Full Employment in 21st Century Australia: A lode star policy in an age of uncertainty

A Submission to the Employment White Paper Consultation

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percapita
FIGHTING INEQUALITY IN AUSTRALIA

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About Per Capita

Per Capita is an independent public policy think tank. We work to build a new vision for Australia based on fairness, shared prosperity and social justice.

Our office is located on the stolen lands of the Wurundjeri people of the Kulin Nations, which were never ceded. We strongly support the Uluru Statement from the Heart and the call for a First Nations Voice to Parliament.

Per Capita's research and policy prescriptions are rigorous, evidence-based and long-term in outlook. All our publications and activities are intended to deepen political, social and economic democracy, and we are focused on challenges for the next generations rather than the next election cycle.

Our approach to public policy

Per Capita's approach to public policy challenges the dominant narrative that disadvantage arises from personal fault or failure by pointing out the policy choices that have deepened inequality and proposing alternative choices that will lessen it.

Our policy analysis and recommended solutions seek to recognise the challenges, and work within the complex economic, political and social conditions, of our age, such as:

- The impact of rapid climate change and extreme weather events;
- Growing economic inequality, with increasing returns to capital and a decline in returns to labour;
- The growing difficulty of accessing good jobs, adequate income support and secure housing; and
- The negative effects of privatisation and the deliberate shrinking of essential public services.

In doing so, we strive to incorporate new thinking in social science and economics, innovative ways of working with data, and effective evaluation tools to measure outcomes. We also engage actively with organisations across society, including the union movement, civil society, the community sector, academia, business, government and the public service, and social change movements.

In all our work, we seek to understand and highlight the experiences of those who bear the brunt of the effects of policy choices that exacerbate inequality, including underpaid and exploited workers, people who can't get a decent job, women, First Nations people, members of the LGBTQ+ community, people with disability and their carers, migrants and refugees, and others who are marginalised by our economic and social structures and denied their fair share of power and resources.

We live and work in hope and solidarity

The democracy Per Capita works for is one that shares its knowledge, wealth and power, to ensure all its citizens can live meaningful and fulfilling lives, able to take care of each other and of our shared planet.

About the authors

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Emma has worked as a researcher at Monash University and the University of Melbourne; in policy and public affairs for SBS and Telstra; and as a policy adviser in the Rudd and Gillard Governments.

She has published reports and articles on a wide range of public policy issues. She is a regular contributor to Guardian Australia, The Age and Sydney Morning Herald and The Australian Financial Review, and a frequent guest on ABC TV's *The Drum* and on various radio programs nationally. She appears regularly as an expert witness before parliamentary inquiries and often speaks at public events and conferences in Australia and internationally.

Emma is the co-editor, with Professor Janet McCalman, of the collection of essays ***What happens next? Reconstructing Australia after COVID-19***, published by Melbourne University Press in September 2020. She joined the Board of Australia21 in June 2021 and is a Fellow of the Women's Leadership Institute of Australia.

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John has written a number of books including *Work for All: Full Employment in Australia* (with John Langmore MHR), *Great Expectations: Microeconomic Reform and Australia, Zombie Economics: How Dead Ideas still Walk among Us* and *Economics in Two Lessons*: *Why Markets Work so Well, and why they can Fail so Badly.*

Executive Summary and Recommendations

Per Capita welcomes the opportunity to make a submission to the Employment White Paper Consultation. In conjunction with the 2022 Jobs Summit and Prime Minister Albanese's public commitment to full employment, the White Paper is a timely opportunity to address some of the pressing systemic economic and social issues facing Australia.

Our submission speaks to many of the themes provided in the Treasury's Terms of Reference, including:

1. Full employment and increasing labour productivity growth and incomes, including the approach to achieving these objectives.
2. The future of work and labour market implications of structural change, with a focus on:
    2.1 Building a sustainable care economy in the context of an ageing population and other drivers of demand for care services.
    2.2 The energy transition and tackling climate change to achieve net zero.
    2.5 The adaptability of our workforce to meet the needs of emerging industries and areas of traditional economic strength.
3. Job security, fair pay and conditions, including the role of workplace relations.
4. Pay equity, including the gender pay gap, equal opportunities for women and the benefits of a more inclusive workforce.
5. Labour force participation, labour supply and improving employment opportunities.
    5.1 Reducing barriers and disincentives to work, including the role of childcare, social security settings and employment services.
    5.2 Improving labour market outcomes for those who face challenges in employment, including First Nations people, those who live in rural and remote areas, younger and older Australians, people with disability, and those who may experience discrimination.
6. The role of collaborative partnerships between governments, industry, unions, civil society groups and communities, including place-based approaches.

