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This volume contains the proceedings of a conference held to mark the founding of the Centre of Full Employment and Equity (CoffEE), an official research centre at the University of Newcastle, Australia. The conference was held on December 3-4, 1998, at the University of Newcastle. Nine of the papers presented at the conference are presented here. They cover both theoretical and practical perspectives of Australian and international experience. All nine papers were subjected to the usual refereeing process.

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Introduction: The Path to Full Employment

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The 1980s was a period during which people began to live in economies as opposed to societies or communities. It was also a period during which unemployment persisted at high levels in most OECD countries. The two points are of course not unrelated. Unemployment rates in almost all OECD economies rose to unacceptably high levels after the first OPEC shocks in the 1970s. The subsequent drawn out period of high unemployment has been due to excessively restrictive fiscal and monetary policy stances by OECD governments driven by monetarist ideology. The rapid inflation of the mid-1970s left an indelible impression on policy makers who became captive of the resurgent new-labour economics and its macroeconomic counterpart, monetarism. The goal of low inflation replaced other policy targets, including low unemployment. This has resulted in GDP growth in OECD countries generally being below that necessary to absorb the growth in the labour force and labour productivity. The battle against unemployment has been largely abandoned in order to keep inflation at low levels. Why have governments been able to abandon the long-held goal of full employment? While the deficient aggregate demand is the proximate cause of the high levels of unemployment, the *causa causus* is the breakdown in the collective will among western societies. The sustained influence of economic rationalist ideas in the academy and in policy-making spheres, abetted by the self-interested lobbying of the corporate sector, which considered this bandwagon as their best chance to restore the ground they had lost over the years of Welfare State capitalism, eroded the collective will. Instead, a rising individualism emerged, which favoured a declining public sector involvement in economic affairs.

The catch-cry of the modern era has become fiscal consolidation. The pursuit of budget surpluses has stifled growth and narrowed the range of policy instruments used. It is now very difficult for governments to raise income or other taxes to provide flexibility to the budget position, although effective marginal tax rates have been increased through more extensive means testing of welfare benefits in most OECD countries. Accordingly, there has been an excessive reliance on monetary (interest rate) policy despite the bluntness of this instrument. Over this period there has been a strong link between movements in the unemployment rate and capital expenditure. The restrictive policy pushed real interest rates to excessive levels in many economies for extended periods with the result that private capital expenditure was lower than otherwise. Further, public capital expenditure cuts exacerbated the situation. As growth declined and unemployment rose, the resulting high cyclical budget deficits led to further cuts in public capital spending being justified by the balanced budget mania that accompanied the rationalist push. In addition, the extensive privatisation of public sector employment was sold by the claim that the jobs would be maintained in the private sector. The evidence does not match the rhetoric. In Australia, the private sector has not increased its contribution to total employment proportionately. The lost public sector jobs have flowed into the persistent stock of unemployment.

With the persistent unemployment and growing economic inequality between the haves and the have-nots providing evidence that this period of economic policy experimentation had failed, the proponents of the reemerging free market ideology were able to convince us, wrongly, that government involvement in the economy imposes costs on us. As a result, proponents of rationalism have successfully argued that the reforms and deregulation have not been taken far enough. Yet, underlying the research presented in the papers in this volume is the contention that the only way we will return to full employment, with everyone sharing in the benefits, is if the public sector increases its role in the economy. The challenge is to find the path back to full employment by showing the fallacies of the rationalist experiment.

It is clear that the period following the Second World War was marked by the combination of strong output growth driven by high investment, balance of payments stability, rising economic equality and low unemployment. The higher tax rates and buoyant government sectors allowed the flux and uncertainty of aggregate demand to be shared. However, the low unemployment and rising economic equality could have been sacrificed without endangering the other benefits if the employed were allowed to take a higher share of the output growth than

they did. This is exactly what the bulk of the OECD economies have done over the last 25 years or so. They abandoned the sharing mechanisms administered by the government via its spending and employment roles.

While the bulk of the OECD has abandoned this method of sharing, some economies have maintained high levels of employment into the current period. Ormerod (1994: 203) suggests that Japan, Austria, Norway, and Switzerland, among others have (in their own ways) "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". Most significantly, Ormerod says, "the countries which have continued to maintain low unemployment have maintained a sector of the economy which effectively functions as an employer of the 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".

