

Unemployment, Human Rights and a Full Employment Policy in Australia

By: John Burgess and William F Mitchell¹

Introduction

Since the mid-1970s Australia has experienced its longest period of persistently high unemployment in its history.² The unemployment rate has been stuck above 8 per cent since December 1990. The best outcome either political party has been able to postulate with supporting policies is a 5 per cent rate achieved over an eight-year period.³ The persistence of mass unemployment is a direct consequence of inadequate and misplaced government policy. The costs of unemployment extend beyond the narrow concerns usually considered by orthodox economists. The rise and sustenance of mass unemployment since the early 1970s has acted as a form of social exclusion perpetrated against particular sections of the community, in general the young, the old, the poor and those lacking skills and education. The burden of unemployment is not shared evenly across the community.⁴

We argue in this paper that an empirically based, experiential notion of human rights suggests that governments are violating the right to work by refusing to eliminate unemployment via appropriate use of budget deficits. We show that unemployment is not compatible with fundamental human rights in that unemployment denies those affected access to income and hence participation in markets, it reduces the opportunity for advancement and stigmatises those affected, and violates basic concepts of membership and citizenship. Without the right to work, afflicted individuals are denied citizenship rights as surely as they were denied the right of free speech or the right to vote. As long as the right to employment is not considered to be a human right, a portion of the community will be permanently excluded from the effective economic participation in the community

1 Centre for Full Employment and Living Standards, Department of Economics University of Newcastle.

2 Mitchell W "Inflation and Unemployment: A Demand Story" (1996) Presented to *European Unemployment Conference* (sponsored by the European Commission, at the European University Institute) Florence, 21-22 November 1996, forthcoming in published proceedings.

3 Commonwealth of Australia *Working Nation: Policies and Programs* (AGPS, Canberra, 1994).

4 Mitchell W, Mitchell C E, Watts M J and Butterworth A *Women's Prospects in Recovery* (AGPS, Canberra, 1995).

The concept of work as a human right is not new, and has spanned the ideological domain for the past 300 years. In this century, both the United Nations and the International Labour Office have grappled with the right to work question.⁵ In this article, we will argue for the following six propositions:

1. There should be a right to work.
2. This right should be a statutory right.
3. The State should bear the responsibility for implementing this right.
4. Access to work should not be conditional.
5. The right to work and a full employment policy are inexorably linked.
6. A full employment program, encompassing the right to work, can be implemented which also guarantees price stability.

There are many sub-issues cloaked by these seemingly straightforward propositions. What do we mean by work? Should citizens be forced to take any work? What payments should be made for State guaranteed work? What if work performance is unsatisfactory? These are difficult issues, but they diminish besides the enormous costs that are being imposed on individuals, families and the community as a result of large numbers being excluded from work and being marginalised in terms of effective participation in the economy.

This paper is organised as follows. The recent history of unemployment in Australia is outlined. Following, the costs of unemployment are listed and estimated for Australia. Recent evidence suggests deterioration in labour market conditions and growing polarisation within the labour market. The current and future job prospects for the unemployed appear remote. The issue of the right to work, its meaning, precedence and justification is then outlined. In turn this is linked to the responsibilities of the State and the policy goal of full employment. We then discuss how a right to work statute and a full employment goal could be implemented through a buffer stock employment program. We then deal with possible objections to our proposal including that it is too costly, impractical and inflationary.

5 Siegel R L *Employment and Human Rights: the International Dimension* (University of Pennsylvania Press, Philadelphia 1994) ch 1.

The retreat from full employment

The Great Depression of the 1930s had a considerable impact on both economic theory and public policy. Lord Keynes articulated a macroeconomic model, which demonstrated the imperative of full employment in a Capitalist economy, and how directed government intervention in the economy could realise this objective.⁶ The influence can be seen in the major policy statements by governments following the end of World War II. William Beveridge delivered the unemployment White Paper in Britain in 1944; the US enacted the *Employment Act of 1946*; and Australia released its Full Employment White Paper of 1944.⁷ The rise in the mass appeal of Socialism and Communism rested in part on its claims to eradicate mass unemployment and provide jobs for all. Politicians in Capitalist countries knew that they had to offer a full employment agenda if private property and Capitalism were to survive. Mass unemployment and deprivation was the ideal mix for the rise of extremism and nationalism, both potent ingredients behind World War II. Governments clearly proclaimed a full employment policy as a priority, the only debate was over what exactly full employment meant.⁸

The rapid inflation of the mid-1970s left an indelible impression on policy makers who became captive of the resurgent new-labour economics and its macroeconomic counterpart, monetarism.⁹ The goal of low inflation replaced other policy targets, including low unemployment. This has resulted in GDP growth in OECD countries generally being below that necessary to absorb the growth in the labour force and labour productivity. The proximate cause of the high unemployment has thus been the excessively restrictive fiscal and monetary policy stances by OECD governments driven by what Mitchell calls "backward" thinking.¹⁰ The economies that avoided the plunge into high unemployment over the last 20 years maintained a "sector of the economy which effectively functions as an employer of the last resort, which absorbs the shocks which occur from time to time ..." ¹¹

6 Winch D *Economics and Policy* (Hodder & Stoughton, London 1969) ch 11.

7 Arndt H "Full Employment in Historical Perspective" (March 1994) *The Full Employment Project Working Paper*, University of Melbourne, p 9.

