



Centre of Full Employment and Equity

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The failed vision of the Welfare-to-Work package

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1. Introduction

In July 2006 the Federal Government's Employment and Workplace Relations Legislation Amendment (Welfare to Work and Other Measures) Bill 2005, hereafter the Welfare to Work Bill was made operational. The Federal Minister for Employment and Workplace Relations (Andrews, 2005) in a press statement the day after the Senate passed the Bill said that the intent of the legislation was to "provide the opportunity for more Australians of working age to get a job and participate in Australia's prosperity ... The Government recognizes that the best form of welfare is a job and this is one of the key motivations behind the legislation. At a time when unemployment is at 29 year lows and the number of new jobs created since 1996 has reached more than 1.7 million, there has never been a better time to provide the opportunity for people to break the shackles of welfare dependency and get a job." The legislation was also tied to the so-called skills shortage. Andrews (2005) said "Most importantly, Australia must continue to address the issues of an ageing population and diminishing supply of workers. By acting now and reducing the numbers of working age Australians on welfare who are capable and available to work, the nation's economic growth will continue with the result being that more people are sharing in the benefits."

The reality is unfortunately different to this political hubris. The labour market is not close to full employment with broader measures of labour underutilisation indicating around 10 per cent of willing labour resources are being wasted (see CoffEE CLMI, 2006). The legislation and accompanying regulations does not address the fact that there are not enough hours of work being produced in the Australian economy to satisfy the desires of the available labour. Much of the blame for this jobs shortage lies with the policy failures of the Federal Government. At a time when budget deficits should have used to stimulate demand to generate enough jobs (indirectly in the private sector and via direct public sector job creation), the Federal Government has generated on-going surpluses. The fiscal drag accompanying this misguided fiscal stance has damaged the capacity of the economy to produce enough jobs. As a consequence of the jobs ration, the most disadvantaged workers are typically the ones who remain unemployed or drop out of the labour force as hidden unemployed.

In that context, the new welfare-to-work rules will not achieve the stated aim of getting Australia back to full employment. They are however consistent with the Federal Government policy emphasis that now focuses on supply side measures aimed at overcoming so-called microeconomic constraints (such as, minimum wages, social security payments). The underpinning of this policy approach is the overwhelmingly belief that it is the lack of skills, and poor attitudes and motivations of the unemployed themselves that best explains their joblessness. Accordingly, full employability has now replaced full employment as the legitimate responsibility of government. This manifests in the relentless imposition of active labour market programs, designed to force the unemployed to churn through training programs and/or compliance programs like Work for the Dole. Having forced the unemployed to endure this pernicious regime for some years, the Government is now shoe-horning the single parents and the disabled into the same policy mire.

However, after 30 years of harsh cutbacks and more recently relentless bullying of the unemployed, joblessness remains persistently high. In the midst of the on-going debates about labour market deregulation, scrapping minimum wages, taxation reform and the necessity for welfare-to-work reform, the most salient, empirically robust fact that has pervaded the last three decades is that actual GDP growth has rarely reached the rate required to maintain, let alone achieve, full employment (Mitchell, 2001).

The attacks on the welfare system are in part driven by the overall distaste among neo-liberals for activist fiscal policy which is essential to the maintenance of full employment. Counter-stabilising fiscal policy is now eschewed and monetary policy has become exclusively focused on inflation control. There are many arguments (fears) used to justify this position, including the (alleged) dangers of inflation and the need to avoid crowding out in financial markets. After summarising the basic features of the Welfare-to-Work package in Section 2, we then sketch the foundations of the Post Second World War economic and social settlement in Section 3 in terms of three pillars: (a) an economic pillar based on strong public sector intervention to maintain full employment; (b) a concept of the citizen which replaced the notion of the deserving poor with respect to welfare rights; and (c) a redistributive system which served to ameliorate the distributional consequences of the market system. We argue that the evolution of policy over the last thirty years has been to dismantle these pillars and replace them with a system based on market outcomes with no intrinsic rights of citizenship. The redistributive pillar then is founded on compliance processes, harsh penalties and enforced labour force participation without a commensurate provision of job opportunities to ensure that all those workers who want some work can get enough hours. In Section 4 we show that there is no economic basis for restricting the level of net government spending below that which is required to generate full employment. The pursuit of budget surpluses, while purporting to exemplify fiscal prudence, in fact reflects an ideological obsession about 'small' government. Indulging in this obsession imposes disproportionate costs on the most disadvantaged in society (Mitchell and Mosler, 2002).

There are no economic justifications for the Welfare-to-Work package. We argue in Section 5 that given the persistently high rates of labour underutilisation in the Australian labour market, there are simply not enough jobs available to absorb the present unemployed much less the single mothers and disabled who will be forced into job search by the Welfare-to-Work changes.

In Section 6 we change focus and consider the microeconomic implications of the Welfare-to-Work policy particularly focusing on the constraints that the system will face in dealing with the influx of new demands on the already stretched and comprehensively underperforming Job Network.

Overall we argue that the policy changes are mean-spirited in the sense that they cannot achieve any of the stated aims. They are merely the final development in the abandonment of full employment and dismantling of the Welfare State based on notions of collective will and citizens' rights. In Section 7 we outline an alternative approach to increasing participation and ending welfare dependence which is based on a public employment buffer stock approach (which we term the Job Guarantee (JG)). This approach follows logically from the macroeconomic framework developed in Section 4 which shows that the imperfect competition introduced by fiat (flexible exchange rate)

currency provides the issuing government with pricing power and frees it of nominal financial constraints. In the JG option, the government offers a fixed wage to anyone willing and able to work, and thereby lets market forces determine the total quantity of government spending. This provides continuous full employment and allows the private sector, via its spending decisions to determine the size of the public employment buffer stock. In the current approach, the private spending decisions largely determine the size of the unemployment pool. We argue that the JG approach is a superior way to provide access to paid work for the most disadvantaged workers in the economy.

2. The Welfare to Work Bill changes

From July 1, 2006 the income support system in Australia established by the 1947 Social Security Act as part of the post-War consensus will be severely degraded. According to NACLC (2006: 3) the new Welfare-to-Work system “involves cuts in payments, increased obligations on parents and people with disabilities, a harsh penalty regime, and the removal of important protections and safeguards in the previous Act.”

The new system is the significant new step in the abandonment of the rights of citizenship which we develop further in Section 3. Importantly, as in the Work Choices legislation most of the detail is in the regulations rather than the legislation which means that significant changes can be made over time without the scrutiny of Parliament. In other words, the rights of citizens are not embodied in the legislation but are rather left to unaccountable bureaucrats who have become significantly politicised under the current Government. The NALC (2006: 3) share the sentiments of many commentators (see also Cowling, 2005) when they conclude that “many of the changes are unbalanced, go too far and are likely to have unintended consequences that will cause significant hardship rather than providing much needed assistance to tens of thousands of Australians.”

The major changes that came in on July 1, 2006 are summarised as follows:

1. Single parents when their youngest child turns 8; partnered parents when their youngest child turns 6 will no longer receive parenting payments, but will have to instead, survive on the less generous Newstart Allowance (NSA). Single parents with a child over 8 will receive \$222 per week instead of the previous parenting payment of \$250 per week. Those who are studying full-time will be \$63 worse off under the new rules (Centrelink, 2006). It is estimated that 86,200 over three years will receive lower Newstart allowances (see Section 5).
2. Disability Support Pension (DSP) will only be paid to those who are unable to work 15 or more hours per week (replacing the previous 30 hours per week threshold) (House of Representatives, 2005: Schedule 2). Those affected will receive \$205 per week under NSA, a reduction of \$45 per week. Those studying full-time will be \$166 per week worse off under the new rules (Centrelink, 2006). It is estimated that around 75,700 disabled people will be pushed onto lower allowances (see Section 5).
3. Harsher income and assets tests will accompany the benefit reductions. Contrary to orthodox views concerning the disincentives provided by high effective marginal tax rates, the new rules increase these rates and thus significantly reduce the returns achievable from labour market work. Harding *et al.* (2005) estimate that effective marginal tax rates will be around 75 per cent (and higher for those in state housing or

for those indebted to Centrelink). For example, a pensioner previously could earn up to \$62 per week before their payments are reduced whereas under NSA can only earn \$31 per week before encountering payment reductions. Additional earnings beyond this threshold are more harshly taxed under NSA than under the previously existing pension entitlements. Allowances for having to rear children are made in the 'free income zone' under the pension schemes but are non-existent under NSA. NALC (2006: 4) conclude that "the net result of these harsh income rules for Newstart Allowance means that many people will lose eligibility for any Social Security payment and the Pensioner Concession Card much sooner than if they had remained eligible for a pension."

