In defence of the Job Guarantee

William Mitchell and Martin Watts
Centre of Full Employment and Equity (CofFEE)
University of Newcastle

Abstract: In any problem-solving task, it is crucial to construct the initial problem in a meaningful way, because it influences the discourse and the solutions that follow. We argue that labour underutilisation is the central problem facing Australia not only due to the lost GDP but also because it punishes individuals via income insecurity and other associated costs (such as ill-health, family breakdown). We construct this problem as a system failure due to ill-conceived and executed macroeconomic policy imposing on vulnerable individuals who are powerless to improve their outcomes. We define full employment in terms of providing sufficient spatially distributed jobs and hours of work to match the labour force preferences at current money wages. This is in sharp contrast to orthodoxy which depicts unemployment as individual failure, yet at the same time argues that the full employment unemployment rate needs to be high to control inflation. While the neo-liberal approach fails to deal with the systemic nature of the problem, progressives are divided on both the problem and its solution. For example, the Basic Income (BI) model advocates the introduction of a universal basic income payable to all citizens. Most BI proponents construct the income insecurity problem as a lack of income rather than a lack of jobs and so they cannot outline a viable path to full employment. By contrast, we propose a Job Guarantee (JG) as a direct response to unemployment. The JG thus addresses the principle cause of income insecurity by restoring the role of State as an employer of last resort. The JG has been criticised by other progressive economists who prefer a Keynesian expansion mediated by incomes policy and controlled investment. In this paper we argue that if one constructs unemployment as systemic failure within a fiat currency economy (a flexible exchange rate) and desires to achieve sustainable full employment, as defined above, with price stability and environmental sustainability, then a JG is essential, but this does not preclude a complementary Keynesian expansion. An (indiscriminate) Keynesian expansion in isolation is unlikely to lead to the employment of the most disadvantaged members of society and does not incorporate an explicit counter-inflation mechanism.

1. Introduction

This paper argues that proponents of income guarantees, such as the Basic Income proposal, fail to outline a coherent path that an economy can take to achieve full employment. The BI approach consolidates the economy at a high unemployment equilibrium which is prone to inflationary bias. The paper contrasts this with the CofFEE Job Guarantee (JG) proposal which can achieve full employment and inflation control.

In November, following the announcement of the lowest official unemployment rate in Australia since December 1989, Treasurer Costello declared that his government's contribution to achieving full employment in Australia was completed. Full employment (at 5
per cent unemployment) could be achieved according to Costello (ABC, Insiders Program, 5/11/2003) "with structural change ... industrial relations legislation ... welfare reform."

The CofFEE Labour Market Indicators (Mitchell and Carlson, 2001) measure labour wastage more broadly and show for February 2003, 12.5 per cent of willing labour resources were being wasted, once account is taken of the underemployed and hidden unemployed (compared to a 6.6 per cent official unemployment rate). The implied level of actual labour underutilisation in November 2003 does not suggest an economy close to full employment. The major political parties have abandoned full employment and instead pursue the goal of full employability and simultaneously impugn the unemployed.

After 28 years, the evidence of policy failure is overwhelming. The low point official unemployment rate has ratcheted upwards over successive economic cycles, and the average duration of unemployment is now 52 weeks (ABS, 6203.0, October). Employment growth is now concentrated on part-time and casual work and over the last decade, full-time employment has increased by 14.4 per cent against growth in part-time employment of 33.6 per cent. Over the same period, the number of permanent jobs increased by 14.7 per cent, while the number of casual jobs increased by 34.5 per cent. Casual employment, although accounting for only 22 per cent of all jobs in 1992, has comprised 47 per cent of the increase in employment in the last decade (ABS, 6310.0).

