

# **The failed full employability paradigm**

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## **1. Introduction**

In the post-war period through to the mid 1970s, most advanced Western nations maintained very low levels of unemployment. Governments were willing to manipulate levels of aggregate demand to ensure enough jobs were created to meet the preferences of the population. They used fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending. While both private and public employment growth were relatively strong, Western economies were able to sustain full employment because they maintained a buffer of jobs that were always available and were readily accessible to the least skilled workers (see Ormerod, 1994).

The first OPEC oil price hike in 1974 caused an inflation spike and provided the pretext for a resurgence of pre-Keynesian thinking, which had categorically failed to resolve the mass unemployment of the 1930s. Most Western governments reacted to the inflation surge with contractionary policies which led to stagflation. The paradigm shift that occurred led to the abandonment of the Keynesian notion of full employment and its replacement with the natural rate or NAIRU (Non-Accelerating Inflation Rate of Unemployment) approach.

Full employment was redefined in terms of an unemployment rate (the NAIRU) at which inflation was stable. The NAIRU was determined by supply side forces and was invariant to Keynesian demand-side policies, which were considered to be ultimately self-defeating and inflationary. Unemployment was re-conceptualised as a voluntary state reflecting the optimising choices by individuals between work and leisure.

Opposition to the use of budget deficits to maintain full employment solidified and the inflation-first rhetoric became the dominant discourse in macroeconomics. The paradigm shift meant that governments relinquished their commitment to full employment. The official unemployment rate increased and rates of labour underutilisation never returned to the low levels that were the hallmark of the post-war period, despite the decline in the official rate of unemployment in many countries over the last decade.

According to the NAIRU approach, government could only achieve better macroeconomic outcomes (higher productivity, lower unemployment) through microeconomic reforms which implied a greater reliance on market-based outcomes with a diminished role for the public sector. In many countries successive governments cut expenditure on public sector employment and social programs; culled the public capacity to offer apprenticeships and training programs, and commenced dismantling the alleged supply side impediments.

Within this logic, governments adopted the goal of full employability, thereby relinquishing their responsibility for achieving the optimum use of their labour resources. Accordingly, labour market policy was limited to ensuring that individuals were “ready for employment”. This new objective was articulated in the 1994 OECD Jobs Study. Consequently, governments in many countries began the relentless imposition of active labour market programs which were designed to churn the unemployed through training programs and/or force participation in workfare compliance programs. The dominance of the NAIRU approach is incomprehensible given the stark evidence since 1975 that there have never been enough jobs available to match the willing labour supply.

These theoretical insights motivate our claim that in a modern monetary economy the return to full employment and price stability requires the reintroduction of the buffer stock capacity in the form of a job guarantee (JG) (Mitchell, 1998; Mitchell and Mosler, 2006; Mitchell and Muysken, 2008). In short the shift by governments from the pursuit of full employment to the adoption of the full employability paradigm has been fundamentally flawed. We buttress these theoretical arguments by outlining the massive costs of sustained labour underutilisation and by drawing on a survey in which a broad range of unmet social needs were identified by local councils across Australia, and could be addressed by the creation of thousands of (JG) jobs.

In Section 2, the full employment and full employability paradigms are outlined and contrasted. The flawed logic underpinning the full employability paradigm is exposed in Section 3. In the following Section the economic and social costs of the adoption of the full employability paradigm are documented. In Section 5 the fundamentals of a Job Guarantee are outlined. In the penultimate section, the results of the survey are described, with particular reference to the type and spatial distribution of jobs. Concluding comments follow.

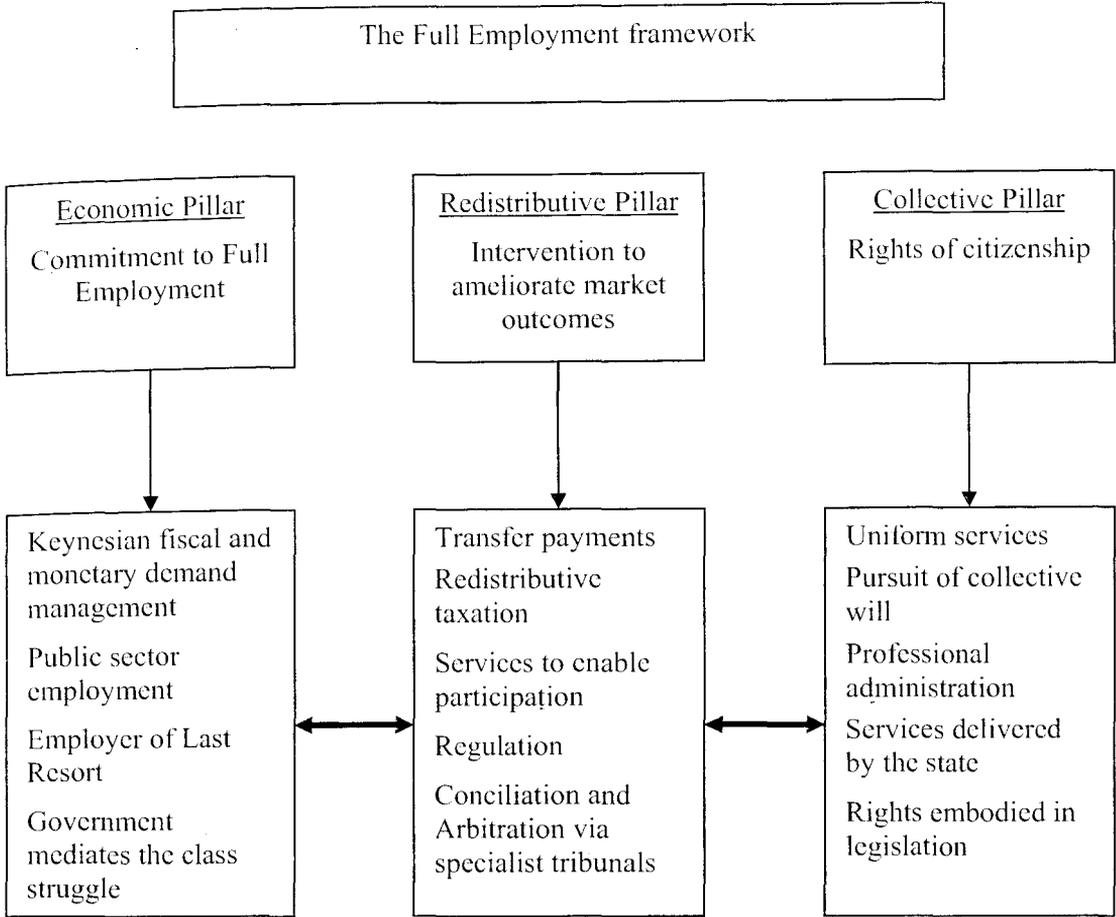
## 2. Full employment and full employability<sup>2</sup>

### 2.1 The Full Employment framework

Figure 1 sketches a depiction of the *Full Employment framework* taken from Mitchell and Muysken (2008) who argue that the Post World War 2 economic and social settlement in most Western countries was based on three pillars: (a) the *Economic Pillar* was defined by an unambiguous commitment to full employment and initially based on providing enough jobs to satisfy workers' preferences. In the 1960s the definition became blurred following debate about inflation and unemployment trade-offs; (b) the *Redistributive Pillar* was designed to ameliorate inequalities driven by market outcomes through provision of income support and wage setting norms; and (c) the *Collective Pillar* provided the philosophical underpinning for the intervention based on a concept of the intrinsic rights of citizenship.