Our central argument is that the achievement of social objectives such as full employment, the transition towards net zero carbon emissions and reducing income and wealth inequality is constrained by the current New Consensus Macroeconomics derived policy frameworks, which prevent the effective coordination of monetary and fiscal policy.

Per Capita believes that the Federal Government should return to a genuine full employment framework, utilising coordinated fiscal and monetary policy for specific social objectives as was the case following World War II.

The 1945 White Paper on Full Employment was the founding document of Australia's post-war prosperity, establishing a progressive and effective social contract between the government,

businesses and workers. Full employment policies were seen as a central pillar of a new ambitious and optimistic social compact, aimed not only at providing more equitable policies in housing, health and unemployment insurance, but also at better utilising the potential national workforce for greater productivity and overall economic output.

However, for the past quarter century the definition of "full employment" used by the Australian Government has been determined by the Non-Accelerating Inflation Rate of Unemployment (NAIRU). This policy framework requires a portion of potential workers (around one in twenty) to remain unemployed to minimise the risk of wage-induced inflation: were the unemployment rate to go any lower, this theory argues, inflation would become uncontainable and could wipe out many of the economic gains from having greater economic participation.

This means that for decades Australian monetary and fiscal policy have structurally locked out of the labour market a significant proportion of the workforce, at the same time as unemployment benefits have declined in value and increased in punitive conditionalities. This rate of unemployment continued even when inflation was *below* the target rate between 2014 and the start of the pandemic in 2020.[1]

As such, the NAIRU framework is inconsistent with a full employment objective.

Recent history has shown the NAIRU theory to have failed on its own terms. Rather than a smooth and stable relationship between unemployment and interest rates, the period prior to the pandemic was marked by many of the indicators of a Keynesian liquidity trap: central bank lending rates reached 0.75 per cent in 2019, but unemployment and underemployment remained stubbornly high. Meanwhile, "capital shallowing" indicated that businesses were unwilling to make investments, even while profits remained high and borrowing was at historically cheap rates.

The pre-pandemic "dog days", as coined by Ross Garnaut, and the current low unemployment-low wage growth phenomena[2] indicate that the relationship between inflation, interest rates, wage growth and unemployment do not operate mechanistically, but are being determined to a greater or lesser extent by economic conditions and fiscal policy (non)responses.

Today's inflation, which has a large supply-side component brought about by the Russian invasion of Ukraine and supply chain issues, has challenged the belief that excessive wage demands are the core inflationary battle for the RBA to fight, and led to questions over whether conventional monetary policy are capable of addressing such inflationary causes.

[1] Ross Garnaut. RESET: Restoring Australia after the Pandemic Recession. Black Inc. 2021.
[2] By some measures we are at full employment, with roughly half a million unfilled vacancies and a symmetrical half a million jobseekers.

As the Federal Government reinterprets the 1945 White Paper on Full Employment for the 2020s, it is critical that the growth in uncertainty in our economy and society are effectively addressed. These include:

- Uncertainty in global supply chains;
- International conflict;
- Accelerating climate change;
- Rapid change in technologies and jobs; and
- A decline of public faith in the democratic governance to provide citizens with a decent future.

A renewed commitment to full employment, with an amended relationship between fiscal and monetary policy, would have the potential to limit uncertainty and increase socially beneficial types of employment. It could provide **a lode star for coordinated policy changes**, reshaping employment services, facilitating greater investment in the nation's transition to net zero and improving labour market outcomes. Full employment policies are inherently aspirational, providing a vision for the many Australians experiencing combinations of insecure work, precarious housing, financial instability, the existential dread of climate change and fear of being replaced in the labour force by machines and artificial intelligence (AI).

Recommendations

Recommendation 1: The title of the document should be the White Paper on Full Employment.

Recommendation 2: The Australian Government should renew its commitment to Full Employment as a policy objective.

