

Submission

Centre of Full Employment and Equity



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**Submission to the Standing Committee on
Employment and Workplace Relations**

Inquiry into employment: increasing participation in paid work

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The Centre of Full Employment and Equity

The Centre of Full Employment and Equity (known as CoffEE) is an official research centre at the University of Newcastle and seeks to promote research aimed at restoring full employment and achieving an economy that delivers equitable outcomes for all.

CoffEE research projects include public sector employment policies and the Job Guarantee; central banks and financial markets; estimating the costs of inflation targeting and unemployment; gender segregation; defining local labour markets; and welfare-to-work dynamics.

Under development is CoffEE 1 - a large-scale macroeconometric model of the Australian economy, which will be available to the public for policy analysis and forecasting.

CoffEE has developed its labour market indicators - CLMI - which provide more accurate measures of labour underutilisation in Australia than the official summary data published by the Australian Bureau of Statistics.

CoffEE is active in public education and community development. Our research staff regularly speak at professional and public policy conferences within Australia and abroad.

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1. Introduction

In the midst of the on-going debates about welfare reform and labour market deregulation, policy makers have ignored the key fact that actual GDP growth in the last 28 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. It is thus essential for an inquiry that seeks to increase the level of participation in paid work, to consider the appropriate settings for macroeconomic policy.

The Federal Treasurer has stated that the Government's fiscal strategy is to "maintain budget balance, on average, over the course of the economic cycle" (Treasury, 2002: 75). However, recent economic growth has occurred in spite of contractionary fiscal policy, and since 1996 has largely reflected increased private sector leveraging as private deficits have risen (Mitchell and Mosler, 2002b: 30). In addition, Mitchell and Carlson (2002) show that while the official unemployment rate averaged 7.5 per cent between 1996 and mid-2002, the average total labour wastage approximated 13.6 per cent once hidden unemployment and underemployment are included. This translates directly into large output losses.

For this reason, we begin our submission to the Inquiry into Employment by stating the basic lesson of macroeconomics. Firms produce to meet expected spending. All output will be sold if spending equals the sum of all income. If an agent spends less than its income, output will go unsold unless another agent goes into debt and buys that output. If there is a generalised net desire to save – output will go unsold and the stock buildup will lead to declining production and employment. The reverberations of the lost incomes generate a downward spiral in output.

In this situation, the economic outcome depends entirely on the policy response by government. If demand for private production falls but people still desire to work then there is no valid reason not to switch them to public goods production until private demand recovers. Unemployment results when the policy response inhibits this switch. Surprisingly, most commentators and public officials fail to realise that the unemployed, supported by welfare measures, are already 'in the public sector'. A sensible policy response would utilise this capacity to both attempt to produce socially beneficial outputs, and reduce socially detrimental reactions to unemployment.

In this regard, the Centre of Full Employment and Equity (CofFEE) argues that to increase employment, market forces should determine the level of government deficit spending. A fixed-wage Job Guarantee (JG) policy should then be introduced to attenuate any tendency towards financial instability and provide the 'switch' between private and public sector employment over the business cycle as well as provide an 'anchor' effect to the price level (see Mitchell, 1998; Mitchell and Mosler, 2002a). While modernising the social security system in order to simplify the payments structure and ameliorate poverty traps is a worthy objective, an effective social support system can only "encourage and support people to participate in the life of the community through paid work" (DFACS, 2002: i) if there are jobs available.

There are currently six unemployed people for every job vacancy in Australia (Cowling and Mitchell, 2003: 211). CoffEE argues that a Community Development Job Guarantee (CD-JG, to be discussed in Section 4) would attend to the demand side of the economy and is the essential analogue to the reforms proposed for the income support system in the consultation paper *Building a Simpler System to Help Jobless Families and Individuals*. While we agree that paid work “enhances both self-reliance and social inclusion and that policies to enable paid work benefit the whole community” (DFACS, 2002: ii), a policy agenda that aims to achieve these ends must create opportunities, as well as incentives, for paid employment.

