

**THE WHITE PAPER AND AFTER: POLICIES FOR FULL  
EMPLOYMENT**

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## **Introduction**

With the unemployment rate falling below ten per cent, and the White Paper in place, it appears that the government believes that no further response to unemployment is warranted. Many in the government assume they can safely disregard unemployment, at least until the next recession. For those who like to regard themselves as hardheaded realists, it has become an axiom that unemployment only matters when it is rising. The idea is that Australians are only concerned about unemployment when they fear the loss of their own jobs, and that this fear will disappear once unemployment starts falling.

This cynical calculation is politically unsound, as well as morally justifiable. In recession and in recovery, there are many fewer secure jobs in the Australian economy than there were in the past. As the violent reaction to unfair dismissal legislation has shown, more and more employers now regard retrenchments as an essential tool for responding to fluctuations in demand or changing the direction of their enterprise. Voters (and politicians) who continue to regard unemployment as 'somebody else's problem' may find that it is in fact their own.

The decline in unemployment has been very weak. At the same stage in the recovery from the 1981-83 recession, unemployment was already below 8 per cent, and falling much faster than at present. Despite this comparatively rapid rate of decline, and a near-record seven years of expansion, the minimum level of 5.9 per cent, reached in mid-1989 was higher than all but the worst years of the seventies. Moreover, the fall in unemployment this year has been due in large measure to a decline in participation rates. This implies that hidden unemployment has risen as the ABS measure of unemployment has fallen. Declining participation also implies that despite the rhetoric

of recovery and the record profit levels being enjoyed by business, job-seekers are finding the market just as tough as it was in the depths of the recession.

### **Prospects for employment and unemployment**

What will happen to unemployment for the remainder of this century? No one knows for sure. However, the policy mix prevailing at the time the White Paper was presented implied that the rate of unemployment was likely to remain at or above eight per cent.

One way of looking at the future is to make projections of the main variables that affect unemployment—population growth, economic growth, labour productivity and labour force participation rates, and derive their implications for rates of employment and unemployment. These variables are related by some very simple equations taken from Quiggin (1993):

$$(1) \quad \% \text{ Employment growth rate} = \% \text{ Economic growth rate} - \% \text{ labour productivity growth rate}$$

$$(2) \quad \% \text{ Labour force growth rate} = \% \text{ Population growth rate} + \% \text{ Change in participation rate}$$

$$(3) \quad \% \text{ Change in unemployment} = \% \text{ labour force growth rate} - \% \text{ Employment growth rate}$$

From these equations, it is possible to show that the rate of unemployment is determined by economic growth, population growth, productivity growth, and the participation rate.

Under current policies it is unlikely that an average GDP growth rate above 4.5 per cent will be achieved over the next seven years. The generally restrictionist stance of macro-economic policy, and the inability of the current set of policy instruments to

deal with balance of payments problems mean that any higher growth rate would be regarded as unsustainable. A rate of 4.5 per cent would still be significantly better than that achieved over the past twenty years.

Because of the general trend towards labour shedding and the likely contraction of the low productivity financial sector, it is likely that labour productivity will rise fairly rapidly, probably at around 2.5 per cent a year, as compared to 1.6 per cent over the last twenty years and around three per cent in the sixties. However, because of the increased substitution of capital for labour, total factor productivity will grow more slowly.

This implies an employment growth rate of two per cent a year, or more than one million new jobs over the next seven years. Although this sounds impressive, and would be hard to achieve under current policies, it would make very little impact on current levels of unemployment. It is likely that because of natural increase and immigration, the potential labour force will grow at a rate of about 1.2 per cent a year.

In addition, the participation rate is rising gradually over the long term, although it has declined in the current recession. The increased labour force participation of adult women more than offsets longer periods of schooling and earlier retirement. The increasing participation rate contributes long-term growth in the labour force of about 0.3 per cent a year. Hence, the average rate of growth in the labour force is likely to be around 1.5 per cent a year, leaving employment growth around 0.5 per cent a year, or a total of around 3.5 per cent over the next seven years.