Recommendation 3: Full employment policy will require a return to the active use of co-ordinated fiscal and monetary policy, implemented through a revised Statement on the Conduct of Monetary Policy.

Recommendation 4: Full employment should be defined as a situation where there are roughly equal numbers of unemployed workers and unfilled jobs.

Recommendation 5: The Federal Government should establish a broad review of what changes to monetary and fiscal policy would be required in order to meet a full employment objective.

Post-WWII Full Employment Policies Helped Reshape the Nation

The Curtin government came to office in 1941, Australia's darkest hour, when the country was threatened with invasion. Yet the government was not content to put politics aside in the interests of the war effort. Rather, victory in war and in peace were seen as inseparable. The Curtin and Chifley governments introduced a wide range of social welfare benefits and increased existing benefits.

As the war drew to a close, Prime Minister Curtin ordered the preparation of a White Paper on Full Employment. The paper began by drawing a striking contrast between the disaster of the Great Depression and the national mobilisation achieved in wartime:

> *Despite the need for more houses, food, equipment and every other type of product, before the war not all those available for work were able to find employment or feel a sense of security in their future. On average during the 20 years between 1919 and 1939, more than one-tenth of the men and women desiring work were unemployed.*
>
> *In the worst period of the depression, well over 25 per cent were left in unproductive idleness. By contrast, during the war, no financial or other obstacles have been allowed to prevent the need for extra production from being satisfied to the limit of our resources.*
>
> *It is true that war-time full employment has been accompanied by efforts and sacrifices and a curtailment of individual liberties which only the supreme emergency of war could justify; but it has shown up the wastes of unemployment in pre-war years and it has taught us valuable lessons which we can apply to the problems of peace-time, when full employment must be achieved in ways consistent with a free society.*[3]

The commitment to full employment, made in the white paper, was reflected both in fiscal policy and in the legislation establishing the Reserve Bank of Australia. To this day, the official objectives of the Reserve Bank are stated as:

1. *the stability of the currency of Australia;*
2. *the maintenance of full employment in Australia; and*
3. *the economic prosperity and welfare of the people of Australia.*

The centrality of full employment to the post-WWII social contract was so complete, and immediate that by 1942, Lyndhurst Giblin was able to comment that abandoning the commitment to full employment would "socially undesirable and politically impossible" (in MacIntyre 2015, 243); even "a test of democracy" in Australia (MacIntyre 2015, 237).

[3] Commonwealth of Australia (1945) Full Employment in Australia. Commonwealth Government Printer.

Following the second world war, employment was listed as a fundamental human right by the UN, with the goal of full employment universally understood as a necessary condition for stability and well-being within and between countries. This went beyond the right to income through government transfers; instead work was seen as a foundational right from which other rights flowed.

Australia played a central role in the development of this international consensus. Herbert "Nugget" Coombs, economist, public servant and first governor of the Reserve Bank of Australia developed what he called the "the positive approach"; national-level full employment within an internationally collaborative trade environment. The positive approach encompassed government commitments to full employment, mutually beneficial trade, and to free citizens from want, (MacIntyre 2015, chap. 7). This approach captured the spirit of the age in which political vision and imagination was broad, hopeful and freed from the dead weight of defunct economic narratives.

This state of affairs continued for decades, and in November 1969 Australia signed the ILO Employment Policy Convention no. 122, which calls upon member States to

> *declare and pursue, as a major goal, an active policy designed to promote full, productive and freely chosen employment.*[4]

Under conservative and progressive leaders alike, international cohesion to the full employment approach was so complete well into the late early 1970s, Richard Nixon's Federal Reserve Chairman Arthur F. Burns wrote

> *[the] moral commitment to full employment has been reaffirmed time and again by successive Presidents and successive Congresses. There can be no doubt that it expresses faithfully the prevailing sentiment of the American people. What we debate nowadays is the scale, the timing, and the precise character of employment policies, not the need to strive for full employment or to use the powers of government to move the nation towards this goal.* (Burns 1969, 175–76)

And the economic pay offs were considerable: In the OECD countries, public expenditures rose from 22 percent of GDP in 1950 to 30 percent in 1973 (Cardim De Carvalho and Lopez 2007). Over this period inequality fell, real incomes rose, GDP grew dramatically and unemployment in Australia was frequently at 1.5 per cent.