Alternative proposals to reduce unemployment have centred on freezing safety net increases in award wages and replacing these adjustments with tax credits for low wage earners in low-income families. These proposals misconceive unemployment as a labour market or individual problem rather than a problem of deficient aggregate demand. The effect of medium term wage freezes on the rate of unemployment is likely to be relatively small and is unlikely to create employment opportunities for the current pool of long-term unemployed (Borland, 2002: 10).

The CD-JG proposal detailed in this report is a safer path to full employment than the wage cutting approach. While the CD-JG proposal provides certainty in two dimensions: (a) guaranteed employment, and (b) guaranteed income; the wage cutting methodology provides certainty in neither. It does not directly address demand deficiency and relies on questionable assumptions about elasticities, and lack of interdependence between wage income and spending, to generate its job growth projections (Mitchell and Watts, 2002: 109-110).

2. The Problem and its scale

Since 1975, the Australian economy has failed to generate sufficient employment opportunities to match the preferences of the labour force. In the past, the public sector acted as a counter-cyclical employer and ensured that any surplus labour would be absorbed into paid employment. However, the decline in public employment shares over the last 25 years coupled with the desire to push the public budget into surplus has removed this capacity from the Government (Mitchell, 2001). Fluctuations in private spending now create unemployment.

The dominant economic orthodoxy has, since the mid-1970s, supported policy makers who have deliberately and persistently constrained their economies, and who claim that the role of policy is to ensure that the economy functions at the ‘natural rate of unemployment’. Persistently high unemployment is then speciously ascribed to institutional arrangements in the labour market (like wage setting mechanisms and trade unions), and/or faulty government welfare policies, which are said to encourage inefficient search and to promote welfare dependence. Policy now focuses on overcoming these microeconomic constraints. However, after 28 years of harsh cutbacks and structural dislocation, unemployment remains persistently high and the incidence of hidden unemployment and underemployment is rising (Mitchell and Carlson, 2001).

The evidence of policy failure is overwhelming. The low point unemployment rate has steadily ratcheted upwards over successive economic cycles. In the last four economic cycles the low point unemployment rates have been 4.6 per cent (June 1976), 5.5 per cent (June 1981), 5.6 per cent (November 1989) and 6.0 per cent in September 2000 (Mitchell and Carlson, 2001). In July 2003 it stood at 6.2 per cent. The average duration of unemployment, which was 3 weeks when data was first collected in 1966, is now 52 weeks and the average duration of unemployment for the long-term unemployed is 181 weeks (ABS, July 2003). Despite a sustained period of economic growth since the recession of the early 1990s, the unemployment rate remains around 6.0 per cent in Australia and is approaching 10 per cent in the Wollongong and Wide Bay-Burnett Statistical Regions (ABS, July 2003). In July 2003, there were 130,800 individuals who had been unemployed for 52 weeks or more (20.9 per cent of total unemployment) and the youth unemployment rate stood at 17.2 per cent (ABS).

**The evidence of
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However, the labour wastage evident in the upward trending unemployment rate is even worse when broader measures of labour underutilisation are considered. To measure the extent of the underutilisation problem, CoffEE has developed three indicators which estimate how many hours of work are desired by (1) the unemployed; (2) the hidden unemployed (discouraged workers who want to work, are available to work, but believe search activity is futile given the poor state of the labour market); and (3) the underemployed (part-time workers who would like full-time work or additional part-time hours). In February 2003, the official unemployment rate was 6.6 per cent. However, as Summary Box 1 shows, the addition of underemployment increased the degree of labour underutilisation to 10.2 per cent, while including the hours aspirations of the hidden unemployed saw the degree of labour wastage rise to 12.5 per cent.