In any problem-solving task, it is crucial to construct the initial problem in a meaningful way, because it influences the discourse and the solutions that follow. We argue that labour underutilisation is the central problem facing Australia not only due to the lost GDP but also because it punishes individuals via income insecurity and other associated costs (such as ill-health, family breakdown) (Watts and Mitchell, 2000). We construct this problem as a system failure due to ill-conceived and executed macroeconomic policy imposing on vulnerable individuals who are powerless to improve their outcomes. We define full employment in terms of providing sufficient spatially distributed jobs and hours of work to match the labour force preferences at current money wages. This is in sharp contrast to orthodoxy which depicts unemployment as individual failure, yet at the same time argues that the full employment unemployment rate needs to be high to control inflation.

While the neo-liberal approach fails to deal with the systemic nature of the problem, progressives are divided on both the problem and its solution. For example, the Basic Income (BI) model advocates the introduction of a universal basic income payable to all citizens (see Van Parijs, 1997; Widerquist and Lewis, 1997; and Tomlinson, 2000). Most BI proponents construct the income insecurity problem as a lack of income rather than a lack of jobs and so they cannot outline a viable path to full employment. By contrast, we propose a Job Guarantee (JG) as a direct response to unemployment. The JG thus addresses the principle cause of income insecurity by restoring the role of State as ‘an employer of last resort’ (see Mitchell, 1998; Wray, 1998). We consider the BI approach in Cowling, Mitchell and Watts (2003).

The JG has been criticised by other progressive economists who prefer a Keynesian expansion mediated by incomes policy and controlled investment (Ramsay, 2002-3; Seccareccia, 1999; Kadmos and O'Hara, 2000).

In this paper we argue that if one constructs unemployment as systemic failure within a fiat currency economy (a flexible exchange rate) and desires to achieve sustainable full employment, as defined above, with price stability and environmental sustainability, then a JG is essential, but this does not preclude a complementary Keynesian expansion. An (indiscriminate) Keynesian expansion in isolation is unlikely to lead to the employment of the most disadvantaged members of society and does not incorporate an explicit counter-inflation mechanism.
The paper is structured as follows. Section 2 describes full employment under a fiat currency. Section 3 outlines the JG model. Section 4 explores the composition of demand and the consequences for structural unemployment of the JG. Section 5 considers the nature of coercion under the JG. The issues of inflation and the balance of payments are analysed in the next two sections. Spatial and environmental issues associated with an indiscriminate expansion are considered in Section 8. Conclusions are presented in Section 9.

2. Full employment under a fiat currency

Many progressive analysts fail to understand the options facing a government that issues a fiat currency. Mitchell and Mosler (2003: 4) define a fiat currency as the monetary unit defined by the Australian government which is convertible only into itself and not legally convertible by government into gold as it was under the gold standard, or any real good or service. This characteristic of modern monetary systems presents Government with options it would not otherwise have, for example, under a fixed exchange rate policy. Most relevant is that the Government is the single supplier of the currency units it demands for tax payments. If aggregate output is to be sold, total spending must equal total income. This means that involuntary unemployment (idle labor offered for sale with no buyers at current money wages), arises when the private sector, in aggregate, desires to earn the monetary unit of account, but doesn’t spend all it earns, other things equal.

Mitchell and Mosler (2002) show that the national income identity is based on the equality between the government deficit (surplus) and the non-government surplus (deficit) and that, in aggregate, there can be no net savings of financial assets of the non-government sector without cumulative government deficit spending. As a result, the government sector is required to provide the non-government sector with desired net financial assets (net savings) to eliminate unemployment. It does this by running deficits (spending more than taxation). Mitchell and Mosler (2002) further show that Government spending is not revenue constrained, which sets government apart from private citizens and firms which both have to ‘finance’ their spending. Government spends by crediting private sector bank accounts at the central bank and operationally, this process is independent of any prior revenue.

Accordingly, full employment takes on a straightforward meaning that is typically denied by orthodoxy. Full employment is defined as a state where all those who wish to work at a money wage fixed by government will be provided with the hours of work they desire (up to full employment). Once private sector spending decisions have been made, any surplus labour can be easily employed by Government via net spending. Unemployment is thus a measure of the inadequacy of the fiscal deficit.