4. Activity tests have been made harsher. Rather than stipulate a minimum hourly rate of pay that should determine the quality of a job, the rules instead stipulate that a parent has to accept any job that makes them \$25 per week better off after all extra costs are taken into account (childcare, transport, tax etc). No such rules apply to the disabled who have to accept any 'suitable' job offer and who may find themselves in worse financial circumstances than before.
5. Mutual obligation compliance rules have been made harsher under the new policy. Any long-term unemployed person who is considered to be not willing to work will be compelled to work in Work for the Dole activities for 25 hours per week for up to 10 months a year while still maintaining activity test compliance.
6. The controversial breaching provisions have been replaced by a new penalty scheme. While the Government has been sensitive to the criticisms it received over its breaching regime, the new rules allow for a harsh 8-week no payment period for three-time offenders of the activity test in addition to anyone who, for example, refuses a suitable job offer; refuses to participate in full-time Work for the Dole; misbehaves in the workplace and is made redundant; or leaves a job without a satisfactory explanation. The penalties now also apply to single parents and the disabled.
7. The Government has reacted to the criticism that these penalties will be extremely harsh on parents with children, for example, by introducing an oppressive and paternalistic case management scheme. So-called exceptionally vulnerable recipients, such as parents with dependent children who are denied their NSA after failing the harsh activity test will be 'case managed' by a private provider. The case managed person will have expenses up to the total benefit paid for by their manager.
8. The new legislation reduces the capacity of single parents and persons with disabilities to engage in further education because under NSA such activity is highly restricted to short courses. Further, the \$31 pensioner education allowances are unavailable under NSA.
9. Waiting periods for benefits are required for those with extant personal savings. The Government has established an assets test to determine the length of delay applicable up to a maximum of 13 weeks.
10. Previous promises (in the 2005 Budget) that a person already on a single parent's payment would remain on that payment until their child turned 16 irrespective of

periods they spent ‘off payment’ (say during a period of employment) have been scrapped in the final legislation. If a person spends more than 12 weeks off payment and have a child over 8, then they have to go on the lower NSA. This will particularly affect women with children who attempt but fail to reconcile with their previous partners (Chalmers, 1999). DEWR estimates suggest around 45,000 people will be affected by this aspect of the policy. The same provisions do not apply to those with disabilities.

3. The rise and fall of the Post-World War 2 socio-economic settlement

In this Section, we develop a socio-economic policy framework in which we situate the Welfare-to-Work changes. We show that the policy changes represent a final articulation of the abandonment of full employment and an intrinsic notion of rights of citizenship which underpinned the modern Post Second World War Welfare State.

3.1 Full employment, citizenship and safety net redistribution

Figure 1 outlines what we call the pillars of the Post World War 2 White Paper socio-economic framework. The 1945 White Paper represented the ‘plan’ for the economic and social settlement that remained in place until the mid-1970s. It is only in the last 3 decades that this vision has unravelled.

The Great Depression taught us that capitalist economies are prone to lengthy periods of unemployment without government intervention. The emphasis of macroeconomic policy in the period immediately following the Second World War was to promote full employment. Inflation control was not considered a major issue even though it was one of the stated policy targets of most governments. In this period, the memories of the Great Depression still exerted an influence on the constituencies that elected the politicians. The experience of the Second World War showed governments that full employment could be maintained with appropriate use of budget deficits. The employment growth following the Great Depression was in direct response the spending needs that accompanied the onset of the War rather than the failed orthodox neoclassical market-based remedies that had been tried during the 1930s. With the end of the War, the problem that had to be addressed by governments was how to translate the full employed war economy with extensive civil controls and loss of liberty into a fully employed peacetime model.

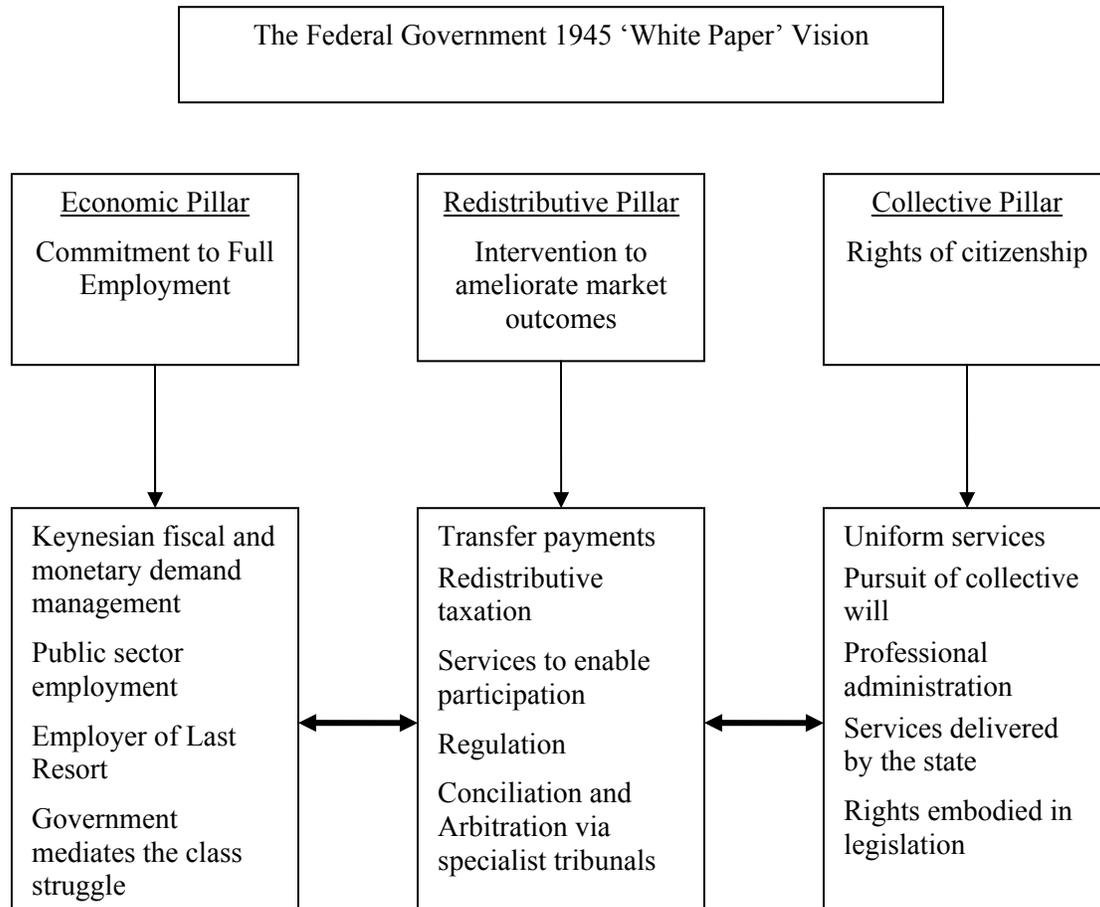
The first major statement addressing this problem came in the form of William Beveridge’s (1944) *Full Employment in a Free Society*.² This was consistent with the new Keynesian orthodoxy of the time, which saw unemployment as a systemic failure in demand and moved the focus away from an emphasis on the ascriptive characteristics of the unemployed themselves and the prevailing wage levels. Beveridge (1944, 123-135) said:

The ultimate responsibility for seeing that outlay as a whole, taking public and private outlay together, is sufficient to set up a demand for all the labour seeking employment, must be taken by the State...

The emphasis was on jobs. Beveridge defined full employment as an excess of vacancies at living wages over unemployed persons. Creating enough jobs in the economy was the best form of social security. Arthur Altmeyer (1968)³ in one of his last speeches talked

about the adoption of Beveridge’s Report on Social Security by Churchill, who Altmeyer said, “was on the side of social security and opposed to the alms house which had been tried for several hundred years and had failed.”

Figure 1 The pillars of the Post-War II White Paper socio-economic framework



Derived from Cook (2006).

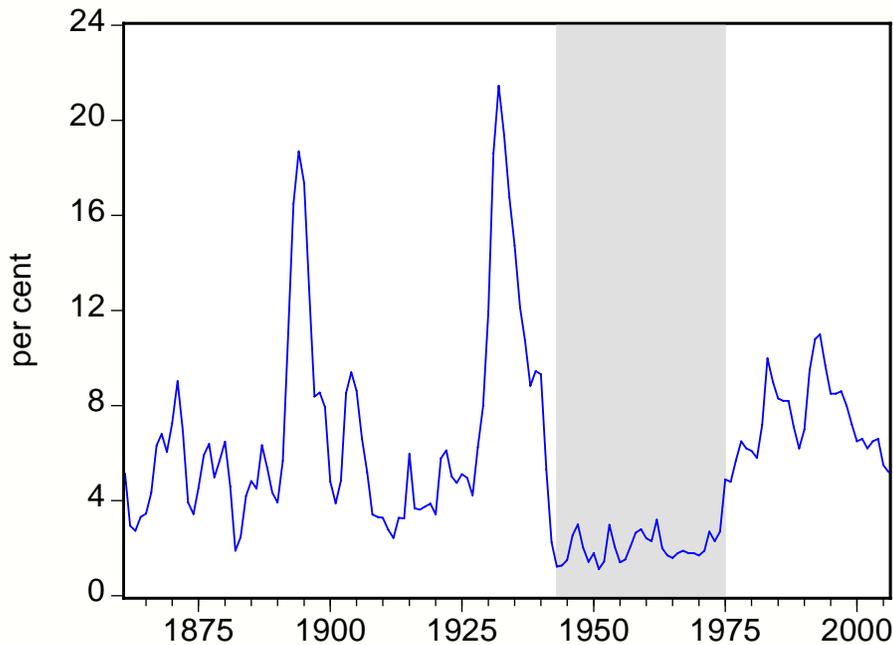
From 1945 until 1975, governments manipulated fiscal and monetary policy to maintain levels of overall spending sufficient to generate employment growth in line with labour force growth. This was consistent with the view that mass unemployment reflected deficient aggregate demand which could be resolved through positive net government spending (budget deficits). Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending and were typically in budget deficit.

