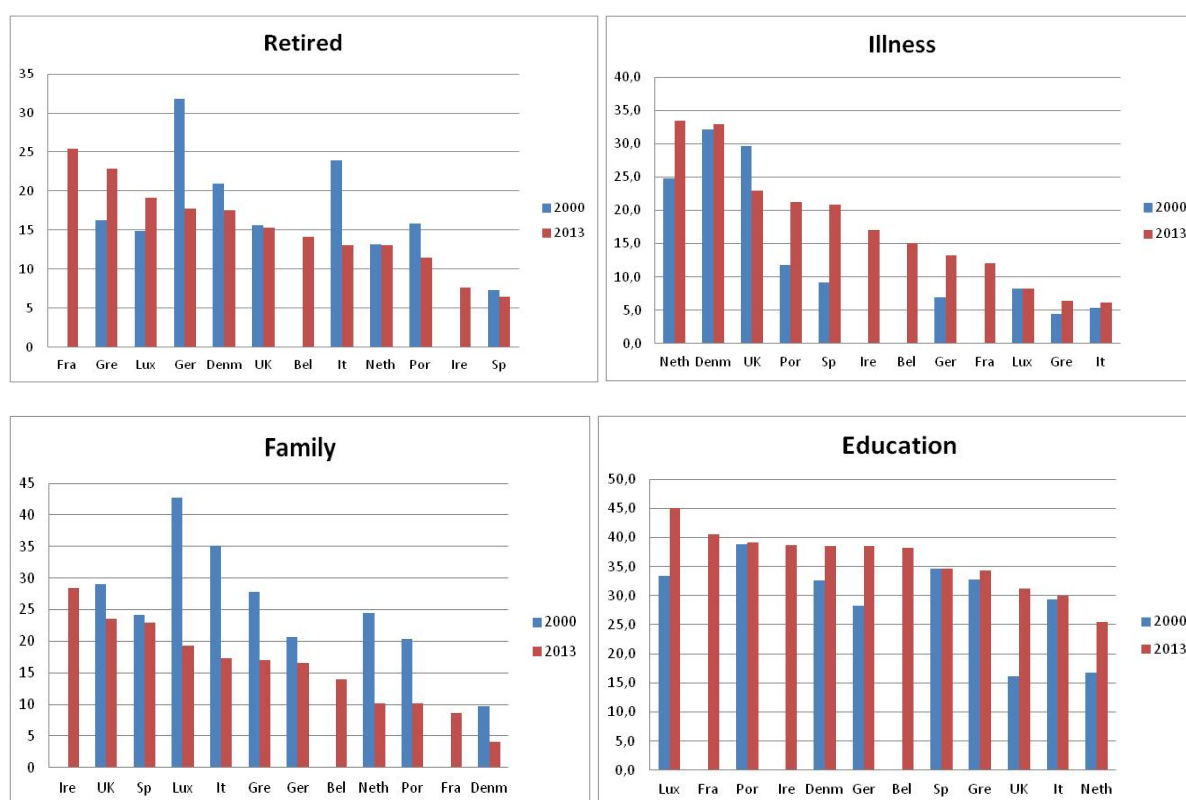
adepts of Modern Modern Theory (MMT) and its opponents – see Mitchell (2015, Ch. 21) for further references.

<sup>21</sup> See also the observation by de Grauwe (2016): “European authorities have put great emphasis on structural reforms to boost long-term economic growth. Econometric analysis of the relation between long-term growth and structural reforms (see IMF, 2015 and De Grauwe & Ji, 2015) suggests that these reforms have a weak effect on growth. These same studies, however, reveal that public and private investments are far more important to boost economic growth.”

## Appendix A1 Labour force participation in the EU15

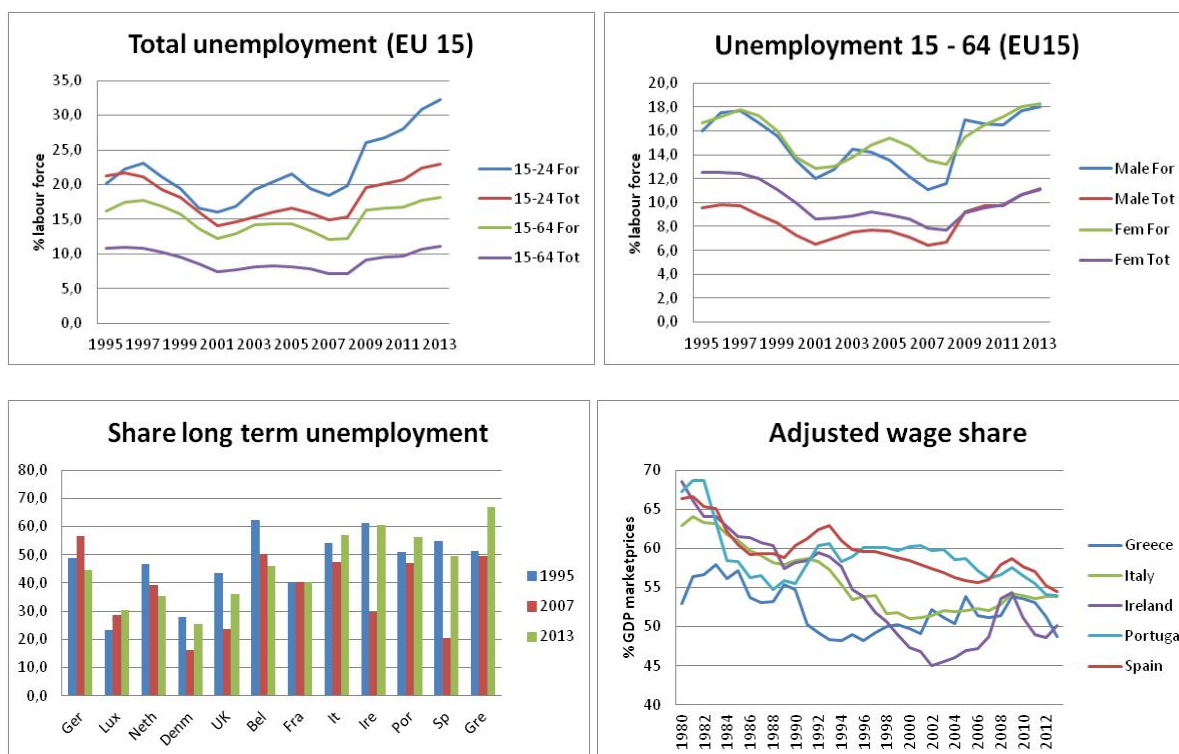


## Appendix A2 Reasons for inactivity by country (EU12)<sup>22</sup>



<sup>22</sup> Main reason for not seeking employment: (1) Retired; (2) Own illness or disability; (3) Looking after children or incapacitated adults and other family or personal responsibilities; (4) In education or training.

## Appendix B Characteristics of unemployed in EU15 and wage share



## Appendix C



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