The Great Depression showed that without government intervention, capitalist economies could experience lengthy periods of mass unemployment. War-time spending generated strong employment growth which highlighted the failure of the neoclassical remedies that had been tried to solve the mass unemployment during the 1930s. The publication of Beveridge's (1944) *Full Employment in a Free Society* helped to conceptualise mass unemployment as a systemic failure in aggregate demand. The neoclassical emphasis on the ascriptive characteristics and attitudes of the unemployed and prevailing wage levels was rejected. Beveridge (1944, 123-135) defined full employment as an excess of vacancies at living wages over the number of unemployed persons. He made it clear that the '...ultimate responsibility for seeing that outlay as a whole ... is sufficient to set up a demand for all the labour seeking employment, must be taken by the State.'

Figure 1 The Pillars of the Full Employment framework



Source: Mitchell and Muysken (2008, Figure 1.1). See also Cook (2007).

From 1945 until 1975, governments manipulated fiscal and monetary policy to maintain levels of overall spending which were sufficient, in the face of fluctuations in private sector spending, to generate employment growth in line with labour force growth. Governments generally ran deficits, private savings were strong and most advanced western nations maintained very low levels of unemployment, typically below 2 per cent. This was in sharp contrast to what went before and what has persisted since the mid 1970s.

However, while both private and public employment growth were relatively strong, the major reason that full employment was maintained was the existence of a buffer stock of jobs accessible to the least skilled workers, predominantly in the public sector. Ormerod (1994: 203) notes that the economies that avoided sharp rises in unemployment in the 1970s after the first OPEC price hike all maintained a sector ‘...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.’ Ormerod argued that such employment may not satisfy narrow neoclassical efficiency benchmarks, but that societies with a high degree of social cohesion and a high valuation of collective would have been willing to broaden their concept of costs and benefits of resource usage to ensure everyone had access to paid employment opportunities. These insights motivate our claim that a return to full employment and price stability requires the reintroduction of this buffer stock capacity in the form of an employment guarantee (Mitchell, 1998; Mitchell and Mosler, 2006; Mitchell and Muysken, 2008).

The full employment commitment was supported by the introduction of the Welfare State, which defined the state's obligation to provide security to all citizens (Mitchell and Muysken, 2008; Cook, 2007). The Redistributive Pillar recognised that at times the mixed economy would generate disadvantage for some citizens, principally in the form of unemployment. Income support schemes were implemented to attenuate the disadvantage emanating from the vicissitudes of the market economy. Citizenship (under the Collective Pillar) replaced the dichotomy that had been constructed between the deserving and undeserving poor so that individuals could access standardised services such as sector employment services, public health and education systems.

## 2.2 Full employment abandoned

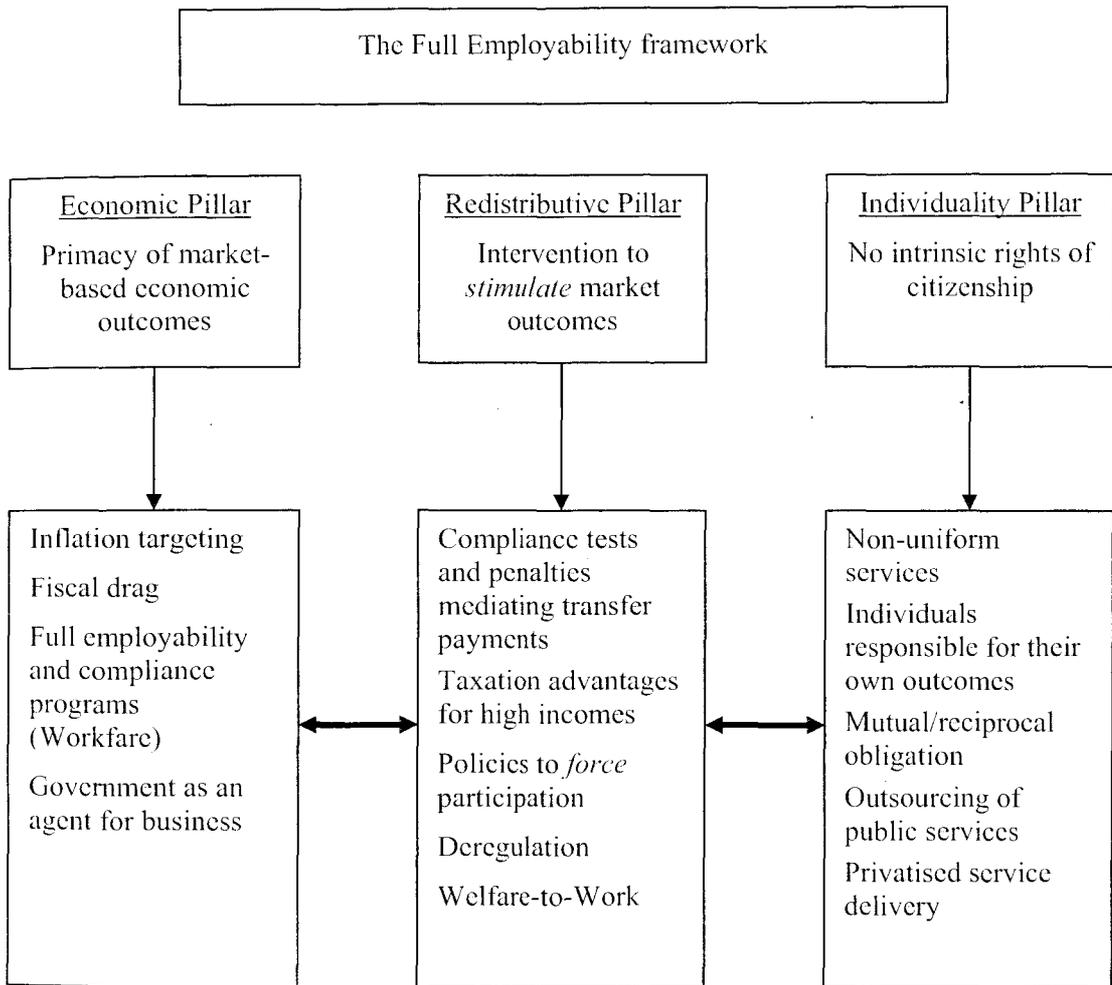
The maintenance of full employment via policy interventions was always a source of dissatisfaction for the capitalist class (see Quirk, 2003). Despite this conservative opposition, the Post-War stability was not broken until the first OPEC oil price hike in 1974 caused an inflation spike. This event provided the stimulus for a resurgence of pre-Keynesian thinking, which had categorically failed to resolve the mass unemployment of the 1930s. The Keynesian notion of full employment, which underpinned the Full Employment framework, was abandoned and replaced with the natural rate or NAIRU (Non-Accelerating Inflation Rate of Unemployment) approach (see Mitchell and Muysken, 2008 for a full account).

Full employment was redefined as a unique unemployment rate (the NAIRU) where inflation was stable. The NAIRU was determined by supply forces (individual disincentive effects arising from welfare provision, skill mismatches, and excessive government regulation) and was invariant to Keynesian demand-side policies. Opposition to the use of budget deficits to maintain full employment solidified and the inflation-first rhetoric became the dominant discourse in macroeconomics. Governments relinquished the first major pillar of the Post-War framework – the commitment to full employment. Unemployment accelerated and labour underutilisation has never returned to the low levels that were the hallmark of the Keynesian period.