As a consequence, in the period between 1945 through to the mid 1970s, Australia, like most advanced western nations, maintained very low levels of unemployment, typically below 2 per cent. While both private and public employment growth was relatively strong, the major reason that the economy was able to sustain full employment was that it maintained a ‘buffer’ of jobs that were always available, and which provided easy employment access to the least skilled workers in the labour force. Some of these jobs,

such as process work in factories, were available in the private sector. However, the public sector also offered many ‘buffer jobs’ that sustained workers with a range of skills through hard times. In some cases, these jobs provided permanent work for the low skilled and otherwise disadvantaged workers. Without a buffer stock capacity, a modern monetary economy can never achieve full employment and price stability (Mitchell, 1998; Mitchell and Mosler, 2006). We return to this theme in Section 6.

Importantly, the economies that avoided the plunge into high unemployment in the 1970s maintained what Ormerod (1994: 203) has described as a “...sector of the economy which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified.” Ormerod acknowledges that employment of this type may not satisfy narrow neoclassical efficiency benchmarks, but notes that societies with a high degree of social cohesion and a high valuation on collective will have been willing to broaden their concept of ‘costs’ and ‘benefits’ of resource usage to ensure everyone has access to paid employment opportunities. Ormerod (1994: 203) argues that countries like Japan, Austria, Norway, and Switzerland were able to maintain this capacity because each exhibited “...a high degree of shared social values, of what may be termed social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time.”

Figure 2 An historical view of the unemployment rate in Australia, 1861-2006.



Source: ABS, The Labour Force, Australia, 6203.0, and Withers *et al.* (1985).

Figure 2 shows that the performance of the labour market during the ‘Keynesian’ full employment period in stark contrast to what followed and what had preceded it (compare the shaded area of Figure 2 with the rest).

Accompanying the Keynesian economic commitment to full employment was a sophisticated concept of citizenship (the 'Collective Pillar'). The full employment commitment (the 'Economic Pillar') was buttressed socially by the development of the Welfare State, which defined the state's obligation to provide security to all citizens. Citizenship embraced the notion that society had "a collective responsibility for the wellbeing of its citizens" (Jamrozik, 2001: 15) and replaced the deserving-undeserving poor dichotomy (Timmins, 1995: 21). Recognising that the mixed economy (with a large market-component) would deliver poor outcomes to some citizens (principally via unemployment) extensive transfer payments programs were designed to provide income support to disadvantaged individuals and groups (the 'Redistributive Pillar'). Furthermore, a professional public sector provided standardised services at an equivalent level to all citizens. Significantly, the concept of citizenship meant that individuals had access to the distribution system (via transfer payments) independent of market outcomes.

In addition to the transfer system which ensured living standards could be maintained government offered and delivered a range of public services on a universal basis. These included the public sector employment services, public health and education systems, legal aid and a range of other services.

3.2 The abandonment of full employment

The stability of this Post-War framework with the Government maintaining continuous full employment via policy interventions was always a source of dissatisfaction for the capitalist class particularly in the late 1960s as national debates arose about trade union power. Quirk (2004, 2006) provides a detailed account of this dissatisfaction experienced by capital and the role played by their media alliances in undermining the framework. He provides compelling evidence to show that the 'captains of industry' were pressuring government to create some labour slack in the economy and that the entreaties were received sympathetically by key conservative politicians in Australia. The chance to break the Post-War stability came in the mid-1970s.

Following the first oil price rise in 1974, which led to accelerating inflation in most countries, there was a resurgence of pre-Keynesian thinking in Australia. Inflationary impulses associated with the Vietnam War were also providing opportunities for neo-liberal economists to attack activist macroeconomic policy in the US in the late 1960s. Governments reacted with contractionary policies to quell inflation and unemployment rose – the so-called Stagflation era. The economic dislocation that followed provoked a paradigm shift in macroeconomics (Thurow, 1983). The Keynesian notion of full employment, defined by Vickrey (1993) as "a situation where there are at least as many job openings as there are persons seeking employment" was abandoned as policy makers adopted the natural rate of unemployment approach (Friedman, 1968), more recently termed the NAIRU approach (see Mitchell, 2001).⁴ This approach redefines full employment in terms of a unique unemployment rate (the NAIRU) where inflation is stable, which is determined by supply forces and is invariant to Keynesian demand-side policies. It alleges that free markets guarantee full employment and Keynesian attempts to drive unemployment below the NAIRU will ultimately be self-defeating and inflationary. The Keynesian notion that unemployment represents a macroeconomic failure that can be addressed by expansionary fiscal and/or monetary policy is rejected.

Instead, unemployment reflects supply failures such as poor incentive structures facing individuals as a result of welfare provision, skill mismatches, excessive government regulations (OECD, 1994). Extreme versions of the natural rate hypothesis consider unemployment to be voluntary and the outcome of optimising choices by individuals between work (bad) and leisure (good).

As, what is now referred to as neo-liberalism, took hold in the policy making domains of government, advocacy for the use of discretionary fiscal and monetary policy to stabilise the inherently unstable capitalist economy diminished, and then vanished, barring the regular and disingenuous pork barrelling at election time which always exposes the hypocrisy of the conservative distaste for intervention. In the 1974 Federal Budget the fetish against the use of budget deficits to maintain full employment that has now been developed into an obsession with achieving surpluses is visible for the first time and the 'inflation-first' rhetoric was also emerging as the dominant discourse in macroeconomic policy debates. However, the rhetoric was not new and had driven the failed policy initiatives during the Great Depression. But history is conveniently forgotten and Friedman's natural rate hypothesis seemed to provide economists with an explanation for the high inflation and yield two main and highly visible culprits – the use of government deficits to stimulate the economy and the excessive power of the trade unions which had been nurtured by the years of full employment. Both were linked and were considered to be anathema to the conditions that delivered the best outcomes in the orthodox economic (textbook) model. The paradigm shift in the academy permeated the policy circles and as a consequence governments relinquished the first major pillar of the Post-War framework – the commitment to full employment. It was during this era that unemployment accelerated and has never returned to the low levels that were the mark of the Keynesian period.

Instead, and within the context of redefining the Economic Pillar (see Figure 5) to create a reliance on market-based economic outcomes with a diminished public sector involvement, the Federal Governments adopted a less ambitious responsibility for itself in relation to the optimum use of the nation's labour resources. Government policy making was by now dominated by the NAIRU approach, which was pushed into the bureaucracy by orthodox economists from both the academy and business and given extra gravitas by a supportive media. This model eschews counter-stabilisation policies and extols, as a matter of religious faith, that government can only achieve better outcomes (higher productivity, lower unemployment) through microeconomic reforms (the so-called supply-side economics). As a consequence, successive Federal Governments began cutting expenditures on public sector employment and social programs; culled the public capacity to offer apprenticeships which were a major employer of the youth of the country; and set about dismantling what they claimed to be supply impediments (such as labour regulations, minimum wages, social security payments and the like).

Over time they replaced this progressive public sector role which had delivered and sustained full employment for nigh on 30 years with a focus, erroneously, on the skills, attitudes and motivations of the unemployed themselves. The previous Liberal Federal Minister for Employment, Tony Abbott exemplified this view and blamed joblessness on the generosity of the welfare system eroding individual incentives. In the Bert Evans Lecture in late 2000 he said:

In the absence of rigorous work tests, welfare benefits pitched close to the level of minimum wages eventually create a glass floor below which unemployment cannot fall. Why do some people not work? Because they don't have to. Why might a generous safety net designed to help people on the dole coupled with wage restraint designed to boost jobs turn out to make unemployment worse? ... The role of the welfare system in creating and sustaining unemployment has been one of the great unmentionables of Australian public policy debate ... Tackling unemployment today is not just a matter of creating more jobs or training-up skilled workers. It requires powerful incentives for long-term job seekers to take the jobs that are there as well as new types of work for people who can't readily find paid employment. (Abbott, 2000)

The goal for government under this conception was to achieve *full employability* rather than full employment. As a result, successive Federal Governments began the relentless imposition of active labour market programs, designed either to force the unemployed to churn through training programs and/or participate in compliance programs like Work for the Dole. The absurdity of forcing people to relentlessly search for work and engage in on-going training divorced of a paid-work context in the face of stark evidence that since 1975 there have never been enough jobs available to match the willing labour supply seemed lost on the Government and its policy advisors. This can be explained by the fact that the NAIRU approach had seduced them all.

