

Unemployment Policy in Australia

A Brief History



Involuntary unemployment was once effectively eliminated in Australia using a buffer-stock of jobs, meaning that anybody who wanted work could find a job. Today, inflation and wage costs are managed through a buffer-stock of the unemployed. This shift is as profound in impact as any in our political history.

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About Per Capita

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Executive Summary

Maintaining full employment in Australia was once considered a top priority of state and federal governments. For more than two decades, between the end of World War Two and the early 1970s, unemployment in Australia was around two percent. Keeping unemployment low was seen as a collective responsibility. There was explicit acknowledgement of the fact that capitalism, by its very nature, produces winners and losers, and that if we want the benefits of a market-based capitalist economy then we must also take responsibility for the casualties.

In the 1970s and 80s all of this changed. Liberal free-market ideas rose to dominance across most of the world in what is now often referred to as neoliberalism. Instead of viewing unemployment as a collective problem, neoliberalism painted unemployment as an individual responsibility. The public focus shifted from ensuring there were enough jobs for all to a dialogue around individual employability. Tellingly, it was in the mid-70s that the term 'dole-bludger' entered the Australian lexicon. Ever since then successive governments have been increasingly punitive in their treatment of the unemployed.

The focus today is, in effect, on punishing and stigmatising the unemployed for being unemployed even when there are many more job seekers than there are jobs. The mutual obligation framework that currently underpins unemployment benefits rests on an assumption that the unemployed need to be pushed to look for work and that many would not apply for jobs if they were not forced to. To some extent this may be true, but only because many know that there are no jobs for them. Thus, mutual obligation activities become pointless and degrading bureaucratic hoop-jumping exercises.

The technocratic justification for the shift away from full employment policy was inflation control.

The theory says that there is a natural rate of unemployment below which wage pressures drive inflation. What's never stated explicitly is that the decision to prioritise inflation over employment in public policy was a political victory of capital over labour. Inflation is often referred to as a tax on capital and has always been viewed with much greater fear by the capitalist class. Similarly, the presence of a pool of desperate unemployed people, who are kept at or below the poverty line, undermines the power of labour by making the withdrawal of participation much costlier. The result has been a substantial shift in power from labour to capital since the 1970s and a corresponding shift in the allocation of national income. The post-war years saw a marked decline in inequality in Australia, a trend that was sharply reversed from the 1970s onwards.

Australia operates under a theoretical policy framework that makes use of a buffer-stock of unemployed people to maintain price stability. Within this framework there is a strong argument for supporting unemployed people with much higher welfare payments, in recognition of the fact that they are casualties of our public policy decisions.

However, at Per Capita, we believe that an even better approach would be to pay attention to the flaws in our current policy framework and shift our priorities back to creating full employment. It's much better for everyone if we create employment for the unemployed rather than compensate them.

Introduction

UNEMPLOYMENT AS A PHILOSOPHICAL PROBLEM

Since Federation, Australia has gone through several dramatic shifts in social and policy attitudes towards unemployment. Today's punitive approach, where unemployment is seen as an individual responsibility and determined largely by the employability of the individual, is relatively new. There was a time when the Australian government explicitly acknowledged that a certain level of unemployment was a natural consequence of a market-based capitalist system and, if we wanted the benefits of such a system then we should take collective responsibility for those left behind by it.

In an environment where there are more job seekers than there are jobs, it's a profound cruelty and dishonesty to blame the unemployed for their plight. It's also misguided to think that the punitive "mutual obligations" framework currently forced upon the unemployed can possibly contribute to increased levels of employment when the jobs just aren't there. There is no evidence that lack of motivation to find work significantly contributes to levels of unemployment in Australia but we continue to implement policy based on this assumption. Current levels of Newstart, colloquially known as the dole, are so low that it's impossible for recipients to meaningfully participate in society, particularly in our capital cities where it's not even enough to cover housing expenses.

"Unemployment is no longer a policy target, it's a policy tool... Unemployment is now used to discipline wage demands in the workforce to keep inflation down."

Professor William Mitchell – Centre of Full Employment and Equity, University of Newcastle

As one of the richest countries in the world, we should be striving to support the most disadvantaged among us and to help them fully participate in society.

Federal government fiscal, monetary and taxation policy has a profound impact on economic outcomes and their distribution.

How much of a nation's productive output should be received by workers and how much should be received by the owners of capital? This question is not easy to answer and highlights a power struggle that lies at the heart of capitalist economies. Government policy plays a central role in determining how this struggle plays out and it is currently set to explicitly favour capital over labour and shift the overall distribution of economic output away from wages.

BOX 1. UNEMPLOYMENT: SOME DEFINITIONS

Official unemployment figures

To be counted as officially unemployed in Australia you need to be actively looking for work, working less than one hour per week and be ready to start work within a week. Importantly, unemployment is a percentage of the active labour force. Anyone who has given up looking for work (known as a 'discouraged job seeker') is not counted as part of the labour force. This makes the participation rate, and the reasons for not participating in the labour force, also relevant to discussions of unemployment.

Underemployment

Underemployment refers to individuals who are working but would prefer to work more hours. Many who are counted as underemployed are virtually unemployed given the threshold for employment is only one hour of work per week.

Underutilisation

Labour underutilisation is a count of the total number of people unemployed and underemployed. There is another, less commonly used measure, extended underutilisation, that includes both discouraged job seekers and those not able to start work within a week but willing to start within four weeks (Trewin, 2002). Extended underutilisation is the most useful measure of the extra work desired and the extra labour that could be employed in a full employment economy.

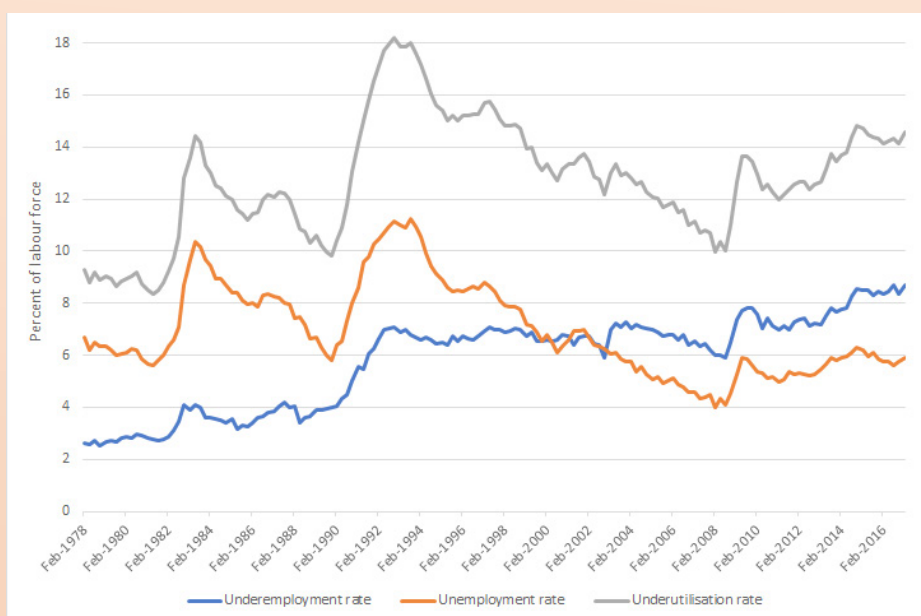


Figure 1: Forty years of unemployment, underemployment, and underutilisation in Australia. From ABS 6202.0.

Frictional, Structural, and Cyclical unemployment

There exists a base rate of unemployment that's unavoidable and results from people who are temporarily out of work after a redundancy or while voluntarily changing jobs or after completing education or training. This type of unemployment is called frictional unemployment. By contrast, structural unemployment refers to unemployment caused by structural change in the economy that results in a mismatch between the skills of the workforce and the skills demanded by employers. Cyclical unemployment rises and falls with the business cycle and is a result of insufficient private demand for labour, regardless of the skills.

THE CHANGING NATURE OF THE AUSTRALIAN ECONOMY

The most notable change in the employment landscape in Australia over the last fifty years has been the decline in jobs in agriculture and manufacturing and the increase in jobs in services industries, such as health, education, and hospitality. The decline in employment in agriculture has been largely a result of technological change and the shift towards large scale broad-acre farming from smaller, family run farms. Declines in manufacturing employment have been partly caused by changes in technology but are mostly a result of competition from imports. The reduction of tariffs and other trade barriers in the 1970s and 80s left many previously protected industries trade-exposed and unable to compete with cheaper imports. These trends are set to continue but in the future will be driven more by technology than offshoring.

Robots, Artificial Intelligence and the Future

It is becoming more widely accepted that we are on the cusp of another industrial revolution driven by robotics and artificial intelligence (AI). A long list of reports now exists from throughout the OECD estimating the number of jobs that are at risk of automation. One such report conducted for Australia put the figure at 40% of jobs at risk of automation by 2030 (Committee for Economic Development of Australia, 2015).

Self-driving cars, buses and trucks are perhaps the clearest and most imminent of these large-scale disruptive technologies. Every major car manufacturer is developing self-driving technology as are several new entrants, including Google, Apple and Tesla. This technology is very close to mature with millions of kilometres of testing demonstrating the safety and reliability of driverless cars. It is no longer a matter of if but of when almost all professional drivers will be replaced by computers. In Australia there are currently over 3 million jobs that involve driving, hundreds of thousands of which are predominantly or entirely driving jobs (Committee for Economic Development of Australia, 2015).