### 2.3 The Full Employability framework

Figure 2 sketches the Full Employability framework which abandoned the three major pillars of the Post-War full employment consensus and, instead, promoted full employability and price stability as the major economic aims of government. Market-based outcomes unfettered by government intervention are now seen as the major basis for economic prosperity. Finally, the concept of individuality has replaced collective will and the intrinsic rights of citizenship have lapsed in favour of ever increasing social controls.

Figure 2 The Full Employability framework



Source: Mitchell and Muysken (2008, Figure 5.1).

Full employability means that the unemployed are prepared for paid employment as opposed to governments providing the policy environment that ensures there are enough jobs. This preparation is achieved through training and compliance programs designed to re-skill the worker and/or create more work-oriented attitudes and intensive search endeavour. The focus on the supply side characteristics of workers returns macroeconomics to the days when the aberrant Say's Law denied the possibility of generalised gluts in production arising from deficient aggregate demand. Importantly, the employer of last resort role played by the public sector has been abandoned.

But, abandoning full employment created a new problem. With unemployment persisting at high levels due to the deliberate constraints imposed on the economy by restrictive fiscal (and

monetary) policy, rising welfare payments placed pressures on the Redistributive Pillar. So in addition to the neo-liberal attacks on macroeconomic policy, concerted attacks were made on the supplementary institutions such as the industrial relations and income support systems. To force individuals to become accountable for their own economic outcomes, welfare policy assumes that individual responsibilities are the necessary counter-balance to existing rights while promoting the movement from passive to active welfare (Cook *et al.*, 2003; Cook, 2007; Mitchell and Muysken, 2008).

Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt. The aim of the redistributive pillar has become one of using government transfer systems to *stimulate* rather than ameliorate market outcomes. In doing this, considerable power has been transferred from workers to employers.

Thus, the hallmark of the full employability era is that individuals have to accept responsibility, be self reliant, and fulfil their obligations to society (Giddens, 1998). Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs. To break this welfare dependency responsibility had to be shifted from government to the individual. The necessity of reintegrating the allegedly, welfare dependent underclass into the community provided the justification for mutual obligation and the abandonment of rights of citizenship *per se*. To force individuals to become accountable for their own outcomes, governments embraced a shift from active to passive welfare and the introduction of alleged responsibilities to counter-balance existing rights.

However, no reciprocal obligation is placed on government to provide enough jobs and enough hours of employment for all those seeking work. The major shortcoming is that the focus on the individual ignores the role that macroeconomic constraints play in creating welfare dependence.

## 2.4 The 1994 OECD Jobs Study and its failings

The OECD 1994 Jobs Study reflected the theoretical foundations developed by orthodox economists, most notably Layard, Nickell and Jackman (LNJ) (1991). This influential document provided the policy link between NAIRU theories and the Full Employability framework, by targeting product and labour market rigidities as the principal reason for the failure of countries to generate sufficient employment.

The Jobs Study cited the negative roles played by legislated minimum wages; non-wage labour costs; social security payments; and direct taxation in general. Employment security provisions were also considered to be constraints on hiring because they allegedly encourage firms to adopt an overly cautious approach to job creation. The particular focus on the labour market was to increase the 'speed limits to growth' by reducing structural impediments.

The Jobs Study also advocated extensive macroeconomic reform, in particular the reduction of budget deficits and public debt, which was based on the claim that fiscal consolidation would 'allow interest rates to be reduced and hence provide a better environment for private sector investment' (OECD, 1994: 44). In short, the OECD appealed to a simple-minded crowding out argument based on the primacy of market-driven private spending over public spending. Section 3 reveals this logic to be flawed at a most fundamental level.

In advocating an increased emphasis on active labour market policies the OECD (1994: 44) defined the responsibilities of government in terms of full employability rather than full employment and recommended that public spending should be redirected from 'passive measures of income support to active labour market policies'. Accordingly, they advocated widespread reform of unemployment and related benefit systems to ensure that disincentive

effects were minimised, and encouraged governments to 'legislate for only moderate levels of benefits, maintain effective checks on eligibility, and guarantee places on active programmes as a substitute for paying passive income support indefinitely' (OECD, 1994: 48).

In summary, the OECD's response to the macroeconomic policy failure that resulted in rising and persistent unemployment was to recommend a further diminution in state responsibility and push the onus back on individuals despite the presence of a system failure which led to an insufficient pool of jobs. This *blame the victims* approach has become the hallmark of the OECD policy agenda. The mechanism to enforce the desired activism has been the adoption of increasingly pernicious compliance and penalty frameworks.

The move away from passive income support was to be accompanied by investment in formal education and training as a means of improving the skill base of disadvantaged workers. This has been interpreted by many OECD governments as the implementation of programs which force the unemployed to churn through so-called training programs and/or participate in Workfare-type compliance programs. However, governments and their advisers seem oblivious to the absurdity of forcing people to relentlessly search for work - and to engage in on-going training divorced of a paid-work context - given the stark evidence that since 1975 most countries have not created enough employment to match the willing labour supply (Mitchell, 2001).

There is ample evidence that this approach to training, in the active labour market program environment, has failed. In this context, Australia is an interesting case. The OECD (2001: 11) praised Australia for its path-breaking lead in introducing 'market-type mechanisms into job-broking and related employment services'. The OECD (2001: 14) concluded that in terms of labour market policies Australia 'has been among the OECD countries complying best' with the OECD Jobs Strategy. Successive Australian Governments have pursued programs of fiscal consolidation and inflation-linked monetary policy. This has been accompanied by the introduction of supply-side measures, notably severe labour market deregulation, privatisations, and "activation" strategies. The Australian Government privatised the public employment service and created a new structure for delivering labour market services, including training. There is no evidence that treating the most disadvantaged workers in this way provides any long-term benefits. Conversely, there is a host of studies that demonstrate that the actual harm is borne by the unemployed who are deprived of benefits (see Cowling and Mitchell, 2003 for a summary).

The 1994 OECD Jobs Study was designed to provide a blueprint for the economic policy reform in its member countries following the deep recession in 1991. However, OECD economies still generate high unemployment rates. Worse though is the fact that the official unemployment rate data significantly underestimates the extent of labour market slack. Since the 1991 recession, underemployment has risen in all OECD countries, due to the trend to part-time and casualised employment, so as the official unemployment rate has fallen, time-related underemployment has risen.

This can be directly linked to recommendation 3 of the Jobs Study which urged governments to 'foster the growth of voluntary part-time work ... by removing obstacles to, and facilitating reductions in working-time and by reviewing existing taxation and social security provisions which discriminate against part-time work' (OECD, 1994: 45). However, while portrayed as providing the flexibility for families to voluntarily balance their work life commitments, part time (and casualised) work has, in fact, become the new form of labour underutilisation as official unemployment rates have dropped (see Mitchell, 2001). Unemployed workers have been increasingly absorbed into casualised jobs and have joined the working poor.