In the UK, an influential Labor Party advisor, Richard Layard noted

In the very bad old days, people thought unemployment could be permanently reduced by stimulating aggregate demand in the economy ... But ... [this] ...did not address the fundamental problem; to ensure that inflationary pressures do not develop while there are still massive pockets of unemployment people. The only way to address this problem is to make all the unemployed more attractive to employers – through help with motivation and job finding, through skill-formation, and through a flexible system of wage differentials. Nothing else will do the trick (Layard, 1998: 27).

The OECD Jobs Study (1994), which was considerably influenced by the work of Layard and his colleagues, set the tone for this neo-liberal labour market agenda – the targeting of welfare-to-work policies that stress full employability and the disregard for policies that might increase the rate of overall job creation. This agenda was first implemented in Australia under the Keating Labour Government and refined under the Coalition government with the introduction of the Job Network. Australia has been praised by the OECD (2001: 11) for our path-breaking lead in introducing “market-type mechanisms into job-broking and related employment services” The OECD (2001: 14) concludes that in terms of labour market policies Australia “has been among the OECD countries complying best” with the OECD Jobs Strategy (see OECD, 1994).

It is clear that many ‘market-based’ organisations have benefited from this new approach to delivering labour market services. Small entrepreneurs, community activists, and private welfare agencies have become the agencies that administer these neo-liberal labour market policies (Peck, 2001). In the UK, Jones and MacLeod (2002: 20) note

... employer coalitions and locally based stakeholder partnerships have been formed to bring together a wide range of interests involved in the ‘business’ of unemployment. Through these new regimes, the unemployed are offered to employers, who receive a subsidy with minimum training requirements, in return for their assistance in resolving welfare state dependency and at the same time (supposedly) providing the basis for a

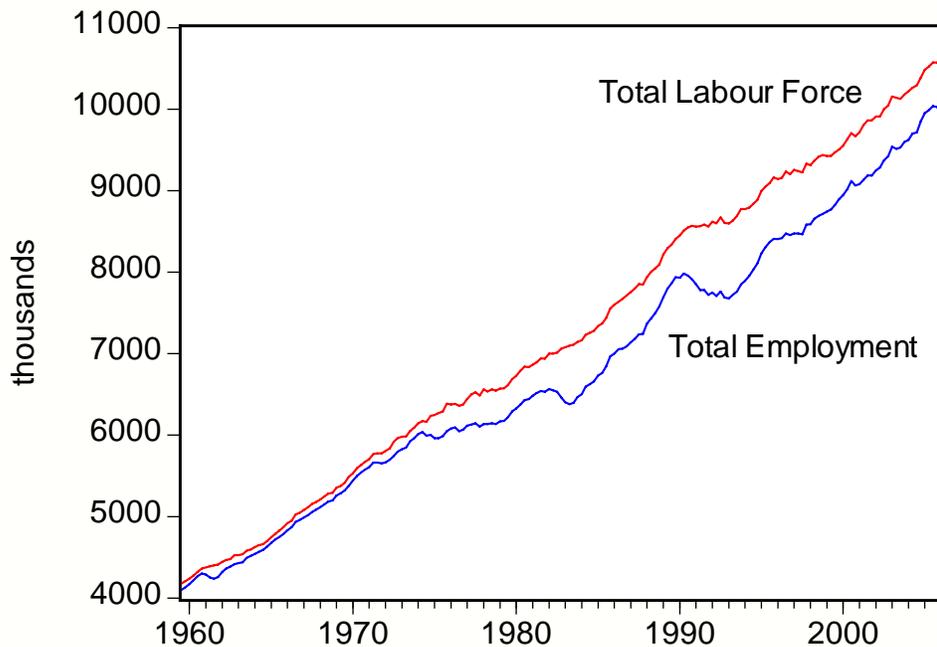
skills-based lifelong learning revolution ... While this might give some genuine appearance of 'training', some have gone so far as to suggest this is nothing more than large-scale bribery, a huge subsidy for capital, because the training requirements are ill-defined in the numerous agreements between the employer and the state.

In Australia, the implementation of the labour market programs via the Job Network exploits a host of private, community and public groups operating at the regional level. The reality of their operations is a far cry from the rhetoric. These small scale regional bodies, in some cases the public-private business interfaces (like Area Consultative Committees), in other cases, the former Church-based charities, are now co-opted by the neo-liberal agenda and implement on its behalf, mutual obligation and breaching. These activities provide little long-term benefit and actual harm to the unemployed. In the past 12 months there has been a new rhetoric developing around the so-called skills shortage (see Mitchell and Quirk, 2005). While we do not consider that debate here, the question that should be asked is why there are skill shortages when billions of dollars has been plunged into privatised employment service providers by the Federal Government over the last 8 years. Cowling and Mitchell (2003) also highlight the failure of the Job Network in providing employment services (see also Productivity Commission, 2002).

A fully employed economy provides life-long training and learning opportunities in the context of paid employment with firms becoming responsible for adjusting hiring standards and on-the-job training programs to match the available talents of the labour force. Under the flawed doctrine of full employability, labour market programs merely function to subsidise the needs of private capital.

There is a substantive literature outlining fatal conceptual flaws in the NAIRU approach, which render it unsuitable as a policy framework (see Mitchell, 1999, 2001; Mitchell and Muysken, 2006). Furthermore, the empirical evidence does not support the view taken by the neo-liberal economists and policy makers that persistently high unemployment is sourced in the institutional arrangements in the labour market, like wage setting mechanisms and trade unions, and/or faulty government welfare policies, which have encouraged people to engage in inefficient search or to embrace welfare dependence (for example, Layard *et al*, 1991). After 25 years, neo-liberal policy has clearly failed to provide sufficient employment to match the available workforce. For example, Figure 3 shows the employment gap for Australia (defined as the difference between the Labour Force and total employment). From 1974 it is clear that the Australian economy has not provided enough jobs to match the willing labour force. The data supports the claim that despite the long period of robust economic growth since the early 1990s recession, the Australian economy did not remotely approach full employment.

Figure 3 The employment gap in Australia, 1960-2006

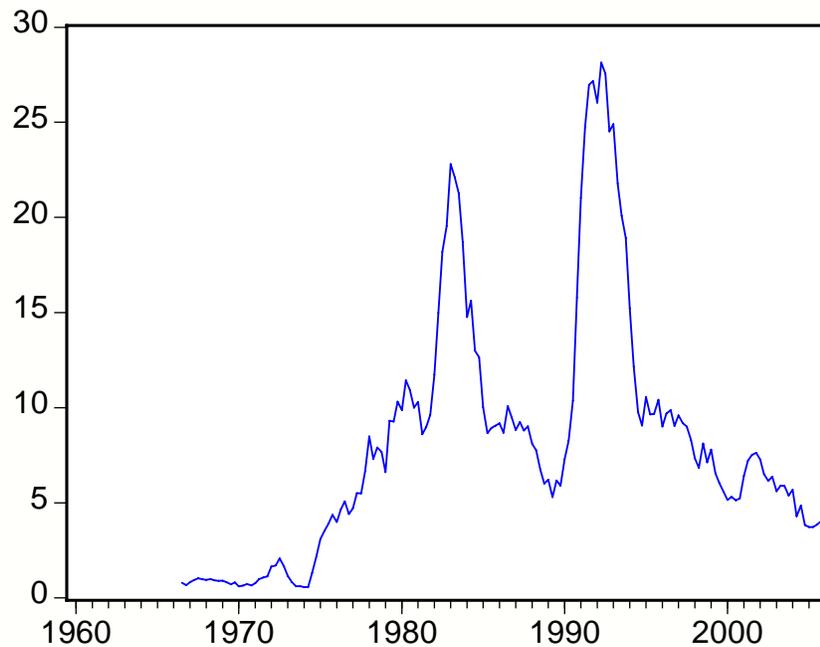


Source: ABS, The Labour Force, Australia.

Further evidence is provided in Figure 4, which plots the ratio of unemployment to unfilled vacancies (the UV ratio) for Australia from 1966 to 2006 and indicates that the economy has been heavily demand-constrained since around 1975. On average there have been 10 unemployed persons per vacancy since 1975. It is a compositional fallacy to blame the unemployed for a systemic failure to produce enough jobs. The unemployed cannot find jobs that are not there! Modigliani (2000: 5) says, “Everywhere unemployment has risen because of a large shrinkage in the number of positions needed to satisfy existing demand.”

However, the dominant supply-side view denies that this UV history depicts an insufficiency of jobs (OECD, 1994). As an article of faith, the orthodoxy rejects the notion that demand deficiencies can occur and hence they continue to offer Says Law as a credible explanation of macroeconomic dynamics despite that notion being comprehensively discredited by Keynes and others in the 1930s.