3. The Job Guarantee

The JG is an effective strategy for a fiat-currency issuing government to pursue to ensure that work is available at a liveable wage to all who wish to work but who cannot find market sector employment (including regular public sector). By directly eliminating demand-deficient unemployment the JG also addresses the single most significant source of income insecurity (Saunders, 2003).

The JG is juxtaposed with what we term the NAIRU approach which accompanied a regime shift in macroeconomic policy in the 1970s. The NAIRU approach is exemplified by tight monetary policy that targets low inflation, using unemployment as a policy tool rather than a target. The pursuit of budget surpluses reinforces the overall restrained demand environment. The ‘deflationary’ fiscal and monetary policy stances have led to economic growth in OECD countries being generally below the level required to absorb labour force growth and growth
in labour productivity (Mitchell, 2001: 85). The resulting persistent unemployment has been exacerbated in Australia by declining public sector employment, which for many workers (particularly young and the less skilled) was the major employer. The countries that avoided high unemployment in the 1970s maintained a "...sector ... which effectively functions as an employer of last resort, which absorbs the shocks which occur from time to time, and more generally makes employment available to the less skilled, the less qualified" (Ormerod, 1994: 203).

The JG is consistent with our construction of persistent unemployment as systemic failure driven by erroneous policy. Persistent unemployment is a product of persistently inadequate budget deficits. The State can resolve this demand gap in two ways: (a) by increasing net spending via purchasing goods and services and/or labour at market prices. This is the standard Keynesian approach and is advocated by many Post Keynesian economists (see Ramsay, 2002-3); (b) by using its power as the currency issuer to provide a fixed-wage job to all those who are unable to find a job in the private sector. The government would thus be 'an employer of last resort' and provide a buffer stock of jobs that are available upon demand. The resulting net spending is the minimum required to bridge the demand deficiency and restore full employment. We term this approach the JG. Clearly, and emphatically, a mixture of (a) and (b) is likely to be optimal although (a) alone is not preferred.

The JG absorbs and hence minimises the real costs of private sector demand swings (Berger and Piore, 1980). When private employment declines (expands) the JG pool automatically increases (decreases) and full employment is retained. The JG wage rate set at minimum award levels does not interfere with the private wage structure.

The JG differs from a Keynesian expansion because it represents the minimum stimulus (the cost of hiring unemployed workers) rather than relying on market spending and multipliers. The JG also provides an inherent inflation anchor missing in the generalised Keynesian approach.

4. The Composition of demand and structural unemployment

Kadmos and O'Hara (2000: 10-12) criticise the focus on government consumption of low-skilled services by the JG advocates, including Wray (1998) and Mitchell (1998), because they claim the leading sectors rely on information, knowledge, communications and networking. They advocate a boost to public infrastructure investment which enhances the profitability of private sector investment, in addition to contributing to aggregate demand and employment.

Clearly, if a political will exists to construct public infrastructure to achieve specific social and economic objectives then employment levels will rise. In fact, Mitchell, Cowling and Watts (2003) strongly argue for the JG to be accompanied by social wage spending to increase employment in education, health care and the like. But, sole reliance on public sector investment to achieve full employment, would create considerable economic inflexibility. The ebb and flow of the private sector would not be readily accommodated with an increasing likelihood of inflation (Forstater, 2000).

Crucially, public investment is unlikely to impact positively on the most disadvantaged workers in the economy. The JG is designed to explicitly provide opportunities for them. During the golden age (1945-1975) when public capital formation and social wage expenditure was strong, full employment was only achieved because the Australia public sector (implicitly) acted as an employer of last resort for the least-skilled workers. Further, the JG does not replace social security payments to persons unable to work because of illness, disability, or parenting and caring responsibilities.
Kadmos and O’Hara (2000) and Seccareccia, (1999) also argue that the creation of low-wage service employment under the JG means that the skills gained by workers will be of little benefit to the private sector (see also Sawyer, 2002:12). Kadmos and O’Hara (2000) emphasise the importance of structural unemployment by claiming that, when the labour market tightens, firms drive up wages for the employed in the attempt to retain skilled staff, thereby maintaining unemployment in the context of wage/wage inflation.