8 *Ibid.*

9 Omerod P *The Death of Economics* (Faber & Faber, London 1994) ch 5.

10 Mitchell (1996) *op cit*, Mitchell W "The Buffer Stock Employment Model and the NAIRU — The Path to Full Employment" (1998) *Journal of Economic Issues* forthcoming June.

11 Ormerod, *op cit*, p 203.

Several writers, including Layard, Nickell and Jackman, have argued that the persistently high unemployment experienced by OECD countries is sourced in the labour market institutions and government welfare.¹² Policymakers have largely accepted this view and have designed policies based upon two contentions about the origins of the unemployment. They either view unemployment as a voluntary choice made in response to generous unemployment benefits, excessive wage expectations, idleness or lack of motivation of the unemployed,¹³ or they attribute it to the rigid structure of the economy and labour markets (especially emanating from trade union presence). Either characterisation has led such unemployment to be described as “natural”.¹⁴ The natural approach argues that if unemployment rises it reflects rising rigidities in markets. To reduce the ‘natural’ rate of unemployment requires more extensive deregulation of markets, particularly the labour market. This view has dominated policy in many countries, including Britain, the US, New Zealand and Australia. Under this policy regime unemployment can be reduced if minimum wages are abolished, industrial relations deregulated, benefit assistance tightened and the size of the government sector reduced.

The path of unemployment in Australia since the 1970s

From 1971 unemployment began to rise in Australia. There were recessions in the early 1980s and early 1990s, which saw the unemployment rate jump up to above 10 per cent in both cases, only to slowly subside subsequently and oscillate around successively higher levels. Figure 1 charts the history of the unemployment rate and the average duration of unemployment for Australia. The average duration of unemployment was three weeks when data was first collected in 1966 and is now around 50 weeks. There is thus a hard-core of unemployed who have little chance of regaining employment in the private sector even with higher growth rates.

For the unemployment rate to remain constant, real GDP growth must be equal to the sum of labour force growth and labour productivity growth, other things equal. In the midst of on-going debates about labour market deregulation, minimum wages and taxation reform, the most salient, empirically robust fact that has pervaded the last two decades is that the actual GDP growth rate has rarely been above this required rate.¹⁵

12 Layard R Nickel S and Jackman R *Unemployment* (Oxford University Press, Oxford, 1991).

13 Moore D “The Effects of the Social Welfare System on Unemployment” (1997) 23:4 *Australian Bulletin of Labour* 275-294.

14 Omerod, *op cit*, p 126.

15 Mitchell (1996) *op cit*, Mitchell W and Watts M “The Path to Full Employment” (1997) 30:4 *Australian Economic Review*.

The two decades of slow growth and high unemployment with rising numbers of long-term unemployed is a pattern common across OECD economies.

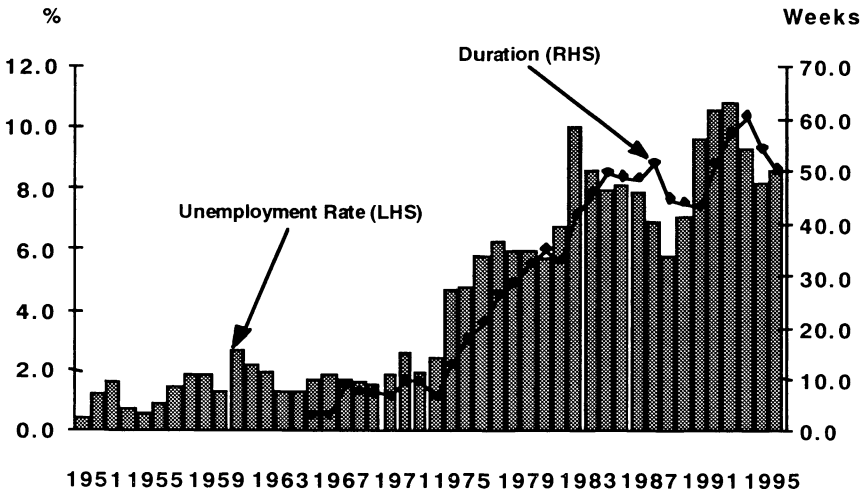


Figure 1 Unemployment Rate and Average Duration of Unemployment — Australia, 1959-1997.¹⁶

It is also interesting to examine the distribution of the duration of unemployment. Figure 2 shows this distribution for three observations: February 1983 (when the aggregate unemployment rate was 10.7 per cent), February 1989 (aggregate unemployment rate was 7.3 per cent), and February 1997 (aggregate unemployment rate was 9.8 per cent). The chart reveals that the ability of the Australian labour market to match the short-term unemployed has not deteriorated. The level changes are cyclical. However there has been a secular deterioration in the labour market revealed by the large growth in long-term unemployment which is related to the lack of jobs.