## 2.5 The winds of change are blowing and the OECD bricks are crumbling

Mitchell and Muysken (2008) provide a comprehensive critique of these policy developments and the way that the OCED drew on academic research that has now been shown to be fragile. They disagree with the claims of the OECD (2006: 12) that 'countries which implemented its recommendations outperformed those who did not.' There is also strong evidence to demonstrate that active labour market programs have been largely ineffective in reducing unemployment and improving the outcomes of the most disadvantaged workers in the labour market.

Many academic studies have sought to establish the empirical veracity of the neoclassical relationship between unemployment and real wages and to evaluate the effectiveness of active labour market program spending. The overwhelming conclusion to be drawn from this literature is that there is no conclusion. These various econometric studies, which have constructed their analyses in ways that are most favourable to finding the null that the OECD line is valid, provide no consensus view as Baker *et al.* (2004) show convincingly.

Mitchell and Muysken (2008) outline the qualifications that economists such as Layard and Nickell, who had wholly supported (and motivated) the OECD approach, are now putting on their work (see Layard, 1997; Nickell and Quintini, 2001). In the face of mounting criticism and empirical argument, the OECD has also begun to back away from its hardline Jobs Study position. After acknowledging that the evidence supporting the Jobs Study 'remains mixed' and 'is somewhat fragile' (OECD, 2004: 81, 165), their June 2006 Employment Outlook found that:

- There is no significant correlation between unemployment and employment protection legislation;
- The level of the minimum wage has no significant direct impact on unemployment; and
- Highly centralised wage bargaining significantly reduces unemployment.

This latest statement from the OECD confounds those who have relied on its previous work including the Jobs Study, to push through harsh labour market reforms, retrench welfare entitlements, and attack the power base of trade unions.

Further, the OECD (2006) found that unfair dismissal laws and related employment protection did not impact on the level of unemployment, merely its distribution. Critics of the OECD approach have consistently pointed this out (Mitchell, 2001). In a job rationed economy, supply side characteristics will always serve to shuffle the queue.

The most damning indictment of the OECD policy agenda is that in recent years employer groups have argued that Australia is suffering from a skill shortage. This implies that the large numbers of unemployed Australian workers who have been shunted continually through these expensive training and compliance programs under the Job Network and related bodies, have not acquired any significant durable skills (see Mitchell and Quirk, 2005). Cowling and Mitchell (2003) provide a comprehensive account of the failure of the Job Network in providing employment services (see also Productivity Commission, 2002).

Internationally, there is a growing sentiment that the creation of paid public employment must be a part of the employment policy mix. There is growing recognition that programs to promote employability cannot, alone, restore full employment and that the national business cycle is the key determinant of regional employment outcomes (Peck, 2001).

In Australia, for example, the limited role of public sector job creation, and the withdrawal of the public sector from its historical role as a countercyclical employer have served to entrench high unemployment (Mitchell, 2001). By contrast, low unemployment countries such as the

Ireland, Norway, Portugal and the US have been very active in providing paid public sector employment. In a comprehensive analysis of public sector job creation programs in the US, Ellwood and Welty (2000) found that while poorly designed public sector job creation programs can be inefficient and displacing, carefully designed and implemented programs increase employment, minimise displacement effects, raise the earnings of low-skilled workers and produce genuinely valuable output.

### **3. The flawed macroeconomics of the Full Employability framework**

This Section is drawn from Mitchell and Muysken (2008, Chapter 8) who articulate what they call modern monetary theory to underpin the case for public sector job creation as an essential part of a regional development strategy designed to achieve and sustain full employment. In doing so, they provide a categorical rejection of the standard macroeconomic reasoning that has been used to support the introduction of the Full Employability framework.

A modern monetary system is characterised by a floating exchange rate (so monetary policy is freed from the need to defend foreign exchange reserves) and the monopoly provision of fiat currency. The monopolist is the national government. The following macroeconomic principles explain the fundamental flaws in the arguments used to justify abandoning full employment.

First, under a fiat currency system, the monetary unit defined by the government has no intrinsic worth. It cannot be legally converted by government, for example, into gold as it was under the gold standard. The viability of the fiat currency is ensured by the fact that it is the only unit which is acceptable for payment of taxes and other financial demands of the government.

Second, as a matter of national accounting, the federal government deficit (surplus) equals the non-government surplus (deficit). The failure to recognise this relationship is the major oversight of neo-liberal analysis. In aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending. The federal government via net spending (deficits) is the only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and hence eliminate unemployment. Additionally, and contrary to neo-liberal rhetoric, the systematic pursuit of government budget surpluses is necessarily manifested as systematic declines in private sector savings.

Third, the decreasing levels of net private savings financing the government surplus increasingly leverage the private sector. The deteriorating debt to income ratios which result will eventually see the system succumb to ongoing demand-draining fiscal drag through a slow-down in real activity.

Fourth, the analogy neo-liberals draw between private household budgets and the government budget is false. Households, the users of the currency, must finance their spending prior to the fact. However, government, as the issuer of the currency, must spend first (credit private bank accounts) before it can subsequently tax (debit private accounts). Government spending is the source of the funds the private sector requires to pay its taxes and to net save and is not inherently revenue constrained.

Fifth, unemployment occurs when net government spending is too low. As a matter of accounting, for aggregate output to be sold, total spending must equal total income (whether actual income generated in production is fully spent or not each period). Involuntary unemployment is idle labour unable to find a buyer at the current money wage. In the absence of government spending, unemployment arises when the private sector, in aggregate, desires to spend less of the monetary unit of account than it earns. Nominal (or real) wage cuts *per se*

do not clear the labour market, unless they somehow eliminate the private sector desire to net save and increase spending. Thus, unemployment occurs when net government spending is too low to accommodate the need to pay taxes and the desire to net save.

Sixth, while the federal government is not financially constrained it still issues debt to control its liquidity impacts on the private sector. Government spending and purchases of government bonds by the central bank add liquidity, while taxation and sales of government securities drain private liquidity. These transactions influence the cash position of the system on a daily basis and on any one day they can result in a system surplus (deficit) due to the outflow of funds from the official sector being above (below) the funds inflow to the official sector. The system cash position has crucial implications for the central bank, which targets the level of short-term interest rates as its monetary policy position. Budget deficits result in system-wide surpluses (excess bank reserves). Competition between the commercial banks to create better earning opportunities on the surplus reserves then puts downward pressure on the cash rate. If the central bank desires to maintain the current target cash rate then it must drain this surplus liquidity by selling government debt. In other words, government debt functions as interest rate support via the maintenance of desired reserve levels in the commercial banking system and not as a source of funds to finance government spending.

#### **4. The benefits of full employment**

The economic benefits of sustained full employment are indisputable: the economy produces at maximum capacity; microeconomic efficiency is enhanced through the improved process of structural adjustment; and, the provision of local employment opportunities militates against the forced migration of workers to higher growth urban centres in search of employment opportunities, with the attendant likelihood of increased congestion, resulting from higher commuting flows.

Conversely, the economic and social costs of failing to achieve and maintain full employment are considerable. There is a broad consensus across researchers from a number of disciplines, including economics, psychiatry and epidemiology that sustained unemployment is also associated with significant personal and social costs that include:

- social exclusion and the loss of freedom;
- skill loss;
- psychological harm;
- ill health and reduced life expectancy;
- loss of motivation;
- the undermining of human relations and family life;
- racial and gender inequality; and
- loss of social values and responsibility.