The JG does not preclude training initiatives (see Mitchell, Cowling and Watts, 2003), but given the endemic problem of churning the unemployed through training programs, Work for the Dole and other schemes under current economic and welfare policy, the reliance on the public sector for skill development is questionable. Specific skills are often more efficiently taught on the job.

The JG is designed to ensure that the lowest skilled and experienced workers are able to find employment. The JG is a full employment policy and should be judged on those terms. It does not presume that JG jobs will suit all skills. For some skilled workers who become unemployed in a downturn the income loss implied would be significant. Yet, Seccareccia (1999) acknowledges that a fully employed economy with the JG workers paid minimum wages represents a Pareto improvement, when compared to the current unemployment.

Additionally, firms adjust hiring standards across the business cycle and offer training slots as part of their recruitment strategies when labour markets tighten. Certain individuals are excluded by discriminating firms from the chance to receive paid employment and the requisite training as economic growth ensues because they are deemed to possess ‘undesirable’ personal characteristics. The JG thus can redress this discrimination that many wrongly call structural unemployment. Further, via regionally-based job creation programs, the JG can also productively employ all workers who cannot find a private employer.

Seccareccia (1999) argues that in a low wage regime, government employers may choose to replace some current public sector employees with those paid at the minimum wage, thereby reducing their costs of employment. These cost-minimising strategies are not specific to the implementation of the Job Guarantee, however, and under current labour market legislation are available for most employers.

Sawyer (2002: 12-13) focuses his attack on alleged planning problems associated with providing the buffer stock of jobs. However, Mitchell, Cowling and Watts (2003: 16-17) show that the jobs buffer would comprise two components: (a) a core component representing the ‘average’ buffer over the business cycle given government policy settings and trend private spending growth; and (b) a transitory component that fluctuates as private demand ebbs and flows. The permanent core jobs would deliver outputs that are required on an ongoing basis, whereas the transitory employment component would address longer term needs, but would still advance community welfare.

5. Coercion

Mitchell (1998) and Mitchell and Watts (2002) advocate, on both philosophical and incentive grounds, that the JG be accompanied by the abolition of unemployment benefits. Persons who are able to work would be required to take a JG position to gain the income support. However, unlike the current suite of active labour market programs, mandatory employment under the JG provides on-going productive employment paid at award wages rather than a program placement aimed at behaviour modification. JG advocates conclude that possession of a job is a crucial source of self-determination for the typical worker in a capitalist system and the core of regional community development. Persons unable to work would be provided with a ‘living income’.
Society should have a responsibility to encourage young people to develop skills and engage in paid work, rather than be passive recipients of social security benefits. There is strong evidence linking long-term unemployment and social exclusion, where the latter is manifested in economic deprivation, the absence of institutional support, and social, cultural and spatial isolation (Kieselbach, 2003).

The failure to engage in paid work, for whatever reason, cannot be narrowly construed to be merely an inability to generate disposable income which can be compensated for through a benefit, but entails a much broader form of exclusion from economic, social and cultural life. Accordingly, the State would be evading its social responsibilities by providing an unconditional Basic Income or other form of benefit. King (2001:74) finds the denial of benefits to unemployed workers to be repugnant and the JG to represent a thinly disguised work for the dole scheme, but fails to recognise that these jobs are ongoing and have customary employment conditions. King’s position is consistent with neo-liberal individualism and fails to provide a case for sustainable communities (Cowling, Mitchell and Watts, 2003).

Ramsay (2002-3: 283) in a particularly aggressive attack on the JG attempts to align it with an authoritarian anti-worker system by demanding to know whether a "JG government could remove uncooperative individuals from the JG sector, or could forcibly, as in a slave economy, administer punishment to recalcitrant individuals ... both of these options would have serious consequences relating to democratic governance ... [and] ... who would decide which workers would be transferred from the [private labour market] to the JG sector ... would the owners of capital have the prerogative as to whom they employ? Would government choose the personnel ... would those ... transferred ... to the JG sector be entitled to redundancy packages in the same way as employees in a liberal economy?"