The data suggests that it is highly unlikely that the private sector will deliver enough jobs to match the growth in the labour force and productivity growth and also to absorb the growing stock of long term unemployed. For Australia, with reasonable assumptions about labour force and productivity growth, real GDP would have to grow consistently at a rate of 5.2 per cent per annum until the year 2005 to mop up the

16 Foster R, *Australian Economic Statistics*, (Reserve Bank of Australia, Sydney, 1996).

long term unemployed and restore a 2 per cent unemployment rate. Sustained levels of growth at this rate have not been achieved over the past 30 years.

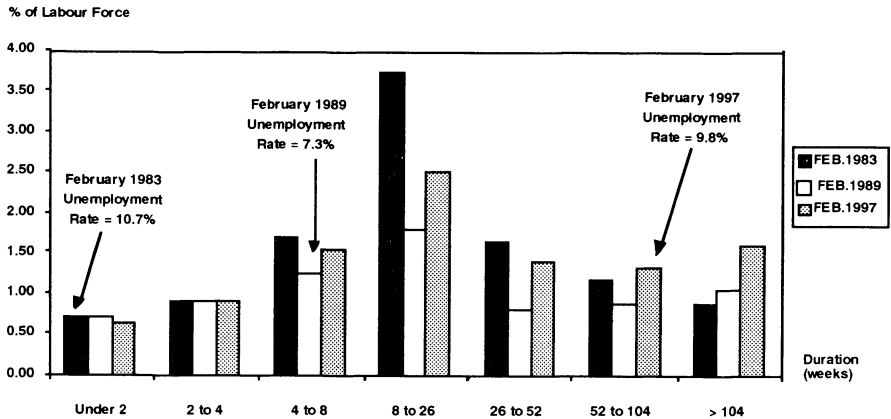


Figure 2 The distribution of the duration of unemployment, February 1983, 1989, and 1997.¹⁷

However, there are dimensions of unemployment which are not captured by Figures 1 and 2 which only focus on recorded unemployment.¹⁸ First, there are under-employed workers who would like to work more hours or in a full-time job but are unable to — for example, in August 1997 there were 557,000 part-time workers who would have preferred more hours of employment. Second, there are the hidden unemployed, especially the discouraged job seekers who have given up job search — in August 1997 there were 120,000 persons not in the labour force who were looking for employment. What this suggests is that official unemployment rates only partially reveal the dimension of the unemployment problem, one estimate suggested that the extent to which there is under utilised labour resources in Australia is around double the official unemployment rate.¹⁹ Mitchell and Watts estimate hidden unemployment alone is of the order of half a million persons throughout 1997.²⁰

17 ABS Ausstats: [gopher://trent.abs.gov.au70/0.austats.txt](http://trent.abs.gov.au70/0.austats.txt)

18 Borland J "Unemployment in Australia: Prospects and Policies" (1997) 30:4 *Australian Economic Review* at 391-404.

19 Wooden M *Hidden Unemployment and Underemployment* (DEETYA, Canberra, 1996).

20 Mitchell and Watts (1997) *op cit*.

Average unemployment rates cloak the uneven distribution of unemployment across the community. Unemployment rates are around double the national average for youth (15-19 years), those who have no high school accreditation, certain ethnic groups (for example, the Vietnamese) and in certain locations (for example, the outer suburbs of large cities and rural areas).²¹ In terms of duration it is older age groups, especially males, who are unemployed for longer than 12 months.²²

Unemployment is more than not being able to get a job. For some groups and communities it means almost total exclusion from paid employment. For others it means being forced to accept sub-standard jobs and precarious employment conditions. Around one third of part-time workers would prefer to work more hours. Over one quarter of employees work under casual conditions, that is, with no paid holidays or sickness benefits, no paid weekends of leisure, no notice of termination and very little control over working conditions, especially hours.²³ There are also those who have given up the hunt for jobs but would search if there were more job opportunities. At a conservative estimate, unemployment directly or indirectly impacts upon at least one third of the workforce, this does not include the spouses, families and dependents who are also directly affected by unemployment because of its pressure on family income, lifestyle, choice and family relationships.

The costs of unemployment

Why worry about unemployment? From an economic perspective the costs of unemployment are expressed in terms of foregone production. A major thrust of the microeconomic reform agenda in Australia is to eliminate microeconomic inefficiencies that generate production and income losses. In their 1991-1992 Annual Report, the Industry Commission estimated that an upper limit on the costs of these inefficiencies would be around \$22 billion or \$1,250 per capita per annum for Australia.²⁴ The scale of these losses is dwarfed when they are compared with the costs of unemployment as calculated by Mitchell and Watts.²⁵ They estimate that the

21 Borland, *op cit* Mitchell W and Burgess J "Eight Propositions for Achieving Full Employment: An Australian Perspective" *World Congress of the International Industrial Relations Association* (Bologna, Italy, 1998).