At least a third of this growth is likely to be absorbed by discouraged workers and other hidden unemployed returning to the labour force after the present recession (this implies a cyclical increase in participation rates of about 0.7 per cent). Hence the net reduction in unemployment is likely to be around 2 to 2.5 percentage points, even assuming very favourable macro-economic outcomes.

What difference will the White Paper make to these projections? To answer this question it is necessary to analyse the underlying model of the economy and the associated policy framework on which the White Paper was based.

### **The Green Paper/White Paper model**

The Green Paper, *Restoring Full Employment*, and even more the White Paper, *Working Nation*, were the products of political processes. The central thesis on which economic policy has been based has been the claim that, under appropriate conditions, free markets will generate socially optimal levels of output, growth and employment. The role of government is limited to the provision of an essentially neutral framework within which market forces can work themselves out and to the correction of certain externalities and ‘market failures’, conceived as essentially marginal phenomena.

Within this framework, unemployment is seen as primarily the result of inadequate growth, itself the result of obstacles to optimal market performance, and inflexible labour markets. From the ‘real wage overhang’ period beginning in 1974 to the mid-1980s, inflexibility was conceived essentially in terms of excessive real wages. The success of the Accord in reducing the real wages<sup>1</sup> combined with the inexorable rise in unemployment rates from cycle to cycle has largely, though not entirely, discredited this view. The real wage model of labour market flexibility is still apparent in arguments presented by the Institute of Public Affairs and the Industry Commission. Nevertheless, the main focus has shifted to issues of working conditions, usually described in this context as ‘work practices.’

The official analysis was reiterated in the leadup to the Green Paper by Treasury

<sup>1</sup> The introduction of the Accord coincided with a structural break in most statistical relationships between real wages and measures of economic activity, which may be captured statistically by a downward shock to real wages. However, those sceptical of the Accord framework argue that this shock reflected a worldwide adjustment in labour markets that would have occurred in the absence of the Accord. This dispute is not critical to the development of the argument presented here.

Secretary Ted Evans, who stated at the 1993 ANU/Access Economics Conference that unemployment was the result of voluntary choices made by the Australian community. The official analysis was also strongly defended by Treasury officials involved in the preparation of the Green Paper.

Given the impossibility of directly challenging the official view, the political and social imperative for some action against unemployment could be met only by producing a justification in terms of specific market failures. That justification was developed in terms of the notion of hysteresis. The term 'hysteresis' originally referred to the lagged effects of exposure to magnetic fields, by which a metal that has previously been exposed to a field is more susceptible to subsequent magnetisation. The implicit assumption associated with the term 'hysteresis' is that episodes of high unemployment engender a greater likelihood of unemployment in the future. Once the level of unemployment has risen, the base level of unemployment appears to rise permanently.

There are various explanations of hysteresis. The earliest were based on 'insider-outsider' models of wage-setting (Lindbeck and Snower 1988), in which employed workers ('insiders') make wage bargains without taking account of unemployed 'outsiders' give rise to hysteresis. In some treatments of hysteresis, the two concepts are virtually identified, with hysteresis being defined in terms of the effect of lagged unemployment rates in a wage equation. More recent accounts have focused on the effects of unemployment on the unemployed themselves. The simplest of these is the skill atrophy model, which stresses the loss of skills and demoralisation associated with unemployment. This implies that the longer people are unemployed the less likely they are to regain employment at any given wage. The probability of finding a job is lower for the long-term unemployed than for those who have been unemployed for only a short time. The skill atrophy model is naturally represented by the notion that past unemployment levels shift the unemployment-vacancy relationship. In the Green Paper.,

hysteresis is modelled in terms of shifts in the unemployment-vacancy relationship

Particularly in the skill atrophy version, the concept of hysteresis implies the existence of a market failure associated with high unemployment and hence a role for active labour market programs. Hence the Green Paper recommended a relatively large-scale program directed at the long term unemployed. However, because it was a local market failure argument the hysteresis model used in the Green Paper did not imply a need for any change in the basic thrust of macro and micro policy.