Figure 4 The ratio of unemployment to vacancies, Australia, 1966 to 2006.



Source: Reserve Bank of Australia database.

Neo-liberals have also been successful in making inflation appear to be a worse bogey person than unemployment. However, Blinder (1987: 51) presents a compelling critique of this view and concludes that the political importance of inflation has been blown out of all proportion to its economic significance. After dismissing the arguments that inflation imposes high costs on the economy, Blinder (1987: 33) notes⁵

The political revival of free-market ideology in the 1980s is, I presume, based on the market's remarkable ability to root out inefficiency. But not all inefficiencies are created equal. In particular, high unemployment represents a waste of resources so colossal that no one truly interested in efficiency can be complacent about it. It is both ironic and tragic that, in searching out ways to improve economic efficiency, we seem to have ignored the biggest inefficiency of them all.

Further, the strong growth during the 1990s has not reignited inflation. Solow (1998), reflecting his Keynesian roots, criticises the neo-liberal substitution of full employability for full employment, and argues that inflationary pressures do not emanate from low-wage labour markets. He is sceptical that labour markets drives inflation at all, "It seems wholly unlikely that unskilled wage-push plays much of an independent inflationary role [so] an influx of former recipients will not give the Federal Reserve much of a cushion against over-heating" (Solow, 1998: 32-33) Mitchell and Muysken (2002) show that the dynamics of unemployment and vacancies over the period of interest are inconsistent with the search effectiveness explanation and are instead consistent with the constrained aggregate demand thesis (see also Modigliani, 2000).

3.3 Abandonment of the rights of citizenship

The abandonment of the Full Employment Pillar presented the neo-liberal governments (including the previous Federal Labor regime) with a new problem. With unemployment persisting at high levels due to the deliberate constraints imposed on the economy by contractionary fiscal (and monetary) policy, pressures developed on the Redistributive Pillar as a result of the welfare payments being made. These pressures were erroneously seen as a threat to the fiscal position of government. As we explain in Section 4, the Federal Government is never financially constrained and the justification for cutting welfare to 'save money' is flawed at the most elemental level.

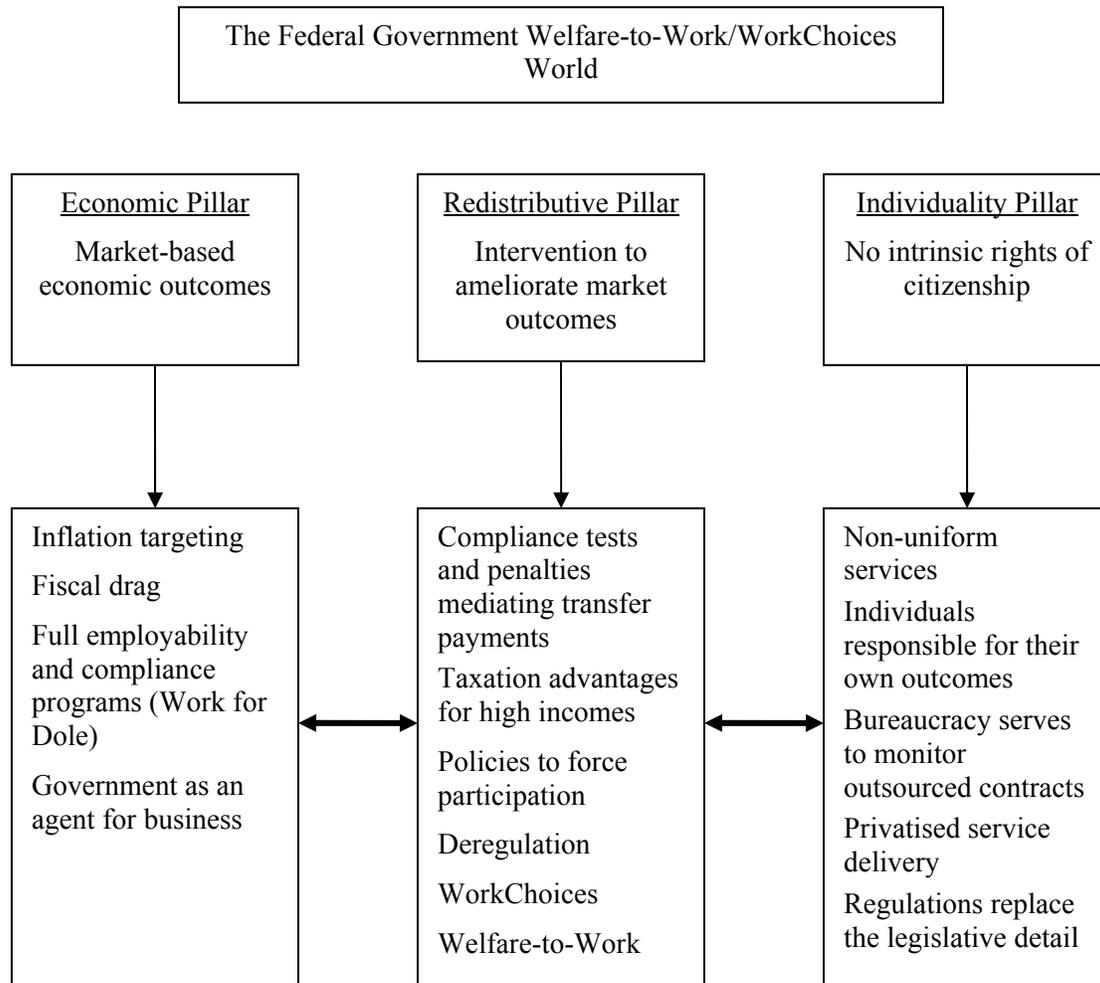
To resolve this tension and thus reduce their commitment to income support, the Government, aided by the urgings of the neo-liberal intellectuals in the media and in the conservative think tanks such as the Centre for Independent Studies, set about redefining the 'Collective Pillar', which was an essential part of the rationale for the social security system. Accompanying the neo-liberal attacks on macroeconomic policy were concerted attacks on the supplementary institutions such as the industrial relations system and the Welfare State. To force individuals to become accountable for their own outcomes, welfare policy changes have introduced alleged responsibilities to counter-balance existing rights while promoting the movement from passive to active welfare (Cook *et al.*, 2003). Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt.

The hallmark of the neo-liberal era is that individuals have to accept responsibility, be self-reliant, and fulfill their obligations to society (Giddens, 1998). Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs. To break this welfare dependency responsibility has to be shifted from government to the individual. The necessity of reintegrating the allegedly, welfare dependent underclass into the community provides the justification for mutual obligation and the abandonment of rights of citizenship *per se*. Reciprocal obligation was developed initially in Australia by the previous Labor administration and has been refined to an art form by the current conservative government. Unfortunately, no reciprocal obligation is on government to ensure that there are enough jobs. The major shortcoming is that the focus on the individual ignores the role that macroeconomic constraints play in creating welfare dependence? Their preoccupation with instituting behavioural requirements and enforcing sanctions for welfare recipients suggest that they perceive dependence as an individual preference. However, as noted above, it is a compositional fallacy to consider that the difference between getting a job and being unemployed is a matter of individual endeavour. Adopting welfare dependency as a lifestyle is different to an individual, who is powerless in the face of macroeconomic failure, seeking income support as a right of citizenry.

The Government has also conducted public campaigns to reinforce the notion that poor economic outcomes are the result of the (deficient) capacities of the individuals themselves rather than any systemic failure to produce enough jobs. To obfuscate the fact that their macroeconomic obsession with budget surpluses and abandonment of the public sector as a major employer in its own right has constrained the economy from producing enough jobs, the Federal Government has established pernicious compliance regimes

which blame the victims (the unemployed) of their policy failure. Accompanying these regimes of punishment, have been public vilifications of these victims who the Government has constructed in official documents and speeches as bludgers, cruisers, job snobs and all manner of other vile nomenclature. This approach has attacked the basic rights that we enjoyed as citizens under the Post-War framework

Figure 5 The neo-liberal Welfare-to-Work/WorkChoices vision



In recent years, two major policy shifts have exemplified the complete shift from the Post-War Full Employment framework (Figure 1) to what we might call the Neo-liberal Welfare-to-Work/WorkChoices model (Figure 5). For a critical analysis of the Work Choices legislation see Cowling and Mitchell (2005) and Cowling *et al.* (2006). Figure 5 sketches the revised pillars under the neo-liberal era where market-based outcomes and full employability had replaced full employment as the major economic goal and individuality has replaced collective will and denied the intrinsic rights of citizenship. The Welfare-to-Work bill can be seen as a refinement of this framework and a final rejection of the Post-War framework sketched in Figure 1.

4. The macroeconomic flaws in the Welfare-to-Work package

In this section we outline why the justifications used for abandoning the full employment pillar based on arguments about the sustainability of expansionary fiscal and monetary policy are flawed. We review the arguments set out in Mitchell and Mosler (2006).

