

Op-Ed Commentary



Centre of Full Employment and Equity

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Australia Should Have Full Employment

By Professor William Mitchell, Director of CofFEE

With the national obsession now being the insecurity faced by the amorphous fear of terrorism, it is strange that the single most important source of insecurity for Australian individuals and families now barely rates a mention I refer to the persistence of high unemployment.

In September, the national unemployment rate dipped below 6 per cent. Amidst the objectionable backslapping in Canberra no thought was given to the 600,000 Australians who are out of work, or to the regions deprived of job opportunities, or to the deleterious effects of unemployment on self confidence, competence, and family and community life. The problem compounds when you consider the growing number of part-time and casual workers forced to work shorter hours than they desire because of lack of opportunities. Put together, the Federal Government appears content currently waste around 11 per cent of available labour resources. The burden of unemployment is not shared evenly between our regions. The unemployed in Liverpool and Fairfield, in Melbourne's Outer West, in North Adelaide, in the Hunter and the Illawarra, in Northern Tasmania, and Queensland's Wide Bay have not noticed that the economy is going "gangbusters". While these regions experience unemployment of between 8 and 12 percent, the unemployment rate for Sydney's Northern Beaches is 1.4 per cent. Why?

Put simply, the failure to address persistent regional disparities in unemployment is a failure of macroeconomic policy and of our collective will. The Government's low-inflation policy and fiscal restraint is designed to generate economic growth, which - it is argued - will 'trickle down' to the regions. The strategy reflects an obsessive belief that market forces will address regional problems. No such luck. Those text book models the Treasurer may have read about at school are absent in the real world. Recently the Treasurer boasted a 7.5 billion dollar surplus for the last financial year and claimed it to be the exemplar of sound economic management.

Nothing could be further from the truth. When the government runs a budget surplus it rips more dollars out of the economy than it

injects via spending. A budget surplus is an attack on our disposable income. But it is spending that creates demand for goods and services and generates both jobs and income for citizens. To generate enough jobs to match the preferences of the labour force, the government must increase net spending to the level required for a high growth, fully employed economy. Budget deficits are essential to tackling regional unemployment.

Does this mean that indiscriminate government spending will create jobs in the places where they are most needed? New research from the Centre of Full Employment and Equity explores the relationship between the national business cycle and regional employment growth and suggests not. While the level of aggregate demand is a significant influence on regional employment growth, the regions we examined appear to respond to aggregate fluctuations in different ways and to have diverse region-specific dynamics. Contractions impact differently on the regions. Some resist the negative consequences entirely while others are deeply scarred.

This research has important policy implications. It provides a rationale to reject both the traditional Keynesian view that expansionary policy will improve employment opportunities in all regions and the alternative view that macroeconomic policy settings are not important. The latter view is associated with a popular approach to regional development promoted by 'social entrepreneurs' and 'new regionalists'.

These models argue that regions can be the crucible for economic development. If a region is sufficiently entrepreneurial - if it can foster a technology park or an arts festival or social businesses it will make it on its own. The absence of any coherent macroeconomics in these models renders them incapable of addressing mass unemployment. While distributional changes between regions can occur at a given level of economic activity, it is a fallacy of composition to assume that all regions can lift themselves without a buoyant aggregate climate. Unless you address demand deficiency at least some of the arts festivals will go bust. So what should we do? Well first the Federal Government should stop ripping us off with surpluses that see spending power just disappear from the economy into their accounting books. They should run deficits when there is high unemployment.

However the distribution of that spending, given the diversity of the regions, requires a more creative solution. Direct public sector job creation is the best way to ensure that the higher aggregate demand is translated into positive employment outcomes in region's experiencing high unemployment. A Federal Job Guarantee will ensure that demand expansion is regionally focused. Under the Job Guarantee the Federal Government would maintain a 'buffer stock' of jobs that would be available to the unemployed. The positions would be funded by the Commonwealth but organised on the basis of local partnerships between government and non-government organisations. Workers would be employed in jobs that support community development and advance environmental sustainability and would be paid the Federal minimum award.

I can hear the doomsayers now - another 'rock painting' exercise! But I challenge listeners to think about the environmental and social needs that are unmet in their own communities, and the worthwhile and productive nature of the work these could provide. It is worth remembering that the unemployed are already 'in the public sector' receiving welfare support. Let's stop blaming the unemployed for their situation and give them jobs. It would be much better for government to provide the unemployed with real jobs that enable them to contribute to productive output and to community life rather than to recycle them through labour market programs.

The greatest risk for our regions is the maintenance of the status quo. As the Reserve Bank contemplates raising interest rates to quell the property booms in Sydney and Melbourne it should reflect, together with the Federal Government, on the poverty of macroeconomic policy in Australia. Budget surpluses have forced the private sector to hold increasing levels of debt, and a tightening of monetary policy will now send many households insolvent and savage the regions that are suffering most. It is a policy approach without rhyme or reason.

We should be very angry about all of this. Unemployment is an act of "state terrorism" on the most disadvantaged Australians and we should declare war on it.