The questions are difficult to take seriously. In Australia at least, a Federal election comes every three years and the citizens can oust a government that offends their notion of decency. Further, the non-JG economy would continue to operate more or less as before (this includes the current public sector activities, the private domestic economy and the foreign sector). In fact, Ramsay (2002-3: 277) reveals the prejudice underpinning his questioning in earlier remarks which erroneously claim that the "private labor market [under the JG] functions in a similar mode to that of a general liberal economy." Accordingly, he would know that it is the private employer who hires and fires at will. JG policy does not change that although its introduction alters the private hiring function in a non-trivial way.

6. Inflation control

Critics have argued that the JG would be inflationary. Ramsay (2002-3: 277) claims "the overall dynamics of the private labor market are not determined by statist or corporatist means, but rather market forces" and 'organised labour', dormant under the current arrangements, would apparently come to life under a JG. Mitchell (1998) shows that introducing a JG will not in itself promote inflationary pressures. The JG wage as a legal minium does not provoke wage-price reactions. There may be once-off modest demand effects (directly via more buoyant product markets or indirectly via higher imports and a lower exchange rate) given the modest increases in disposable income.

6.1 The captains of industry

However, what about the maintenance of full employment under the JG? While orthodox economists typically attack the JG for fiscal reasons, progressive economists invoke Kalecki (1971) to repeat the socialist opposition to Keynesian-style employment policy and apply this
critique to the JG. Kalecki (1971: 139) lists three reasons why industrial leaders would be opposed to full employment “achieved by Government spending”. The first asserts that the private sector opposes government employment per se. The second asserts that the private sector does not like public sector infrastructure development or any subsidy of consumption. The third asserts the private sector dislikes “the social and political changes resulting from the maintenance of full employment” (emphasis in original).

Kalecki (1971: 140) claims any public spending overlap with private spending will see a “negative effect of the decline in private investment.” This criticism is more applicable to generalised Keynesian expansion and planned investment strategies (Ramsay, 2002-3). It is inapplicable to the JG because JG jobs would be generated in areas that have been neglected or harmed by capitalist growth.

More substantively, Kalecki (1971) argues that unemployment can temporarily balance conflicting real demands of labour and capital by disciplining labour such that their real wage aspirations are compatible with the profitability requirements of capital. Private sector wage demands are inversely related to the unemployed who are substitutes for those currently employed. The accompanying low product market demand also reduces real margin push. Rowthorn (1980: 134) states the ‘obvious’ fact “…so long as capitalists control production, they hold the whip hand, and workers cannot afford to be too successful in the wages struggle. If they are, capitalists respond by refusing to invest, and the result is a premature or longer crisis.”

Most economies experienced strong employment growth, full employment and price stability, and strong private sector investment from 1945 until the mid-1970s under the guidance of interventionist macroeconomic policy. This period of relative stability was broken by a massive supply shock, which then led to ill-advised policy changes that provoked the beginning of the malaise we still face 28 years later. It appears that the strong government commitment to full employment and corresponding support from the electorate between 1945 and 1975 was more significant than any (possible) capitalist opposition to full employment. Kalecki (1971: 140) admits that “pressure of the masses” in democratic systems allow government to engage in job creation. His principle objection then seems to be that “the maintenance of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders.” Cornwall (1983) claimed that it took around 30 years of full employment to generate inflationary biases that manifested in the 1970s.