#### **5. Employment buffer stocks<sup>3</sup>**

##### **5.1 Motivation for employment buffers**

Central banks now focus on maintaining a buffer stock of unemployed to maintain price stability. There is overwhelming evidence that the cumulative costs of this strategy have been substantial in terms of lost output and other real costs (Section 4). However, the effectiveness of an unemployed buffer stock deteriorates over time, with ever larger numbers of *fresh* unemployed required to function as a price anchor that stabilises wages. Such a policy is thus

severely restrictive and provides no firm basis for achieving both full employment and price stability.

Mitchell and Muysken (2008) draw on a body of work including Mitchell (1998), Wray (1998) and Mitchell and Mosler (2002) to argue that in the imperfectly competitive macroeconomic framework in which modern governments operate, a better alternative is to utilise an *employed* buffer stock approach.

Most progressive economists are also opposed to the neo-liberal pursuit of supply-side policies because the sacrifice ratios are high and the distributional implications are unsavoury. However, the typical progressive solution involves a generalised fiscal and monetary expansion mediated by incomes policy (Davidson, 1994; Ramsay, 2002-3; Seccareccia, 1999; Kadmos and O'Hara, 2000; Sawyer, 2003, 2005). Under this approach the government ensures overall spending is sufficient to purchase all available output with the government itself purchasing goods and services at *market prices* or by the government providing incentives to profit-seekers to expand activity. Demand expansion in isolation is unlikely to lead to employment opportunities for the most disadvantaged, fails to address spatial labour market disparities which are now common across OECD economies, and does not incorporate an explicit counter-inflation mechanism.

## 5.2 The Job Guarantee

The Job Guarantee (JG) proposal was conceived independently by Mitchell (1998) and Mosler (1997-98). It has since been developed further by a range of authors (see Wray, 1998; Forstater, 2003; Fulwiler, 2005 among others). The JG is based on a buffer stock principle whereby the public sector offers a fixed wage job, which we consider to be *spending on a price rule*, to anyone willing and able to work, thereby establishing and maintaining a buffer stock of employed workers. This buffer stock expands (declines) when private sector activity declines (expands), much like today's unemployed buffer stocks.

The JG thus fulfils an absorption function to minimise the real costs associated with the flux of the private sector. When private sector employment declines, public sector employment will automatically react and increase its payrolls. The nation always remains fully employed, with a changing mix between private and public sector employment. Since the JG wage is open to everyone, it will functionally become the national minimum wage. To avoid disturbing the private sector wage structure and to ensure the JG is consistent with price stability, the JG wage rate should probably be set at the current legal minimum wage.

Introduction of a JG would mark an explicit return to the buffer stock employment policies after the Second World War to ensure full employment such that the least advantaged workers have opportunities to earn a wage and to live free of welfare support at all times.

While it is easy to characterise the JG as purely a public sector job creation strategy, it is important to appreciate that it is actually a macroeconomic policy framework designed to deliver full employment *and* price stability based on the principle of buffer stocks where job creation and destruction is but one component.

## 5.3 Inflation control under a Job Guarantee

The fixed JG wage provides an in-built inflation control mechanism. Mitchell (1998) called the ratio of JG employment to total employment the Buffer Employment Ratio (BER). The BER conditions the overall rate of wage demands. When the BER is high, real wage demands will be correspondingly lower. If inflation exceeds the government's announced target, tighter fiscal and monetary policy would be triggered to increase the BER, which entails workers transferring from the inflating sector to the fixed price JG sector. Ultimately this attenuates

the inflation spiral. So instead of a buffer stock of unemployed being used to discipline the distributional struggle, the JG policy achieves this via compositional shifts in employment. The BER that results in stable inflation is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER) (Mitchell, 1998). It is a full employment steady state JG level, which is dependent on a range of factors including the path of the economy.<sup>4</sup>

The JG introduces no relative wage effects and the rising demand *per se* does not necessarily invoke inflationary pressures because by definition it is satisfying a net savings desire. Additionally, in today's demand constrained economies, firms are likely to increase capacity utilisation to meet the higher sales volumes. Given that the demand impulse is less than required in the NAIRU economy, it is clear that if there were any demand-pull inflation it would be lower under the JG. There are no new problems faced by employers who wish to hire labour to meet the higher sales levels. Any initial rise in demand will stimulate private sector employment growth while reducing JG employment and spending.

However, these demand pressures are unlikely to lead to accelerating inflation while the JG pool contains workers employable by the private sector. While the JG policy frees wage bargaining from the general threat of unemployment, two factors offset this. First, in professional occupational markets, while any wait unemployment will discipline wage demands, demand pressures may eventually exhaust this stock and wage-price pressures may develop. With a strong and responsive tertiary education sector skill bottlenecks can be avoided more readily than with an unemployed buffer stock. Second, private firms would still be required to train new workers in job-specific skills in the same way they would in a non-JG economy. However, JG workers are far more likely to have retained higher levels of skill than those who are forced to succumb to lengthy spells of unemployment. This changes the bargaining environment rather significantly because firms now have reduced hiring costs. Previously, the same firms would have lowered their hiring standards and provided on-the-job training and vestibule training in tight labour markets. The JG policy thus reduces the "hysteretic inertia" embodied in the long-term unemployed and allows for a smoother private sector expansion. Also with high long-term unemployment, the excess supply of labour does pose a very weak threat to wage bargaining, compared to a JG environment (Mitchell, 1987, 1998). Finally the JG does not replace social security payments to persons unable to work because of illness, disability, or parenting and caring responsibilities.

A crucial point is that the JG does not rely on the government spending at market prices and then exploiting multipliers to achieve full employment which characterises traditional Keynesian pump-priming.

#### 5.4 The Job Guarantee and regional development

Mitchell and Juniper (2007) outline a Spatial Keynesian framework to address regional disparities in economic outcomes. They show that a generalised expansion will not have the capacity as a stand-alone policy to target regions in need of employment creation which may be reliant on a declining industry. Further, aggregate policy cannot address feedback or spill-over effects between regions where social networks and neighbourhood effects transmit shocks from one region to another. This behaviour is illustrated by clusters of high unemployment regions or *hot spots* form in OECD economies as a result of spatial interdependency (Mitchell and Bill, 2006). Arestis and Sawyer (2004: 11, 18) argued correctly that 'the industrial structure of a region and ... variations in productive capacity as well as in aggregate demand of the region ... [drive these disparities and conclude] ... appropriate demand policies are required to stimulate investment and underpin full employment.' But how can we be sure that the investment will provide jobs in failing regions? How are the most disadvantaged workers with skills that have been superseded

going to be advantaged in a generalised expansion? The JG is explicitly designed to provide opportunities for the most disadvantaged workers in the economy. A mixture of both generalised expansion and the implementation of a buffer employment stock policy approaches is likely to be optimal but a generalised expansion alone is not preferred.

## **6. Opportunities for regional job creation in Australia**

### **6.1 Overview**

The failure of orthodox economic policy to restore full employment is evidenced by the sustained underutilisation of labour resources, despite a prolonged period of economic growth in Australia. Also, significant spatial variations in utilisation rates persist. In March 2007, Labour Market Region unemployment rates ranged from 6.6 per cent in the Hunter and North Coast of NSW to 3.3 per cent in Perth and the ACT (DEWR, 2007). Moreover, variations in unemployment rates are greater within Labour Market Regions than between them. While the unemployment rate for Sydney was 4.7 per cent, Table 1 shows that Blacktown and Fairfield recorded rates of 11 per cent and 10.4 per cent respectively. Similarly, Adelaide and Brisbane had Statistical Local Areas (SLAs) with very high unemployment rates compared to the Adelaide and Brisbane rates. Corio was the only SLA in Victoria to reach 10 per cent unemployment and no SLAs in Western Australia reached 10 per cent unemployment.