During the 25 years following the release of the White Paper, the commitment to full employment and price stability was maintained. An upsurge in inflation in the early 1950s was controlled by tight fiscal policy, without producing a substantial increase in unemployment.

[4] https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312267:NO

The central point of Keynesian economics was that a market economy could be characterized by sustained high unemployment and price deflation because of inadequate demand. But Keynes recognised the converse point that excess demand, while being associated with low unemployment, could lead to inflation. This was clearly recognised in the 1945 White Paper:

> *This policy will need careful administration. Not only will it be necessary to offset a tendency for spending to decline, but governments must also ensure that total expenditure is not too high. As long as there are unemployed resources to be drawn into production, increased expenditure will produce a higher level of employment, but once full employment has been reached, production is at its maximum. A higher level of expenditure would then cause prices to rise, with adverse effects on the stability of the economy and on the welfare of large sections of the community.*[5]

For nearly three decades, Keynesian macro-economic policies yielded a combination of full employment and price stability. Occasional episodes of inflation were checked by policies to reduce excess demand. Conversely, demand was stimulated when unemployment threatened to increase.

However, then as now, geopolitical and energy crises threatened the stability of this order. With the breakdown of the Bretton Woods system of fixed exchange rates in 1971, Australia, like much of the western world of the world, experienced 'stagflation', a combination of high unemployment and high inflation.

The fight between unions and companies over who would bear the burden of higher inflation led to wage price spirals, a fate that modern central bankers seem to fear mor than anything else. As company profitability crashed, unemployment tripled from below 2 per cent in 1972 to 6 per cent by the end of the decade, a level not seen since the Great Depression. By the early 1980s, the unemployment rate had jumped again to close to 10 per cent. Under such strain, the economic mechanisms which held unemployment in check were abandoned, and with them the core political organising principle of post-WWII Australia.

[5] Commonwealth of Australia (1945) Full Employment in Australia. Commonwealth Government Printer.

The Ascent of the NAIRU: how Australian governments lost their commitment to Full Employment

As policymakers scrambled in these unprecedented times, consensus coalesced around an explanation put forward by Milton Friedman; that with entrenched expectations of inflation, the Phillips curve trade-off could not be sustained in the long run. This analysis led to the abandonment of full employment and its replacement with the 'natural rate' concept put forward by Friedman and later renamed the Non-Accelerating Inflation Rate of Unemployment or NAIRU.

The Accord period of the 1980s saw reductions in both unemployment and inflation, raising hopes that the prosperity of the Keynesian era might be restored. These hopes were dashed by the recession that began in 1989, and the high unemployment that persisted after output growth recovered. Even after 1989, the belief that full employment could and should be restored remained influential until the 1990s. As late as 1993, the Keating government released a draft policy entitled Restoring Full Employment (later published as Working Nation.)

The Howard government, elected in 1996, abandoned full employment as a policy goal. Except for a brief period in his final term, the official unemployment rate was above 6 per cent throughout Howard's Prime Ministership.

This new higher rate of unemployment was often explained as being part of structural workforce problems rather than to the lack of effective demand. Concepts such as "inadequate employment readiness" or "skills shortages" stressing the lack of technical qualifications on the part of workers in a period of rapid innovation:, were offered as a substitute for Keynesian explanations (Cardim De Carvalho and Lopez 2007).

Insufficient employability and aggressive anti- "welfare bludger" political rhetoric effectively displaced Keynes's concept of involuntary unemployment as a means to understanding why some people cannot access jobs. The involuntary unemployment theory was central in distinguishing Keynesianism from classical economics. What is striking is that the employability framework draws many parallels with the classical notion that unemployment is voluntary, and that the default assumption is that people try to do as little work as possible. Employability effectively suggests that workers are unwilling or unable to train themselves into an employable position following a shift in technological or other economic changes, rather than this being a shared responsibility of the businesses, the state and individuals.