Driverless cars are only one of the more obvious of the disruptive technologies and it is not just low-skilled jobs that are at risk, nor only manual jobs. Warehousing, packaging, retail, accounting, law, programming, fund management and medical imaging are all industries at high risk of disruption using technology that is mature or almost mature today. Many previously highly paid and highly complex tasks are being mastered by artificial intelligence.

This is not some dystopian vision of a distant future but merely the acceleration of a process that has been occurring for decades. Routine jobs, whether manual or cognitive have been in decline since the 1980s, replaced by non-routine jobs (Figure 2). While computers and automation have greatly contributed to this decline in routine jobs, so has offshoring.

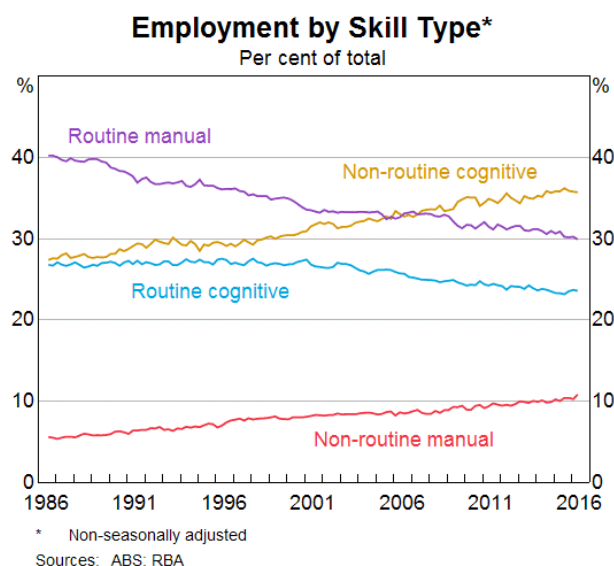


Figure 2. Routine jobs, both cognitive and manual, are in decline. This is partly a result of computerisation and robotics and partly offshoring of routine jobs. From RBA's Alexandra Heath speech 'The Changing Nature of the Australian Workforce'

Just like previous periods of dramatic structural change, there are optimistic and pessimistic forecasters. Most economists believe that this will be no different from past technological change and that the destruction of some jobs will just lead to the creation of others. However, a substantial minority of economists, and many technology professionals and futurologists, believe this time is different. The pace at which robotics and artificial intelligence is advancing implies that the turnover in jobs will be very rapid and will only end when machines can do everything that humans can do, leaving us economically redundant.

Regardless of who is right, there appears little doubt that massive disruption is just around the corner. Many will lose their jobs. Even if we only consider professional drivers, there is a huge task ahead retraining and redeploying hundreds of thousands of people into new positions. We should be preparing for this transition now.

The next industrial revolution could be a great boon to Australia or it could be a period of massive unemployment and social upheaval. There is a very strong case for active and pre-emptive government intervention to prevent the latter. The power balance in Australia has, for some decades, been shifting in favour of employers over employees and unless we redress this imbalance then the enormous potential benefit of AI and robotics will also go disproportionately to the owners of the new technology.

The First Century of Unemployment in Australia

Unemployment in Australia in the 20th century was marked by distinct periods, the most striking of which were the Great Depression and the “post-war boom” (Figure 3). These two extremes provide valuable insight into the impact of public policy, external shocks, and domestic economic conditions on levels of employment.

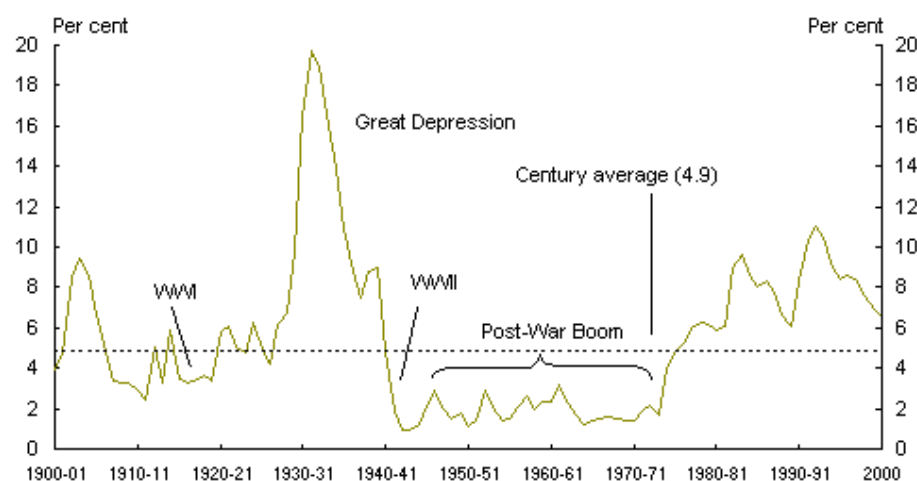


Figure 3. Australia's unemployment rate, 1901-2001. From Australian Government Treasury, 2001.

THE GREAT DEPRESSION

Triggered by a financial crisis in the United States, the Great Depression hit Australia hard. Initial policy responses across the globe included raising of tariffs and implementing financial capital controls. These protectionist responses are largely blamed for rapidly deepening the recession in what had been a highly trade-linked global economy. Unemployment in Australia peaked at almost 20% during the depression years (Figure 3). This was an average figure, with unemployment in some parts of the country and for young school leavers being much higher.

During the Great Depression, when domestic economic conditions were very weak and tax receipts were falling quickly, the federal government cut back on spending. This was the policy orthodoxy of the time, treating government like any other economic entity that should adjust spending according to revenue. The result, obvious with hindsight, was that reduced government spending exacerbated the economic crisis by further reducing demand. This depleted government revenues further, resulting in still greater pressure to reduce expenditure.

WORLD WAR TWO

On the tail of the recovery from the Great Depression came the Second World War. This turned out to be another critical phase in the development of employment policy in Australia.

By 1943 close to two-thirds of the available labour force was employed either directly in the armed services or in supplying the Allied forces with food, clothing, transport, and administrative services (Butlin & Schedvin, 1977). This left a dramatic shortfall in labour for the rest of the economy. Rationing and price controls were used to partly address the impact of labour shortages but the most substantial change was the increase in the participation of women in the workforce. Competition for labour between private producers, the armed services and public employers engaged in the war effort was fierce (Figure 4) and, in the end, had to be strictly controlled by government. The efficiency of the economy at full employment inspired employment policy for decades to come.

A small group of economists in the commonwealth government's Financial and Economics Committee, trained in the new Keynesian economics, was extremely influential in planning for peace during the last years of the Second World War. During the war, they had observed the capacity of government expenditure to eliminate unemployment and saw no reason why this could not be replicated during peacetime.



Figure 4. Competition for female labour was fierce. Reproduced from Butlin & Schedvin (1977).

THE POST-WAR BOOM, KEYNES, & THE WHITE PAPER ON FULL EMPLOYMENT

The period from the end of the Second World War to the early 1970s is often referred to as the post-war boom. This period saw consistently low unemployment (Figure 3), relatively stable inflation, high real wage growth and reduced inequality. Lessons learnt from the end of World War One meant that the transition from war to peace was very well planned with returning servicemen readily able to find work and, where necessary, new homes. In addition, price controls and rationing that had been in place during the war were continued in the post-war years and steadily phased out through the 1950s.

Women in the post-war boom

Despite their competent running of much of the economy during the war, married women were mostly sent back home to be housewives at the end of the war and were still forbidden from working in most public service positions. The experience of women in the war was, however, instrumental in their political push for equal industrial rights. Legally these were finally realised in the late 1960s and early 70s but in practice the campaign for equal pay and equal treatment continues today.

Bipartisanship on unemployment

The shift from Labor to Liberal government during the boom years did not alter the commitment to full employment, which had become a baseline expectation in the electorate. Robert Menzies almost lost the 1961 federal election in part due to an unemployment level that had briefly risen to almost three percent (Bell, 2000).

This period is also characterised by a massive immigration program with over 1.6 million people arriving between the end of the war and 1960 who were not only accommodated without raising unemployment rates but who are credited with contributing significantly to the economy of the day (Collins, 2008).

“We’re all Keynesians now”

John Maynard Keynes famously drew on the experience of the Great Depression in England and across the globe to develop what is now referred to as Keynesian economics. Keynes asserted that the natural ups and downs of the business cycle could be greatly ameliorated if government spending was counter cyclical: increasing spending during economic downturns and reducing spending during economic booms (Keynes, 1936).

In the decades following the Great Depression, most economists and policymakers in the world thought and acted according to Keynesian principles, even when they denied the validity of the theory. In Australia, it was the dominant view among Treasury economists that the government should use its fiscal capacity to maintain full employment and that this would greatly reduce the destructive outcomes of economic downturns and avoid another Great Depression.

