

# **SOCIALLY USEFUL EMPLOYMENT**

**JOHN QUIGGIN**

Centre for Economic Policy Research,  
Australian National University

Address to the Academy of Social Sciences in Australia on the receipt of the 1993 Academy Award for Scholarship', <I>Newsletter of the Academy of the Social Sciences in Australia</I> 13(1), 13-21, 1994

## **SOCIALLY USEFUL EMPLOYMENT**

Like other industrialised countries, Australia has experienced high levels of unemployment for the past twenty years. In June 1993, 922 700 Australians, or 10.7 per cent of the workforce were unemployed and actively looking for work. After allowing for seasonal factors, the Australian Bureau of Statistics (ABS) estimated that the underlying rate of unemployment was more than 11.1 per cent. This rate of unemployment has prevailed since 1992 and is the highest since the Great Depression (Figure 1).

This unemployment does not result from a situation where there is no useful work to be done. Indeed, we seem to be less and less able to meet basic social needs. School and hospital closures are threatening standards of education and health care. Provision for many of most vulnerable Australians, including the mentally ill and troubled young people, has declined to the point where many have been virtually abandoned. The growth of crime, caused in large measure by unemployment and its concomitant forms of social breakdown has reached the point where many Australians do not feel safe in their own homes and many more are afraid to walk the streets at night, yet we cannot, it seems, afford an adequate police force. Funding for cultural institutions such as the ABC and for research bodies such as the CSIRO has been cut repeatedly.

In the past, concerted action by government, backed by a strong social consensus, has proved sufficient to eliminate the curse of mass unemployment. The most notable event in Australia's economic history was the White Paper on Full Employment, published in 1945. This set out the social and economic framework that would lead to 25 years of full employment.

Given sufficient commitment, the goals of the 1945 White Paper can be achieved

once again. This will require both a willingness on the part of those in employment to accept a higher tax burden and a diversion of government expenditure away from socially unproductive areas such as armaments spending.

### **The Current Situation and Prospects for the Future**

The current very high levels of unemployment may be traced back to the policy mistakes leading to the recession of 1989-91, and the subsequent very weak recovery. However, even given a stronger recovery, it is unlikely that anything like full employment will be restored under current policies. By the end of the century the rate of unemployment is likely to be above 8 per cent, even assuming very favorable macro outcomes.

The implications for long term unemployment are even grimmer. Work done by Chapman, Junankar and Kapuscinski provides a basis for modelling the relationship between the general unemployment rate and the rate of long term unemployment. On the basis of this work, the unemployment patterns projected above would imply that around 50 per cent of the unemployed, that is 300 000 to 400 000, will be long term unemployed and that this pattern will persist for most of the remainder of this decade.

Growth alone is not enough to restore full employment. It is necessary to reorient the economy so that resources are reallocated to those areas with a strong, and potentially growing, demand for labor. As will be argued below, this means renewed growth in the provision of community services in place of the current policy of contraction.

Society still has great unmet needs for productive labor in areas such as education, health and protection of the environment. The problem is that, because these sectors are largely publicly financed, existing economic structures have failed to allocate resources where they are needed. Instead, community services have been cut back in response to fiscal problems. This has contributed to further unemployment, deepening fiscal crisis and weak demand for private sector goods and services.

If we are to overcome this problem we need a complete political and social commitment to full employment. Such a commitment was articulated, for the first time in Australia's history in the 1945 White Paper on full employment.

### **The White Paper on Full Employment**

Historically speaking, the current situation, in which unmet social needs exist side-by-side with large scale unemployment is not exceptional. Mass unemployment has been the rule rather than the exception since the emergence of industrial capitalism nearly two centuries ago. The truly exceptional period in history has been the decades of full employment and rapid growth achieved from the Second World War to the early seventies.

Australia entered the postwar world with an explicit commitment to the maintenance of full employment, embodied in the 1945 White Paper entitled 'Full Employment in Australia.' The White Paper was the defining document of economic policy for the 30 years between 1945 and 1975. For the first time, the Australian government accepted an obligation to guarantee full employment and to intervene as necessary to implement that guarantee.

Two factors gave rise to confidence that full employment was achievable. The first was the experience of the Second World War. After proclaiming themselves powerless to do anything to end the mass unemployment of the thirties, governments mobilised the full resources of the economy in wartime. Whereas previous wars had been organised on an orthodox basis of bond financing, with the market economy left untouched, the Second World War was fought using socialist planning methods. All of the resources of the economy were marshalled to meet the needs of the war effort. Unemployment, which had seemed an utterly intractable problem, disappeared overnight..