22 *Ibid.*

23 Campbell I and Burgess J "National Patterns of Temporary Employment: The Distinctive Case of Casual Employment in Australia" *National Key Centre in Industrial Relations Working Paper no 53* (Monash University, Melbourne, 1997).

24 Industry Commission *Annual Report 1991-1992* (AGPS, Canberra, 1992).

25 Mitchell and Watts (1997) *op cit.*

daily loss of production as a result of having unemployment above 2 per cent of the labour force is round \$87 million. In annual per capita terms the loss is around \$1750 per annum. These losses are more than 30 per cent more than these Industry Commission estimates for microeconomic inefficiencies. Mitchell and Watts deliberately understate the magnitude of the losses since they exclude hidden unemployment.²⁶ If the hidden unemployed were included, then the estimated daily losses from unemployment are more likely to be in the range of \$156 million or \$3100 per capita per annum, more than twice the estimated efficiency gains from microeconomic reform.²⁷ It is thus irrational to pursue microeconomic reforms that have generated higher unemployment.

However, unemployment is also a potential disaster for the individuals affected, their families, and their communities. Unemployment has been linked to family break up, substance abuse, alienation, discrimination, illness and death, truancy and non-completion of schooling, and poverty.²⁸ Sen identifies the following different costs associated with unemployment: loss of current output and fiscal burden, loss of freedom and social exclusion, skill loss and long-run damage, psychological harm, ill health and mortality, motivational loss and future work, loss of human relations and family life, racial and gender inequality, loss of social values and responsibility, and organisational inflexibility and technical conservatism.²⁹ We would add and emphasise three additional costs — petty crime, ghettoisation and inheritance. Social and economic exclusion facilitates anti social behaviour and fosters the growth in illegal activity as a means of generating income. Unemployment is spatially unevenly distributed across regions and within cities — not surprisingly the unemployed tend to cluster in areas of affordable accommodation. Given the high rates of unemployment that have persisted in many economies for more than two decades there is now alarming evidence emerging that unemployment is being inherited across generations with youth unemployment, for example, being much higher in households where no person is employed.³⁰

26 *Ibid.*

27 These estimates have been contested by Quiggin who regards the estimated gains from microeconomic reform as at best exaggerated, and at worst, a deception. See: Quiggin J *Microeconomic Reform and Great Expectations* (Allen and Unwin, Sydney, 1996).

28 Siegel, *op cit*, p 8.

29 Sen A "Inequality, Unemployment and Contemporary Europe" (1997) 2:136 *International Labour Review* at 155-171.

30 OECD *Employment Outlook* (OECD, Paris, 1996).

In the context of human rights it is important to emphasise the loss of freedom associated with unemployment. Without access to labour income the unemployed have to rely on social and/or family transfers, non-labour income or savings. For many of the unemployed there is no pool of savings, no non-labour income and no family transfers. Being without an income severely restricts the ability to participate in the market economy. It restricts choices over lifestyles, personal development and access to "basic" goods and services. Furthermore, increasing fiscal conservatism combined with a prevailing attitude that unemployment benefits are a privilege rather than a right has seen the financial pressures on the unemployed intensify and gaps in the welfare system open up.³¹ In this context, we have seen the tightening of eligibility conditions for benefits, the abolition of the youth unemployment benefit and the introduction of work for the dole programs in Australia.³²

The reality of the Australian labour market: 1998 and beyond

We have attempted to emphasise how widespread unemployment is in Australia and how costly, it is in financial and human terms. However, unemployment is part of a wider polarisation and disintegration of the labour market. Full-time, permanent employment, the backbone of employment and social security policy in the post-1945 is slowly disappearing.³³ Some regard this form of employment a "privilege" for a dwindling minority.³⁴ In reality, full-time permanent jobs account for around 20 per cent of all jobs created over the past decade and the proportion is declining.³⁵ Casual, part-time and self-employment are becoming the "normal" job arrangements, over 500 000 workers hold more than one job. At the same time the industrial relations system is being deregulated and the employment protection offered by awards and trade unions is diminishing.³⁶ As a consequence employment insecurity is increasing and earnings polarity is expanding.³⁷ While some workers are doing well, for the vast majority employment conditions and earnings are deteriorating. Unemployment is

31 Siegel, *op cit*, p 8.

32 Biddle D and Burgess J "Youth Unemployment and Contemporary Labour market Policy in Australia" in R Harbridge C Gadd and A Crawford (eds) *Current Research in Industrial Relations* (University of Wellington, Victoria, 1998) 470-476.

33 Brosnan P and Campbell "Labour Market Deregulation in Australia: Towards New Forms of Workforce Division?" *17th Conference of the International Working Party on Labour Market Segmentation* (Sienna, Italy, 1995).

34 Siegel, *op cit*, p 2.

35 Brosnan and Campbell, *op cit*.

36 *Ibid*.