The persistence of unemployment rate variations demonstrates that general economic expansion has been unable to address spatial disparities (see Section 5.4), and hence the necessity for policies such as the JG that specifically address this spatial dimension. This section reports preliminary results of a national survey of Australian local governments conducted in 2007 to determine the feasibility of implementing a public sector employment program to support community development.

Table 1 Statistical Local Areas with the highest unemployment rates, March 2007

No.	State	C/R	Statistical Local Area (SLA)	UR (%)	No.	State	C/R	Statistical Area (SLA)	Local	UR (%)
1	SA	C	Playford-Elizabeth	18.8	12	QLD	C	Loganlea		11.1
2	QLD	C	Kingston	17.7	13	NSW	C	Blacktown		11.0
3	QLD	R	Mount Morgan	16.4	14	SA	C	Port Adelaide Enfield		10.9
4	SA	C	Playford-West Central	15.9	15	NSW	R	Central Darling		10.7
5	NSW	R	Brewarrina	13.3	16	TAS	R	Burnie		10.7
6	NSW	R	Shoalhaven	13.2	17	TAS	R	Devonport		10.4
7	TAS	C	Hobart-Inner	13.2	18	NSW	C	Fairfield		10.4
8	SA	C	Onkaparinga	12.8	19	QLD	C	Acacia Ridge		10.2
9	QLD	C	Inala	11.9	20	TAS	R	George Town		10.2
10	NSW	R	Nambucca	11.5	21	TAS	R	Kentish		10.2
11	QLD	R	Cairns City	11.3	22	VIC	R	Corio		10.0

Notes: C: Capital City; R: Rest of State; UR: Unemployment Rate

Source: DEWR, Small Areas Labour Markets Australia, March 2007

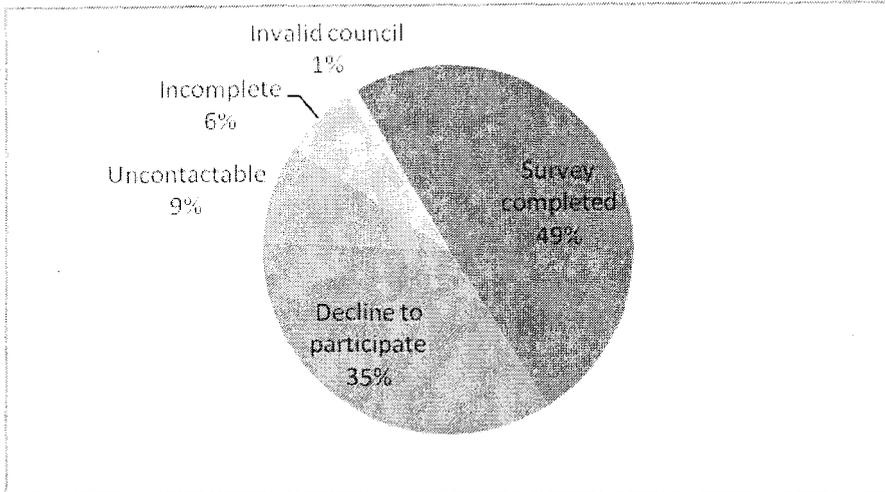
## 6.2 Survey of need for community development

A survey of social planners/community development officers from local government areas throughout Australia was conducted in 2007 to:

- 1) Identify unmet need for community development under four categories: transport amenity, public health and safety, recreation and culture, and community welfare services; and
- 2) Identify and quantify employment opportunities for low skill workers to address these needs.

The open-ended, semi-structured survey was mediated through a telephone interview. A fifty per cent sample of the 671 LGAs throughout Australia was selected by means of a stratified random sampling technique, using categories derived from the Australian Classification of Local Governments (ACLG) schema. A website was developed to provide participants with relevant information on subcategory definitions and local area statistics, including various unemployment statistics, SEIFA index, and LGA demographic composition. Vignettes developed from research findings that related to community development issues were also included.

Figure 4 Local government community development survey response rates



Of the 326 local governments invited to participate 49 per cent completed the survey (Figure 4). The response rate is comparable to other contemporary telephone surveys, but varied across states, with NSW (68%) and Tasmania (71%) having the highest completion rates, while the remaining rates ranged between 38 and 45 per cent. Response rates were higher across urban areas (57 per cent) than rural and remote areas (38 per cent). All participants from capital city local governments completed the full survey.

Figure 5 Proportion of LGAs identifying particular unmet needs, by State

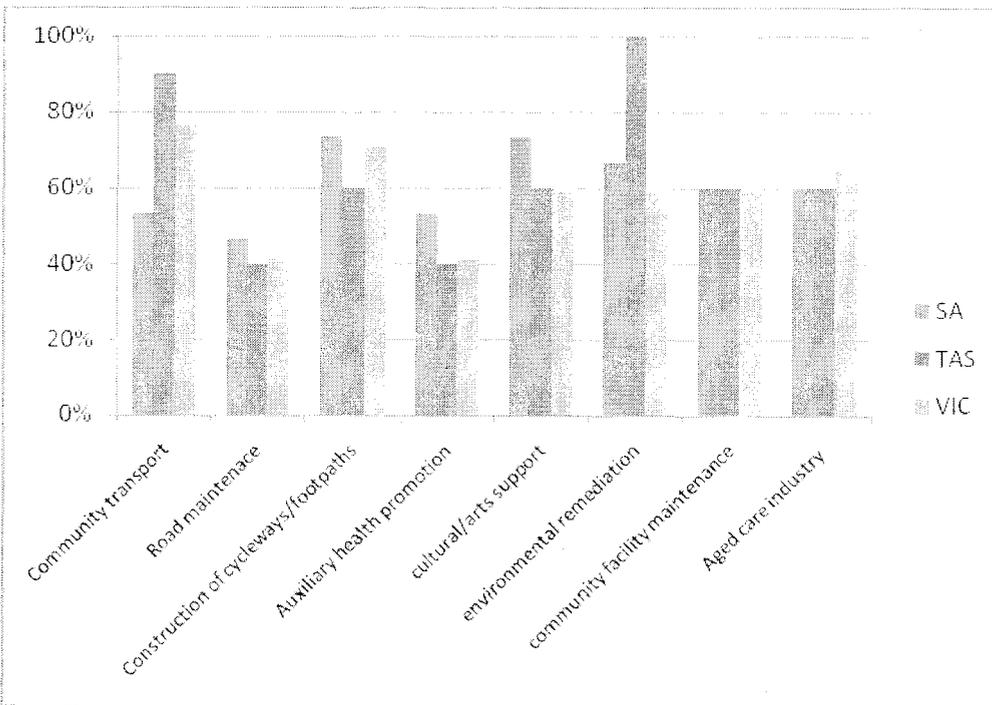
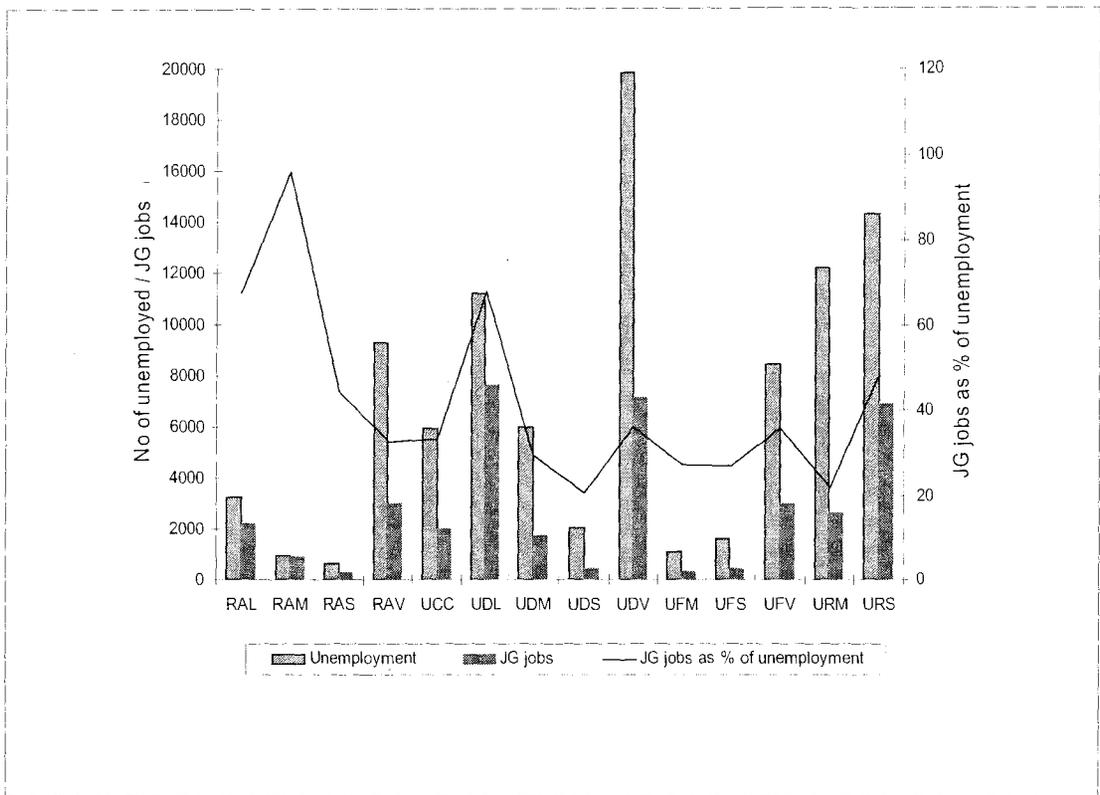