Summary Box 1 Labour Underutilisation in Australia

The CofFEE Labour Market Indicators (CLMI) are published regularly to provide an alternative and broader picture of the degree to which the economy wastes its willing labour resources. The measures in the Table below are in percentage terms and include:

1. the official unemployment rate (U3) expressed in persons;
2. the underemployment rate (UE) expressed in hours;
3. the combined unemployment and underemployment rate (CU7) expressed in hours; and
4. CU7 plus the hidden unemployment rate expressed in hours (CU8).

| Month | U3 | UE | CU7 | CU8 |
|--------|-----|-----|------|------|
| Aug-01 | 6.6 | 3.4 | 10.0 | 12.3 |
| Nov-01 | 6.6 | 3.6 | 10.2 | 12.6 |
| Feb-02 | 7.1 | 3.6 | 10.7 | 13.3 |
| May-02 | 6.3 | 3.4 | 9.7 | 11.9 |
| Aug-02 | 5.9 | 3.3 | 9.2 | 11.2 |
| Feb-03 | 6.6 | 3.6 | 10.2 | 12.5 |

UE, CU7 and CU8 are part of the CLMI which were compiled using hours of labour underutilisation as a percentage of total available hours, whereas the official unemployment rate (U3) is measured in persons.

As we broaden the measure of underutilisation, the significance of the failure of economic policy becomes clearer.

A full description of the indicators is available at the CofFEE WWW site <http://e1.newcastle.edu.au/coffee/indicators/indicators.cfm>. For detailed notes on the derivation of UE, CU7 and CU8 see Mitchell and Carlson (2001), Carlson and Mitchell (2002).

2.1 Roads to nowhere

There is also strong evidence to show that active labour market programs, which aim to improve the 'employability' of young and long-term unemployed people, have been largely ineffective (Cowling and Mitchell, 2003). The poor employment outcomes for participants in programs like Work for the Dole and Intensive Assistance point to the futility of preparing the unemployed for jobs that are not there.

The expanding Work for the Dole program is the principle destination for unemployed youth but data on labour market assistance outcomes for the year to March 2002 show that three months after completing Work for the Dole just 11.6 per cent of participants were in full-time work. Half of the participants remained unemployed or had withdrawn from the labour force, while one-quarter were in receipt of further assistance (DEWR, 2002a). In addition, unpublished data for 2000-2001 reveal that 65 per cent of employment exits from Work for the Dole were to temporary, casual or seasonal positions (Senate Committee, 2002: Question W71).

For individuals experiencing long-term unemployment, the results of the Job Network's Intensive Assistance program are instructive. Three months after completing Intensive Assistance, just 16.3 per cent of individuals were in full-time work while 51 per cent were not employed or studying (either full-time or part-time). For the most disadvantaged job seekers (Intensive Assistance Funding Level B) just 11.2 per cent had attained full-time work while 61.3 per cent remained unemployed or had left the labour force (DEWR, 2002a: 4).

In addition, the Productivity Commission (2002: Chapter 9) found that the payments structure to Job Network providers has led to a substantial proportion of Intensive Assistance recipients being 'parked'. Job seekers with the greater chance of achieving a payable outcome are targeted while those in greater need of assistance (with low employment probabilities) receive scant support. For example, just 20 per cent of the current cohort of Intensive Assistance recipients will undertake some training activity while participating in the program (Senate Committee, 2002: Question W105).

In September 2002, the Department of Employment and Workplace Relations (DEWR) released the findings from Stage 3 of their Job Network Evaluation, which assessed the Network's "effectiveness". The evaluation presented preliminary estimates of the 'net impact' of referral to, and participation in, Intensive Assistance on an individual's employment prospects. The Department estimated the net impact on employment of Intensive Assistance for job seekers who *commenced* the program in May 2000 at 0.6 of a percentage point – the difference between the actual employment rate (25.6 per cent) and the estimated employment rate of the control group (25.0 per cent). It is noted that this estimate is likely to be conservative, as it does not present a pure comparison between an intervention and no intervention, but compares an intervention to a combination of no intervention and other forms of assistance (DEWR, 2002b: 3). Cowling and Mitchell (2003) argue that this caveat aside, the Job Network has failed to deliver a reasonable return on investment.