4.1 Simple truths of national accounting

How does government macroeconomic policy operate in a modern monetary economy distinguished by the use of fiat (rather than commodity) currency and flexible exchange rates (see Mitchell and Mosler, 2002, 2006)? Under a fiat currency, the monetary unit defined by the government is convertible only into itself and not legally convertible by government, for example, into gold as it was under the gold standard. The currency has no intrinsic worth. The viability of the fiat currency is ensured by the fact that it is the only unit which is acceptable for payment of taxes and other financial demands of the government.

While not recognised in neo-liberal analysis, as a matter of national accounting - the federal government deficit (surplus) equals the non-government surplus (deficit). The non-government sector is the sum of the private domestic and the foreign sectors. In aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending. The federal government via net spending (deficits) is the only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and eliminate unemployment. Additionally, and contrary to neo-liberal rhetoric, the systematic pursuit of government budget surpluses is necessarily manifested as systematic declines in private sector savings.

A simple example demonstrates these points. Suppose the economy is populated by two people, one being government and the other deemed to be the private sector (see Nugent, 2003). If the government spends 100 dollars and taxes 100 dollars (balanced budget) then private savings are zero (private budget is balanced). Say the government spends 120 and taxes remain at 100, then private saving is 20 dollars which can accumulate as financial assets (in this case, 20 dollar notes although to encourage saving the government may decide to issue an interest-bearing bond). The government deficit of 20 is exactly the private savings of 20. Now if government continued in this vein, accumulated private savings would equal the cumulative budget deficits. However, should government decide to run a surplus (say spend 80 and tax 100) then the private sector would owe the government a net tax payment of 20 dollars. The government may agree to buy back some bonds it had previously sold. Either way accumulated private saving is reduced dollar-for-dollar when there is a government surplus. The government surplus has two negative effects on the private sector: (a) the stock of financial assets (money or bonds) it holds, which represents private wealth, falls; and (b) private disposable income falls in line with the net taxation impost. Some may retort that government bond purchases provide the private wealth-holder with cash. That is true but the liquidation of wealth is driven by the cash shortage in the private sector arising from tax demands exceeding government spending. The result is exactly the same when expanding this example by allowing for private income generation and a banking sector.

The pursuit of government budget surpluses thus represents a contractionary policy position and is necessarily equivalent to the pursuit of non-government sector deficits. The decreasing levels of net private savings ‘financing’ the government surplus increasingly leverage the private sector and the deteriorating debt to income ratios will eventually see the system succumb to ongoing demand-draining fiscal drag through a slow-down in real activity. If the aim was to boost the savings of the private domestic sector, when net exports are in deficit, then as Wray (1998: 81) suggests “taxes in aggregate will have to be less than total government spending.”

4.2 Government spending is not inherently revenue constrained

Neo-liberals draw a false analogy between private household budgets and the government budget by claiming that like a private household, the government has to ‘finance’ its spending. In other words, it is alleged to be financially constrained. With three alleged sources of ‘finance’ available to government (taxes, selling bonds and money creation), various scenarios are constructed to show that budget deficits are either inflationary, if ‘financed’ by ‘printing money’ or squeeze private sector spending (by pushing up interest rates) if ‘financed’ by debt issue. Taxation is also considered to be a drain on private enterprise and initiative.

Bell (2000: 617) says that the erroneous understanding that a student will gain from a typical macroeconomics course is that “the role of taxation and bond sales is to transfer financial resources from households and businesses (as if transferring actual dollar bills or coins) to the government, where they are respent (i.e., in some sense ‘used’ to finance government spending).”

What is missing from the neo-liberal account is the recognition that a household, the user of the currency, must finance its spending, *ex ante*, whereas government, the issuer of the currency, necessarily must spend first (credit private bank accounts) before it can subsequently tax (debit private accounts). Government spending is the source of the funds the private sector requires to pay its taxes and to net save.

Government spending is therefore not inherently revenue constrained and is typically facilitated by the government issuing cheques drawn on the central bank which will never ‘bounce a government cheque’! The recipients of the cheques (sellers of goods and services to the Government or transfer payment recipients) deposit them in their bank, and after clearance, credit entries appears in accounts throughout the commercial banking system. Operationally, this process is independent of any prior revenue, including taxing and borrowing. How much the government spends today does not financially diminish its ability to further spend in the future. Taxation is the reverse of this process and bank entries reflect the draining of liquidity from the private sector by the government. No real resources are transferred to government. Nor is government’s ability to spend augmented by the adjustments to private bank accounts. The notion of the government ‘saving’ its own currency is nonsensical.

4.3 Unemployment occurs when net government spending is too low

The purpose of government spending is to move real resources from private to public domain to facilitate the government’s economic and social program. Once we realise that government spending is not revenue-constrained then we have to analyse the functions of

taxation in a different light. The starting point of this new understanding is that taxation functions to promote offers from private individuals to government of goods and services in return for the necessary funds to extinguish the tax liabilities. So the imposition of taxes creates unemployment (people seeking paid work) in the non-government sector. As a matter of accounting, for aggregate output to be sold, total spending must equal total income (whether actual income generated in production is fully spent or not each period). Involuntary unemployment is idle labour unable to find a buyer at the current money wage. In the absence of government spending, unemployment arises when the private sector, in aggregate, desires to spend less of the monetary unit of account than it earns. Nominal (or real) wage cuts *per se* do not clear the labour market, unless they somehow eliminate the private sector desire to net save and increase spending.

So unemployment occurs when net government spending is too low to accommodate the need to pay taxes and the desire to net save. Wray (1998: 81) says, “Normally, taxes in aggregate will have to be less than total government spending due to preferences of the public to hold some reserves of fiat money.” Thus, in general, deficit spending is necessary to ensure high levels of employment.

For a time, inadequate levels of net government spending can continue without rising unemployment. In these situations, as is evidenced in Australia over the last decade GDP growth can be driven by an expansion in private debt. The problem with this strategy is that when the debt service levels reach some ‘threshold’ percentage of income, the private sector will attempt to restructure their balance sheets to make them less precarious and as a consequence the demand for debt slows and the economy falters. In this case, any fiscal drag (inadequate levels of net spending) begins to manifest as unemployment.

4.4 Why does the federal government issue debt?

If government spending is not financially constrained then why does it issue debt? While not financially constrained, the government’s budget position has liquidity impacts on the private sector. Government spending and purchases of government bonds by the central bank add liquidity and taxation and sales of government securities drain private liquidity. These transactions influence the cash position of the system on a daily basis and on any one day they can result in a system surplus (deficit) due to the outflow of funds from the official sector being above (below) the funds inflow to the official sector. The system cash position has crucial implications for the central bank, which targets the level of short-term interest rates as its monetary policy position.

After spending and portfolio adjustments have occurred, budget deficits result in ‘system-wide’ surpluses (manifested as excess reserves in the accounts commercial banks keep with the central bank). The central bank offers the commercial banks a discount on the going short-term interest rate for excess reserves. Competition between the commercial banks to create better earning opportunities on the ‘surplus’ reserves then puts downward pressure on the cash rate. But the system-wide excess cannot be removed by intra-bank transactions because for every liability there is a corresponding asset – that is, no net financial assets can be created or destroyed by purely private transactions. If the central bank desires to maintain the current target cash rate then it must ‘drain’ this surplus liquidity by selling government debt. In other words, government debt functions as interest rate support via the maintenance of desired reserve levels in the commercial

banking system and not as a source of funds to ‘finance’ government spending. If the government did not issue debt then the central bank would lose control of the target interest rate. The extreme example is Japan which has near zero short-term interest rates for years because the Bank of Japan does not ‘drain’ all the liquidity being pumped in via their massive budget deficits. Nugent (2003) says “that in Japan, with the highest public debt ever recorded, and repeated downgrades, the Japanese government issues treasury bills at .0001%! If deficits really caused high interest rates, Japan would have shut down long ago!”

With on-going budget deficits, the private sector may ultimately refuse to hold any more cash or assets. In this case, the private sector would increase its consumption spending. With private employment levels rising in response to the increased consumption, the budget deficit could be lower yet the economy still be operating at its real limit (full employment). Whether this generates inflation depends on the ability of the economy to expand real output to meet rising nominal demand. That is not compromised by the size of the budget deficit.

5. Too many people, too few specialist support services and no jobs

What will be the scale of the challenge facing an already ineffective Job Network system as a result of the Welfare-to-Work changes? In other words, how many people who would otherwise be receiving Parenting Payments or Disability Support Pensions (DSP) will be moved to other income support programs (most of which involve the harsher activity test) as a result of the policy changes? In this section we use data from answers provided to the 2005-06 Budget Senate Estimates Hearing, by the Department of Employment and Workplace Relations (DEWR) to show that significant numbers of persons who would otherwise enjoy some income security on these respective persons will be thrown into the new system by the Welfare-to-Work changes. We argue that the current system is ill-equipped to handle the scale of the specialist services that will be required by this cohort (see also Cowling, 2005).