The contrasting experiences of the Great Depression and the Second World War

convinced the Labor party that governments could and must intervene to ensure the achievement of full employment. The introduction to the White Paper summed this up:

Despite the need for more houses, food, equipment and every other type of product, before the war not all those available for work were able to find employment or to feel a sense of security in their future. On the average during the twenty years between 1919 and 1939 more than one-tenth of the men and women desiring work were unemployed. In the worst period of the depression well over 25 per cent were left in unproductive idleness. By contrast, during the war no financial or other obstacles have been allowed to prevent the need for extra production being satisfied to the limit of our resources.

The basic ideas behind the White Paper were those set out by John Maynard Keynes in his 1936 work, *The General Theory of Employment, Interest and Money*. Keynes' neoclassical contemporaries, like the economic fundamentalists of today, argued that the economy was naturally self-correcting. Unless real wages were held above their market level by union action or government regulation, unemployment could only be a short run phenomenon. The neoclassical economists drew the same conclusion as that of the fundamentalists today — that government action to reduce unemployment could only make matters worse in the long run. Keynes' first, and perhaps most important, contribution was to show that the economy could remain at high levels of unemployment for indefinite periods in the absence of government action.

As well as demonstrating the possibility of unemployment in equilibrium, Keynes provided an analysis of the causes of periodic unemployment and the basis for a policy response. Keynes argued that recessions and depressions occurred because the economy was destabilised by fluctuations in private demand, and particularly in levels of investment. To simplify, the remedy he advocated was that governments should increase their own

demand in periods of depression, particularly through public works. The increase in income generated by public works would then be fed into demand for other goods and services, yielding a stimulus to the private sector.

This analysis remains relevant today. However, in an increasingly service-oriented economy, it is necessary to avoid an excessive focus on physical infrastructure. The White Paper also stressed the importance of what is now called the social wage.

In Australia, a significant contribution to living standards has been made in the past, and will continue to be made, by a high level of social services. Some of these are in the form of direct money payments, such as invalid and old-age pensions, child endowment and widows' pensions. Others are services provided directly by governments authorities, including education, health and medical services, kindergartens and libraries. (p12)

The need for more of these publicly provided or publicly financed services is central to our present economic problems.

### **The shift to service employment**

Following the policy framework set out in the White Paper, Australia maintained full employment and rapid economic growth from the end of the Second World War until the early seventies. As productivity growth reduced the numbers employed in primary and secondary industry, increased employment in the services sector took up the slack.

The experience of the sixties and early seventies would have suggested that the main area of employment growth in the last part of the century should have been that of community services. The demand for services such as education and health, police and urban amenities, environmental protection and the arts tends to rise with income, and to

increase as a proportion of total demand as income rises. Furthermore these services are highly labor-intensive and have been relatively little affected by technological change. For instance, despite massive changes in the content of education, and in educational philosophy, the average classroom is little different now from that of fifty or a hundred years ago. Efforts to improve the quality of education have generally focused on increasing the ratio of staff to students. Technological developments are unlikely to change this in the near future<sup>1</sup>.

In many respects this is also true of health care. Although there have been changes in equipment, these have generally not been labor-saving in nature. Instead the introduction of more sophisticated equipment and new medical procedures has generally required an increase in the employment of labor.

Labor-saving technological change has been similarly limited in other parts of the community services sector, such as police services, environmental protection and the arts. This phenomenon was analyzed as early as the sixties by the leading American economist, William Baumol. Baumol argued that if productivity grew more slowly in the services sector than in other sectors such as manufacturing, and it was desired to maintain output in the services sector at least as a constant proportion of total output, it was necessary that resources should be progressively transferred towards the services sector.

Until the late seventies, Baumol's analysis was borne out. During the period from 1966 to 1980, employment in mining, agriculture and manufacturing fell from 35 per cent of the workforce to 26 per cent. Although this decline was associated with an increase in the rate of unemployment from rates of 1–2 per cent in the 60s to around 5 per cent in the late seventies, it was largely offset by an increase in the proportion of the

---

<sup>1</sup> Computers are now common in schools, and may eventually reach the point where, as in most offices, there is a computer on every desk. The use of computers as tools in education is increasingly successful. But computer-based education, as it was once imagined, has been an almost total failure.

workforce employed in community and public services<sup>2</sup> from 13 to 19 per cent of the workforce. Other sectors of the economy remained broadly stable.