The end of any commitment to full employment, even as an aspiration, came with the abandonment of fiscal policy as a policy instrument and the shift to a strong form of central bank independence, along with the adoption of inflation targeting as the basis of monetary policy. In Australia this shift was formalised in the first Statement on the Conduct of Monetary Policy in 1996, an agreement

between the Treasurer and the RBA Governor. The statement enshrined a 2-3 per cent inflation target as the central element of monetary policy. The statement made clear that employment was now a secondary consideration, saying:

> *These objectives allow the Reserve Bank to focus on price (currency) stability while taking account of the implications of monetary policy for activity and, therefore, employment in the short term. Price stability is a crucial precondition for sustained growth in economic activity and employment.*[6]

This framework was maintained through subsequent Statements (the most recent being in 2016). Through this period, the inflation target was mostly met. However, in the six years prior to the pandemic, inflation fell short of the target, without any significant decline in unemployment that the mechanistic NAIRU would imply as natural in a low inflation economy.[7]

That first Statement on the Conduct of Monetary Policy implicitly buried the objective of full employment. On that ground instead rose the goalpost of an unemployment rate: a putative 'natural rate' of unemployment. This was later renamed the Non-Accelerating Inflation Rate of Unemployment (NAIRU).

The NAIRU: A Justification for Chronic Unemployment

The history of the NAIRU goes back to 1958, when NZ and Australian economist AW (Bill) Phillips published graphs plotting rates of unemployment against rates of money wage growth in the UK between first between 1861 and 1913, and then between 1913 and 1948.

Figure 1
The Phillips Curve

[6] https://www.rba.gov.au/monetary-policy/framework/stmt-conduct-mp-1-14081996.html
[7] https://www.rba.gov.au/monetary-policy/framework/stmt-conduct-mp-1-14081996.html

A line of best fit for the period 1861-1913 was given by a convex curve, referred to as the Phillips curve (see Figure 1). As was expected on the basis of Keynesian economics, this curve showed that, when unemployment was low, wages tended to rise more rapidly. A similar pattern, though with some striking outliers, was observed for the period 1913-48.

Although Phillips' original curve referred to wage growth, many subsequent writers on this topic examined the relationship between unemployment and price inflation. At the time, this change did not make a great deal of difference. The long-standing constancy of the wage share of national income meant that real wages grew in line with productivity, at around 2 per cent per year. Putting this another way, the rate of wage growth was typically about 2 per cent higher than the rate of price inflation. The conflation of wage and price inflation became problematic after 1970, when the wage share began to fluctuate, briefly rising sharply and then declining over many decades.

An appealing but misleading interpretation of the Phillips curve is that it represents a menu of choices available to policymakers, who can decide to trade off higher inflation against lower unemployment or vice versa. While leading Keynesians such as Samuelson and Solow presented the curve more cautiously, this interpretation was widely held in the early 1960s.

In his 1968 AEA Presidential Address, Milton Friedman criticised the trade-off interpretation, arguing that it took no account of expectations. On Friedman's view, once workers and employers adjusted their expectations to take account of increased inflation, any benefit in reduced unemployment would disappear. It followed that unemployment could not, in the long run, be shifted away from what Friedman called the 'natural rate', that is:

> *the level that would be ground out by the Walrasian system of general equilibrium equations, provided there is embedded in them the actual structural characteristics of the labor and product markets.*[8]

The term 'natural rate' was found to be problematic and has generally been replaced by the NAIRU acronym. Apart from that change, and some tweaks to the mechanisms by which expectations are adjusted, Friedman's model remains central to macroeconomic policy today. The NAIRU model justifies central banks and Treasury departments in disregarding unemployment, since it implies that, in the long run, they can do nothing to move unemployment away from the NAIRU.

Under this logic, when the rate of unemployment falls below the NAIRU, wages increase more rapidly than is consistent with stable inflation. The rate of inflation increases. As expectations adjust, if unemployment remains low, inflation accelerates. The process ends either in hyper-inflationary collapse, or with the adoption of a contractionary monetary policy which increases unemployment temporarily above the NAIRU, until inflation declines.

[8] Friedman, M. (1968) The role of monetary policy. *The American Economic Review*, 58, Pp 1-17.

In this framework, the short-term benefits of reducing unemployment below the NAIRU are outweighed by the costs of the necessary subsequent deflation. It follows that the achievement of the inflation target, on average, will come as close as possible to the goal of maintaining full employment.

