Centre of Full Employment and Equity

Opinion and Commentary

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Shame on the those who have abandoned full employment

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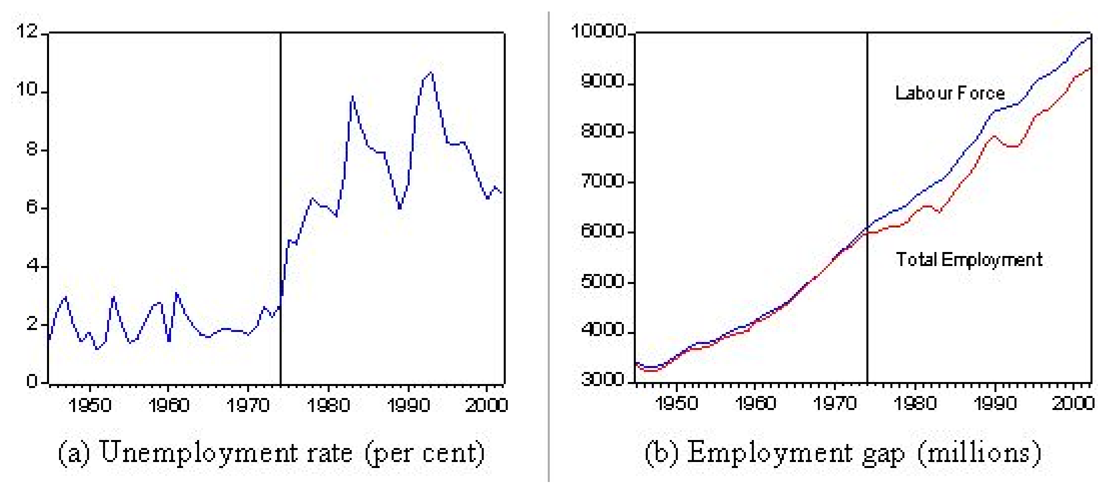
In the Autumn edition of Australian Options, Peter Brokensha reminded us of the blight of unemployment and briefly outlined the Job Guarantee solution proposed by myself and others at the Centre of Full Employment and Equity. In this article I will provide more detail about the Job Guarantee approach to full employment.

In the midst of the on-going debates about labour market deregulation, minimum wages and welfare reform, policy-makers have ignored the key fact that actual GDP growth in the last 30 years has rarely reached the rate required to achieve and maintain full employment. Discretionary monetary and fiscal policy decisions have prevented the Australian economy from creating enough jobs in recent decades to match the preferences of the labour force, and enough hours of work to match the preferences of those who are employed. This is starkly shown in Figure 1. As a consequence, many socially useful, labour-intensive projects have not been undertaken to the detriment of all.

Figure 1 Not enough jobs created!



The cumulative costs of foregone output and unemployment are huge and dwarf the costs of alleged microeconomic inefficiency. The solution to unemployment lies in producing more work. Policy makers must address this fact before they turn their attention to anything else.

Full employment should be a major macroeconomic goal of the Australian Government because it maximises output. In addition, high and persistent unemployment acts as a form of social exclusion and violates basic concepts of membership and citizenship. The costs of unemployment are significant and include not only income and output loss, but the deleterious effects on self confidence, competence, social integration and harmony, and the appreciation and use of individual freedom and responsibility.

The need for a buffer stock of jobs

In the period spanning the immediate post-war years through to the mid 1970s, Australia, like most advanced western nations, maintained very low levels of unemployment (usually below 2 per cent of the labour force). This era was marked by the willingness of governments to maintain levels of aggregate demand that would create enough jobs to meet the preferences of the labour force, given labour productivity growth. Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending.

While both private and public employment growth was relatively strong, the major reason that the economy was able to sustain full employment was that it maintained a ‘buffer’ of jobs that were always available, and which provided easy employment access to the least skilled workers in the labour force. Some of these jobs, such as factory work, were available in the private sector. However, the public sector also offered many ‘buffer jobs’ that sustained workers with a range of skills through hard times. In some cases, these jobs provided permanent work for low skilled and otherwise disadvantaged workers.

The economies that avoided the plunge into high unemployment in the 1970s maintained what Ormerod describes as a “…sector of the economy which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified” (1994: 203). This type of employment may not satisfy narrow neoclassical efficiency benchmarks, but societies with a high degree of social cohesion have been willing to broaden their concept of ‘costs’ and ‘benefits’ of resource usage to ensure everyone has access to paid employment opportunities. Ormerod (1994: 203) argues that countries like Japan, Austria, Norway, and Switzerland were able to maintain this capacity because each exhibited “…a high degree of shared social values, of what may be termed social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time.”

The Job Guarantee approach recognises that a stock of jobs providing opportunities for the less skilled must be maintained by the public sector if there is to be a true path to full employment. This type of cohesion is a pre-condition for strong communities.