A central theme of this Volume is that governments have not done enough to ensure that unemployment falls. A number of authors consider government employment programs, putting them in a macro-economic context. An obsession with monetarist economics has meant that price stability has been targeted at the expense of the unemployed, that people are obliged to work shorter hours than desired and job security has diminished, increasing gaps between the highest paid and the unemployed.

The path to full employment via public sector job creation is a major theme of the first five Chapters in the Volume. The Chapter by William Mitchell *The Job Guarantee model in a small open economy* argues that orthodox economists advocate balanced budgets to avoid higher tax rates and interest rates, relying on the fallacious analogy that government spending, taxation, and debt issue is equivalent to the spending and financing decisions of the household. Once we understand the role of public spending and why there is no financing imperative for the government then it is possible to see why there is no requirement to pursue balanced budgets. The evidence presented in this Chapter suggests that the major financial objections raised to fiscal activism do not hold. Under flexible exchange rates, there appear to be no enduring constraints against a government running an independent monetary policy and fiscal policy.

By dismissing the conventional arguments against government activism in the economy, Mitchell argues that unemployment arises because the budget deficit is too low in relation to private saving and the desire to hold money. Unemployment is thus a macroeconomic phenomenon and not a "real wage" problem. Australia's persistently high

unemployment rate is largely the outcome of demand deficiency brought on by successive governments, which have failed to understand the implications and logic of their own monetary position. It is argued that the solution to this problem is for government to use deficit spending to introduce a Job Guarantee.¹ The Job Guarantee requires that the government act as an employer of the last resort and provide employment to anyone who is unable to find a position elsewhere in the economy. The Job Guarantee wage would be set at the bottom of the wage structure but Job Guarantee workers would have a range of social wage benefits available to them. It is argued that the design of the Job Guarantee advanced by Mitchell will cure unemployment, while also delivering price stability.

The Chapter contrasts the inflation control mechanisms of the Job Guarantee model with those in an economy subject to a NAIRU. It explains how the concept of the Non-Accelerating Inflation Buffer Employment Share (NAIBER) is preferable as an inflation control mechanism to the NAIRU. The government controls inflation by using fiscal and monetary policy to stifle private sector to shift workers from the inflating private sector to the fixed price Job Guarantee sector. The NAIBER rises but full employment is maintained.

The financial implications of the Job Guarantee model in the context of a small open economy are also considered. Mitchell analyses and tests the arguments that monetarists and others use to justify their case against fiscal activism such as crowding out, inefficient resource usage, and the argument that increased globalisation imposes further restrictions on the ability of governments to pursue independent fiscal and monetary policy. It is found that none of the principal claims used against fiscal activism are empirically sustainable. A number of econometric tests are conducted, which establish that the monetarist case against budget deficits is not empirically founded. Accordingly it is argued that the budget deficit implications of introducing the Job Guarantee policy should be disregarded.

The Job Guarantee model can thus be justified on two separate grounds: First, it is appealing from social welfare considerations; and, second, it is the only rational strategy for a government that supplies a fiat currency and wishes to maximise macro benefits and retain price stability.

The Chapter by Randall Wray, *Public Service Employment: Full Employment Without Inflation*, also discusses the relationship between unemployment and price stability. Wray argues that the dual policy goals of high employment and low inflation are contrary to both accepted economic theory and practical experience, with unemployment generally

perceived as the inevitable cost of price stability. The author argues that stable prices and full employment are possible, that a true full employment policy is not, in itself, "inflationary" and indeed could reduce inflationary pressures under some conditions. Wray argues that a policy whereby the government acts as an employer of the last resort is the only way to guarantee full employment and maintain price stability. Wray provides an extensive analysis of the way a modern monetary economy works and shows the difference between economies based on a commodity money compared to economies which use a fiat currency. He challenges the notion of deficit financing and provides an alternative explanation for the role of taxation and bond issues.