The two classes of programs most naturally associated with a hysteresis model are training programs (responses to skill atrophy) and wage subsidies (responses to insider power). Training programs have long held pride of place in the governments very limited range of labour market programs, so the main element of novelty in the Green Paper was the call for large-scale expansion of wage subsidy schemes. The ideological aversion of departments such as Treasury and Finance to public sector job creation implied an almost exclusive focus on wage subsidy schemes (some limited job creation was smuggled in under the title 'extra work options').

The most positive single feature of the debate was the notion of the jobs compact. The idea of a jobs compact suggested that a genuine social commitment to provide meaningful work for all could be matched by a corresponding obligation for all members of society to make a genuine contribution, whether in the paid workforce, bringing up a family, or through voluntary work. Such a compact would have required some sacrifice of post-tax disposable income on the part of those already employed. This would have been offset both by the provision of improved services (health, education, law and order, the environment) for the entire community and by the preservation of the kind of fundamentally harmonious and classless community that can only be generated and sustained by full employment.

In the process leading to the Green Paper, the focus of the job compact was

narrowed down to the long term unemployed. In place of a social commitment to full employment, the issue became the efficient functioning of labour markets. It was argued that long term unemployment, by marginalising hundreds of thousands of workers, reduced the downward pressure on wages associated with high levels of unemployment. The task of labor market policy was seen in terms of improving efficiency.

In a final compromise, long term unemployment was implicitly redefined as eighteen months of continuous unemployment in place of the twelve month criterion applied previously (until the middle eighties a spell of six months without a job was regarded as long term unemployment).

#### *From the Green Paper to the White Paper*

Despite these limitations, the program proposed in the Green Paper, with a peak annual expenditure commitment of \$2 billion a year, could have been a starting point for a genuine social compact (the paper was in fact titled 'Restoring Full Employment'). Financing such a program would have required an explicit increase in taxation. It would have forced the government to campaign on the basis that unemployment imposes costs on the entire community and not merely on the unemployed themselves.

In the preparation of the White Paper, however, the scope for action was further constrained by the political imperative that income tax rates can never be raised, only cut. This imperative is a hangover from the twenty-five years of steady inflation since about 1968. During an inflationary period, bracket creep ensures that effective rates of taxation can be raised simply by leaving the nominal rates unchanged and that regular cuts in nominal rates can be announced without any change to effective tax rates. It is scarcely surprising that politicians have become used to announcing income tax cuts.<sup>2</sup>

<sup>2</sup> A less politically appealing manifestation of inflation is the need to announce regular increases in specific excises such as those on beer and cigarettes. Not surprisingly, this need was eliminated through indexation while Malcolm Fraser's experiment with indexing income tax rates was quickly abandoned.

In the seventies, when rapid increases in average tax rates induced by bracket creep took place, there was genuine popular resentment against taxation levels. The wealthy, who have always resented any form of redistributive taxation, briefly succeeded in fanning this resentment into a 'tax revolt.' However, voter sentiment appears to have changed in the nineties, even though politicians have been slow to recognise this. Recent Newspolls have found unemployment, and the quality of community services such as health, education, law and order and the environment to be among the main concerns of voters, with taxation receiving a very low rating. Despite this both major parties centred their 1993 election campaigns on tax cuts funded by prospective future bracket creep and both resolutely oppose any increase in rates.

Having just introduced tax cuts that were, in the view of many commentators, unsustainable, the Keating government had the option of effectively reversing those cuts through the introduction of a jobs levy<sup>3</sup>. This option was rejected. Given the already tight constraints on fiscal policy, the failure to increase taxes implied a need to reduce the scale of the program proposed in the Green Paper. This was reflected in a slower implementation of the government's side of the job compact and in the proposal that a large element of the wage subsidy program should be financed by the unemployed themselves, through the 'training wage'. The result was that a net additional expenditure of \$1.3 billion was sufficient to finance, not only the entire commitment to labour market programs but a range of industry policy and regional policy schemes.