DEWR (2005a, 2005b) provided estimate to Senate Estimates Committee of the number of persons who would have been on Parenting Payment Single but who will instead be shifted to alternative payment schemes as a result of the Welfare-to-Work package (see Table 1).

Table 1 Persons estimated to receive alternative payments other than Parenting Payment Single

New payment:	2005-06	2006-07	2008-09
Newstart Allowance	21,800	57,300	86,200
Austudy	900	2,500	3,800
DSP	1,000	2,700	4,100
Carer Payment	200	600	1,000

Source: DEWR (2005a and 2005b).

DEWR (2005b) also indicated that the number who would have been eligible for Parenting Payment Partnered but who would be forced onto another income support

scheme as a result of the changes was around 7,700 in 2006-07, 19,400 in 2007-08 and 26,100 in 2008-09. They did not break down these figures into type of payment the person would be shifted to.

The Welfare-to-Work package also assumed that nearly everybody caught in its net will require access to specialist support services before entering employment. When asked to quantify the numbers who would gain employment without support DEWR (2005b) said that 1.5 per cent of Parenting Payment recipients “who will face new requirements would find employment without accessing services ... [and] ...2 per cent of mature aged ... [persons] ... who will face new or increased requirements and not already participating in Job Network will leave payment without accessing services.” The numbers involved are shown in Table 2. Importantly, DEWR (2005c) acknowledged that “For people with a disability and for the very long term unemployed, it was estimated that no customers would move into work without access to services.”

Table 2 People finding employment without accessing services

Payment:	2005-06	2006-07	2008-09
Parenting Payment Partnered	0	92	147
Parenting Payment Single	0	345	551
Newstart Allowance	0	82	99

Source: DEWR (2005c).

In response to a question as to whether a person could be required to undertake continuous full-time Work for the Dole, DEWR (2005d) provided the following answer (Senate Estimates, W692-06):

Job seekers who enter Full Time Work for the Dole (and remain under the age of 60) may exit the programme by finding part-time or full-time work, entering education and training, undertaking voluntary work if aged 55 or over, or where a Job Capacity Assessment results in a referral to another service. Job seekers not achieving an exit for any of these reasons may be required to participate in successive Full Time Work for the Dole placements.

Table 3 provides estimates of the number of people who under previous rules would have been eligible for DSP but will now receive Newstart Allowance under the new rules.

Table 3 Persons with disabilities who will be forced onto Newstart Allowance

Category	2006-07	2007-08	2008-09
New persons forced onto NSA	34,400	23,500	17,800
Total	34,400	57,900	75,700

Source: DEWR (2005e).

DEWR was also requested to provide estimates of the number of funded program places for disabled persons who are forced to make new applications for income support under the new rules (either on NSA or Youth Allowance). Table 4 provides the estimates. DEWR (2005d) indicated that these estimates would be commensurate for demand in the

respective service categories (see also Cowling, 2005). Considering Table 4 and Table 4 together suggests that at least 14,000 disabled persons will be unfunded.

Table 4 Funded program places for disabled people able to work 15-29 hours per week

Service:	Estimated Number of Places			
	2006-07	2007-08	2008-09	Total
Disability Open Employment Services	5,980	2,803	2,803	11,586
Vocational Rehabilitation	8,970	4,205	4,205	17,379
Work for the Dole	135	373	345	853
Job Network	16,377	7,676	7,676	31,729
Total	31,462	15,057	15,029	61,547

Source: DEWR (2005f).

Irrespective of the fact that the disabled are among the most disadvantage in the labour market and single parents have significant caring responsibilities, all will have to actively seek employment and engage in compliance activities under ‘mutual obligation’ including Work for the Dole. A number of issues arise in this regard including the ability of single parents to supervise their children during school holidays given they have to continue seeking work or actually working between 15 and up to 25 hours per week to satisfy the activity test regulations. The activity test requires the person to search for at least 10 jobs per fortnight. In Section 3 we outline the absurdity of job search requirements when there is a severe rationing of jobs in the economy. Further, disabled persons with episodic illness who previously could move between pension support and paid work as their symptoms permitted, will be required by the new rules require them to continually seek and or undertake paid employment. The NSA does not consider their symptomatic periods.

Cowling (2005: 12) concludes that the “changes proposed in the Welfare to Work Bill simply hasten the march along a policy direction that has been shown to be ineffective. The Bill does nothing to address the critical shortage of flexible job opportunities for people with mental illness and rebuffs a substantial body of international evidence, which demonstrates the effectiveness of supported employment models in improving participation outcomes for persons with severe mental illness ... The supported employment model requires that measures to increase the quantum of jobs available are integrated with mental health, rehabilitation and employment support services that meet the heterogeneous and variable support needs of workers ... [and] ... By failing to include policy measures that attend to the shortage of suitable job opportunities, the Welfare to Work package exposes people with mental illness to a range of risks. These risks relate to the effects of inappropriate assessment and referral, reduced disposable income, harsh compliance measures and the lack of specialist skills and training in generic employment services.”

To gauge the number of persons who might be affected by the 8 week non payment penalty, estimates based on past breaching provide some clue. When asked “whether Centrelink had estimated how many people may face an immediate 8 week non payment

period under the new rules, based on previous breach data, for leaving work voluntarily, being dismissed for misconduct or declining a suitable job offer”, DEWR (2005g) replied that:

Centrelink data indicates that, in 2004-05, the number of breaches incurred for the above reasons was:

- voluntarily unemployed – 7,543
- dismissed from employment for misconduct – 3,092
- failed to start job or refused offer of employment – 2,562

Horin (2006) discusses the fact that many of the private charities are so outraged by this aspect of the Welfare-to-Work policy that they have refused to tender for the case management contracts. She also outlines the role that the evangelical Hillsong church is playing in this regard. She quotes Hillsong’s CEO who admitted that some of its case managers “may have overstepped the boundaries” between the welfare and missionary work. NLAC (2006: 9) notes that the case managers “will be making moral and value judgements such as when a person seeks funds to pay for tobacco or contraceptives”. The National Welfare Rights Network estimates that of the 18,000 odd people likely to fall foul of this aspect of the policy and have their benefits suspended for 8 only 4,000 will be case managed given the budget allocation that the Government has provided (see NLAC, 2006: 10). Further many disadvantaged persons, such as the homeless are not considered to require case management if their benefits are suspended.

It is also clear that most of the supported places will be in generic Job Network services rather than specialist services. For example, Cowling (2005: 10) computes that for disabled persons “just 26.7 per cent of the additional places in employment services (excluding vocational rehabilitation) over the three years have been allocated to Disability Open Employment Services (DOES), with the remaining 73.3 percent of places allocated to the Job Network.” The need for specialist support services such as DOES is even more critical when you consider that very small percentages of those in need of assistance will actually secure paid employment over the period 2006-07 to 2008-09 (for example, see Table 2).

In an earlier assessment exercise, Cowling and Mitchell (2003) demonstrated that the Job Network provided little support to those with the most disadvantages as a result of the perverse payments incentives built into the contracts. The Productivity Commission (2002) found that the Job Network agencies ‘parked’ these workers in favour of providing support to those less disadvantaged workers who provided a higher probability of returning a placement payment for the agency. The Productivity Commission (2002) also shows that the Job Network does not effectively deal with workers who require specialist support. The Government (in the 2005-06 Federal Budget) also decided to define part of this problem away by increasing the level of disadvantage that would qualify for intensive assistance meaning less workers will be channelled in to the high levels of assistance available in the Job Network system.

The substantial influx of workers into the Job Network system also raises questions of the capacity of the Job Network agencies and their professional counselling staff to cope. Patton and Goddard (2003) examine the psychological well-being and burnout in

personnel employed by Job Network agencies to conduct the “intensive one-to-one” counselling with the long-term unemployed. Their study used cross-sectional data from counsellors collected 3 years after the privatised Job Network replaced the Commonwealth Employment Service in 1998. Patton and Goddard (2003: 3) cite previous studies which “repeatedly found high incidences of psychological distress in samples of Australian case managers”. Their substantive interest is whether the privatised system has changed the working conditions for case managers for better or worse. Based on a sample which “represented a third of all Job Network case managers who were working in Queensland at the time the survey was conducted” (Patton and Goddard, 2003: 7), they “identified significant levels of psychological morbidity” (Patton and Goddard, 2003: 11) in the case managers surveyed. The results also conform to an earlier study (Goddard *et al.*, 2000) and “leave little doubt that servicing large caseloads of unemployed individuals can be, for some individuals, a very stressful and psychologically distressing activity ... [for example] ... for approximately half ... of the case managers surveyed, significant work-related pathologies are likely to arise ” (Patton and Goddard, 2003: 11). In terms of case manager burnout the results indicated “significant higher” than the norms established in the literature which were “worrisome, because high levels of emotional exhaustion have repeatedly been associated with a wide range of social, emotional, and behavioural pathologies in both individuals and organizations” (Patton and Goddard, 2003: 12).