The impact that such a Job Guarantee policy may have on exchange rates and/or on trade position is a subject of the Chapter by Warren Mosler *Exchange Rate Policy and Full Employment*. Following on earlier work, Mosler argues that guaranteed public service employment by the government is the key to full employment with price stability and furthermore that such an approach requires floating exchange rates. It is argued that the combination of public service jobs and a floating exchange rate directly ensures sustained full employment and should promote favourable terms of trade. It is argued that with full employment as a national goal, a floating rate currency is the only hope of sustaining success. Mosler shows that the monetary and fiscal policy necessary to sustain full employment will periodically result in an attack on a fixed exchange rate currency, resulting in the loss of the country's foreign exchange reserves, and forced devaluation. He traces some accounting fundamentals of fixed and floating foreign exchange regimes using Russia and Hong Kong as examples and concludes that given a floating exchange rate, traditional demand management can perhaps sustain full employment without succumbing to the foreign exchange loss, which bedevils a fixed exchange rate economy trying to run a fiscal expansion. With a floating rate currency, interest rates are set exogenously and foreign exchange reserves are not at risk. Mosler then examines the consequences of currency depreciation in response to the increased employment. He emphasises the individual effects on imports and exports. If total imports remain unchanged and only the distribution of imports changes, the macroeconomic effect is only the redistribution of the consumption of the imports. If imports increase, at the macroeconomic level the welfare of the population is enhanced. The only reason to trade at all is to import. So only if total unit volume of imports falls could the case be made that welfare has been diminished. Likewise, exports are the macroeconomic cost of imports. The combination is called the terms of trade. Maximising unit volume of imports relative to exports is how a

population maximises its terms of trade. For example, if unit volume of imports increases more than exports due to currency depreciation, the country is better off. The inflationary impact is addressed via a NAIBER-type mechanism outlined by Mitchell and Wray.

Mosler also argues that the concept of comparative advantage does not exist without full employment and trade often simply serves to facilitate a race to the bottom. Business and production flows to areas with the most unemployment and the lowest labor costs. To attract foreign enterprise a nation must therefore maintain high levels of unemployment as well as offer high profit potential. Neither is good for the domestic population. This pitiful yet near universal policy is being further perpetuated by a fundamental and costly misunderstanding of how currencies operate. Mosler concludes by arguing that the Job Guarantee by implication reintroduces comparative advantage as the driving force behind foreign trade and provides the structural framework that sets in motion the kinds of market forces and incentives that are much more desirable to the general population than those in place today.

Monetary implications are also considered by Edward Nell in the Chapter entitled *Full Employment and the Value of Money: the implications of 'exogenous pricing' for an ELR Program*. The Chapter argues that the desire to protect and stabilise the value of money – prevent inflation – has been a major obstacle to achieving full employment. It is argued that, paradoxically, the very feature of the modern monetary system that permits endemic inflationary pressures to develop, the lack of any 'anchor' to precious metals or other commodities, also allows governments great freedom to develop policy programs, since they can deficit spend with very little constraint. Governments set interest rates and by and large accept the historically given – but economically exogenous – value of the unit of account. The problem is to defend this value while moving the economy to full employment. An employer of last resort program, like the Job Guarantee, can be shown to provide a way to do this. It is argued that the modern monetary system differs significantly from the system that preceded it. Recognition of this is related to understanding that the changes that led to volatile output and employment together with the problem of inflation have also given the possibility of designing a system that can stabilise both. This is a new perspective, but it is also a natural extension of the idea of automatic stabilisers.

The Chapter by Mathew Forstater *Full Employment and Economic Flexibility* moves the Job Guarantee focus to the microeconomic sphere. The author begins by accepting that flexibility is a desirable feature of an economic system. Structural rigidities can result in sluggish growth

and inflationary pressures. Many economic models, however, display considerable system flexibility because of the use of unacceptably unrealistic assumptions. The primary 'real-life' features endowing the system with flexibility are unemployment and excess capacity. However, unemployment is economically costly and socially undesirable. In economic theory, there appears to be a trade-off between flexibility and realism. In reality, there appears to be a trade-off between flexibility and full employment. What has not been adequately recognised, however, is the degree to which policies are available that can promote higher levels of employment – and even full employment – without resulting in deleterious rigidity. The conclusion drawn in the Chapter is that full employment, or even high employment and capacity utilisation rates, are associated with structural rigidities related to a number of undesirable consequences. For this reason, central banks, national governments, and international organisations have resisted policies that would promote full employment. What has been almost entirely overlooked, however, are the ways in which the selective use of discretionary public employment might promote higher levels of employment without the loss of system flexibility.