Why did Australia relinquish this cohesion over the past 28 years? In the 1980s, we began to live in economies rather than societies or communities. The concomitant focus on the individual began to erode a sense of social cohesion. In the same period, unemployment persisted at high levels in most OECD countries. The two points are not unrelated. Unemployment ultimately arises due to a lack of collective will to make political choices which favour maintaining adequate levels of demand and a buffer stock of jobs.

As part of this trend, the Australian public sector began to shrink in absolute terms and as a proportion of total employment. Mass privatisations of public enterprises saw the transfer of public sector employment to the private sector. However, the growth of private sector employment has not been sufficient to offset public sector job losses.

Thus, the dominant economic orthodoxy has, since the mid-1970s, supported policy makers and politicians who have deliberately and persistently constrained their economies under the pretext that the role of policy is to ensure the economy functions at the so-called natural rate of unemployment. This is the rate that allegedly keeps inflation under control.

There are several interrelated aspects to the dominance of this ‘blighted’ neo-liberal agenda, which is now unfortunately shared by our major political parties.

First, they all hold the view that there is a natural rate of unemployment which is invariant to aggregate spending. Proponents of this theory say it can only be reduced by deregulation, privatisation, and welfare reform. They explain the persistently high unemployment in terms of a rising natural rate driven by changing attitudes to work that are exacerbated by welfare provisions like unemployment benefits.

Second, and as a result, they cast unemployment as an individual problem. This justifies the promotion of policies (endless churning through training programs, work tests, dole diaries and the like) that target the ‘victims’ and make them ‘earn’ the pittance they are given in income support payments. Any notion that unemployment involves a systemic failure of the aggregate economy to generate enough jobs due to lack of overall spending in the economy is derided. The additional truth that this lack of spending is driven substantially by the pursuit of federal budget surpluses is misunderstood and like a lot of things that ‘mystify’ those who are blind to reality, it is attacked as being another ‘voodoo economics’ proposition. However, since 1974, there has been on average11 unemployed for every job vacancy. At present time, the ratio of unemployed persons to job vacancies is around 6:1. While governments of all persuasions have spent billions on labour market programs and training schemes, to encourage more assiduous and effective search behaviour by the unemployed, the employment outcomes from these programs have been poor. Simply put - you can’t search for jobs that aren’t there!

Third, the rising incidence of precarious work is ‘reinterpreted’ as a sign that the employers are ‘reacting to the preferences of the workforce’ for more flexibility which is taken to be a good thing. The fact that increasing number of part-timers/casuals want more hours but cannot find them is ignored as is the evidence that loadings for casual workers do not compensate for the lost entitlements (such as annual leave) enjoyed by permanent workers.

Fourth, that government spending in excess of taxes (that is, a budget deficit) will cause interest rates to rise and private savings to fall. In fact, the exact opposite is the truth. The Federal Government is not financial constrained at all and budget deficits put downward pressure on interest rates. Proponents of federal budget surpluses do not understand the intrinsic relationship between public sector surpluses and private sectors deficits (which manifest as negative savings and increased debt burdens for households).

So where does the Job Guarantee fit into this environment? Instead of mandating a buffer stock of unemployment to stabilise prices (as in current policy), governments can both more effectively anchor prices and maintain full employment with an open-ended, fixed wage buffer stock of employed workers. I use the term Job Guarantee whereas my regular co-authors, Americans Randy Wray and Warren Mosler use the term 'employer of last resort' in the same context.

The goal of the Job Guarantee is to restore the buffer stock capacity to the Australian economy and to ensure that, at all times, the least advantaged workers in our community have opportunities to earn a wage and to live free of welfare support. While public sector job creation, via the Job Guarantee, will restore such capacity, this does not require a return to the 'buffer jobs' of old. Many of the areas within the public sector that once provided such jobs have been restructured, outsourced or sold, with the aim of improving efficiency. Although we might question the balance sheet that has generated 'efficiency gains' at the expense of massive 'employment losses', the Job Guarantee approach accepts that corporatised entities such as the water, gas and electricity utilities or the railways are no longer suitable arenas for the creation of Job Guarantee jobs. Nor do we aim to create jobs that substitute for private sector employment.

In fact, an explicit aim of the Job Guarantee is to create a new order of public sector jobs that support community development and advance environmental sustainability. They should be designed and offered only if they satisfy these broad criteria.

What are the main features of the Job Guarantee model?

The Job Guarantee model is outlined in Mitchell (1998) and can be summarised by the following features

1. Full Employment**:** The public sector operates a buffer stock of jobs to absorb workers who are unable to find employment in the private sector. The pool expands (declines) when private sector activity declines (expands). There is thus an open-ended offer by government to purchase labour.
2. Job Guarantee Wage: The wage rate is best set at the minimum wage level to avoid disturbing the private wage structure. In other words, the government 'hires off the bottom' and does not compete for purchases with market prices.
3. Social Wage**:** The state supplements the Job Guarantee earnings with a wide range of social wage expenditures, including adequate levels of public education, health, child care, and access to legal aid. Further, the Job Guarantee policy does not replace conventional use of fiscal policy to achieve social and economic outcomes. In general, we prefer a higher level of public sector spending.
4. Family Income Supplements**:** The Job Guarantee is not based on family-units. Anyone above the legal working age is entitled to receive the benefits of the scheme. We would supplement the Job Guarantee wage with benefits reflecting family structure. In contrast to workfare there will not be pressure applied to single parents to seek employment.