Taken together, these results suggest that the supply-side strategy lauded by the OECD has not been effective in increasing the employability of disadvantaged workers. The

OECD's Jobs Study (1994) emphasised training, more stringent benefit regimes and active measures to address the skill and attitudinal deficiencies of the unemployed. It is important to ask why we should expect other than poor results in the absence of policy measures designed to increase the quantum of jobs (Cowling and Mitchell, 2003: 219).

In isolation, supply-side measures merely re-shuffle the jobless queue. The clear danger of this kind of zero-sum redistribution is that policies achieve tentative or short-term reattachments to the labour force at the expense of deepening employment insecurity. Labour market instability, poverty, and welfare dependency are not solved by such measures; they are simply redistributed amongst the same at risk groups (Peck and Theodore, 1999: 14).

3. The need for a buffer stock of low skill 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. 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. Unemployment rates throughout this period were usually below 2 per cent (Mitchell, Cowling and Watts, 2003: 15).

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 process work in factories, 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 the low skilled and otherwise disadvantaged workers (Mitchell, Cowling and Watts, 2003: 16).

The goal of the CD-JG is to provide a 'buffer stock' of jobs in the economy to ensure that, at all times, the young and the least advantaged workers in our community have opportunities to earn a wage and to live free of welfare support ...

Importantly, the economies that avoided the plunge into high unemployment in the 1970s maintained what Paul Ormerod has described 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). Ormerod acknowledges that employment of this type may not satisfy narrow neoclassical efficiency benchmarks, but notes that 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. He 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” (1994: 203).

Why did Australia relinquish the cohesion provided by full employment 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 (Mitchell, 2001: 194).

In the following section we set out a proposal for a Community Development Job Guarantee (CD-JG), which recognises that if there is to be a true path to full employment, the public sector must maintain a stock of jobs that provide opportunities for the less skilled and the less qualified. CofFEE argues that through creative job design, the activities that the CD-JG workers perform can support environmental sustainability and enhance community life.

4. The Community Development Job Guarantee

The proposal for a Community Development Job Guarantee (CD-JG) has been developed by the Centre of Full Employment and Equity (CofFEE) as a workable and effective solution to two of the most serious aspects of unemployment in Australia: youth unemployment (15-19 year olds) and long-term unemployment (spells longer than 52 weeks). The following discussion draws on the CD-JG proposal by Mitchell, Cowling and Watts (2003). The proposal is available at: <http://e1.newcastle.edu.au/coffee> and a copy has been provided to the Committee.

The CD-JG requires that two new employment initiatives be introduced:

- a) A Job Guarantee for all long-term unemployed (people who have been unemployed longer than 12 months); and
- b) A Youth Guarantee, comprising opportunities for education, technical training, and/or a place in the Job Guarantee program for all 15-19 year olds who are unemployed.

These initiatives would significantly augment the current labour market policies of the Federal Government. The young and long-term unemployed have been targeted because of the severe economic and social costs that result as the period of unemployment lengthens, or when unemployment occurs at the beginning of a person's working life. Material hardship and physiological and psychological damage tend to increase as the duration of unemployment lengthens. Unemployment among the young increases the probability of future joblessness, and is closely associated with crime, drug abuse, and

vandalism. It promotes patterns of behaviour that are detrimental to the development and well being of young people, and are damaging for society as a whole.

Under this proposal, the Federal Government would maintain a “buffer stock” of jobs that would be available to the targeted groups.

The buffer stock is designed to be a fluctuating workforce that expands when the level of private sector activity falls and contracts when private demand for labour rises. Instead of forcing workers into unemployment when private demand slumped, the CD-JG would ensure that all those in the target groups would have immediate access to a public sector job at the safety net wage. The specific details about the wages and conditions pertaining to CD-JG jobs are set out in Mitchell, Cowling and Watts (2003: Section 7 and the Technical Appendix).