Despite its inadequate scope, the White Paper proposals must be regarded as a positive step. In previous work (Quiggin 1993, Langmore and Quiggin 1994), I have estimated the budgetary cost of each net new job generated through active labour market programs at around \$10 000, suggesting that around 100 000 extra jobs could be

<sup>3</sup> A Medicare style levy would have left some of the tax cuts for middle and upper-income earners intact while increasing the tax burden on low income earners. However, most proposals for a levy involved an element of progressivity, and these proposals effectively cancelled out the One Nation tax cuts

generated through the White Paper programs. Allowing for hidden unemployment and the associated participation rate effects, it is likely that, at their peak, the White Paper programs will reduce measured unemployment rates by around 1 per cent.

### **Demand-side models of unemployment**

Both the White Paper and the push for ‘labour market reform’ are based on the assumption that structural unemployment results primarily from problems on the supply side of the labour market. In the White Paper model, the problems that generate hysteresis are held to reduce the effective participation of the long term unemployed in the labour market. In the labour market reform model, unions, awards and government intervention are held to prevent workers from offering their services at the equilibrium wage and under optimal conditions.

Considerable evidence suggests that unemployment problems may in fact be traced to difficulties on the demand side of the labour market. Demand-side hypotheses have become increasingly popular as explanations for the poor labour market outcomes of the eighties and nineties throughout the developed world. Candidates for the source of the demand shock include processes of factor price equalisation with newly industrialising countries () and technological changes biased against unskilled labour (). In these demand-based models, supply-side factors are responsible, at most, for determining the extent to which inadequate labour demand is reflected in unemployment rather than in falling real wages.

In Quiggin (1993) an alternative demand-shock model is proposed. Unlike the other models discussed above, which focus on the areas of contraction in labour demand, this model is concerned with the expanding areas of the economy, which absorbed the labour force growth of the 50s and 60s, and to a lesser extent in the 70s, but failed to do so since 1980. The obvious candidate is public sector employment, particularly in the

area of community services. Public sector employment grew in absolute and relative terms during the post-war boom. However, transfer payments grew more rapidly, so that the rise in public sector employment as a percentage of total employment was less dramatic than the rise in public sector outlays and revenue as a proportion of GDP.

The slowdown in public sector employment during the 1980s reflected the 'crisis of the state' of the middle and late 1970s. This was reflected first in an inability to maintain the upward trend in revenue as a proportion of GDP. With GDP growth itself slowing, the rate of growth of revenue declined. Initially, this led to a period of large deficits, but the unwillingness of capital markets to absorb these deficits, and the rising burden of debt led to a decline in expenditure growth. Although transfer payments had constituted the largest area of increased expenditure, they proved the most difficult to constrain. Decisions taken during the post-war boom implied an expansion of 'entitlements', particularly for the elderly. Rising unemployment and, in many countries, rising rates of family breakdown implied an increased dependency ratio. Australian governments have taken more stringent measures than those in most other OECD countries to wind back the growth of transfers.

Australian general government outlays rose from 33 per cent of GDP in the early 1970s 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 70s onwards, declining from 18.6 per cent of GDP in the early 1970s 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. For the OECD as a whole, public sector employment declined as a proportion of total employment in the 1980s, after rising steadily up to the middle 1970s, then stabilising.

Employment in the community services sector in Australia grew steadily over

the 1960s and 1970s, rising from 10 per cent of the labor force in 1966 to 15 per cent in 1980. In the subsequent period growth has been slower, reaching 17 per cent in 1990. Continuation of the previous trend would have implied that about 20 per cent of the labor force should have been employed in community services today and perhaps 25 per cent by the year 2000.

### **A strategy for full employment**

An alternative strategy for full employment derived in large measure from the analysis developed above is set out by Langmore and Quiggin (1994). A national economic policy program for full employment would consist of the following major elements:

- a macro-economic policy oriented towards growth in employment and output;
- substantial expansion of community and public services employment eventually involving the creation of up to 350 000 new jobs;
- public investment projects funded by issuing government bonds;
- expansion of labour market programs to provide a job guarantee for all long-term unemployed workers;
- an incomes policy based on the principles of the Accord;
- progressive tax reforms including a jobs levy and elimination of regressive tax concessions; and
- replacement of payroll tax by alternative forms of tax.