5. Inflation control**:** The Job Guarantee maintains full employment with inflation control. When the level of private sector activity is such that wage-price pressures forms as the precursor to an inflationary episode, the government manipulates fiscal and monetary policy settings (preferably fiscal policy) to reduce the level of private sector demand. The resulting rise in Job Guarantee employment indicates the degree of private sector slack that is necessary to resolve the distributional struggle over current real income. Incomes policy may be complementary to reduce the Job Guarantee employment level consistent, at any point in time, with inflation control if desired.
6. NAIBER**:** The ratio of Job Guarantee employment to total employment or Buffer Employment Ratio (BER) that is consistent with stable inflation results from the redistribution of workers from the inflating private sector to the fixed price Job Guarantee sector – it is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER). Its microeconomic foundations are not akin to those underpinning the neoclassical NAIRU.
7. It is not Work for the Dole**:** The Job Guarantee is not a more elaborate form of Work for the Dole. Work for the Dole does not provide secure employment with conditions consistent with norms established in the community with respect to non-wage benefits and the like. Work for the Dole does not ensure stable living incomes are provided to the workers. Work for the Dole is a compliance program, where the State extracts a contribution from the unemployed for their welfare payments. The State, however, takes no responsibility for the failure of the economy to generate enough jobs. In the Job Guarantee, the state assumes this responsibility and pays workers award conditions for their work.
8. Unemployment benefits**:** Could be phased out, optional or abandoned. The Job Guarantee *per se* can operate with any option. However, we would abandon unemployment support after a short period because the Job Guarantee offers paid work instead.
9. Administration**:** The Job Guarantee would be financed by the Federal government which has a monopoly on currency issuance. We anticipate it would be organised and implemented locally.
10. Type of Jobs**:** Job Guarantee workers would work in many community-based, socially beneficial activities that have intergenerational payoffs including urban renewal projects and other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control, and the like), personal assistance to pensioners, and other community schemes. There is now an extensive literature on this (see Cowling, Mitchell and Watts, 2003). The work is worthwhile with much of it labour intensive requiring little in the way of capital equipment and training. It will be of benefit to communities experiencing chronic unemployment.

11. Public investment needed: Detailed modelling suggests that to implement the scheme nationally would cost around $5.5billion per annum given current private and public policies. This is the minimum government injection that is needed to provide jobs for all. Given the Federal Government is not revenue-constrained the injection does not require higher taxation or debt (see below). This is a paltry sum given the on-going daily costs of high labour underutilisation. Given that the unemployed are already supported by the public welfare system, the Job Guarantee would require only a low

level of additional public investment to allow currently unutilised labour to perform a range of useful activities of benefit to the broad community.

In summary, the Job Guarantee directly addresses the cause of income security by tying a secure income to a work guarantee. Any person who is able to work will be able to access a job that provides a 'living wage'. Persons unable to work will be provided with a 'living income'. The Job Guarantee differs from a standard Keynesian approach because it provides only the minimum demand expansion (the cost of hiring the unemployed workers) rather than relying on market spending and multipliers. The inflationary impacts are thus significantly different.

Clearly, there are many details about the Job Guarantee – its operation, organisation and such that I do not have the space to develop here. Readers are urged to consult the CofFEE Home Page for extensive resources on the topic.

By ensuring that there are always employment opportunities for people within the target groups, the Job Guarantee strategy would help to reduce poverty. It is a policy direction that facilitates social inclusion, not exclusion, and the focus on community development recognises the multi-faceted nature of the problems confronting areas of high unemployment. The Job Guarantee would also serve to reduce regional disadvantage by helping communities in disadvantaged areas to maintain continuity of income and labour force attachment, without recourse to welfare dependence.

Importantly, the Job Guarantee strategy 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.

In future articles, if there is interest, I will address the following topics that underpin an understanding of why a federally-funded Job Guarantee can simultaneously generate full employment and price stability:

(a) Federal Government spending is not revenue constrained;

(b) Federal budget surpluses destroy private wealth and underpin a fragile growth environment with increased private sector deficits (debt-accumulation) leading to a systematic decline in private sector savings;

(c) The Reserve Bank of Australia sets the short-term interest rates and is not subject to direct market forces; and

(d) Budget deficits place downward pressure on short-term interest rates due to their liquidity impacts which are alleviated by debt-issuance. Debt-issuance is not required to 'finance' government spending.

These issues will appear confronting because they are the opposite to the normal nonsense pedalled by the main political parties and their business sector masters.

However, an active ‘left’ political agenda has to be able to address the neo-liberal myths about macroeconomic policy before we can restore sensible economic management which allows all Australians to share in the booty.

References

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