37 OECD (1996) *op cit*, OECD *Employment Outlook* (OECD, Paris, 1997).

part of this malaise, it strengthens the hand of employers, it justifies legislation that further erodes employment conditions and collective rights, it places pressure on existing safety nets and it forces people into sub-standard employment arrangements.

Eliminating unemployment will not only significantly improve the material outcomes of the economy, but it will mean a reduction in the associated social and personal costs, and it will mean a reduction in the pressure for the erosion of employment conditions and earnings. For this reason, unemployment is the most significant economic and policy issue confronting Australia in 1998. Moreover, the "futurologists" see the availability of work diminishing through the impacts of technological change and globalisation. The pessimistic scenario suggests growing polarisation between those in full-time work, others in marginal employment and the unemployed.³⁸ Some go as far to suggest the 20/80 scenario, 20 per cent employed and 80 per cent unemployed.³⁹ This only adds urgency to the imperative of attacking the unemployment problem as soon as possible and developing a long-term policy for the achievement of full employment. This is even more so as the safety nets available to the unemployed and others are placed under threat from fiscal conservatism and from the neo-liberal view that the safety net encourages unemployment.⁴⁰

If the labour market is allowed to progress under the burden of high unemployment rates and growing numbers in marginal employment, then the polarisation of earnings will continue and the social and economic divisions across the community will intensify. Exclusion and inequality is the hallmark of the post cold war economy, the benefits of economic progress are becoming the exclusive domain of a dwindling minority.⁴¹ A sustainable and credible policy program for generating a full employment would be the most important contribution towards reversing these developments.

Employment is a fundamental human right

There are two broad ways to establish a right to employment:

- (a) To assert a natural right along the lines of the doctrine of natural rights which dominated the thinkers of previous eras.

38 Martin HP and Schumann H *The Global Trap* (Pluto Press, Sydney, 1997).

39 Rifkin J *The End of Work* (Tarcher/Putnam, New York, 1996).

40 Moore, *op cit*.

41 Thurow L *The Future of Capitalism*, (Allen and Unwin, Sydney, 1996).

- (b) To use factual experience and analysis of outcomes derived from these experiences. This is a pragmatic, instrumentalist approach.⁴²

Brinton said "The doctrine of natural rights is ... not a theory, not an attempted description or ordering of the facts, but a faith, the essential dogmatic basis of what Carl Becker has called the 'heavenly city' of the eighteenth century."⁴³ The crucial difference is that the natural right approach relies on faith to motivate the conclusions. Tool says that the validity of a natural right "is a function not of causal demonstration but of antecedent reverential belief. It embodies and recommends a value premise that must be accepted *prior* to inquiry and is validated not through causal demonstration of connectedness but through a *priori* deference to God, Nature, or other metaphysical 'determinant' (sic)" (emphasis in original).⁴⁴

The calls for full employment based on various Papal Encyclicals (for example, *Rerum Novarum*, 1891; *Laborem Exercens*, 1981) and other Catholic writings fit into this approach. The content depends on the prior faith.⁴⁵ While the Christian Democratic ideals embodied in the All Souls concept in Catholicism provide a firm basis for solidarity or collective will in society and thus a justification for government intervention to drive unemployment to its irreducible minimum, they still require one to accept the prior belief system. However, the conclusions can be separated from the prior beliefs and be based in the empirical, causal level of perception.

We do not resort to these non-empirical and extra-causal concepts for our claim that employment should be considered a human right. Citizenship and membership are relevant concepts. Discussion of human rights tends to concentrate on civil and political rights. This was no where more obvious than with the recent discussions regarding an Australian Bill of Rights.⁴⁶ However, the Universal Declaration of Human Rights does include the right to work, the right to food and the right to social security. Both the United Nations and the International Labour Office have

42 Tool M "Employment as a Human Right", paper presented to the European Association for Evolutionary Political Economy (Antwerp, November, 1997) p 6.

43 Brinton C "Natural Rights" in Edwin R A Seligman (ed) *The Encyclopaedia of the Social Sciences*, (Macmillan, New York, 1947) p 300.

44 Tool, *op cit* p 6.

45 Baum G *The Priority of Labor: A Commentary on Laborem Exercens* (Paulist Press, New York, 1982).

46 Alston P "An Australian Bill of Rights: By Design or Default?" in Alston P (ed) *Towards An Australian Bill of Rights* (Centre for International and Public Law, Canberra, 1994) 1-20.

ratified the right to work with the 1946 ILO Declaration of Philadelphia asserting full employment as a national and international goal.⁴⁷

While the right to employment has been often replicated in international legal instruments, this is as far as it has gone.⁴⁸ Countries have been reluctant or unable to mandate such a right, often within the context of their reluctance to codify and enforce any human rights for citizens.⁴⁹ Given these issues it has been acceptable to regard the right to work as a non core right that should be left to individual countries to enforce or to be interpreted in the context of rights of work, including EEO, non discrimination and freedom of association.⁵⁰ Article 6 of the ILO incorporates the right to work, but is more precisely about the right of those in employment. In most industrialised nations there is extensive legislation and common law governing employment and employment rights, including bargaining, EEO, non-discrimination, unfair dismissal, yet there is zero legislation on the right to work.⁵¹ It seems that employment rights have been narrowly interpreted as encompassing the rights of those in employment and excluding any rights for those who are unemployed.