What is the relationship between employment and the threat of dismissal? Kalecki (1971: 140-41) says under full employment “‘the sack’ would cease to play its role as a disciplinary measure.” But Kalecki is considering a fully employed private sector that is prone to inflation rather than a mixed private-JG economy. The JG creates ‘loose full employment’ because the JG wage is fixed (growing with national productivity). So does the JG pool pose a greater or lesser threat to those in employment than the unemployed? Empirical studies suggest that the long-term unemployed exert very little downward pressure on wages growth because they are not a credible substitute (Mitchell and Carlson, 2002). The JG workers, however, do comprise a credible threat to current private sector employees. The JG pool provides business with a fixed-price stock of skilled labour to recruit from. In an inflationary episode, business is more likely to resist wage demands from its existing workforce because it can achieve cost control. In this way, longer term planning with cost control is achievable. So in this sense, the inflation restraint exerted via the NAIBER (the ratio of JG jobs to total employment) is likely to be more effective than using a NAIRU strategy.
Kalecki is very vague about the nature of capitalist opposition. By claiming that “workers would ‘get out of hand’ and the ‘captains of industry’ would be anxious to teach them a lesson”, Kalecki (1971: 142-143) is implying that the reaction would work via business interests pressuring government to cut its budget deficit. Presumably, corporate investors could threaten to withdraw investment. An examination of the investment ratio and unemployment rate for Australia from 1960 and 1998 is instructive (Figure 1). The investment ratio mirrors the unemployment rate, which reinforces the demand deficiency explanation for swings in unemployment. The rise in unemployment in the early 1970s followed a significant decline in the investment ratio. The mirrored relationship between the two resumed albeit the unemployment rate never returned to its 1960s levels. Far from being a reason to avoid active government intervention, the JG is needed to insulate the economy from these investment swings, whether they are motivated by political factors or technical profit-oriented factors.

Additionally, the increasingly deregulated and global post-industrial capitalist economy is vastly different to Kalecki’s 1943 world. Welfare states have been progressively dismantled with harsh labour legislation aimed at controlling trade union bargaining power introduced. Trade union membership has declined substantially in many countries as the traditional manufacturing sector has declined and the ‘difficult to organise’ service sector has grown (see Table 1). It is now much harder for trade unions to impose costs on the employer. Far from being a threat to employers, the JG policy becomes essential for restoring some security in the system for workers. The major reductions in international trade and global investment barriers over the last 25 years, combined with the declining union membership, anti-labour legislation (Workplace Relations Act in Australia, Employment Contracts Act in New Zealand), corporate restructuring, and the destruction of jobs in manufacturing, has led to a depressed wages outlook in industrial countries such as Australia.
Table 1: Trade union membership in Australia, August, various years

<table>
<thead>
<tr>
<th>Year</th>
<th>Males %</th>
<th>Females %</th>
<th>Persons %</th>
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<tr>
<td>1986</td>
<td>50</td>
<td>39</td>
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<td>1990</td>
<td>45</td>
<td>35</td>
<td>41</td>
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<td>1995</td>
<td>36</td>
<td>29</td>
<td>33</td>
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<td>2001</td>
<td>26</td>
<td>23</td>
<td>24</td>
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Source: ABS Cat. 6325.0 and 6310.0

Seccareccia (1999: 20-21) questions the creation of JG employment at the minimum wage to minimize disruption to the wage structure, because he views it as a peculiar form of incomes policy in which the lowest (JG) wages are regulated. These wages would be indexed in line with movements in national productivity, which is not guaranteed at present for low wage earners through the annual Safety Net Case.

On the other hand, if the JG wage is not set at the minimum level, then the use of the buffer stock as a counter inflation device under a NAIBER has similarities to a NAIRU approach under orthodoxy, except that in the former workers do not become unemployed. Seccareccia does not present a theory of inflation to challenge the contention of JG theorists that there is a long run trade off between inflation and unemployment.