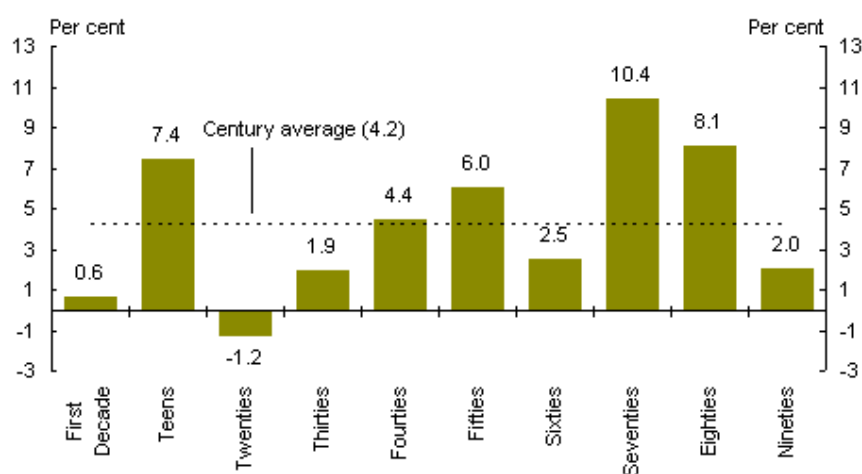


Figure 5. A century of inflation. From (The Australian Government Department of Treasury, 2001).

The 1945 White Paper

A combination of the memory of the Great Depression and the productivity of the war-time economy brought about a radical rethink of employment policy in Australia. The Labor party of the day, led by John Curtin, produced a White Paper titled *Full Employment in Australia*, inspired by a similar piece of work conducted in England following the war (Coombs, 1994).

This remarkable (by today's standards) document committed the government to adjusting government expenditure such that there was always sufficient demand to maintain the economy at full employment. This policy drew on Keynesian principles that the economy is fundamentally demand driven and, as a result, subject to downturns that are self-reinforcing. According to the White Paper, the government has the capacity and the obligation to step in when private demand falls in order to prevent the kind of self-reinforcing downward spiral that led to the Great Depression. It's worth quoting the White Paper at some length:

5. The policy outlined in this paper is that governments should accept the responsibility for stimulating spending on goods and services to the extent necessary to sustain full employment. To prevent the waste of resources which results from unemployment is the first and greatest step to higher living standards. But if our living standards are to increase to the greatest extent possible, we must produce as efficiently as possible goods that are wanted.

6. There will be no place in this full employment policy for schemes designed to make work for work's sake...

22. A tendency of spending to decline, thus causing unemployment, can be offset by a relatively small increase in public expenditure and by banking policy and other measures to encourage private spending. Just as unemployment breeds more unemployment because unemployed workers and depressed businesses are bad customers for other industries, so employment breeds more employment because extra demand for some goods enables the producers of those goods to increase their purchases and so on. If governments maintain a continual close review of current and prospective trends in spending and the level of activity in the economy, they will be ready to act as soon as a decline threatens. The earlier they do so, the smaller will be the increase of public and private expenditure required. When expenditure is increased it will give additional employment and incomes to some producers; their extra spending will still further increase employment and incomes, and this process will go on for some time multiplying on itself.

23. The essential condition of full employment is that public expenditure should be high enough to stimulate private spending to the point where the two together will provide a demand for the total production of which the economy is capable when it is fully employed. The effectiveness of public expenditure in stimulating employment generally is vividly brought home by our experience at the beginning of this war. There were then more than a quarter of a million unemployed. The Commonwealth Government directly absorbed some of these people into the armed forces, into clothing and munition factories, and into building new factories, aerodromes, and similar establishments for war purposes. The balance of the unemployed was quickly absorbed by private enterprise to produce goods and services to meet the demands of these newly employed workers, and to meet the demands of the government for war goods. During the war, the high level of government expenditure required to achieve our war effort has not only resulted in full employment, but has caused a continual strain on available resources, and has invoked a contraction and diversion of private enterprise because of the scarcity of resources.

The 1945 White Paper - Full Employment in Australia, in Coombs (1994)

At the same time that Australian policy-makers were focused on full employment, the United Nations Charter enshrined employment as a basic human right and committed signatories to using available policy levers to achieve full employment (Mitchell & Muysken, 2010).

Involuntary unemployment was effectively eliminated during the post-war boom through the maintenance of a buffer-stock of jobs. It was possible for the unemployed to simply turn up at a rail yard or parks and gardens office and be given a job that was ready to do. The Commonwealth Employment Service (CES) was dedicated to finding work for people and providing them with financial assistance when needed to achieve employment. Contrast this with the last days of the CES or today's Centrelink whose role seems to be to make unemployed life as miserable and degrading as possible.

The Reserve Bank of Australia didn't exist during this period though many of its functions were carried out by the Commonwealth Bank, which was owned by the Commonwealth Government. The Commonwealth Bank acted both as government central bank and set a baseline for retail banking. The capacity of the Commonwealth Bank to finance government deficits was explicitly understood and acknowledged. Indeed, post-war government budgets were almost all in deficit during this time while the government debt-to-GDP ratio was falling steeply. In addition to employment policy, we could learn much about fiscal policy from this period.

Protectionism

The Great Depression saw governments around the world implement trade policies aimed at protecting their own industries from cheap imports. These primarily took the form of import taxes (duties and tariffs) that lifted the domestic price of imported goods. These protectionist policies were largely maintained during the post-war boom, resulting in the expansion of a broad range of Australian manufacturing industries, from clothing to automobiles.

While government economists were concerned about protectionism creating inefficiencies through complacency, they considered this a worthwhile risk in order to create full employment and a diverse economy that was not overly reliant on the sheep's back (Coombs, 1994). Government institutions were tasked with both monitoring the efficiency of production and helping industries to increase efficiency. The CSIRO is one of the few remaining institutions of this kind – though its role and capacities have altered greatly since the days when it was considered one of the premier government research bodies in the world.

THE END OF THE DREAM: 1970s OIL SHOCKS AND THE RISE OF NEOLIBERALISM

The 1970s saw a dramatic rise in inflation in Australia. The main trigger was the 1974 oil shock but other factors were also in play. This price-push led inflation caused a rapid increase in unemployment. Because of the strong bargaining power of labour, wages were pushed to keep up with, and sometimes exceed price rises. With prices and wages rising faster than productivity, unemployment continued to rise.

Unemployment rose sharply from a 1960s average of less than two percent to over six percent by the end of the 1970s and, after a brief reprieve, continued upwards to ten percent by the early 1990s (Figure 3).

Women and Indigenous Australians achieve equal pay

Commonwealth Arbitration Commission rulings in 1969 and 1972 mandated equal pay for women, which had been previously mandated at 75% of men's pay. This, combined with substantial wage rises during the late 1960s and early 70s, led to a dramatic increase in the cost of labour.

In 1965, the Commonwealth Arbitration Commission awarded indigenous Australians equal pay with non-Indigenous Australians, though the ruling didn't take effect until 1968 (Norris, 2001).

The 1971 census and Indigenous unemployment

The 1971 census was the first opportunity to examine indigenous disadvantage on an Australia-wide scale because the definition of aboriginality changed to being self-identified. The referendum of 1967 had given the commonwealth powers to legislate on indigenous matters, previously a power held only by the states. These two combined with the broad social changes of the 1960s and 70s to bring a new focus on indigenous disadvantage in all its forms.

The first data-rich studies emerged from the 1971 census on the Indigenous workforce, showing that only 45.6% of indigenous Australians were in the labour force, compared to over 60% of non-Indigenous Australians at the time. Indigenous unemployment in 1971 was 9.3%, over five times the non-indigenous rate of 1.7% (Altman & Nieuwenhuysen, 1979).

In 1977 the Community Development Employments Projects (CDEP) Scheme was launched. This was the first specific labour market program for indigenous Australians. It was also the first of what was to become many incarnations of Work for the Dole style schemes where participants either voluntarily or compulsorily engaged in work in return for income support payments. The goal of the CDEP was to provide training, employment, experience, and enterprise support in remote indigenous communities. After a trial period the CDEP steadily expanded throughout the 1980s and most of the 1990s.

“Full employment abandoned”

The 1974 oil shock and associated inflation (Figure 6) triggered an abandonment of bipartisan full employment policy in Australia and throughout the anglosphere (Mitchell & Muysken, 2010). The emphasis shifted from a government responsibility to maintain sufficient demand for full employment to a focus on individual employability. Government policy priority turned to managing inflation instead of employment, an approach referred to as 'monetarist'. Unemployment became “couched as a problem of welfare dependence rather than a deficiency of jobs” (Cook, Mitchell, Quirk, & Watts, 2008). Tellingly, it was in the mid-1970s that the term dole bludger first emerged.

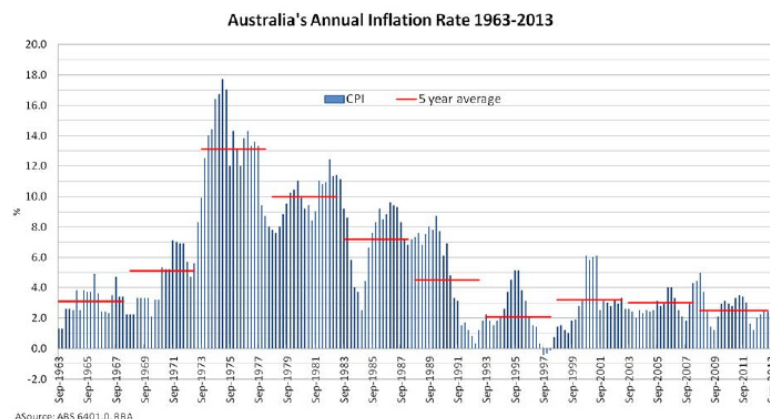


Figure 6. Inflation 1963-2013. Source ABC News.