Figure 5 shows the proportions of LGAs in South Australia, Tasmania and Victoria that identified particular unmet needs. The most prominent issues in Tasmania related to environmental remediation and community transport. Transport amenity featured as a major concern for Victoria. For South Australia, areas of concern related to enhancing footpath/cycleway infrastructure and support of culture and arts programs and facilities.

Turning to the number of potential jobs identified by survey respondents, we find that the number of jobs identified as a proportion of unemployment, varied significantly by state and local government category. In aggregate, preliminary survey results revealed that job creation for low/unskilled workers in community development could provide employment opportunities for 40 per cent of the unemployed population: 28.6 per cent in NSW, 42.2 per cent in Tasmania, 51.3 per cent in Victoria, and 64 per cent in South Australia. The correlation between the numbers of unemployed and potential jobs by LGA was 69 per cent.

Figure 6 Potential JG jobs compared with the number unemployed, by ACLG



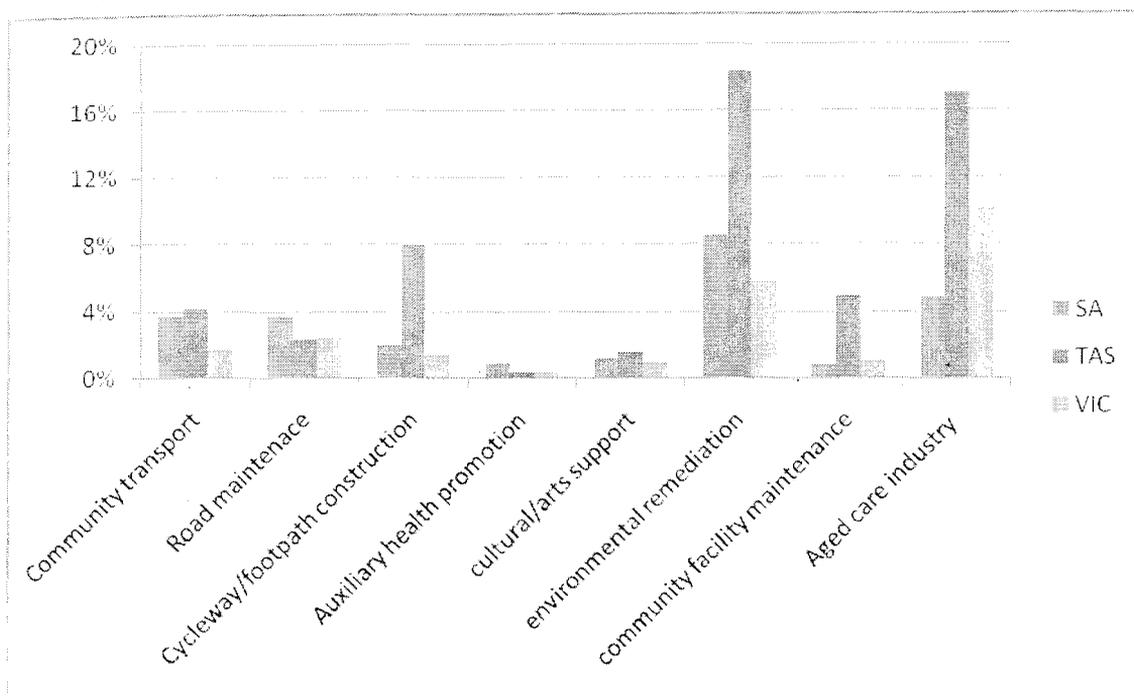
Notes: First letter of code denotes Urban (U), Rural (R); second letter: Capital City (CC), Developed (D), Regional (R), Fringe (F) & Agricultural (A); third letter: Small (S), Medium (M), Large (L) & Very Large (V).

The Australian Classification of Local Governments (ACLG) schema categorises local governments according to population size and density, proportion of urban population, agricultural activity, and remoteness. Figure 6 compares potential jobs with unemployment by type of LGA for NSW, Victoria, SA and Tasmania. Large (population) local government areas (RAL, UDL) and rural local government areas (RAL, RAM) had greater potential employment as a proportion of the unemployed population. Rural medium sized (RAM) LGAs identified jobs for 95.7 per cent of the unemployed, ranging from 154.5 per cent in Tasmania to 80.9 per cent in NSW. Large rural LGAs (RAL) identified positions for two-thirds of the unemployed in total, with 52.7 per cent in Tasmania and 101.2 per cent in South Australia. Survey participants from large urban LGAs (UDL) identified potential employment opportunities for two-thirds of the unemployed. There was significant variation between

states, however, with 80.7 per cent of the unemployed being able to be employed in jobs in Victoria and 74 per cent in Tasmania, but only 37.6 per cent in NSW. Participants from small regional centres (URS) identified jobs that could be created for 48.2 per cent of the unemployed. Potential jobs identified by participants from other urban areas were considerably lower, accounting for only 20 to 36 per cent of the unemployed.