The decline in employment in primary and secondary industry continued steadily during the eighties, declining to the current level of 18 per cent. However, employment in community and public services grew very slowly, rising only from 19 per cent to 21 per cent. Continuation of the previous trend would have implied that about 25 per cent of the labor force should have been employed in community and public services today and perhaps 30 per cent by the year 2000. If such a trend had continued, the outlook for unemployment would be considerably less gloomy.

A similar picture is obtained from data on expenditures. Australian general government outlays rose from 33 per cent of GDP in the early seventies to 42.5 per cent in 1985-86 before falling back to 39.6 per cent in 1990-91. However, outlays in the main areas of public service good provision (defence, education, health, housing, energy supply, transport and communications) actually fell from the seventies onwards, declining from 18.6 per cent of GDP in the early seventies to 18.3 per cent in 1990-91. The rise in outlays was concentrated in increased transfer payments (largely due to the rise in unemployment) and increased public debt interest repayments.

The slowdown in public sector employment during the eighties reflected the 'crisis of the state' of the middle and late seventies. This involved an inability to maintain the upward trend in revenue as a proportion of GDP. Since GDP growth was also slowing, the rate of growth of revenue declined. Initially, this led to a period of large deficits. However, capital markets were unwilling to absorb these deficits. There was also a perception of a rising burden of debt (inaccurate in Australia, at least as far as public debt is concerned). These factors led to a decline in expenditure growth.

These problems can only be overcome through the establishment of a public

<sup>2</sup> Community and public services comprises the ABS categories of 'community services' and 'public administration and defence'

consensus based on a willingness to pay higher taxes in return for more jobs and better community services.

### **A program for full employment**

The task of restoring full employment in Australia by the end of the century is a daunting one. Under current policies, it is likely that nearly a million people would still be overtly unemployed in the year 2000. Of these, as many as 400 000 could be long term unemployed, under the official criterion of at least twelve months of continuous overt unemployment.

If full employment is defined by the goal of a 3 per cent rate of overt unemployment, these projections suggest a need to create at least 700 000 extra new jobs (over and above the 1.2 million jobs estimated to be created under existing policies). Allowing for increased labor force participation, even more rapid employment growth is necessary.

A national economic policy program for full employment would consist of the following major elements:

- A macroeconomic policy oriented towards growth in employment and output
- Expansion of community and public services employment to 25 per cent of the labor force (implying creation of about 350 000 new jobs)
- Physical infrastructure projects funded by government bonds
- Expansion of labor market programs to provide a job guarantee for all long term unemployed workers
- Introduction of employment objectives for government business enterprises
- Progressive tax reforms including increases in top marginal tax rates, a jobs levy and replacement of payroll tax by alternative forms of company tax.

### **Expanded and Reoriented Public Expenditure**

The biggest single element of the program proposed here is an expansion of employment in publicly financed community services. This would not be targeted directly at the unemployed, although there would be an attempt to design new jobs that would permit a transition into the permanent workforce from direct job creation and training schemes. The primary employment objective would be to raise the aggregate demand for labor and thereby improve the prospects of all workers.

The largest areas of expansion in community services would be health, education and public safety. But the range of community services is far broader than this. It encompasses services to the very young such as child care and baby health centres; services to youth including the provision and staffing of community centres and sports facilities; services to the aged (provision of increased support to allow older people to remain in their own homes where they wish to is a high priority here); and services to groups with special needs including Aborigines, ethnic communities and the disabled. Other social goals include the provision of housing for all, support for a vibrant Australian culture through assistance to literature and the arts and the expansion and adequate staffing of our system of national parks, to provide a well-managed system representative of all major ecosystems.

All of these areas of expenditure are currently subject to severe pressure as a result of increasing demands and the expenditure cuts of the last decade. Indeed, much of the 'expansion' proposed here would simply involve preventing cuts in services that would otherwise take place, particularly at the state level. If the program of expanded public employment proposed here were implemented entirely through grants to the states, it would only restore them (in real, per capita terms) to the level prevailing in 1983-84<sup>3</sup>.

---

<sup>3</sup> This comparison is not exact, since some funds which were then part of general grants are now allocated in different ways. Nevertheless, it reinforces the point that the growth in community services proposed here is no more than might have been expected in the absence of the crisis in public funding.

## **Concluding comments**

The economic policies pursued in Australia and other industrialised countries for the past two decades have failed to meet what should be their most important objective — the provision of socially useful work for all. Only by restoring full employment as the pre-eminent goal of government policy can this failure be remedied.

There is no shortage of socially useful work to be done. All that is needed is a willingness on a part of all members of the community to accept personal and social responsibility for the achievement of full employment.