Even though the inflation of the 1970s was driven largely by external factors (Figure 7), including oil supply shocks and the increased mobility of global capital, the Australian solution focused on the relative power of labour and capital. This shift was not a result of fundamental structural changes in the Australian economy but, rather, global changes in governance ideology away from highly interventionist government towards free markets; at least where free markets suited the holders of capital. The shift in government priority from managing unemployment to managing inflation can also be seen through this lens as inflation is often thought of as a kind of tax on capital.

These so-called “neoliberal” ideas and policy prescriptions had been developed over decades by small-government, free market advocates who were waiting in the wings for an opportunity to implement them. The oil shocks provided just such an opportunity to paint the dominant Keynesian system as a failure.

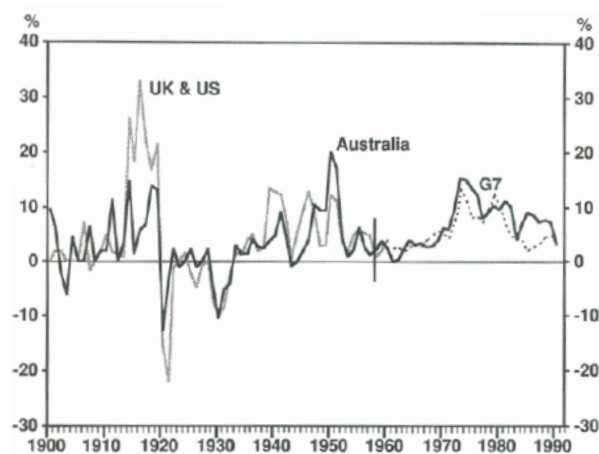
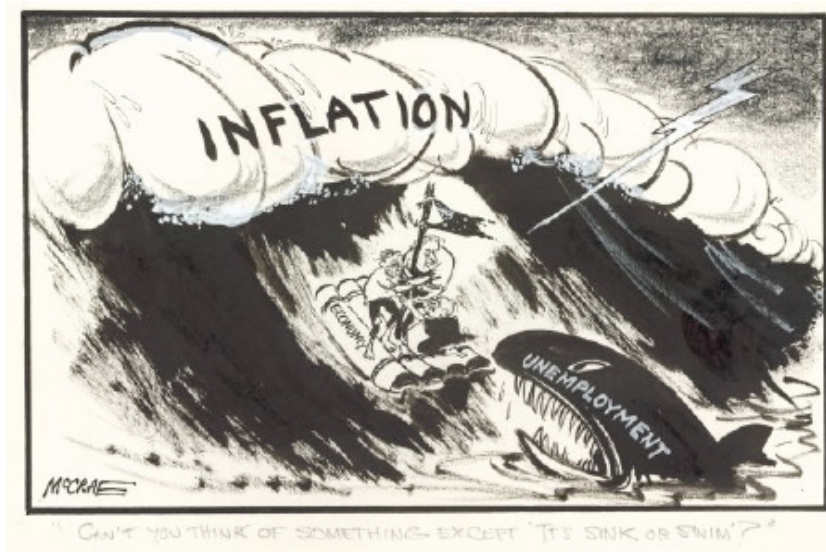


Figure 7. Much of Australia's inflation has been imported. Reproduced from (Stevens, 1992).

This change is of enormous significance and represents an ideological triumph of capital over labour. At the same time, to provide an intellectual rationale for this shift away from full-employment, the notion of a Non-Accelerating Inflation Rate of Unemployment (NAIRU) was rolled out. The explicit goal of keeping unemployment at or above the NAIRU is to limit the power of labour to demand higher wages. The justification for this is that higher wages both create greater demand for goods and services and increase the costs of production, and these forces work together to drive inflation.

The NAIRU, and the trade-off between employment and inflation

The Non-Accelerating Inflation Rate of Unemployment (NAIRU) is a theoretical level of unemployment below which employees gain sufficient power to push wage growth beyond productivity growth. The result of wages rising faster than productivity is inflation as demand for goods and services outstrips supply.



The larger the pool of unemployed workers, the greater the risk faced by employees demanding higher wages because they are readily replaced and will find it harder to get alternative work. In conditions of full employment – when there are jobs for all who want one – employees can walk away from unsatisfactory pay or conditions with confidence that they will not remain unemployed for long.

While the NAIRU may appear theoretically sound, in practice there is no agreement on how to calculate it. Academic debate surrounding the appropriate methods are unresolved and the evidence indicates that the real world is too complicated for any currently used method to be a strong guide to policy. Independent calculations of lower bounds for the NAIRU vary greatly and most are significantly lower than Treasury estimates (e.g. Dixon, Freebairn, & Seyoum-tegegn, 2008; McDonald, 2007).

The experience of the post-war boom years demonstrates that the NAIRU can itself be pushed down through policy action. Increasing productivity allows production to keep pace with wage rises. This is the balance we should seek through policy, not just inflation control and GDP growth. Maintaining low unemployment and relatively high labour power will enable labour to take a greater share of economic output, thus reducing inequality and lifting the material standard of living for most Australians.

In addition, there is growing evidence that a tight labour market promotes innovation and productivity enhancements as employers are motivated to reduce labour costs (Bivens, 2017). Thus, accepting a high NAIRU may be stifling productivity growth, unnecessarily reducing wages, and reducing overall economic growth.

Despite the shortcomings of NAIRU calculations, there is clearly a relationship between levels of employment and inflation. However, it is far more complicated than a simple correlation between unemployment and CPI. The short-term unemployment rate is likely to be a more important determinant of inflation than the overall unemployment rate

because the long-term unemployed do not constitute a meaningful buffer-stock of labour (Mitchell, Muysken, & Welters, 2013). Similarly, Mitchell et al. (2013) found that labour underutilisation was more strongly correlated with inflation than standard measures of unemployment. They concluded that underemployment in the form of limited within-firm working hours was an important constraint on wage claims. Updated analyses confirm that this trend continues today with a clear relationship apparent between underemployment and inflation but not between unemployment and inflation (Figure 8).

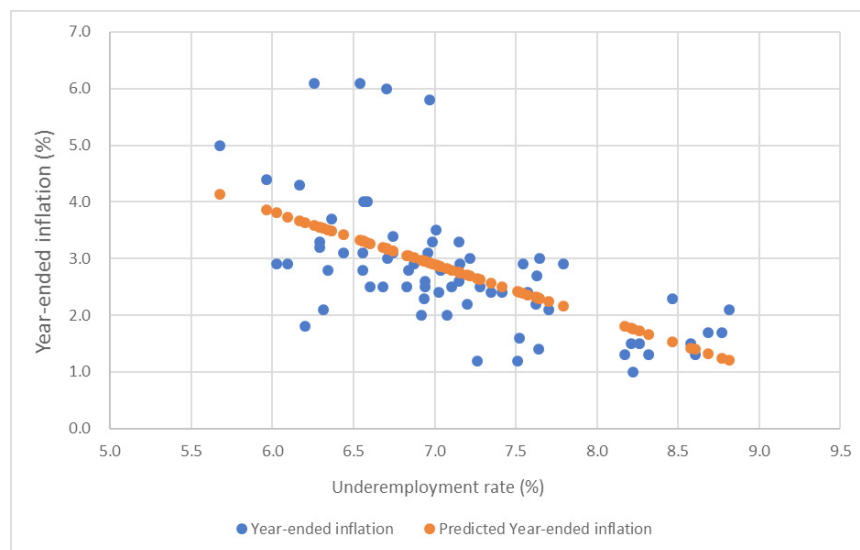
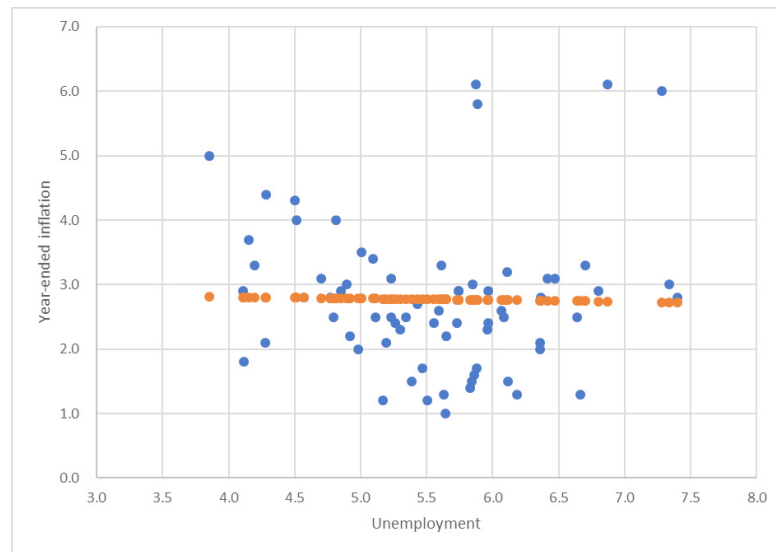


Figure 8. Regressions of the relationship between the unemployment rate and inflation (upper chart) and underemployment and inflation (lower chart) plotted quarterly from 2000-2017. The outlier inflation points (at around 6%) are the quarters following the introduction of the GST.