A primary reason for overlooking the advantages of public employment has been due to the tendency to evaluate public sector activity by the same criteria that private sector activity is evaluated. But public sector activity serves a different purpose than private sector activity, and so should be evaluated according to different criteria. The public sector is not constrained by the same competitive pressures as the private sector, and therefore has a greater degree of latitude in choosing what activities to engage in, what methods of production to utilise, and where to locate their activities. These characteristics of public sector activity may be utilised to promote higher levels of employment without resulting in rigidities of the production system normally associated with high or full employment. In addition, these same features may also enable these higher levels of employment without undesirable environmental impacts or geographic dislocation of workers.

The Chapter by John Neville and Peter Kriesler *Full Employment, a Neglected, But Indispensable and Feasible Human Right* places unemployment or the right to employment, within the context of human rights and argues that governments have to be responsible for the maintenance of rights in this regard. The right to work is seen as one of the fundamental human rights. The prominent position given to full employment by the United Nations in their statement on human rights provides support for the authors' claim that employment is an essential element of human existence and coexistence, part of what it means to be human.

The authors argue that the right to work in the form of some commitment to full employment is regarded as one of the most fundamental human and economic rights, particularly acknowledged post-war in various countries through various Acts and through various Covenants of the United Nations. This commitment to full employment lasted until the early 1970s. Then, as the result of inflationary and international pressures, governments changed the focus of their policies to concentrate on fighting inflation first and addressing current account problems. With the change in policy focus, which has been maintained to the present-day, the elimination of unemployment has ceased to be the major imperative of governments. As a result unemployment has remained at unacceptably high levels for well over two decades, and indications are that it will continue to do so.

Neville and Kriesler examine why this situation is tolerated. Given that government economic policy could significantly reduce unemployment, the question is, why don't they do so? There are two main reasons outlined. Firstly, the benefits of reducing unemployment are underestimated because the costs to the individual and to society of violation of this fundamental right are severely underestimated. This is because economists concentrate on the opportunity cost mainly in terms of lost output and social security payments. However, this ignores all the other costs associated with unemployment, many of which are only just being uncovered. The authors consider the additional costs of unemployment by examining the impact of unemployment on social relations and health. Secondly, the costs and difficulty of reducing unemployment are severely overestimated. It is often argued that higher unemployment is the price which must be paid to prevent either higher inflation or worsening current account deficits.

The third section of the Chapter evaluates the feasibility of achieving full employment, considering both inflation and the current account as constraints on employment creation. Those economists who believe in the "natural rate of unemployment" would argue that attempts to reduce unemployment below the natural rate are self-defeating. Some would add, that since we do not know, at any point of time, what the natural rate is, then it is best to learn to live with whatever level of unemployment we happen to have. These propositions are also considered.

The Chapter by Stephen Bell, *Unemployment, Inequality and the Political Economy of Redistribution* analyses the economic trends in recent decades that have contributed to a sectoral redistribution of employment opportunities, mainly to the services sector. The problems of rising inequality that flow from this new pattern of employment growth are discussed. Policy responses, framed in terms of the 'trilemma' of the

services economy are analysed in terms of the problems governments confront in arriving at an appropriate balance between employment growth, constraining the growth of inequality and fiscal restraint. The paper challenges orthodox Neo-liberal approaches to the trilemma and suggests an approach based on fiscal expansionism.

This paper argues that since the 1970s the main distributional mechanism, the labour market, has increasingly failed to distribute both income and jobs effectively. Across a range of countries various combinations of rising market inequality and high unemployment are the result. The United States features the former, whilst Europe features the latter. Australia has a high dose of both. The rise in unemployment across the OECD countries has also been accompanied by increasing numbers of underemployed, working poor and economically marginalised workers. Bell considers these outcomes as being related to a declining sense of distributional equity.