6.2 A workers’ revolt?

After a rambling section summarising Kalecki (1971), Ramsay (2002-3) takes a different tack to the standard Kaleckian objection to full employment. At the outset, Ramsay (2002-3: 274) concedes that “labor would be better served under a JG economy compared to a liberal economy” (his ‘liberal economy’ is what we term a NAIRU economy). However, he argues that ‘organised labour’ will still not be prepared to accept the JG. Ramsay (2002-3: 283) asks “is it not likely that those employees who are politically organized in the PLM would withdraw their labor to support their colleagues who are forced back into the fixed price JG sector in the event of a government-induced demand reduction?” Ramsay (2002-3: 283) also asserts that it is “likely that JG employees would sufficiently organize to agitate for the advancement of political and economic rewards over an above minimum wage levels.” We note the decline of the trade unions and the effective legislative attempts to curb what remaining influence unions might have. But specific to these points we point out that: (a) the current union membership provides no resistance to the Australian government using unemployment as a buffer to control inflation; (b) in the steady state the JG employees effectively will be comprised of the most disadvantaged workers in our economy in terms of formal education, skills and labour market experience. These workers when employed typically occupy the bottom positions in the wage structure under the current system and unions hardly put pressure on government, much less threaten its viability, to improve minimum safety-net conditions. The unions, after all, cooperated with the Federal government under the Accord to systematically erode real wages and centralised wage fixation in favour of a decentralised system that has failed to protect the weakest workers (Carlson, Mitchell and Watts, 2002).

Ramsay (2002-3) suggests that trade union bargaining power is ‘passive’ at present due to misperceptions (ignorance) of the causes of unemployment. Ramsay (2002-3: 274) says “a JG would strengthen organized labor due to an explicit recognition that unemployment is neither
Applying the NAIRU logic and arguments that construct the problem as individual failing. Ramsay's (2002-3:274) claims that "when employment and inflation considerations return to the political arena, as they would under a JG full employment economy" these misperceptions will be overcome and all workers will share the knowledge they have been tricked. So the structure of the labour movement, its membership coverage, its willingness to engage in militant action is a product of misperceptions. This is an interesting theory of union decline but lacks any empirical foundation.

If the option was to return to a NAIRU economy, where on Ramsay's own admission workers are worse off, why would unions behave so irrationally. Ramsay (2002-3) claims 'organised labour' will forget quickly that the NAIRU economy delivered worse outcomes than the JG and then systematically undermine the JG economy via wage demands that threaten the balance of payments (that is demand real wage increases in excess of productivity) and/or the inflation rate. Further, Ramsay believes unions will turn on a government that tries to contain inflation by increasing the JG ratio to total employment. How will they actually do that? The answers are hard to find but Ramsay (2002-3: 284) claims that organised labour "would seek the extensive implementation of price controls as a way to ensure that capital share additional responsibility relating to the management of inflation." Under the Accord, with a Federal Labor government, the unions were complicit in the fundamental realignment of factor shares towards capital knowing that the business sector had refused to participate in the process. An incomes accord quickly became a wages policy which was effective in reducing real wages. Once the Government-induced 1991 recession unwound the employment gains that had been made during the second-half of the 1980s, the workers not only suffered on-going real wages cuts under the Accord but also significant unemployment.

7. And the balance of payments?

Some economists point to current account problems that might accompany higher demand as the unemployed are absorbed into paid employment under the JG. Lopez-Gallardo (2000: 549) says that advocates of the JG "do not address the problems associated with the trade deficit that will probably rise when a policy of full employment in one country is pursued." Ramsay (2002-3: 285) presents a very confusing version of this argument for Australia. He asserts, after correctly noting that Mitchell (2000) said that the logic of JG is embedded in a flexible exchange rate regime, that "full employment could trigger a balance of payments deficit due to buoyant domestic spending. Robust employment growth in the PLM ... may facilitate structural problems relating to trade symmetry. With little institutional capacity by the central monetary authority to devalue a nation's currency, which would bring a nation's balance of payments back into equilibrium by making imported goods and services more expensive, a JG government would be left with the policy mechanism of alleviating trade irregularities by dampening demand resulting in a reduction of domestic expenditure."

Whether the RBA 'devalues' (under fixed exchange rates) or witnesses it depreciating (under flexible exchange rates), in the face of a persistent external deficit, the adjustment processes are the same so it is hard to understand what Ramsay is actually referring to in his criticism.