A capitalist economic system is, by its very nature, characterised by a tension between labour and capital. The appropriate distribution of output between those who do the work and those who own the means of production cannot be determined through empirical means but is a normative question largely resolved through a contest of political power. The stagnation of wages accompanied by continued economic growth and corporate profit growth in Australia in recent years suggests that the balance in this power struggle has recently tipped in favour of employers (Figure 9). The NAIRU, as it is currently used in mainstream economics and politics, provides theoretical and intellectual justification for maintaining this imbalance.



Figure 9. Employee compensation as a percent of GDP. From ABS 5206.0.

Hawke/Keating and the (neo)liberalising of the economy

Economic policy in the post-war boom years was characterised by a high level of government control and intervention in the economy. Protectionist trade policies were the norm across the world as governments sought to shelter domestic industries from cheaper labour or more efficient production overseas.

The abandonment of the gold standard in the US by President Nixon in 1971 was the beginning of the end for heavily interventionist government. In the 1980s Ronald Reagan in the US, Margaret Thatcher in the UK and the Hawke and Keating governments in Australia implemented liberal, free-market economic reforms that included, among many other things, a dramatic reduction in protectionism and an aspiration of the abolition of import duties and tariffs. Keating also floated the dollar and sold the Commonwealth Bank, greatly reducing the capacity for governments to control the economy using the same methods employed during the post-war boom.

“The point of opening up this economy and deregulating it, and lowering tariff walls, and building an export culture, and best practice, was to make sure that Australia became a player in the premier league. I mean where the technology is, where the high value-adding is, and where the best jobs are.

To opt for any other goal is to opt for a place in the second division – where the second rate jobs are and where the national pride is missing.”

(Keating, 1994)

The impact of these reforms on the Australian economy has been dramatic and is still playing out today. While many protected industries have dwindled, or disappeared, there has not been a broad-scale increase in unemployment since the reforms were implemented, as feared by many at the time. Instead, the decline in manufacturing and agriculture jobs has been offset by increases in service industries (Figure 10). It is important to note that the increase in unemployment from the two percent average of the 1960s preceded, and precipitated, the reforms of the 1980s and 90s and was not caused by them.

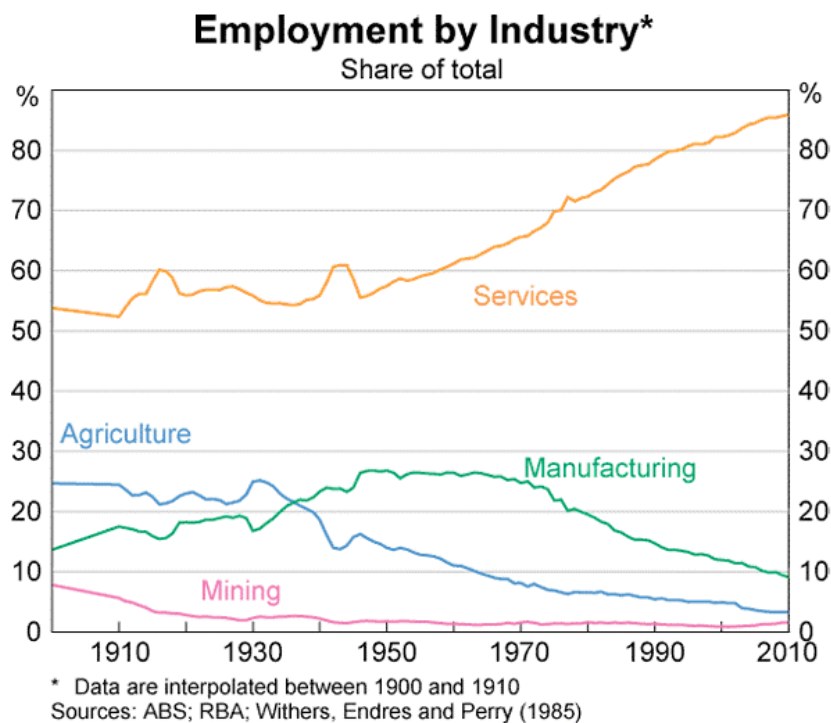


Figure 10. Employment in Australia by industry. From Reserve Bank of Australia (Connolly & Lewis, 2010).

The Prices and Incomes Accord (1983-1991)

The Labor Party under Bob Hawke worked closely with the Australian Council of Trade Unions (ACTU) on its economic reform agenda. As part of these negotiations, an agreement was formalised that the unions would moderate their wage claims in return for a greater “social wage” in the form of improved public medical cover through Medicare, tax cuts, increased pensions and unemployment benefits, and the introduction of superannuation (Wright, 2014). This agreement was formalised in the Prices and Incomes Accord, usually just referred to as the Accord. The Accord was regularly updated during the Hawke/Keating years with seven formal agreements between 1983 and 1991.

The social wage elements of earlier versions of the Accord meant that neoliberal economic reforms in Australia were not as harmful to workers as they were in the United States and the United Kingdom, where unions wielded little power at the time (Wright, 2014). While international forces and a kind of political zeitgeist brought neoliberal economic reform to Australia, the Accord made the outcomes different from those overseas, particularly for those who were negatively affected by the reforms. The historical significance of this, and its value to contemporary policy making should not be overlooked; despite the power of global trends, Australia can chart its own course.

Nevertheless, the Accord was highly controversial among unionists, particularly in its latter forms where many considered it gave too much away to business interests without securing equivalent gains in the social wage.

New Enterprise Incentive Scheme (NEIS)

First introduced as the Business Enterprise Scheme in 1985, the New Enterprise Incentive Scheme (NEIS) continues relatively unchanged today. Its purpose is to support unemployed people to start a new business.

In its current form, it is a ten-month program during which participants receive Newstart but are not required to perform any of the usual Newstart mutual obligations. Instead they receive business training that includes writing a business plan and basics of business accounting. During this period they are also exempt from income tests for Newstart payments for income related to their new business.

Unlike most current employment related programs, the NEIS scheme has the potential to actually create employment and generally enjoys bipartisan support. However, it remains a niche program because starting a full-time business is unsuitable or undesirable for a lot of unemployed people (Edwards, 2016).

Working Nation: the 1994 White Paper on employment

The Keating government's 1994 White Paper, *Working Nation*, was the most substantial government policy document on unemployment since the 1945 White Paper. When contrasted with the 1945 Paper, the 1994 version is a tamer and less ambitious document but still contains some very significant reforms. *Working Nation* stopped well short of the 1945 commitment to full employment or of acknowledging unemployment as a collective responsibility. It was still couched primarily as an individual employability issue. Both 1945 and 1994 White Papers were very much a product of their times, reflecting dominant global economic narratives.

"If we are to develop the strength to compete in the world and maintain and increase our standard of living, we must make the most of all of our resources. Greatest of all these are the talents and energies of the Australian people. When we waste them, we are weakened. When we employ them, we are made stronger. The policies described in this statement are policies for economic and social strength. The two go hand in hand, and with them go more opportunity, more fairness, more confidence and faith in our country and ourselves, more cooperation and cohesion in communities and across the nation."

(Keating, 1994)

Perhaps most significant of the reforms contained in *Working Nation* was a new approach to assisting the long-term unemployed, a category that was almost non-existent prior to the mid-1970s. In addition, the White Paper attempted to cater for another relatively new phenomenon, the working married woman.

The Job Compact and New Work Opportunities

The Job Compact initiative involved offering job-ready training, a case manager, and a job for six to twelve months to those who had been unemployed for 18 months or longer. Ideally the job was in private enterprise but, where this was not possible, jobs were created through the New Work Opportunities scheme. Substantial government subsidies were offered to employers to take on long-term unemployed. The longer they had been unemployed the greater the subsidy.

Acknowledgement of part-time work

Part-time work was a growing part of the Australian employment landscape and government unemployment policy had not kept up. Beyond a certain point, unemployment benefits were withdrawn at a taper rate of 100%, meaning that for every extra dollar earned a dollar was withdrawn in income support. This situation was established under the assumption that all work is full-time work. The 1994 White Paper altered the taper rate down to 70%.

Similarly, government support changed from being entirely based on household income to being predominantly based on individual income. These shifts were particularly significant for the increasing number of married women who were entering the workforce and for whom household based income tests and high taper rates for income support were a substantial disincentive to work.

The legacy of *Working Nation*

Many of the most ambitious *Working Nation* reforms were very short-lived with the coalition government, elected in 1996, discontinuing the programs. Most significantly, the Job Compact and New Work Opportunities schemes were axed despite growing evidence they were having an impact on levels of long-term unemployment (Junankar & Kapuscinski, 1998).

The fundamental missing ingredient in *Working Nation* was an examination of the root causes of unemployment. In part, this was due to the optimism of the times. The economy was growing and unemployment was shrinking when the paper was being prepared. However, critics at the time and afterwards, have noted that, aside from New Work Opportunities positions, much of the progress in assisting the long-term unemployed came at the expense of the short-term unemployed, and at greater cost. This is the fundamental problem with treating unemployment as an issue of employability, it ignores the role of labour demand in creating unemployment.

Mutual obligations and ‘Work for the Dole’

Work for the Dole was first introduced by the Howard government in 1998 and continues today. It replaced Labor’s Job Compact as the government’s main approach to tackling long-term unemployment. Unlike the Job Compact, Work for the Dole does not provide a job with a salary, rather it is an activity requirement for those receiving unemployment benefits.