However, just as Friedman discredited the idea of a stable trade-off between unemployment and inflation, subsequent experience has discredited the idea of a stable NAIRU, dependent only on the structure of labour markets. The most important evidence concerns 'hysteresis', that is, the fact that if external or policy shocks raise the rate of unemployment, high unemployment will be sustained even after the shocks end. (The term 'hysteresis' originally refers to the 'memory' effect by which a piece of metal that has once been magnetised is more easily magnetised in the future). The result of hysteresis is that estimates of the NAIRU tend to move in line with the actual value of unemployment, adjusting with a lag.

A policy based on the NAIRU concept is inconsistent with a commitment to full employment. A revised Statement on the Conduct of Monetary Policy must reject the NAIRU concept and require the Reserve Bank to pursue both full employment and stable inflation, in line with its legislative objectives.

Under the non-accelerating inflation rate of unemployment (NAIRU) framework which guides the policymaking at the RBA, "full employment" means jobs for around 95 per cent of people seeking work (although the target number is changeable, rising to over 7 per cent in the 1990s (Cusbert 2017)).

This, by definition, leaves one in 20 job seekers with a manufactured limit on obtaining work. Furthermore, as Per Capita and others have consistently pointed out, the current framework largely ignores underemployment, the inability for people to find enough hours of work. Since the end of the 1970s, between 10 and 15 per cent of workers have either been out of work, or unable to find enough hours, a dramatic change from the post-War era.

Under the current individualised form of capitalism, rugged individualism and self-reliance are taught as the means to succeed. But this is a false promise, since one in 20 must remain unemployed to maintain the system, a game of musical chairs which leads us all to scramble against each other.

The RBA's approach to unemployment as modelled through the NAIRU has led to a target of around 5 per cent unemployment. However, as economist Ross Garnaut has argued, the reality is that we lived through an era of sub-target inflation, without that being reflected in a change to the target rate of unemployment. This failure, he argues, has seen a NAIRU target at nearly double the rate of achievable unemployment in the past few years (Garnaut 2021).

Contemporary economic conditions do not seem to lend themselves well to the underlying misconception of a mechanistic relationship between inflation and unemployment. While inflation is high at 7.3 per cent, and unemployment low at around 4 per cent this is a broadly superficial relationship. Goods such as petrol (18 per cent), and meat and vegetables (over 16 per cent) have been heavily influenced by international supply shortages (oil, fertilizer) and climate change (floods causing a significant increase in fresh produce prices).

Furthermore, with unemployment dipping below 4 per cent, a mechanistic relationship would imply a significant uptick in wage demands, and companies would have to pay higher wage bills and eat a portion of the inflation price increases to remain competitive. However, the latest ABS data showed wages growing at less than half the rate of CPI inflation, meaning a 3.1 per cent decline in real wages.[9] Meanwhile, gross operating profits in Australia had grown 28.5 per cent year on year.[10]

While there may be a lag of wage demands in this tighter labour market, what we can clearly see is that in aggregate, companies, not workers, are unconstrained in generating inflationary pressures; passing on rising supply costs to their customers, and channelling the revenue windfall to shareholders.

[9] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/wage-price-index-australia/latest-release
[10] https://www.abs.gov.au/statistics/economy/business-indicators/business-indicators-australia/latest-release

Defining Unemployment

If the NAIRU policy framework is inconsistent with full employment policies, a new approach to defining full employment would be required. As with other policy targets like 'price stability', full employment cannot be given a precise definition. As long as people are free to change jobs, there will be at least some unemployment. What is crucial in defining full employment is that the definition should be determined by conditions in the job market.

Unemployment is commonly classified along the following lines:

(a) Frictional unemployment arises as a result of workers change jobs, as a result of their own choice, dismissal or because existing firms close and new firms open.

(b) Structural or mismatch unemployment arises when the skills of unemployed workers do not match those demanded by employers with vacancies.

(c) Skill deficiency unemployment arises if some workers do not have the skills required to produce enough to compensate employers for the costs of employing them.

(d) Demand deficiency unemployment arises when there are not enough jobs available to employ those seeking work.

If unemployment is either frictional or structural, the number of unemployed workers should be roughly equal to the number of unfilled vacancies. When a worker leaves their job to look for a new one, they become unemployed, but their departure creates a vacancy so the balance remains unchanged. Similarly, skills mismatch should have broadly symmetrical effects on unemployment and vacancies.

Skill deficiency unemployment may be address through training programs. There should also be access to disability benefits for those whose disabilities cannot be adequately addressed through trainings.