The CD-JG would be funded by the Commonwealth but organised on the basis of local partnerships between a range of government and non-government organisations. Local governments would act as employers, and CD-JG workers would be paid the Federal minimum award. Any unemployed teenager (15-19 year old) who was not participating in education or training would receive a full-time or part-time job. Equally, all long-term unemployed persons would be entitled to immediate employment under this scheme. CD-JG positions could be taken on a part-time basis in combination with structured training.

4.1 A new paradigm in employment policy

As we discussed earlier, prior to the mid 1970s the Australian economy was able to sustain full employment. A key reason for the attainment of this outcome was the existence of a “buffer stock” of low skill jobs, many of which were in the public sector. These jobs were always available and provided easy access to employment for the most unskilled workers in the labour force. These workers had employment and income security during hard times.

The goal of CD-JG is to restore this buffer stock capacity to the economy to ensure that, at all times, the least advantaged workers in the community have opportunities to earn a wage and to attain independence. A strong community is one in which all members feel that they have a meaningful stake. The achievement of higher levels of employment under this proposal is likely to promote social cohesion.

While public sector job creation, via the CD-JG, 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 “unemployment losses”, the CD-JG philosophy accepts that corporatised entities such as the water, gas and electricity utilities or the railways are no longer suitable arenas for the creation of CD-JG jobs. Nor do we aim to create jobs that substitute for private sector employment.

In fact, an explicit aim of the CD-JG 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. Specifically, CD-JG workers could participate in many community-based, socially beneficial activities that have intergenerational payoffs, including urban renewal projects, community and

personal care, and environmental schemes such as reforestation, sand dune stabilisation, and river valley and erosion control. The work is worthwhile; much of it is labour intensive requiring little in the way of capital equipment and training; and will be of benefit to communities experiencing chronic unemployment. It is in this sense that the proposal represents a new paradigm in employment policy.

Given that unemployed people are already supported by the public sector welfare system, the CD-JG requires only a low level of additional public investment to allow unutilised labour to perform a range of activities of benefit to the broad community. The policy would not eliminate inequality between geographical regions. However, it would help communities in disadvantaged areas to maintain continuity of income and labour force attachment, without recourse to welfare dependence.

4.2 Would the CD-JG create unproductive 'dead end' jobs?

The CD-JG is not about creating unproductive or 'dead end' jobs. An economy aiming to promote participation in paid employment must ensure that there is a stock of jobs, continuously available, that can absorb the most disadvantaged workers in the community. The philosophy underpinning the CD-JG is that there are intrinsic benefits to the individual and society of the unemployed having a job rather than being dependent on the welfare system. This is our starting point and the provision of buffer jobs by the government is inherently productive for that reason. A person who can remain attached to paid employment has greater prospects for upward mobility, than if they languish for years in long-term unemployment. A teenager who is engaged in useful activity at an early age is less likely to be "lost" from the system of paid work in later life.

With some imagination and foresight, CD-JG jobs could be designed to create opportunities and career paths in a way that promotes both static and dynamic efficiency. CD-JG workers would receive on-the-job training and have the option of combining formal training and paid employment. CD-JG positions could be undertaken on a part-time or block basis to facilitate this. For example, a person who took up a CD-JG job providing meals, shopping and gardening assistance to the frail aged could undertake a TAFE certificate course leading to qualification as a Personal Care Attendant. Vacancies for this entry-level job in the aged and community care sector exist now and are projected to grow (DEWR, 2002c).

It is important to recognise that while many of those eligible for CD-JG employment have few formal qualifications, many have acquired skills outside the classroom. Assessing competencies that have been learned informally, and creating means through which unemployed people can combine work, training and learning processes, are important policy goals that promote dynamic efficiency.