The scale of this program would be large indeed. The total gross expenditure involved would eventually be up to \$15 billion a year, although a significant part of this spending would be recouped through increased revenue resulting from growth in employment and output and reduced outlays on job search allowance and related benefits. However, it should be remembered that the budgetary cost of unemployment is more than \$20 billion a year, and that the full economic cost is much larger still.

Further, the programs proposed would yield great and enduring social and economic benefits—easier access to higher quality education and health care, safer and

cleaner cities and more accessible and efficient transport and communications systems—in addition to the reductions in unemployment they would generate. The proposals would be financed through a combination of new and more progressive taxes, borrowing and reorientation of existing public spending.

The labour market programs proposed are essentially an expanded version of those presented in the White Paper and raise few new issues. The discussion of issues relating to taxation and incomes policy is beyond the scope of the present paper. In the following sections policy proposals in the areas of macro policy, community services employment and infrastructure, along with an evaluation of the employment gains such a policy could generate, are presented.

### *Macroeconomic policy*

Though it is clear that getting macro-economic policy right is not enough to restore full employment, that does not reduce its importance. If macro-economic policy goes badly wrong, as it did in the late eighties and early nineties, there is no chance of restoring full employment. The primary objective of macro-economic policy must be to secure the highest sustainable level of economic growth that is feasible given Australia's economic circumstances. Average GDP growth rates of at least four per cent a year are necessary if significant progress is to be made in reducing unemployment. Given the inevitability of at least some adverse shocks and resulting periods of slow growth, the target rate of GDP growth for macro-economic policy should be around five per cent a year.

In current circumstances, the medium-term need is for higher levels of both taxation and expenditure, while the short-term need is for continued stimulus. The appropriate policy response is to increase expenditure levels now and gradually increase taxation as the economy recovers. Unfortunately, the implementation of the first stage

of the *One Nation* tax cuts has been a step in the wrong direction.

### *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 work-force from direct job creation and training schemes. The primary employment objective would be to raise the aggregate demand for labour and thereby improve the prospects of all workers.

An increase in community services employment, financed by taxation, represents a shift in demand, resulting in a greater intensity of employment demand for Australian workers. As a first approximation, the whole of the increase in public sector spending may be assumed to increase employment demand for Australian workers.

This increase in employment will, at least initially, be partly offset by reductions in private consumption spending. However, a significant proportion of discretionary spending goes on imports and other areas of consumption are significantly less labour-intensive than community services. Even in the absence of any other adjustments to policy, about half the jobs generated by a tax-financed increase in community services employment would represent net gains.

However, such an expenditure switch would create the potential for a more expansionary stance in other areas such as monetary policy. The main constraint on economic expansion in Australia has been the fear of excessive current account deficits. An increase in employment of Australians in the community services sector, funded by an increase in taxation would imply a reduction in the current account deficit. This would permit the adoption of more expansionary monetary policies and lower interest rates. Under favourable circumstances there would be no net reduction in private sector

employment, and the entire increase in community services employment would represent a net employment gain. The basic point is that since the additional public demand is applied entirely to employing Australian workers, the level of private demand consistent with acceptable current account deficits is unchanged.

Major 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 for the Home and Community Care Program to allow older people to remain in their own homes 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.

Unfortunately, it is precisely these services that are being cut back under the prevailing orthodoxy, frequently referred to as ‘economic rationalism’. A large proportion of community services are in the public sector, and therefore continuation of rapid employment growth depends on expanding public outlays, and therefore on a community willingness to accept higher levels of taxation. A major reason for the growth of unemployment during the last two decades has been the severe restrictions on public outlays. Total Commonwealth funding for the states—which are the main providers of community services—has fallen from 9.5 per cent of Gross Domestic Product ‘GDP’ in the mid-seventies to 5.4 per cent now. This massive reduction is the main reason for the cutbacks to services which all state and territory governments have been forced to make. 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 1983–4.