Why should work be regarded as a right? As a starting point, labour income constitutes the major income source for the majority of individuals and households. Without income, ability to participate in a market economy is curtailed. This exclusion has long been recognised through the provision of safety net protection for those who are unable to participate in the labour market by virtue of age, infirmity and caring responsibilities. It was also the case for those who were without labour income by virtue of unemployment. Access to income also governs access to other rights, including minimum requirements of clothing, food and housing. Paid employment shares a direct relationship with food and water as a requisite for subsistence in many societies. Unemployment and underemployment, together with a lack of access to fertile agricultural land, means inadequate income, misery and early death for millions across the globe.⁵² Paid work provides the employed with choice in the market economy and the opportunity for advancement. The unemployed have limited access to credit and limited access over the range of goods and services they can purchase. They are not in a position to save for education, holidays and housing improvements. Their choices are constrained by their lack of income. Without social

47 Siegel, *op cit* p 60.

48 *Ibid*, p 19.

49 *Ibid*, p 25.

50 *Ibid*, p 28.

51 Ewing K *Working Life: A New Perspective on Labour Law* (Lawrence & Wishart, London, 1996).

52 Siegel, *op cit* p 17.

transfers they have to depend upon savings, family transfers or black economy activities in order to sustain minimum living standards. Their exclusion goes beyond this. They are not accorded the status attached to employment and they make no contribution to market activity; the barometer of worth in a market economy.

What do we mean by the right to work? Those who wish to do so should be able to obtain paid full-time (or fractional) employment. This guarantee should be made by the State and it should be legally enforceable in much the same way as other rights. Should it be any work as designated by the State? No, those exercising their right to work should be given options as to the type of employment they wish to take up. What wage rates should they be paid? They should be paid minimum adult rates of pay and be accorded to same rights and conditions associated with full-time market employment (or pro rata) — holiday and sickness benefits, a safe workplace, protection against unfair dismissal. For how long should they be employed? For as long as they wish while satisfying the standard conditions of employment. Those exercising this right could regard guaranteed jobs as a temporary step towards higher paid employment in the market sector.

The neglect of either national or international consideration of the right to work enables unemployment to flourish across the globe. The ILO recently reported that global unemployment and underemployment was around one billion people with “nothing short of a renewed international commitment to full employment required to reverse the poverty, unemployment and underemployment now prevailing in so many parts of the globe.”⁵³ In a similar vein, the OECD launched its Jobs Study in 1994 to address the problem of mass unemployment across the industrially advanced economies, however, its recommendations excluded any consideration of a right to work, instead relying on a mix of conventional market based solutions to restore higher rates of employment growth and to by degrees eventually reduce unemployment to acceptable levels.⁵⁴

A right to work is the precondition for eliminating unemployment and its enormous costs and consequences. This is an imperative that is country specific. It is clear that such a right will not (beyond platitudes) be accorded the status of an internationally enforceable obligation. However, if the right is enshrined in Australian law it will mean that governments will be legislatively forced to pay more than lip service to unemployment. It will also mean that the Federal government would be responsible for developing and implementing an effective full employment policy.

53 ILO, *ILO's World Employment Report* (1996) World of Work 18, p 4.

54 OECD, *The Jobs Study* (OECD, Paris, 1994).

Full employment and the right to work

Full employment was regarded as a standard objective of economic policy in the post war period. In the "golden age" between 1945 and 1970 full employment was for many Capitalist and Socialistic economies regarded as a reality.⁵⁵ There was only disagreement over how it was defined and how it was best achieved. From the early 1970s and the first oil price shock, unemployment has edged upwards and full employment has either been either redefined or ignored. Indeed, unemployment became an important tool for reducing inflation and stabilising inflation expectations. The right to work and full employment are inexorably linked. If there were a legislated right to work then governments would have to contemplate, as they did in the post-1945 period, how they could satisfy this right, and in the process realise full employment and eradicate unemployment. One consequence of a right to work would be a full employment economy and a full employment policy.