When introduced, Work for the Dole was a compulsory scheme for young job seekers (aged 18-24) who had been on unemployment benefits for more than six months. In 2000, the compulsory part of the scheme was extended to those aged up to 39 and opened up on a voluntary basis for those aged 40-49.

Work for the Dole is a part of the mutual obligations framework under which recipients of unemployment benefits are seen to have an obligation to society. This is one of the clearest illustrations of the shift in government attitude to unemployment that accompanied the rise of neoliberalism. Instead of society having an obligation to the unemployed, the unemployed now have an obligation to society in return for extremely miserly unemployment benefits. Never is it acknowledged, as it was in 1945, that a market-based capitalist system, by definition, has winners and losers and that it often fails to provide enough employment for all who would like work. Instead of acknowledging a lack of demand for labour, our current framework, including Work for the Dole, focuses entirely on the employability of the job seeker and their qualities that have led them to become unemployed.

There has never been any evidence that lack of skills or employability, disorganisation or poor work ethic are a substantial causes of youth unemployment (Bessant, 2000). In a situation where there are more job seekers than jobs and an absence of large-scale job creation, improving the skills of some long-term unemployed people can only result in them getting a job instead of another unemployed person with no net advance in employment.

The 21st Century

Since the days of the 1945 White Paper government policy has shifted from prioritising full-employment to an almost entirely laissez faire approach in which unemployment is treated as a private affair or individual failing. The arguments for the 2017 company tax cuts are a case in point. The prosecution of these tax cuts as creating “jobs and growth” relies on the notion that the best contribution that government can make to employment is to increase business profits so that businesses can increase employment. Taxation, under this paradigm, prevents the full employment that would occur in the absence of government (see Box 2 for a description of the efficient market for labour in the absence of government ‘interference’).

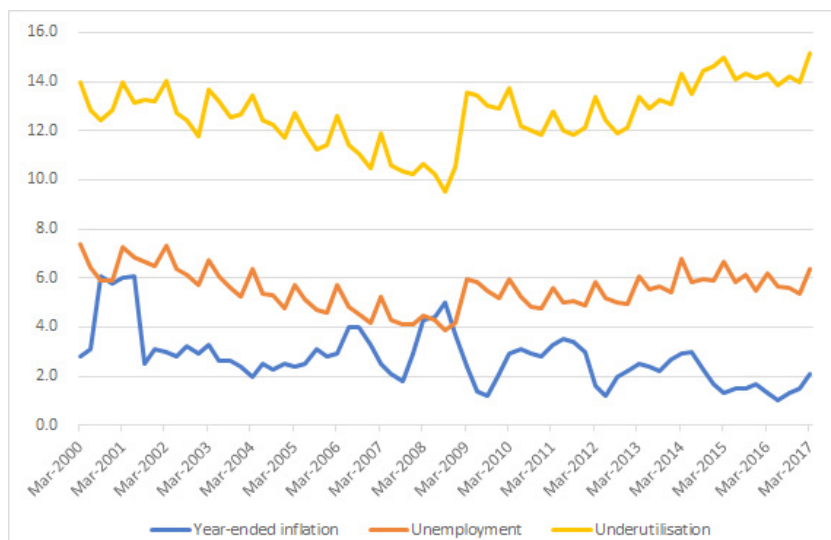


Figure 11. Inflation, unemployment and labour underutilisation (unemployment plus underemployment): March 2000 to March 2017. From ABS and RBA.

Similarly, the never-ending push to increase workforce participation and jobseeker activity implies that there are many Australians who are voluntarily unemployed due to poorly structured incentives. The rationale seems to be that if we can just make life painful enough for those lazy people on the dole then they will find a job. Never mentioned in these narratives is the fact that there are already more job seekers than there are jobs. Motivating more people into the workforce is only useful (to them) if there are more jobs than job seekers or if there is an expectation of large scale job creation.

BOX 2 - THE EFFICIENT MARKET FOR LABOUR

“One way of explaining changes in the underlying unemployment rate is to focus on the basic theoretical model of the relationship between average real wages, average labour productivity and the level of employment. At any point of time - given technology, the capital stock and the supply of labour - there is an average real wage and associated average labour productivity which will generate full employment. An efficient labour market will produce this real wage. If the real wage is maintained above this level there will be unemployment. Consider a number of examples of the way in which this model works.

If the economy is at full employment there is a balance between real wages and labour productivity. Then if real wages increase suddenly, without an increase in labour productivity, firm profitability will fall. Firms will be paying more per worker (real wages have increased) without receiving additional output per worker (labour productivity has not changed). In response, firms will attempt to offset their profitability decline. In a competitive environment, firms will reduce employment to increase labour productivity and restore the balance between average real wages and labour productivity. In this way the profit fall is reversed and unemployment increases as employment falls.

In an efficient labour market the additional unemployment generated by the sudden real wage increase create pressures to reduce the real wage as workers compete for the reduced number of jobs. In response, real wages begin to move back to their original level and employment increases in response to the real wage reductions until the economy is back to full employment.”

(Gregory, 2000)

THE 2008 FINANCIAL CRISIS AND THE FAILURE OF AUSTERITY

The Australian Labor government sensibly responded to the 2008 Global Financial Crisis (GFC) with typical Keynesian stimulus spending, though it did not do this unopposed. The rapid implementation of fiscal stimulus, combined with continued strong natural resource demand from China, almost certainly saved the Australian economy from a technical recession. This classical Keynesian spending program set Australia apart from much of the rest of the world and, once again, showed that we can chart our own course.

The UK and most of the European Monetary Union responded instead with fiscal austerity, in an almost exact repeat of the mistakes made during the Great Depression. The revival internationally of what has been termed fiscal ‘austerity’ in response to the GFC represents a complete amnesia (or wilful ignorance) of the lessons learnt in the Great Depression. These austerity policies involve cutting back government expenditure in an attempt to balance government budgets. The inevitable result is to reduce aggregate demand in the economy, increase unemployment, decrease corporate profits and reduce tax receipts. The reduced tax receipts prompt further cuts in government expenditure creating a cycle of downward pressure on economic growth and employment (Kelton, 2016).

The Australian government regrettably withdrew stimulus spending earlier and faster than would have been ideal from an employment perspective, rapidly moving from stimulus planning to promise a return to surplus regardless of the underlying economic fundamentals; a promise that they ultimately could not keep. Subsequent coalition governments made similar promises that they too have been unable to keep.

THE SURPLUS FETISH

This bipartisan budget surplus fetish is a relatively new phenomenon in Australian politics and is a mild form of the same thinking that led to austerity policies in much of the rest of the world in response to the Global Financial Crisis.

Around eighty five percent of Australia's budgets since Federation have been in deficit and this was not considered a source of major concern for most of the 20th century (Figure 12). Rather than being a drain on the economy or "intergenerational theft", budget deficits are necessary to fund private sector savings and current account deficits. In the absence of budget deficits, increases in the money supply that are needed for sustained economic growth can only come from private bank money creation in the form of private debt. It is reasonable to conclude that much of our economic prosperity would have been sacrificed had governments in the 1950s and 60s had budget surpluses as a priority goal instead of full-employment.

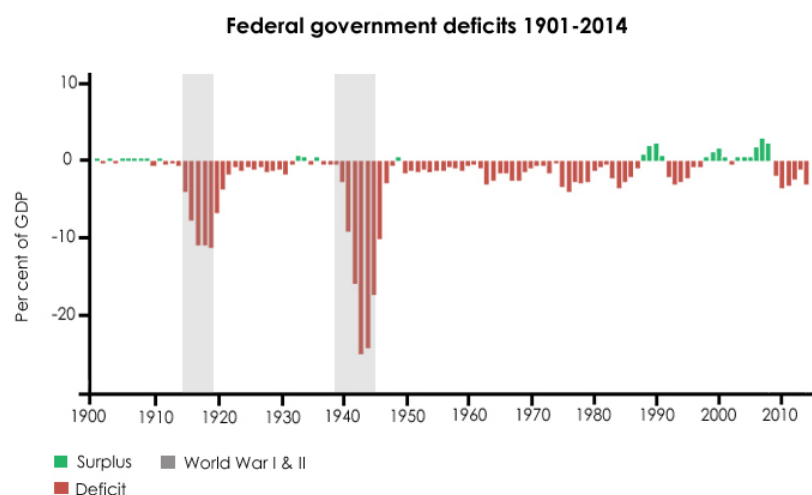


Figure 12. Federal deficits 1901-2014. From ABC News and Philo Capital. The most striking element of this graph is the scarcity and relatively small size of budget surpluses.

Indigenous Employment

Unemployment among Indigenous Australians is currently around three times that of non-Indigenous Australians (Figure 14). However, this ignores the even greater discrepancy between Indigenous and non-indigenous workforce participation rates (Figure 15).