### *Infrastructure*

One of the first casualties of the rise of economic fundamentalism and the associated fetishes of the deficit and the public sector borrowing requirement (PSBR) has been public spending on capital works. The major areas of capital works spending, including roads, railways, harbours, communications systems, energy supplies, water and sewerage, are collectively referred to as infrastructure because they form the supporting basis for all economic activity, both public and private.

In periods of budget stringency major capital works are often deferred until the crisis has passed. This yields an illusory improvement in the budget deficit with no net gain in public saving. Such a response is, of course, inappropriate when budget difficulties become chronic. In these circumstances, it is necessary to make public investment decisions on the basis of economic and social costs and benefits rather than on the basis of their impact on arbitrary measures of budget aggregates. Infrastructure projects that yield economic and social benefits greater than their construction costs should be undertaken.

Because of the fundamentalist obsessions with the deficit and the ‘public sector borrowing requirement’ this reasonable approach has not been followed. Instead, the choice of infrastructure projects has been determined by the availability of financing deals to move them ‘off-budget’. Power stations and office buildings have been sold to private companies and leased back. Road projects have been organised on a supposed basis of financing by tolls, although in practice other government guarantees and subsidies

have normally been involved. Government business enterprises such as Telecom and Qantas have been prevented from raising the capital necessary to finance expansion, except through the partial retention of accumulated earnings. Privatisation of government assets and enterprises has been justified, not on the basis that private ownership will improve performance, but because of the impact of the sale revenues on public sector borrowing.

### *Outcomes*

Currently nearly one million people are unemployed with another million affected by hidden unemployment or under-employment. In the absence of policy changes, perhaps half a million of these people will find work over the next five years. (Since the labour force is growing, this will require the creation of nearly one million new jobs.) This implies that 1.5 million people will still be suffering some form of unemployment and that the measured unemployment rate will be around eight per cent.

The programs proposed here are designed to cut this figure in half with the creation of around 450 000 new permanent jobs and 250 000 labour market program places. The result would be a measured unemployment rate of three to four per cent, with labour market program participants accounting for another two per cent of the work-force. This outcome would not represent a return to the full employment of the post-war boom. But it would permit the elimination of long-term unemployment and would represent unemployment levels lower than those of any time in the past twenty years. If these outcomes could be achieved within five years, a return to genuine full employment might be achieved within ten years.

Is such an expansion in employment feasible? As was shown above, an expansion of twenty per cent in employment in education and health could be generated simply by raising standards everywhere to the highest levels now prevailing in Australia. In many

cases, this would simply be a matter of reversing recent cuts in service provision, or of abandoning plans for future cuts. If a similar process were repeated across the community services sector, the result would be the creation of around 370 000 new jobs, for a total gross expenditure of around \$10 billion. These jobs would be spread across the public sector, private non-profit organisations including charities and private schools and some profit-making (but still in many cases publicly financed) enterprises such as nursing homes and day-care centres. This is quite credible since, even with severe funding constraints, unemployment in community services grew by close to 450 000 during the last decade. Removal of the artificial funding constraint, which prevents supply of services meeting demand, would allow the provision of services to catch up with need as well as to make improvements in quality.

Whereas under current trends a little under twenty per cent of the labour force would be employed in the community services sector by the end of the century, the proposals advanced here would yield an employment share of around twenty-three per cent. This would represent no more than a return to the growth trend of the sixties and seventies. As Baumol (1967) shows, this growth trend is a natural and economically desirable response to the underlying trends in demand for services and the technology of provision. Its interruption in the eighties reflected fiscal dislocation and the impact of fundamentalist ideology, rather than a community demand for poorer services.

There would not be a perfect match between the jobs created in this program and the skills of those currently unemployed. However, the community services sector encompasses jobs with a wide range of skill levels and types. Although white-collar professionals are heavily represented in areas such as education and health, many jobs in environmental preservation are blue-collar.