The implications of a full employment policy are considerable. First, it would mean greater use of labour and capital resources, as mentioned the single most significant efficiency reform that could be implemented in Australia is the elimination of unemployment. The direct financial benefits to the economy would be enormous; as indicated, of the order of 10 per cent additional GDP every year. Second, it would mean fewer fluctuations in aggregate economic activity. By legislation the government would be forced to generate jobs for those who are made redundant by the private sector. Such a situation would offer greater certainty for investors in the private sector since investment decisions would be undertaken in an ongoing full employment economy. Third, the extent of exclusion, poverty and costs associated with unemployment will be significantly reduced. It would be a policy that facilitated social inclusion rather than social exclusion. Fourth, governments would have to approach other economic goals from a full employment context,⁵⁶ not, as currently, assume a given rate of unemployment and attempt to stabilise prices or reduce the current account deficit at this unemployment rate. Full employment would be the default setting for policy. Fifth, employers would be forced to contemplate how to better utilise labour and how to raise labour productivity through investment in machinery, technology and training. There would no longer be the emphasis upon cost cutting, lower wages and static efficiency gains associated with surplus labour conditions.

55 Arndt, *op cit.*

56 This is ironical since the market based model on which much of contemporary economic policy is based assumes full employment.

The issue then is one of synthesising the right to work with a full employment policy. This union is possible through the buffer stock employment model.

The Buffer Stock Employment model

Mitchell and Watts propose the Buffer Stock Employment (BSE) model as a permanent solution to unemployment.⁵⁷ The government sector can and does fill the breach when there are natural disasters (earthquakes, fires, floods), contagious disease outbreaks, runs on the banking system and threats to national defence. Likewise, the public sector can be the guarantor of the right to work. Mosler has proposed a similar approach — the Employer of the Last Resort (ELR) policy.⁵⁸ Under both schemes, the government would act as a buffer stock employer and continuously absorb workers displaced from the private sector. The 'buffer stock' employees would be paid the award minimum wage which provides a wage floor for the economy. The BSE proposal would automatically increase government employment and spending as jobs were lost in the private sector, and decrease government jobs and spending as the private sector expanded. Moreover, it would be the mechanism through which the right to work could be delivered.

Would there be enough jobs to go around under the BSE model? Work is often associated with the jobs that profit seeking private firms offer in return for wages, but if income is only linked to this narrow concept of work, many of the working age population will remain unemployed. The BSE model provides an ideal solution to both the current unemployment problem and the future need to extend the range of employment activities that society deems to be worthy of reward by income. Numerous service jobs could provide immediate benefits to the society, when filled by BSE workers. These include urban renewal projects and other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control and the like), personal assistance to the elderly, assistance in community sports schemes, and many more.

This raises an issue about the structure and function of the jobs. The buffer stock would fluctuate up and down inversely with the level of economic activity in general. While its existence would reinforce the automatic stabilisation already inherent in the fiscal system and further attenuate the amplitude of the business cycle, it remains that it would be a fluctuating work force. The design of the jobs and functions would have

57 Mitchell (1998a) *op cit*, Mitchell and Watts (1997) *op cit*.

58 Mosler W "Full Employment and Price Stability" (1997) 20 *Journal of Post Keynesian Economics* 167-182.

to reflect this. Where projects or functions required critical mass some problems might arise if workers left to take private sector employment. Where the buffer stock employment was covering what was considered essential services the government may consider moving these functions from the buffer stock to the permanent public service. At any rate, the design and administration of projects would have to recognise the fluctuating nature of the employment.

How much would workers be paid under the BSE scheme? Under the BSE scheme, wages are paid which correspond to the bottom of the wage structure. A healthy person should quickly develop adequate skills for these types of jobs. Where training is required, the BSE scheme would provide integration with public sector training schemes and at least give the trainees guarantees after the training period.

Does the BSE scheme amount to conscription and an abrogation of rights for the unemployed? The BSE scheme guarantees jobs for those who seek employment. Job seekers can still seek private sector jobs or BSE participants can change to private sector jobs. Indeed, as private sector activity rates expand there will be a net flow from the BSE sector to the private sector, the flow would reverse when private sector activity slackened. The BSE scheme fulfills the desires of all those who seek employment.

Is the BSE scheme another work for the dole scheme? Unlike contemporary work for the dole schemes, the BSE participants would be paid minimum award wage rates over the week. They would be accorded the collective rights and protections, as well as the obligations, of those in employment. They would have rights to sickness and holiday benefits, protection against unfair dismissal and the right to a safe working environment. They would not be in a "program" and could, if they chose, remain in a buffer stock job permanently.

What would the BSE scheme cost? There are three studies of such schemes that provide estimates of costs in the UK, the US and in Australia. Wendell Gordon calculated the costs of a jobs guarantee in the US on the assumption that 8 million jobs would be necessary. He concluded that the initial cost to government would be US\$39 billion or US\$41 billion with a more generous wage payment.⁵⁹ Gordon does not consider the dynamic effects that would follow the multiplier and so his estimates are overstated. Based on current US data (June 1997) from the BLS a return to a 2 per cent unemployment rate would require around 4.1 million jobs to be created.

59 Gordon W "Job Assurance — The Job Guarantee Revisited" (1997) 31:3 *Journal of Economic Issues* 817-825.

Kitson et al consider a "policy agenda involving a major public-investment-led program involving one million new jobs being created"⁶⁰ in the United Kingdom. The cost of the program taking into account the outlays on wages and the savings on transfer payments and extra taxes was estimated to be £7 billion. A 2 per cent unemployment rate with a labour force of 28 million would require around 840,000 jobs being created given the current level of employment (June 1997). Adjusting Kitson's calculations (which were based on 750,000 direct jobs and 250,000 jobs from multipliers) gives a cost of £5.9 billion.