Full employment should be defined as a situation where there are roughly equal numbers of unemployed workers and unfilled jobs. Such an outcome arises when all unemployment is frictional, arising from workers leaving their jobs to search for new ones. Each such separation creates one vacancy and adds one to the number of unemployed. Conversely, when an unemployed worker finds a job, both the number of vacancies and the number of unemployed are reduced by one.

A formal version of this argument is presented by Saez and Michaillat (2022), who propose the more general rule that the best estimate of full employment at any given time is:

$$u^* = \sqrt{uv}$$

That is, u* the full employment rate may be estimated as the geometric mean of the unemployment rate and the vacancy rate. For the US, Saez and Michaillat (2022) estimate u*= 4.2 per cent and claim that this value has been stable over the period from 1930 and 2022. Their argument is summarised as follows:

> *We propose that the best marker of full employment is the efficient unemployment rate, u*. We define u* as the unemployment rate that minimizes the nonproductive use of labor—both jobseeking and recruiting. The nonproductive use of labor is well measured by the number of jobseekers and vacancies, u + v. Through the Beveridge curve, the number of vacancies is inversely related to the number of jobseekers. With such symmetry, the labor market is efficient when there are as many jobseekers as vacancies (u = v), too tight when there are more vacancies than jobseekers (v > u), and too slack when there are more jobseekers than vacancies (u > v). Accordingly, the efficient unemployment rate is the geometric average of the unemployment and vacancy rates: u* = √uv.*

There is room to dispute the modelling choices made by Saez and Michaillat, regarding, for example, the measurement of vacancies. What is crucial in their definition of full employment is that it depends entirely on conditions in the labour market, rather than on macroeconomic variables such as GDP growth and inflation.

Until very recently, unemployment rates in Australia have been substantially higher than vacancy rates. This represents a substantial failure of economic policy.

Reinterpreting Full Employment for the 21st Century

In this current context, and with the previous policy history in mind, the announcement of a renewed commitment to full employment, made by Prime Minister Anthony Albanese in 2021, was a major step in the right direction. Labor's election campaign included not only a commitment to full employment but the promise of a Jobs Summit leading to a new White Paper on Full Employment, modelled on that of 1945.

It is vitally important that the commitment to genuine full employment be restated.

A full employment approach is complex and involves well integrated social, fiscal and monetary policymaking. However, we have pointed out that there are social and political, as well as economic, reasons to recommit to a full employment policy. We see the obstructions to pursuing the full employment objective as primarily political.

We argue that full employment should act as a central organising principle for policy making rather than describing an absolute state of being. As the post war example demonstrated, the level may go up or down, but minimising labour market slack should always be a government responsibility. It is a social objective, to guide economic and social policies based on some core principles:

Firstly, it is based on the presumption that work, and decent pay and conditions, are a right of each individual Australian. In a capitalist society the primacy of the employment relationship means that many other rights and social outcomes stem from this employment relationship. Being in work provides people with a sense of connectedness, a link to society and, generally speaking, better mental health. It also provides the individual with the capacity to negotiate with powerful economic and political elites through collective action and workplace negotiations.

Secondly, it is based on an acceptance that higher employment produces greater overall economic outcomes at the aggregate level. We believe that fully utilising labour as a factor of production is critical to maximising economic potential and shared prosperity, and that to do so requires a different framing of state intervention.

The notions of self-correcting markets and a long-run tendency toward equilibrium do not hold much weight in the context of declining job security, unaffordable housing, shrinking wage packets, and anaemic productivity. Instead, we propose that lesson be learned from our past and from contemporary examples to properly capitalise on our national potential workforce. For example, we have previously calculated that if underemployment was eliminated, an additional $30 billion a year would be added to the economy in income tax receipts, wages and superannuation contributions (Lloyd-Cape 2020).

Thirdly, full employment can help balance the supply and demand of goods and services, whereas other proposed solutions to increased job insecurity and wage inequality may exacerbate "demand-pull" inflation. Government fiscal payments, such as the universal basic income (UBI) may lead to greater demand for goods and services, without concomitant productive activity in the economy, which would limit the effectiveness of such programmes. Balancing supply and demand requires investing in our national productive output capacity as spending capacity increases, and we see this as best achieved by coordinating industry policy with far higher levels of government employment.