Similarly, it should not be assumed that a focus on jobs with low skill levels is desirable. Recent cutbacks mean that there are plenty of unemployed teachers, health

workers and others ready to fill places created in the early stages of expansion. More generally, the unemployed, and even the long-term unemployed, are not all unskilled workers. Approximately 35 per cent of long-term unemployed workers have at least one post-school qualification (Chapman 1993). This is lower than the figure for the population as whole (50 per cent), but it points up the fact that unemployment in Australia now affects the whole workforce and not a concentrated and marginalised group.

Over time, there would be a need for increased training and retraining to ensure that the expansion in labour demand proposed here was met by a supply of suitable labour. But of course, such an expansion in training is a central element of our proposal. Thus, there is no reason to suppose that the program would run into labour supply 'bottlenecks'.

In addition to around 370 000 new jobs in the community services sector, the proposals presented here would generate between 75 000 and 100 000 jobs in the infrastructure sector. A net gain of 450 000 jobs would therefore be possible, provided the net impact of the policy program on private sector employment is broadly neutral.

Opponents of policy proposals similar to those advanced here have argued that the effects of higher taxes on private sector demand would generate large job losses. The National Institute for Economic and Social Research (NIESR) estimates that \$1 billion in tax cuts would generate around 10 000 new jobs in the long-term. Conversely, a tax increase of \$1 billion will reduce private sector employment by around 10 000 jobs. The program proposed here would require a long-term increase in tax revenue of between \$8 billion and \$10 billion, implying, in the absence of offsetting measures, a reduction in private sector employment of between 80 000 and 100 000.

However, as has already been argued, the expansion of community services at the expense of private consumption demand would reduce the current account deficit.

Community services use very few imported inputs, whereas a significant proportion of any increase in private consumption (particularly that of upper income earners) is spent on imports. The reduction in import demand associated with the policy package proposed here would permit the adoption of somewhat more expansionary fiscal and monetary policies and offset the tendency for a reduction in private sector employment. Private sector employment could be boosted further with the replacement of payroll tax by other forms of company taxation. In Quiggin (1993), it is argued that this measure would generate employment gains sufficient to largely offset the reductions in private sector demand generated by higher personal taxes.

The net effect of a more expansionary macro-economic policy, a tax-financed increase in public expenditure and a switch away from payroll taxes would probably be either neutral or a moderate expansion in private sector employment. This suggests that a total gain of between 450 000 and 500 000 permanent jobs is feasible.

Such an estimate is supported by the output of the NIESR macro-economic model. Other macro-economic models tend to yield smaller, though still positive, employment benefits for policies of the kind advocated here. There are a number of reasons for the smaller benefit estimates. First, a number of these models have a 'natural rate of unemployment' or 'non-accelerating inflation rate of unemployment' (NAIRU) built in. In models of this kind, permanent reductions in the rate of unemployment are simply not considered as a possibility. Second, most macro-economic models are designed primarily for short-term forecasting over periods of one or two years. They are not set up to model large-scale programs of the kind advocated here. Finally, most models lack the detail to distinguish between employment-intensive areas of public expenditure, such as education, and capital-intensive areas such as defence.

### **Benefits of expanded public spending**

Even if net employment gains were fewer than has been estimated here, the shift in policy we advocate would still be highly desirable. The policies proposed would yield substantial social benefits in themselves, even without considering their employment impact. In particular, the proposed expansion of education spending is based on a recognition that improvements in education are essential to the future of young people in a society that offers fewer and fewer jobs for the unskilled. This concern is supported by economic theory and empirical evidence. Education is the most important single input to increased future productive capacity. The existence of a skilled and adaptable work-force is the main prerequisite for high and rising productivity levels and hence high and rising standards of living. Most recent research on economic growth stresses the role of human and social capacity, as distinct from stocks of physical capital, as a primary determinant of economic growth.