The Chapter focuses on explaining the origin of these trends and suggests ways to address them. It is argued that a key problem stems from structural change in the economy, that is, with the developmental process itself. In the post-war 'golden age' era, the nature and level of economic growth went a long way to ensuring full employment and reduced inequality. Where the market did fail, governments using Keynesian aggregate demand policies stabilised the growth path, directly ameliorated inequality and acted as an employer of last resort. This policy stance is in sharp contradistinction to the way the current rationalist policy regime operates. The impact of new technology and production systems are also placing an employment premium on skill and knowledge, which has resulted in many less skilled and less talented workers being denied opportunities to work. These changes have worked together to reduce the employment intensity of growth in some sectors whilst the shift to an increasingly services dominated economy is producing a less equal pattern of wage outcomes. Bell argues that the response of economic orthodoxy is that the market will solve the resulting unemployment. This will require wage reductions for the less skilled in order to render them competitive. Bell considers that this is the US model. Observations drawn from that economy suggest that even if wage reductions increase employment (a point still disputed), the result is increased market inequality. Bell argues that societies confronted by these trends and outcomes must confront the distributional issues directly if they are to retain a "semblance of civility". To date economic rationalism in its various societal and policy manifestations has stymied an effective response. Possible ways beyond this impasse are discussed including a revitalisation of the public sector.

The final two Chapters in the Volume look more closely at particular aspects of the labour market in relation to unemployment and inequality. The Chapter by John Burgess, Glenda Strachan and Martin Watts *Labour Market Deregulation and Gender Equity in the Australian Workforce: Complementary or Incompatible?* examines the effect of labour market deregulation on gender equity, with a particular focus on the Australian context. The Chapter considers the policies that have been implemented by successive Australian Federal and State governments over the past two decades, policies that have been intended to deregulate the labour market. These policies have stressed individualism and transformed the nature of industrial relations and the system of employment regulation. The rationale for this approach to labour market reform rests on standard efficiency arguments together with claims of greater effectiveness in promoting the objective of gender equity.

According to the authors, the claims that gender equity will be promoted more effectively through industrial relations decentralisation and the devolution of responsibilities for employment equity to the individual workplace are flawed. It is argued that workforce and industrial relations changes which occurred in the 1990s make the achievement of EEO objectives more difficult. While collective norms, such as awards and national wage cases had the potential to reach all workplaces and all jobs, their influence has now been diminished. Under the current deregulated and decentralised framework, the interests of both male and female workers can only be served in a limited number of workplaces where there is strong collective (union) organisation and all workers are represented in the bargaining process. A decentralised system with minimum safeguards disadvantages women precisely because of their lower union representation and their over-representation in the service sector. Barriers to the employment of part-time workers have been lowered and the inter-temporal flexibility of all workers has been increased. Many women workers have limited capacity to trade off conditions or achieve productivity improvements in exchange for wage increases. The preservation of minimum wages and conditions, the spread of maternity leave and the maximisation of employee control over the organisation of working hours are necessary conditions for gender equity. The authors conclude that the agenda of labour market deregulation intensifies workforce inequality in general and, in turn, disadvantages many female workers in Australia.

The youth labour market is the subject of the Chapter by Raja Junankar, Matthew Waite and Grant Belchamber, *Youth Labour Market: Anecdotes, Fables and Evidence*. In particular, this Chapter assesses the evidence presented in empirical studies of the youth labour market.

There have been numerous studies carried out in the United States and United Kingdom, and a relatively few in Australia, which purport to show that youth unemployment is caused by the relatively high wages of youths relative to adults. However, the authors argue that most of these studies are based on poorly specified models, inadequate data, and inappropriate econometric techniques. The authors discuss the different methods employed by economists to determine various aspects of the youth labour markets. An evaluation of some of the existing research on the role of wages in influencing youth employment is provided. A critical question in the empirical evidence concerns the elasticity of demand for youths with respect to wage rates. The Chapter presents a simple model of youth employment and provides estimates using data disaggregated by age, gender, and by industry. The authors find that in most cases the relative wage elasticity is statistically insignificant, concluding that the simple neo-classical model is inadequate.

This Volume is thus a diverse collection of analyses all of which support an increased role for the public sector in employment and economic management. The diversity of work provides other researchers with many avenues to expand. The authors are all committed to providing a well-argued and well-researched alternative to the rationalist orthodoxy. The current policy paradigm appears incapable of producing economic outcomes consistent with the goals of full employment and price stability together with reduced economic inequality.

Notes

- ¹ At the time of the conference, the Job Guarantee was referred to as the Buffer Stock Employment (BSE) policy. This was in reference to the fact that the government maintains a buffer stock of jobs to match the fluctuations in private sector demand. The buffer stock path to full employment is analogous to the price stabilisation mechanisms used in the agricultural sector to smooth out fluctuations in demand.