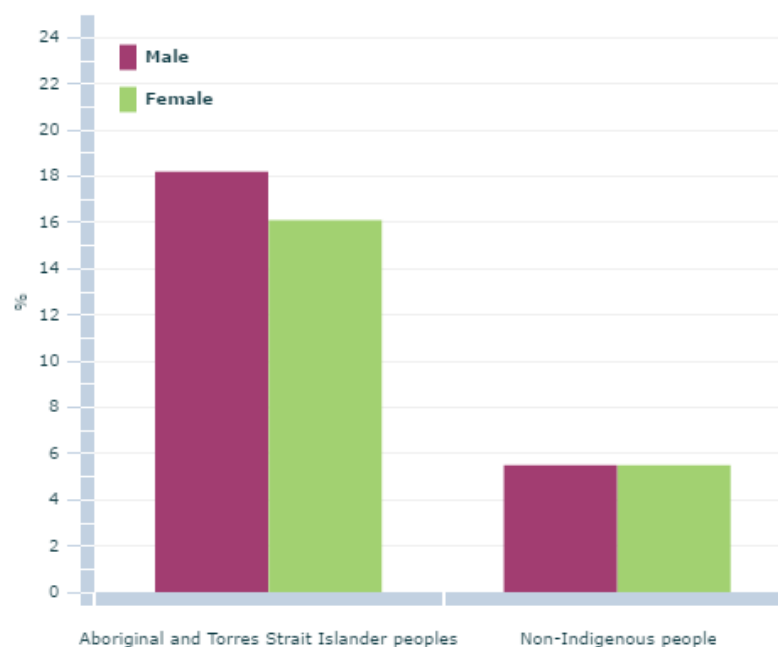


Figure 13. Indigenous and non-Indigenous unemployment. 2011 census.

This gap is the result of multiple historical and contemporary factors including geographical remoteness, poor educational opportunities, language barriers, racism and a history of deliberate exclusion and disempowerment. However, the overarching issue for Indigenous unemployment is the impact of over two hundred years of colonialism, displacement, and treatment as second-class citizens. This cannot be easily repaired but the reality is that, despite considerable resources being allocated to the problem over many years, Australian governments have never seriously attempted to implement broad-scale, but tailored, solutions.

Table 1. Timeline of Indigenous employment policies and policy reviews. Reproduced (and updated) from (Gray, Hunter, & Lohar, 2011).

	Key policies and changes	Notes
1967–69	Amendment to the race power in the constitution from the 1967 referendum and subsequent jurisdictional shifts	In 1969, the Commonwealth employment portfolio developed a program of special measures to help Aboriginal people in employment for the first time
1977	National Employment Strategy for Aborigines	The Miller Report (1985:181-2) found that this strategy was not implemented as a cohesive strategy and provided, at best, marginal benefit because of: a failure to identify barriers to employment, including the compatibility of working conditions with Aboriginal lifestyles; and the lack of a significant Aboriginal involvement in the decision-making process at all levels
1977	Establishment of CDEP (as a major component of the National Employment Strategy for Aborigines)	Arose out of concerns about the effects of 'sit-down money' in the form of social security payments on Indigenous communities
1987–99	Aboriginal Employment Development Policy Major components were the Training for Aborigines Program and an expansion of the CDEP scheme, including into more settled areas of Australia	Introduced in response to the review of Aboriginal Employment and Training Programs (the 1985 Miller Report)
1994–96	Working Nation initiative The main features were an expansion in labour market programs, case management of the unemployed, a Youth Training Initiative, training wages for all trainees (including adults), New Work Opportunities (a direct job creation program), the Job Compact, and changes to the social security system	Introduced in response to the rise of long-term unemployment following the recession 'we-had-to have' in the early 1990s. The Working Nation initiative resulted in a large number of additional program placements, particularly among disadvantaged job seekers such as the Indigenous unemployed
1998	Job Network introduced This was a new model of employment services based on competitive tendering	Previous model based on services provided usually by a government agency, the Commonwealth Employment Service
1999–current	Indigenous Employment Policy/Program (IEP) Major components were <ul style="list-style-type: none"> • wage assistance • Structured Training and Employment Program • CDEP Placement Incentive • National Indigenous Cadetships Projects • Indigenous Employment Centres Other components included: Corporate Leaders for Indigenous Employment Project; Indigenous Small Business Fund; and Voluntary Services to Indigenous Communities	IEP actively attempted to encourage private sector employment

2009	<p>Job Services Australia replaced the Job Network</p> <p>Job Services Australia replaced the Job Network as the primary employment program throughout Australia in 2009. The changes are designed to improve the links between labour market assistance and apprenticeships, vocational education and training and state and territory government employment and training programs. It is also designed to focus on more disadvantaged job seekers than the Job Network. Funding will be provided from 1 July 2012 to provide culturally appropriate mentoring support for Indigenous workers for up to 26 weeks after they begin work. Source: DEEVR (2009)</p>	<p>Although not an Indigenous-specific employment policy, Job Services Australia is the primary provider of job search assistance to the Indigenous population.</p> <p>Because a relatively high proportion of Indigenous job seekers are classified as being disadvantaged, the increased targeting of assistance to disadvantaged job seekers has a disproportionate impact on the Indigenous population</p>
2009	<p>Changes to the Indigenous Employment Policy</p> <p>A range of changes were made to the indigenous Employment Policy including: voluntary mobility assistance (although there has long been some funding available for voluntary mobility assistance, examples of which are the Mobility Assistance Scheme and the Jobsearch Relocation Assistance programs of the 1990s); language and literacy training; provision of more support for small and medium-sized employers, including pre-employment training and mentoring; further targeting of Regional areas and industries that are experiencing labour shortage</p> <p>There were also significant changes made to the CDEP Scheme.</p>	<p>CDEPs ceased operating in areas with 'established economies'. In Remote Indigenous communities, the focus of the CDEP program was changed from directly providing employment to building skills in order to help participants to find non-CDEP employment</p>
2015	<p>CDEP becomes Community Development Programme (CDP)</p>	<p>The local community run CDEP was replaced by a superficially similar scheme the CDP. The CDP is more centrally controlled, involves harsher penalties for non-compliance and requires more hours of work. It has resulted in a dramatic increase in non-compliance penalties and substantial financial hardship among many participants (Altman & Fowkes, 2017).</p>
2017	<p>Senate launches inquiry into CDP</p>	<p>The inquiry was requested by Senators Dodson (ALP), McAllister (ALP), McCarthy (ALP) and Siewert (Greens), and passed by ALP and Greens senators with support from the cross-bench.</p> <p>The request has come about because of growing concerns about the impact CDP is having on individuals, their families and communities. The onerous Work for the Dole requirements, combined with a payment model that leaves providers with limited discretion to manage engagement, has resulted in a disproportionate and growing number of financial penalties applied to participants. Jobs Australia shares concerns that CDP is causing unnecessary financial hardship and exacerbating poverty in remote Australia. (from Jobs Australia).</p>

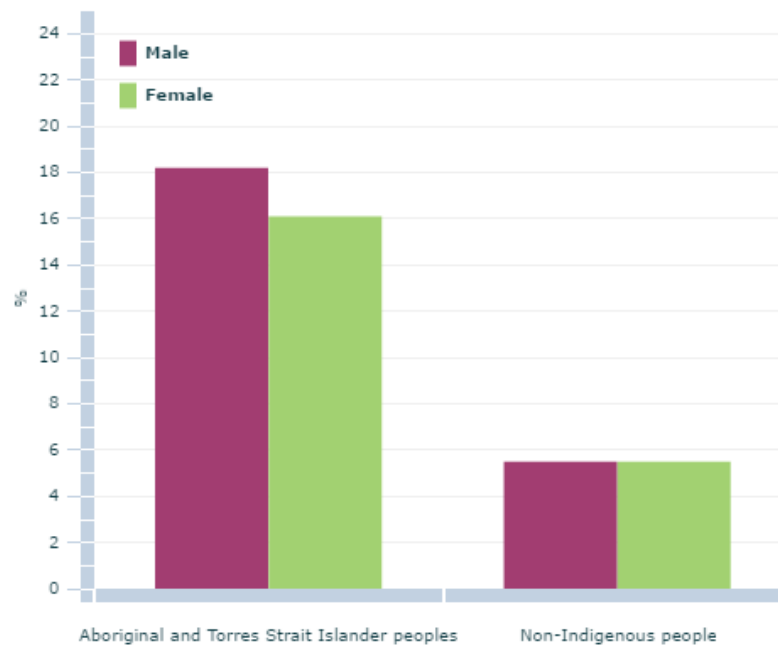


Figure 14. Indigenous and non-indigenous unemployment. 2011 census.

There are two separate issues here: one is unemployment in remote indigenous communities; the other is unemployment of indigenous Australians in our cities and towns (Figure 15). They are different problems with different causes and require different solutions.



Figure 15. Labour force status of Indigenous persons aged 15–64 years, by remoteness, 2012–13. From (Australian Government Department of Health, 2014)

Making meaningful inroads on indigenous unemployment should be a national priority. The focus should not be on some paternal notion of economic integration but, rather, on work that is meaningful and appropriate for the people in their communities.

The Community Development Employment Projects (CDEP) Scheme, first introduced in 1977, got many things right in its early incarnations, including being locally led. We can learn from those programs and build on them, though with real jobs at the minimum wage.

Indigenous communities are perfect places to begin the rollout of a Job Guarantee scheme (see Recommendations below), of the type described by (Quirk et al., 2006). This would involve offering indigenous Australians in remote communities jobs, not with Newstart payments but with a salary at the minimum wage.