Areas of spending typically perceived as ‘soft’ can in fact yield very substantial economic benefits. Two examples are services to abused and neglected children and marriage counselling services. The problems of abused and neglected children are some of the most difficult, and also some of the most important, that are faced by any society. The horrific cases of child abuse that regularly appear in the headlines represent only the tip of the iceberg. Furthermore the effects are frequently lifelong. The victims of child abuse are disproportionately represented in our prisons and mental hospitals, among those who commit suicide, and most tragically of all, among those who abuse their own children. The long-term social and economic costs of our failure to make an adequate response to the problem are immense.

There are no easy solutions to the problem. As a number of recent cases have shown, increasing the power of social workers to remove children from abusive homes may create as many problems as it solves, particularly when overloaded caseworkers are forced to make decisions based on inadequate evidence. The preferable solution of

resolving problems within families often requires a commitment of resources which is not forthcoming. When children are removed from their homes, the same problems of inadequate funding emerge once more. According to the New South Wales Child Protection Council, there have been recent cases where children who have been placed in care are not even provided with shoes and clothing of their own.

Australia's response has always been inadequate, and is becoming more so. In the three years from 1989, the number of notifications of child abuse in New South Wales increased by thirty-six per cent (from 17458 to 23818) but expenditure decreased from \$30.7 million to \$27.9 million (*Sydney Morning Herald*, 21 September 1993). Expenditure per child has almost halved in real terms in three years, and the previous level of spending was woefully inadequate.

These cuts have not been the result of efficiency-based benefit-cost analysis. Any such analysis would show that the long-term social costs of allowing children to suffer abuse, or pushing them into inadequately funded systems of child protection, greatly outweigh any short-term savings. The cuts are the result of the remorseless squeeze on public spending, reflected most dramatically in the halving of grants to state governments as a proportion of GDP during the last two decades. Since child protection services are funded out of the general purpose spending of the states, they have suffered severely, even while Commonwealth spending on areas such as defence equipment has increased substantially in real terms.

One of the most effective means for reducing the causes of child abuse would be to make a significant improvement in support for marriage and human relationship education and conflict resolution. Despite the enormous economic, social, psychological and emotional costs of family conflict, services to prevent, ease or resolve these conflicts have been relatively neglected. For example, funding for the prosecution of war criminals, which did not in the end lead to a single conviction, was for a while being better funded

by the Commonwealth than all the marriage counselling services around the country. Even in 1993–4 the Commonwealth Budget appropriation for marriage counselling totalled only just over \$20 million.

The all-party Parliamentary Joint Select Committee on the Family Law Act concluded that a substantial increase in funding for marriage counselling and mediation is urgently required. This measure is warranted, not only because of the importance of reducing conflict in marriage, but also for the major savings in costs to the community, incurred through family breakdown, which such funding would help avoid. Such services should be made available without delay (at present there are delays of up to six weeks) and be readily accessible in all parts of the country. Funding should also be substantially increased for community education about the rights and responsibilities of marriage and parenthood, effective parenting, dispute resolution and anger management.

The provision of home-care to the aged is another area where spending in the short-term can yield dramatic benefits in the longer term. By permitting older people to remain largely independent, a relatively small expenditure on home-care can save much larger amounts that would otherwise be spent on nursing home care, at the same time as it yields people a much higher quality of life.

All of these areas of expenditure are highly labour-intensive. More spending would generate substantial employment gains. The Australian Council of Trade Unions (ACTU) in its *A Program Towards Full Employment* estimates that 50 000 jobs could be created in the areas of home and community care, child protection, support outside institutions for the mentally ill and supported accommodation.

### **Concluding Comments**

Unemployment is the greatest economic and social problem facing Australia. Yet the process leading up to the White Paper, and the subsequent political debate, illustrate

that unemployment has a low political priority. The government clearly considered that the integrity of the One Nation tax cuts was more important than the delivery of a genuine and credible employment guarantee. The Opposition's response, criticising the limited measures of the White Paper because they raised the possibility of future tax increases was even worse.

Full employment is both achievable and economically desirable. However, full employment can only be achieved if the community is willing to accept higher levels of taxation in return for improvements in community services.

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