The claim that imports will 'blow out' applies to any expansion in national income and cannot be related directly to the JG proposal per se. Kadmos and O'Hara (2000) imply that, in contrast to low wage services, extensive infrastructure investment in information and communications technology does not draw in imports, which suggests that the balance of payments is a constraint on the composition of expenditure too. The implication of these arguments is that a buffer stock of unemployed is required to stabilise both the inflation rate
and the current account, albeit with an overvalued currency. Mitchell and Mosler (2002: 256) note that "the deprivation suffered by those in the buffer stock of unemployed is required to allow those currently in employment to enjoy an array of attractive and relatively cheap imported goods and services."

The alleged balance of payments constraint has often been used to justify curtailing economic growth. This made sense under a fixed exchange rate because the current account influenced central bank reserves and made domestic expansion dependent on the needs to defend the external parity. The economy is freed from this constraint under a floating exchange rate which means that domestic policy can pursue full employment targets with the exchange rate taking the adjustment. In claiming that a flexible exchange rate regime is a "liberal notion", Ramsay (2002-3: 275) shows a complete misunderstanding of these options facing a government in a fiat currency economy. It is hard to construe these options as liberal. The neo-liberal practice of denying these options is the reason there is persistent unemployment.

Mitchell (1998a, 2000a) analyses the open economy consequences of the introduction of a JG policy under flexible exchange rates. While the JG workers have ‘slightly higher’ disposable income compared to their previously unemployed state, the resulting once-off, increase in ‘low end’ import spending is likely to be modest. The external impacts of the JG are likely to be significantly smaller than under the BI or a generalised Keynesian expansion because the expansionary impulse is clearly smaller.

The modest rise in net demand for foreign exchange under the JG may promote an exchange rate depreciation which, if the estimates of import and export elasticities are accurate, will shift spending on imports away from the low end somewhat and perhaps increase the contribution of net exports to local employment (Dwyer and Kent, 1993). We also concur with the arguments by Mosler (2001) that a fully employed profitable economy with price stability would be attractive for long-term investors.

8. Spatial and Environmental Issues

While environmental constraints militate against generalised Keynesian expansion, JG proponents emphasise the regional dispersion of unemployment. Ramsay (2002-3) fails to acknowledge this point. Gorz (1992) argues that regenerating the concept of community and providing access to work in the public sphere is essential to economic citizenship and participation in the social processes of production. Further, healthy communities are spaces that encourage and enable participation in social and democratic life.

Higher levels of output are required to increase employment, but the composition of output remains a pivotal policy issue. The JG jobs would be designed to support local community development and advance environmental sustainability. JG workers could participate in many community-based, socially beneficial activities that have intergenerational payoffs, including urban renewal projects, community and personal care, and environmental schemes such as reforestation, sand dune stabilisation, and river valley and erosion control. Much of this work is labour intensive requiring little in the way of capital equipment and training; and will be of benefit to communities experiencing chronic unemployment (Mitchell, Cowling and Watts, 2003: 9). We denote this form of spatially targeted employment policy as spatial Keynesianism, in contrast to the blunt instrument of orthodox Keynesianism which fails to take account of the spatial distribution of social disadvantage (Mitchell and Carlson, 2003).
9. Conclusion

Work remains central to identity and independence in contemporary Australia and persistent unemployment remains the central cause of income insecurity. Alan Blinder was right to describe reducing high unemployment as a “political, economic and moral challenge of the highest order”. In this paper we set out the conditions that must be met if a full employment strategy is to be both effective and sustainable. The Job Guarantee model met each of these conditions within the constraints of a monetary capitalist system. This role for the state is embodied in the Job Guarantee. It is the appropriate vehicle to rebuild a sense of community and the purposeful nature of work that can extend beyond the creation of surplus value for the capitalist employer. It also provides the framework whereby the concept of work itself can be extended and broadened to include activities that we would dismiss as being “leisure” using the current ideology and persuasions.

References


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