While Section 4 categorically rejects the basis for the Welfare-to-Work changes and indicates that unless there is an easing of the macroeconomic demand constraint that rations the number of paid-work opportunities available within the economy then there will always be individuals in need of income support from government. In that sense, the discussion in this section can be seen in the following way. There is no point pushing persons into activity tests when there are inadequate employment opportunities. You may succeed in shuffling the unemployment queue but the queue will remain as long as the demand ration dictates. It is also the sign of a mean-spirited government that forces people to engage in search activity ‘as if there enough jobs’ for that activity to be effective.

It is however useful to provide incentives for personal development if there are enough paid-employment opportunities available. In that regard, a better alternative is to introduce employment guarantees for those who can work. We turn to that discussion in Section 6.

6. The alternative – the creation of an employment buffer

The Job Guarantee (JG) proposal was conceived independently by Mitchell (1996, 1998) and Mosler (1997-98). It has since been developed further by a range of authors listed previously. The JG is also based on the buffer stock principle. Mitchell (2000) discusses the link between the JG approach and the agricultural price support buffer stock schemes like the Wool Floor Price Scheme introduced by the Australian Government in 1970. While generating ‘full employment’ for wool production, there was an issue of what constituted a reasonable level of output in a time of declining demand. The argument is not relevant when applied to unemployed labour. If there is a price guarantee below the “prevailing market price” and a buffer stock of working hours constructed to absorb the

excess supply at the current market price, then a form of full employment can be generated without tinkering with the “price structure”. The other problem with commodity buffer stock systems is that they encouraged over-production, which ultimately made matters worse when the scheme was discontinued and the product was dumped onto the market. These objections do not apply to maintaining a labour buffer stock as no one is concerned that employed workers would have more children than unemployed workers (see Graham, 1937).

Under the JG, the public sector offers a fixed wage job, which we consider to be “price rule spending”, to anyone willing and able to work, thereby establishing and maintaining a buffer stock of employed workers. This buffer stock expands (declines) when private sector activity declines (expands), much like today’s unemployed buffer stocks, but potentially with considerably more ‘liquidity’ if ‘properly maintained.’

The JG thus fulfills an absorption function to minimise the real costs currently associated with the flux of the private sector. When private sector employment declines, public sector employment will automatically react and increase its payrolls. The nation always remains fully employed, with only the mix between private and public sector employment fluctuating as it responds to the spending decisions of the private sector. Since the JG wage is open to everyone, it will functionally become the national minimum wage. To avoid disturbing the private sector wage structure and to ensure the JG is consistent with price stability, the JG wage rate should probably be set at the current legal minimum wage, though an initially higher JG wage may be set higher as part of a broader priority for an industry policy.

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

However, these demand pressures are unlikely to lead to accelerating inflation while the JG pool contains workers employable by the private sector. While the JG policy frees wage bargaining from the general threat of unemployment, two factors offset this. First, in professional occupational markets, while any wait unemployment will discipline wage demands, the demand pressures may eventually exhaust this stock and wage-price pressures may develop. With a strong and responsive tertiary education sector skill bottlenecks can be avoided more readily than with an unemployed buffer stock. Second, private firms would still be required to train new workers in job-specific skills in the same way they would in a non-JG economy. However, JG workers are far more likely to have retained higher levels of skill than those who are forced to succumb to lengthy spells of unemployment. This changes the bargaining environment rather significantly because the firms now have reduced hiring costs. Previously, the same firms would have lowered their hiring standards and provided on-the-job training and vestibule training in tight labour markets. The JG policy thus reduces the “hysteretic inertia” embodied in the

long-term unemployed and allows for a smoother private sector expansion. It is also worth noting that with high long-term unemployment, the excess supply of labour does not pose a very strong threat to wage bargaining (Mitchell, 1987, 1998). We thus hypothesise that the threat factor under the JG is now higher.

The JG wage provides an in-built inflation control mechanism (Mitchell, 1998, Mosler, 1997-98). The ratio of JG employment to total employment is called the Buffer Employment Ratio (BER) (Mitchell, 1998). The BER conditions the overall rate of wage demands. When the BER is high, real wage demands will be correspondingly lower. If inflation exceeds the government's announced target, tighter fiscal policy would be triggered to increase the BER, which entails workers transferring from the inflating sector to the fixed price JG sector. Ultimately this attenuates the inflation spiral. So instead of a buffer stock of unemployed being used to discipline the distributional struggle, the JG policy achieves it via compositional shifts in employment. The BER that results in stable inflation is called the Non-Accelerating-Inflation-Buffer Employment Ratio (NAIBER) (Mitchell, 1998). It is a full employment steady state JG level, which is dependent on a range of factors including the path of the economy.⁶

Would the NAIBER will be higher than the NAIRU? We anticipate the reverse. The issue has its roots in the fact that a particular level of demand (unemployment) curbs the inflationary process in a NAIRU-world. Clearly, if we introduce a JG scheme, the initial level of JG employment will deliver a higher demand level than inherited under the NAIRU economy. Logically, in a NAIRU-world this should be inflationary. But the JG policy introduces 'loose full employment' for the reasons noted above. In this sense, the inflation restraint exerted via the NAIBER is likely to be more effective than using a NAIRU strategy. Additionally, the ease of hiring from the JG pool versus hiring from the unemployed pool results in the JG functioning more efficiently as a buffer stock. JG workers have current work habits, are easier to locate and observe, and are far less likely to have domestic and emotional issues.

7. Conclusion

Most OECD economies have suffered from persistently high unemployment since the mid-1970s. The major explanation for this pathology has been a deficiency of demand promoted by inappropriate fiscal and monetary policy. Governments reacted to the onset of inflation with restrictive policy stances summarised by a fetish for budget surpluses. In doing so, they have failed to understand the opportunities that they have as the issuer of the currency.

In this paper, it has been shown that budget deficits are necessary to maintain full employment if the private sector is to pay taxes and has a positive desire to net save. In this regard, the orthodox treatment of the accounting relation termed the government budget constraint as an *ex ante* financial constraint is in error. Government spending is only constrained by what real goods and services are offered in return for it. There is no financing requirement. Debt issuance is seen as part of a reserve maintenance operation by the RBA consistent with their monetary policy cash rate targets. Accordingly, the alleged constraints on government action to restore full employment are based on false premises.

Within that context, the Welfare-to-Work package recently made operational by the Federal Government is a further step towards the abandonment of full employment and a harsh attack on the rights of citizenship. It provides no hope of employment but instead cuts income support levels for the most disadvantaged and vulnerable workers in the economy. In addition, it shoehorns them into a pernicious mutual obligation framework which is more about compliance than personal development.

Many of the support mechanisms proposed in the Welfare-to-Work package, despite being hopelessly under funded, would be useful if the Government introduced an employment guarantee within which individuals could receive training and other support but be part of the paid workforce.

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Notes

¹ The author Director of Centre of Full Employment and Equity and Professor of Economics at the University of Newcastle, Australia.

² Beveridge had earlier, in 1942, authored the Social Insurance and Allied Service, commonly referred to as the Beveridge Report, which was the basis of the development of the Welfare State.

³ Arthur Altmeyer was one of the most influential persons shaping the course of social security in America. He was part of the President's Committee on Economic Security that drafted the original legislative proposal in 1934. He was a member of the three-person Social Security Board created to run the new program, and he was either Chairman of the Board or Commissioner for Social Security from 1937-1953.

⁴ NAIRU is an acronym referring to the Non-Accelerating Inflation Rate of Unemployment.

⁵ What are the costs of inflation? Blinder (1987: 45-50) "More precisely, is the popular aversion to inflation based on fact and logic or on illusion and prejudice? ... Too many trips to the bank? Can that be what all the fuss is about? ... Can that be all there is to the costs of inflation? The inefficiencies caused by hyperinflation are, of course, monumental. But the costs of moderate inflation that I have just enumerated seem meager at best." Blinder (1987: 51) also reacts to critics who lay all manner of societal ills on inflation at 6 per cent, says "Promiscuity? Sloth? Perfidy? When will inflation be blamed for floods, famine, pestilence, and acne? ... And the myth that the inflationary demon, unless exorcised, will inevitably grow is exactly that – a myth. There is neither theoretical nor statistical support for the popular notion that inflation has a built-in tendency to accelerate. As rational individuals, we do not volunteer for a lobotomy to cure a head cold. Yet, as a collectivity, we routinely prescribe the economic equivalent of lobotomy (high unemployment) as a cure for the inflationary cold. Why?"

⁶ There is an issue about the validity of an unchanging nominal anchor in an inflationary environment. The JG wage would be adjusted in line with productivity growth to avoid change real relativities. Its viability as a nominal anchor relies on the fiscal authorities reigning in any private wage-price pressures. Clearly, in a hyperinflation environment, the discipline of the JG wage would fail. But in historical experience these circumstances have been rare.