Mitchell and Watts estimate that the initial cost of driving unemployment down to a "full employment" rate of 2 per cent using a BSE scheme would be around \$7.4 billion over a year.⁶¹ The relative costs of this scheme for Australia are best illustrated by considering the costs of not doing it. At average productivity levels, the current cost to Australia in foregone production with the unemployment rate above 2 per cent is a staggering \$87 million dollars per day at the current unemployment rate (ignoring hidden unemployment). These daily losses are permanent and at the same time the Government also foregoes tax revenues. Taxes amount to about 23 per cent of GDP. The lost taxes therefore amount to around \$7.3 billion per year. The BSE proposal is thus a very cost effective option. In addition, the high unemployment places increased costs on the health system, and is associated with increased family breakdown and higher crime rates.

The administration costs would be non-zero, but so are the administrative costs associated with high unemployment, which extend well beyond the costs of running the unemployment benefits system. The administrative costs of running the health system, the social security system, the judicial system and the family court system would all be lower under the BSE proposal.

What about potential adverse inflation and external sector consequences of the BSE program? Mitchell considers these technical issues in detail.⁶² Suffice to say, it can be

60 Kitson M Michie J and Sutherland H "A Price Well Worth Paying? The Benefits of a Full-Employment Strategy" in Jonathan Michie and John Grieve Smith (eds) *Employment and Economic Performance: Jobs, Inflation and Growth*, (Oxford University Press, Oxford, 1997) 234.

61 Mitchell and Watts (1997) *op cit*.

62 Mitchell W "Why Deficits Do Not Need To Be Financed" (1998) Mimeo Department of Economics University of Newcastle, Mitchell W "The Buffer Stock Employment model in an open economy" paper to be presented at the Functional Finance in Retrospect and Prospect conference at the New School for Social Research, New York, 20-21 April, forthcoming in published proceedings, Mitchell W "The Buffer Stock Employment Model and the NAIRU — The Path to Full Employment", *Journal of Economic Issues*, forthcoming.

demonstrated that in a full employment economy the buffer stock scheme can be both price stabilising and internationally competitive.

Should we ignore the rising budget deficits implied by the BSE policy? One of the most damaging analogies in economics is the supposed equivalence between the household budget and the government budget. For example, Barro says "we can think of the government's saving and dissaving just as we thought of households' saving and dissaving."⁶³ The analogy is flawed at the most fundamental level. The household must work out the financing before it can spend. Whatever sources are available, the household cannot spend first. Moreover, by definition a household must spend to survive. The government is totally the opposite. It spends first and does not have to worry about financing. The important difference is that the government spending is desired by the private sector because it brings with it the resources (fiat money) which the private sector requires to fulfill its legal taxation obligations. The household cannot impose any such obligations. The government has to spend to provide the money to the private sector to pay its taxes, to allow the private sector to save, and to maintain transaction balances. Taxation is the method by which the government transfers real resources from the private to the public sector. Any spending above taxation results in a budget deficit.

Government spending increases reserves in the banking system. Taxation and borrowing drain the reserves. This gives the clue to the function of borrowing. A deficit generates a net build up in reserves in the banking system. The spending occurs and the private firms and individuals that sell goods and services to the government deposit the proceeds in the commercial banks, which build up reserves. Unless those reserves are drained from the system, they will earn a zero return. That is the role of the government bond issues is to give these returns a way to earn a non-zero rate of return. One way of doing this would be through the maintenance of a BSE scheme, which in effect would issue government debt to the private sector.

Conclusions

Mass unemployment has become a permanent feature of many advanced economies. Measured unemployment rates understate the incidence and the uneven distribution of unemployment. The most pressing efficiency reform facing Australia and many other economies remains the achievement of full employment. Unemployment generates enormous personal and community costs. To eradicate the burden of unemployment requires a three-stage policy. First, the right to work must be

63 Barro R *Macroeconomics* (Wiley, New York, 1993) p 367.

recognised and codified. Without this right a large minority of the community will be excluded from effective participation in the economy and community. Second, the guarantee of the right to work leads to the requirement for a full employment policy. While there have been many national and international proclamations of the virtues of full employment, the achievement of the goal has, since the early 1970s, seemed more and more remote. Third, a BSE model as proposed by Mitchell offers a means for realising the right to work and full employment objectives.⁶⁴ The BSE model is not utopian, inflationary, too expensive or destabilising. The economic, community and social potential of a BSE program dwarfs the so called gains from the microeconomic reform agenda that has dominated policy discussion in Australia over the past decade. ●

64 Mitchell W "The Buffer Stock Employment Model and the NAIRU — The Path to Full Employment", *Journal of Economic Issues*, forthcoming.