Full employment requires that voters, public servants and politicians accept as a central organising principle, the responsibility of governments to use the powers of the state to move the nation towards this goal. Such a reorientation would require significant changes to fiscal, monetary, industrial relations and industry policy areas.

We believe that Australia, and the world at large, is at an inflection point: Climate change, technological developments, an aging population and the COVID 19 pandemic have rendered many of our economic structures and ideas insufficient. Full employment, as the central organising economic principle, has the potential to reorient our economy for a just, sustainable and progressive future.

Revising the relationship between monetary and fiscal policy

A genuine commitment to full employment would begin with a requirement that the RBA should give equal weight to all its legislated objectives - the stability of the currency, the maintenance of full employment and the economic prosperity and welfare of the Australian people - rather than subordinating real economic objectives to an overriding priority of inflation control.

These core monetary policy objectives could be carried out in concert with the markers developed for a Wellbeing Budget, in order to provide data-driven, coordinated policies, based on issues identified in the Wellbeing Budget. For example, the New Zealand Wellbeing Budget objectives include "the transition to a low-emissions economy".[11] Reducing emissions is critically important, but it is equally critical to note that high and sustained unemployment is inimical to personal and social wellbeing. Integrating these concerns, monetary and fiscal policy could be framed around supporting jobs growth in sectors such as renewable energy production.

Monetary instruments to achieve these objectives could include qualitative and quantitative regulations of financial institutions. These could include:

- Price-based regulatory incentives for lenders, such as asset-based reserve requirements. Asset based reserve requirements could be used to ensure better employment outcomes. For example, the RBA could impose lower reserve requirements for specific products such as

[11] https://www.afr.com/policy/economy/chalmers-first-budget-will-include-a-chapter-on-wellbeing-20220707-p5azvt

loans that generate employment, or are to be used in renewables projects, or for a social objective such as the construction of affordable housing.

- Direct lending to financial institutions specialising in specific social objectives and employment generation. Direct credit allocation would involve the RBA establishing quotas, which banks and other financial institutions would have to achieve in terms of certain types of lending: in this case, lending for employment generation.
- A low inflation warning trigger. When RBA analysis indicates that low wages or unemployment are bringing inflation to sub-optimal levels, a formal public warning could be passed on to the Federal Government. This would reorient policymakers and the public from only seeing high inflation as dangerous to the economy. It should also incentivise governments to place job creation ahead of relatively unimportant political objectives such as balancing the budget.

With such monetary policy instruments in place, the federal government would be in a far better position to guide market activity toward established full employment and whatever social objectives are seen as most appropriate.

Conclusion

Polling since the pandemic has shown that Australians not only accept but need and welcome greater government intervention in the economy than was previously the case. Coupled with this, Australians are losing faith in their government institutions.

We believe that a full employment policy would provide a collective narrative and social mission for the nation. The urgency of returning to a true full employment approach is drawn into sharp relief by the "triple disruption" of COVID-19, the immediate need for climate change minimisation and mitigation efforts, and the process of automation and AI in many areas of work. Between 2007 and 2018, automation has already reduced job numbers of over 50 per cent in obviously vulnerable occupations such as executive assistants and computer operators, but even jobs seen as relatively safe from automation such as brick masons and drywallers have seen a decline of over 45 per cent and 25 per cent respectively over the same period (World Economic Forum 2020).

Post WWII, rapid growth was possible because of the extent of the economic damage caused by the war, but rebuilding these economies took place in an environment marked by intense technical progress. The articulation between public and private investments, sometimes in the framework of an explicit development plan, worked to reduce uncertainties in the private sector and to reduce waste of scarce resources. As a result, not only did reconstruction proceed even faster than expected, but it was accompanied, somewhat surprisingly, by little inflationary pressure.

We do not claim that full employment is a cure all for our contemporary economic and social ills. However, it seems clear that the full employment approach to work and the relationship between government and worker encapsulates the principles of the "fair go" far more than the current system which locks tens of thousands of workers from the labour market.

A new commitment to genuine full employment, targeted at resolving the 21st century issues of mass underemployment, climate change, weak growth, automation and growing economic inequality, would provide Australia with a map and compass to navigate the next stage of capitalism.

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