The Community Development Job Guarantee is not about creating 'dead end' jobs. It is about providing a safety net which can be the springboard for future mobility and career progression

A key international trend in the conduct of effective public service employment programs is the incorporation of skills training and assistance. For instance, Germany's 1997 reforms encouraged training in its Job Creation Measures program and Ireland's

Community Employment Program has improved the job prospects of the long-term unemployed by providing 20 days of training. In the Netherlands, the Jobseekers Integration Act includes a training component in job contracts, while Sweden's ALU program includes a skills-training component in public sector jobs (Brodsky, 2000: 38). This integrated approach contrasts sharply with the design of employment assistance in Australia. Support provided to unemployed individuals through the Job Network provides little by way of specific skills training (Senate Committee, 2002, Question W105), while Work for the Dole is framed as a work experience program. During a Work for the Dole placement, training is restricted to 'Passport to Employment' instruction on job search methods, the preparation of job applications and managing job interviews. It is only on the completion of at least 200 hours (if aged under 21) or 240 hours (if aged 21 or over) of Work for the Dole activities that individuals become eligible for a Training Credit of between \$500 and \$800. This Credit can be used for a wide range of competency-based and accredited courses (DEWR, 2003).

In addition, a major review of support programs for disadvantaged young people in the US (Martin and Grubb, 2001) found that the few effective programs:

- Were closely linked to the local labour market;
- Targeted jobs with strong employment growth and good opportunities for advancement;
- Provided a mix of occupational skill development and on-the-job training in an integrated manner; and
- Promoted pathways to further education so that the young could continue to develop their skills and competencies.

It is obvious that a focus on training and employability measures for the unemployed in a highly demand-constrained labour market is as inefficient as it is demoralising. By linking the provision of training to paid employment CD-JG jobs, the CoffEE proposal supports the development of skills and promotes future transitions to non-CD-JG jobs.

5. Investing in employment

To implement the CD-JG Proposal at a national level would require an estimated net investment by the Commonwealth of \$3.27 billion per annum. The net investment required to employ all unemployed 15-19 year olds under the Youth Guarantee component of the proposal would be \$1.19 billion. On the other hand, \$1.96 billion is required to employ all long-term unemployed persons aged 20 and over. The impacts of the proposal on output, revenue and expenditure, and employment are set out in the table below. Clearly, the stronger is the private sector activity the lower this public investment becomes.

The creation of 265.3 thousand CD-JG jobs would be required to eliminate youth unemployment and to provide jobs for people aged 20 years and over who are long-term unemployed. As a result, national output would rise by \$7.71 billion; private sector consumption would rise by \$2.38 billion; and an additional 68.9 thousand jobs would be created in the private sector. The full implementation of the CD-JG proposal would thus

yield an additional 334.2 thousand jobs. The unemployment rate would fall to 4.0 per cent, after taking account of the labour market participation effects.

Detailed costing of the CD-JG proposal is set out in Mitchell, Cowling and Watts (2003: Chapter 7 and the Technical Appendix).

The Community Development Job Guarantee – the bottom line

| Impact | National | | |
|-----------------------------------|------------------------------|--------------------------------|----------------|
| | Youth unemployed (15-19 yrs) | Long-term unemployed (>20 yrs) | Total CD-JG |
| Extra GDP | \$2.76b | \$4.68b | \$7.71b |
| Extra total employment ('000) | 163.1 | 156.3 | 334.2 |
| Required CD-JG jobs ('000) | 133.8 | 120.0 | 265.3 |
| Private sector employment ('000) | 29.2 | 36.3 | 68.9 |
| New unemployment rate (%) | 4.95 | 4.99 | 3.98 |
| Net government expenditure | \$1.19b | \$1.96b | \$3.27b |

6. Addressing Regional Unemployment

The Inquiry's Terms of Reference give particular attention to employment issues in regional areas and we close this submission by offering some brief comments based on CoffEE's research on regional unemployment.

A contested issue in regional economic debate concerns the relative importance of regional-specific versus macroeconomic factors in determining regional employment outcomes. The theoretical impasse is also evident in regional development policy (Rissman, 1999). Keynesian macroeconomics typically argues that regional employment variations are caused by the impact of the national business cycle on growth rates across industries, which reflect changes in aggregate factors, such as fiscal and monetary policy settings, business and consumer confidence and productivity trends. Thus, the cyclical sensitivity of regional outcomes reflects the impact of common aggregate shocks and the specific regional industry mix. Regions dominated by goods-production allegedly lose employment share in recessions relative to service-providing regions. The solution is for aggregate policy to maintain strong growth with industry policy attenuating structural shifts (Mitchell and Carlson, 2003: 2).