A well-resourced and well-designed program would go to indigenous communities, ask them what work they would like to do, what needed doing in their communities, and then give them jobs, resources and training to do it. The result would create meaningful economic activity and would provide incomes and spending power that could, in turn, support new private businesses.

Such a program would be expensive but certainly affordable. Without bold initiatives, indigenous disadvantage will never be overcome.

Conclusion

This history of unemployment policy in Australia demonstrates the extent to which domestic policy is shaped by the international policy zeitgeist. Our commitment to full-employment and associated controls on foreign capital and domestic financial markets was inspired by British efforts to do the same and was echoed by policy in the United States. Similarly, the move away from a focus on full-employment and the adoption of market-based, neoliberal reforms was also a policy zeitgeist across the anglosphere. The power of global policy fashion in shaping our economic history is profound indeed.

Nevertheless, history also shows that we are capable of charting our own course. The Accord of the 1980s meant that the outcomes of neoliberal reforms were very different from those in comparable countries at the time. Similarly, Australia's rapid fiscal stimulus in response to the 2008 financial crisis prevented a recession at a time when the economies of virtually every other OECD country were in contraction.

Involuntary unemployment was once effectively eliminated in Australia using a buffer-stock of jobs, meaning that anybody who wanted work could find a job. Today, inflation and wage costs are managed through a buffer-stock of the unemployed. This shift is as profound in impact as any in our political history.

One of the greatest costs of this shift has been the emergence of a new phenomenon: the long-term unemployed. Because there are now always more low-skilled unemployed people than there are jobs, there exists a sub-group of the unemployed who will always make inferior job candidates because of their lack of recent experience and skills.

Australia was, for decades, a country with virtually no involuntary unemployment. There exists no impenetrable barrier to us returning to an unemployment rate of less than four percent, possibly lower. The simple reality is that we don't know what the lowest unemployment level is that we could achieve while maintaining reasonable price stability because we haven't tried.

"In the 1980s, we began to live in economies rather than societies or communities. It was also the period that unemployment persisted at high levels in most OECD countries. The two points are not unrelated. Unemployment arises because there is a lack of collective will. It does not arise because real wages are too high or aggregate demand too low. These are only proximate causes, if causes at all. The lack of collective will has been the principal casualty of the influence of rationalism."

Professor William Mitchell (Mitchell 1998)

The neoliberal economic reforms of the 1970s and onwards operated under assumptions that are more ideological in origin than they are empirical. Their broad adoption has resulted in a dramatic shift in power from labour to capital and an increase in inequality in Australia. Under this regime, this power imbalance and the resulting unemployment is justified as a necessary side-effect in the battle to control inflation.

This is effectively a policy win by business interests who have used the economics profession as a propaganda arm to further their interests. The notion that there is a single rate of unemployment below which inflation will necessarily rise is clearly flawed. Unemployment and underemployment certainly have an influence on inflation but they are by no means the only factors. During the post-war boom this was explicitly acknowledged in policy and in action. Emphasis was given to the government's role in education, research and development, and productivity enhancing infrastructure. The inflation push from government commitment to full employment was mediated by government action to increase productivity and control asset price speculation through financial capital controls.

One explanation that is given for a rising NAIRU to somewhere around five and half percent from two percent in the 1960s is that many low-skilled jobs are gone - either replaced by machines or moved off shore. This leaves a large pool of low skilled workers with not enough work. Even if this is true, the response should not be to accept a higher rate of unemployment, it should be to focus on improving our education system so that the workforce is more appropriately skilled for a modern Australian economy.

Creating full employment while maintaining relatively stable rates of inflation is not a simple task. However, it's not so complicated that it cannot be done. Changes in the structure of the Australian economy and, perhaps more importantly, in the global economy, mean that we cannot simply roll back the clock to the 1960s full employment framework. However, there is no doubt that we're up to the challenge of creating an updated version if we decide that it's a priority. The pace of technological change and resultant structural economic change may mean that the days of below two percent unemployment are behind us but all evidence suggests a goal of less than four percent is achievable; and maybe lower.

Let's work together to see how low we can push it.

Recommendations

RECOMMENDATION 1:

The Australian government should restore its commitment to full employment and trial a Job Guarantee scheme for Indigenous communities.

Full employment should sit alongside inflation targeting as a core function of government.

Under a job guarantee, the government would offer a job, at the minimum wage, to anyone who wanted one, up to 35 hours of employment (see Mitchell 1998 and Quirk et al. 2006). While the scheme would be centrally administered, the actual job creation would be done by local entities. Jobs would primarily involve the provision of public goods that are not supplied by private enterprise because of their public good nature.

This concept has many elements in common with the original CDEP, which was widely supported in Indigenous communities. It provided real jobs, with commensurate skills development and training, that met the needs of the local community. As such, it delivered tangible outcomes for both the scheme's participants and their wider community.

Implementing a job guarantee like that described by Mitchell (1998) and Quirk et al. (2006) for job seekers in Indigenous communities has many advantages including:

- substantially reducing Indigenous economic disadvantage and increasing self-determination of Indigenous communities;
- negating the need for expensive and wasteful enforcement of the mutual obligations framework under the current CDP;
- increasing the provision of public goods in remote and disadvantaged communities that are not economically viable for the private sector to provide;
- revitalising regional and remote communities through the provision of employment and services;
- all but eliminating structural and cyclical unemployment in Indigenous communities and all of the social and economic damage that it does.

In the first instance, the government should replace the CDP with a job guarantee scheme in Indigenous communities, to provide real jobs at the minimum wage.

Integrating vocational education with the job guarantee would ensure that job guarantee participants were not doing work for work's sake but were genuinely contributing to their local communities and learning skills that would enable them to take up jobs in the private sector when they become available.

An initial trial of the job guarantee in Indigenous communities of two years' duration could be reviewed and extended to other remote and regional communities with high levels of unemployment.

Extending the job guarantee nationally would have additional benefits, including but not limited to:

- creating a nation-wide systemic approach to the coming artificial intelligence and robotics revolution;
- being more desirable than the increasingly popular universal basic income because it provides public goods and acknowledges the 'dignity of work'; and
- dramatically reducing the negative impact of business cycle downturns on the broader Australian economy.

RECOMMENDATION II:

Actively coordinated management of inflation, unemployment, productivity and workforce skills.

The restoration of full employment will require a more sophisticated approach to managing inflation than our current overreliance on the blunt instrument of monetary policy. At its simplest level, inflation is driven by demand exceeding supply. The coordination of monetary policy as a lever on demand and fiscal policy as a lever on supply creates far greater scope for nuanced inflation control than monetary policy alone. The capacity of fiscal policy to contribute to inflation targeting is substantial, particularly by prioritising increased productivity through education, research and development, and infrastructure. Guided by explicit full employment and inflation targets, our national economic management can be much more nuanced and targeted to specific problems and specific regions.

RECOMMENDATION III:

A shift in university education towards versatility, critical thinking and problems solving.

A January 2016 report from the World Economic Forum (WEF) predicted that, by 2020, "...over one-third of skills (35%) that are considered important in today's workforce will have changed" (Leopold et al. 2016). The WEF report identified complex problem solving, critical thinking and creativity as the top three skills that would be required by workers in 2020, to take advantage of the technological changes that will occur to products, services and ways of working in the coming years.

To ensure Australians are prepared for the opportunities of the new economy, government should support universities to provide courses that support the development of critical thinking and creativity. This is best done by returning the focus of university education to a broad-based, classical education in arts and science, and away from vocational courses geared towards developing a narrow set of skills applicable only to one career path. Such a shift will give students more transferable and adaptable skill sets that better equip them to navigate an employment market undergoing rapid change, and which will likely see them change jobs and careers multiple times over the life course.

RECOMMENDATION IV:

Measures to increase the provision of vocational training on the job and in post-tertiary vocational training.

In association with Recommendation 3, the government should increase funding of TAFE and vocational education, including trades skills development.

Government should end the failed experiment with private, for-profit providers of vocational education and training and return the sector to public administration and funding.

Vocational education should provide genuine lifelong learning, with a focus on retraining workers to take advantage of newly emerging industries and innovative technologies, and ensure all potential workers have a strong skill set and access to job-ready training, regardless of their age or employment history.

RECOMMENDATION V:

Lifelong Learning Investment Accounts

To enable workers to take advantage of increased provision of vocational training throughout their careers, government should consider introducing Lifelong Learning Investment Accounts.

Such accounts would be controlled personally by individual workers, and enable them to save money for their own retraining needs throughout their working lives. Contributions could be made by employers in a similar manner to superannuation payments, and/or salary sacrificed by employees with commensurate tax advantages. Under such a scheme low income workers may be eligible for a means tested government co-contribution to their account.

The accounts could be drawn upon by workers seeking to upgrade their skills for existing jobs, or to retrain for new jobs following unemployment or redundancy, to pay for accredited vocational education courses.

RECOMMENDATION VI:

Implement need-based vocational education reform for school leavers

For school leavers who don't pursue university education, vocational education should be needs-based and targeted to address areas of disadvantage.

This can be done by providing certificate-level training for entry level positions through TAFE and community colleges, with government funding provided proportionally to address specific skill shortages and/or supply increased numbers of training courses in geographically disadvantaged regions or areas with intractably high unemployment levels.

Courses designed in consultation with industry would better align the skills of graduates with the labour requirements of a modern Australian economy.

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