Survey results indicate considerable potential for job creation within areas concerned with environmental remediation and aged care (Figure 7). The results vary across States, perhaps indicating the impact of differential patterns of state spending in these areas.

Figure 7 Potential job creation for particular functions, as a percentage of total potential job creation, by state



Areas of need for transport amenity predominately called for increased investment in road infrastructure. Road maintenance was a significant issue for 41 per cent of Victorian participants and accounted for 2.5 per cent of potential job creation across the state. Different forms of transport infrastructure including cycle-ways, walking trails and footpaths, were noted by over 60 per cent of respondents, and comprised two per cent of job creation in South Australia and eight percent in Tasmania.

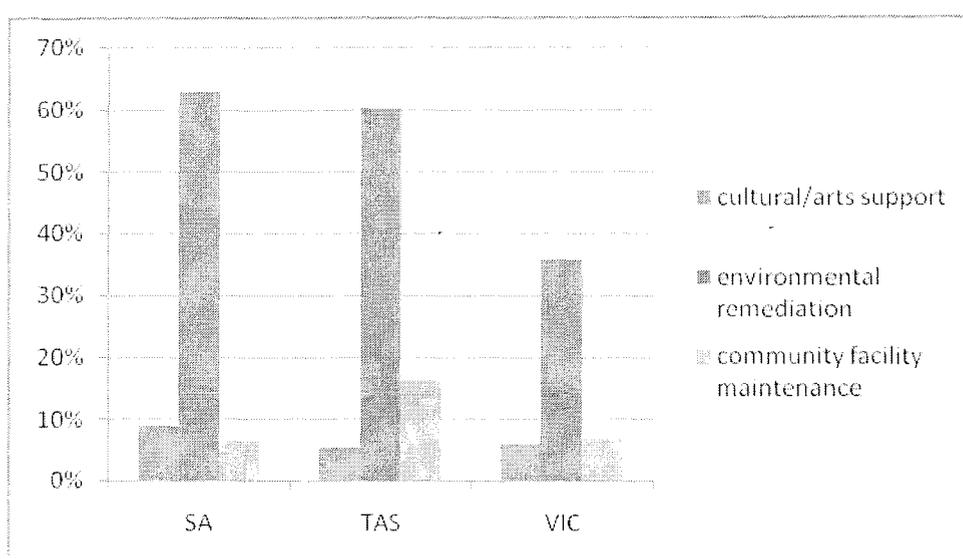
Many small communities of ageing residents have little or no access to public transport. Over 50 per cent of survey participants indicated a need for a flexible dial-a-ride public transport service to provide access to essential services and employment, and to enhance social participation. Public and community transport accounted for between two and four percent of potential jobs across the three states. Potential employment opportunities to improve transport amenity were identified in the construction of road, footpath and cycle-way facilities, in addition to opportunities for drivers, administrative assistants and transport aides to increase public transport services.

The public health and safety category revealed considerable unmet need relating to services to support youth socialisation and community cohesion in general, as well as publicly accessible auxiliary health promotion support. Over 40 per cent of respondents commented on unmet need for health promotion, but potential job creation accounted for less than 1 per cent of all potential work opportunities. Participants suggested undertaking surveys of the community,

council run community facility audits, clearing derelict land and upgrading street lighting. One innovative idea was a 'walking school bus' to improve child health and fitness and to ensure that children were safely accompanied to and from school. This proposal would offer considerable employment opportunities to low/unskilled workers.

Many recreation and cultural facilities, such as botanic gardens and museums, are heavily reliant on volunteers (ABS, 2007c). Potential employment opportunities in recreation and culture accounted for 13.5 percent of total potential job creation for South Australia, 16.2 for Victoria, and 30.2 for Tasmania. Environmental remediation yields the greatest job creation potential (Figure 8). Other areas of job creation related to maintenance of community facilities. In addition, 59 per cent of Victorian survey participants indicated a potential for job creation within cultural/arts areas. Job creation for low/unskilled workers in these areas could absorb a significant portion of the underutilised labour force.

Figure 8 Jobs to meet particular needs as a proportion of total potential Recreation and Culture jobs



Job creation within the area of aged care accounted for 10.1 percent of all potential job creation in Victoria, 17 per cent in Tasmania and 4.9 percent in South Australia. Labourers would be required to assist in the construction of facilities; additional carers within aged care facilities; domestic care workers to provide home visitation services; food preparation assistants, and also drivers (accounted for in the transport amenity section). Provision of teachers' aides was also noted as a valued service needed to increase the quality of the education system, and would entail mass job creation for low skilled workers. The other significant areas of need for community welfare services were in housing and auxiliary services.

## 7. Conclusion

This paper has critically assessed the dominance of the NAIRU supply-side approach that has led to replacement of the goal of full employment with the diminished goal of full employability. The OCED Jobs Study erroneously considers individual behaviour reflecting motivations, attitudes and endeavours to be the cause of mass unemployment.

Under the Full Employment framework, social policy was designed to provide income support when the economy temporarily deviated from full employment. The role of macroeconomic policy was to ensure that the economy stayed as close to full capacity as was possible. Under the Full Employability framework, the role of social policy becomes one of

helping individuals to position themselves in the labour market to maximise their chances of gaining work, yet no complementary policies were implemented to ensure that there were enough jobs available to match the preferences of the labour force.

By promoting inflation as the policy priority, rather than unemployment, neo-liberal policy makers were able to locate the supply-side microeconomic policy emphasis in centre stage and downgrade the importance of an active, counter-cyclical macroeconomic policy stance (see Blinder, 1987; Solow, 1998).

The survey of local government in Australia has provided valuable insight into the nature of unmet need for community development, identified strategies for remediation and roles for low-skilled workers that could be integrated with effective and complementary training options. Our comparison of survey results with supplementary data from local government Social Plans in relation to accommodation needs suggests limitations regarding the comprehensiveness of survey responses and an underestimation of potential job creation. Therefore, results should be augmented with various comparative data and variegated methodologies to guide further investigation into issues associated with gaps in service provision across space. Subsequent analysis of individual categories, in conjunction with other information sources, is likely to reveal substantially higher potential job creation than the initial survey results indicate.

The simultaneous existence of labour underutilisation and this broad range of unmet needs suggests that these two societal problems could be addressed through public sector expansion by means of a Job Guarantee policy which would simultaneously enhance service provision, building communities and achieving social justice outcomes, while satisfying employment aspirations and counteracting the negative consequences of unemployment.

Most importantly, implementation of the JG means that societal problems would not be displaced, as has often been the case with contemporary neoliberal policies. Communities would instead be supplied with a set of tools to remediate issues that are specific to their locale, and would also be provided with an enabling, complementary means for (re)constructing and (re)developing their own strategies for generating regional prosperity.

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## Endnotes

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<sup>2</sup> This Section closely follows argument presented in Mitchell and Muysken (2008).

<sup>3</sup> This Section closely follows argument presented in Mitchell and Muysken (2008).

<sup>4</sup> There is an issue about the validity of an unchanging nominal anchor in an inflationary environment. The JG wage would be adjusted in line with productivity growth to avoid changing real relativities. Its viability as a nominal anchor relies on the fiscal authorities reigning in any private wage-price pressures.