The current Australian Government has pursued a different interpretation of the "macro" view and has eschewed both stimulatory macro policy and specific regional policy. Its low-inflation policy with fiscal restraint is designed to create a macro environment within which economic growth will flourish. Supplementary microeconomic reforms of the labour market and the welfare system aim to provide market incentives to promote individual participation in economic activity. Rather than introduce regionally-targeted policies, this strategy places faith in market forces to redress the regional problems -

through labour mobility away from and firm relocation into areas of low labour utilisation response to falling wages and improved local labour skills (Mitchell and Carlson, 2003: 2).

While the national economy has demonstrated relatively robust output growth over the 1990s, it is clear that regional disparities in unemployment persist. The tight macro policy has sustained high unemployment and mobility patterns and relative wage movements have not promoted regional convergence (Martin, 1997; Debelle and Vickery, 1999). Disparities in regional incomes and employment are persistent and in many cases increasing (ALGA, 2002). For such reasons, the “macro” view (irrespective of the guise it takes) is now under challenge.

Mitchell and Carlson (2003) have explored the relationship between the business cycle and regional employment growth as part of a wider study seeking to explain the persistence of regional unemployment differentials. The metropolitan/rest of state disaggregation has been used and separates the data analysis from previous studies of regional unemployment, which have used the States/Territories to define the region.

It is clear from this research that a region’s unemployment ranking is negatively influenced by its employment growth and this in turn is significantly influenced by aggregate fluctuations. However, region-specific fluctuations also appear to play a role and require further analysis. The regions examined appear to respond to aggregate fluctuations in different ways and also have diverse region-specific dynamics. National contractions impact differently on the regions and in some cases regions have resisted the negative consequences entirely (Mitchell and Carlson, 2003: 24).

Mitchell and Carlson (2003: 24) also found evidence of groupings of regions into high growth, moderate growth and low growth in terms of employment outcomes. The high employment growth regions resist the negative impacts of the national contractions more effectively than the other regions. The low growth regions are stuck with stagnant labour markets and negative shocks appear to endure for long periods.

In terms of policy implications, the research tentatively provides a rationale to reject both the traditional Keynesian viewpoint that aggregate demand expansion will improve the circumstances for all regions and the alternative view that macroeconomic policy settings are not important.

While there is clearly a need for the Federal Government to maintain aggregate levels of spending sufficient to underpin full employment, the distribution of that spending, given the diversity and interconnectedness between the regions (particularly the chronic low employment growth, high unemployment regions) requires a more creative solution. In this context, the evidence from this research is consistent with the view that direct public sector job creation is the best way to ensure that the higher aggregate demand (from budget deficit spending) is directly translated into positive, regionally-specific employment outcomes. In this vein, the model of a Job Guarantee can ensure that demand expansion is regionally-focused.

7. Conclusion

The Community Development Job Guarantee proposal has been developed by the Centre of Full Employment and Equity to inject new ideas into the public policy debate on unemployment. CoffEE believes that the existing policy debate has become bogged down in minutiae about active participation models. While the types of policies that emerge from such discussions have some merit, it is clear that they have not provided a solution to the persistently high unemployment that has plagued Australia since 1975.

In this regard, the CD-JG proposal is intended to be a constructive alternative to the current thinking. It provides a direct and on-going solution to youth and long-term unemployment. The net investment required to achieve this important outcome is minor relative to the sustained benefits that accrue to the individuals who gain employment and to society at large.

CoffEE believes that the provision of a job guarantee to the most disadvantaged workers in the economy is an essential starting point to developing and maintaining strong and vibrant communities, and we urge the Committee to give this proposal serious consideration.

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