

A Case for Public Sector Job Creation Schemes

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Abstract

It is recognised that for efficiency and equity reasons that governments need to implement active labour market programs (LMP). Such programs can help to improve the matching of labour supply and demand, reduce wage inflation pressures generated where labour markets are subject to supply shortages and bottlenecks, assist disadvantaged labour market participants obtain employment, help reduce poverty and income inequalities generated by the persistence of long-term unemployment, and they can raise overall productivity levels and living standards. What is at issue is not the need for LMP, but the type and mix of LMP required in Australia.

The government has embarked upon a substantially supply side orientated LMP aimed at improving the employment prospects of the unemployed. On the demand side this has been augmented by a private sector wage subsidy program (JOBSTART). Such a mix of LMP is inappropriate for addressing the labour market problems associated with a recession. The government should, as a matter of urgency, consider the immediate introduction of a public sector job creation scheme (PSJCS). The advantages of such a program include its potential to directly address the problem of long-term unemployment (LTU), assist disadvantaged communities and provide an effective work experience support for the plethora of supply side LMP. Such a program could be effectively delivered by utilising the existing administrative structures of the CES and local government.

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1. Introduction

This paper argues that in the current recession the mix of labour market programs (LMP) should be altered away from supply-side measures towards direct job creation through the public sector. On both efficiency and equity grounds there is a strong case for public sector job creation schemes (PSJCS). The argument is extended further by suggesting that such programs should be developed on a permanent basis, their size and funding be counter-cyclical and they embody a fundamental principle - the right to obtain work at award wage rates.¹

Three caveats should be borne in mind when considering the arguments. First, direct job creation measures are not proposed as a solution for mass unemployment or as a substitute for general macroeconomic stabilisation policies. Second, supply side labour market measures do have an important role to play in improving the efficiency and equity of the labour market, however, the potential effectiveness of these programs is constrained in a recession. Third, the case presented is one of principle only, there are no details provided on funding, eligibility criteria for participants, the duration of programs and the type of programs to be funded.

2. Recent Theory and Policy on Unemployment

Many OECD economies have gone through more than two decades of historically high rates of unemployment. The reasons for the persistence of high unemployment rates are diverse and include both supply side and demand side explanations (see Layard, Nickell and Jackman, 1991, ch.9). High unemployment rates have not only become endemic, they have increased the underlying NAIRU (non accelerating inflation rate of unemployment). That is, an ever increasing unemployment rate is associated with price stability.

There are a number of reasons for the increasing NAIRU. One view is that those workers bargaining over key wage rates are largely insulated from the effects of unemployment through their employment in secure jobs in the public sector and in large private companies. Any economic recovery leads to an improvement in their bargaining position and increasing wage rates despite the continued presence of high rates of unemployment. This is the insiders-outsiders thesis which argues that the workforce is divided into those in secure jobs and those in either insecure jobs or unemployment. It is the insiders who make the wage bargains, it is the outsiders who suffer the consequences of recession (Blanchard and Summers, 1986).

A complementary view is that there is a group of workers who, once unemployed, find it difficult to regain employment. As a consequence they endure long spells of unemployment. In a recession the average duration of unemployment increases and the proportion of the unemployed who are in long-term unemployment (LTU) increases. Those in LTU suffer from the fact that employers use their predicament as a recruitment screen; not having worked over a long period is used as a reason for not offering jobs to the long-term unemployed. Those in LTU tend to become stigmatised, demoralised and quickly lose their skills and work experience value to potential employers. With economic recovery job vacancies tend to be filled from those in short-term unemployment, those outside of the labour force and by those already in employment. That is, job growth does not translate into a matching reduction in either the unemployment rate or the numbers in LTU. As a consequence, a large pool of LTU remains well beyond the end of a recession and the unemployment rate responds slowly to recovery in the labour market (see Layard, Nickell and Jackman, 1991, ch. 5).

“Outsiders” and those in LTU often suffer from a range of labour market disabilities including low levels of educational and training attainments; limited mobility across occupations, regions or industries; and possess personal characteristics (being of a particular race, gender, age or ethnic background) that are used to screen them away from employment. A range of direct labour market policies are required to address their problems.

Indeed, there are strong macroeconomic reasons for implementing direct policies to reduce unemployment rates and to reduce the numbers in LTU. Reducing the actual unemployment rate can reduce the NAIRU and assist in achieving macroeconomic stabilisation (Carlin and Soskice, 1990, 467). Reducing the pool in LTU also reduces NAIRU through reducing the demarcation between insiders and outsiders, and through providing the skills and work experience those in LTU are lacking. In this context there is scope for both demand expanding policies in a recession and for direct job creation programs that target those in LTU and disadvantaged job seekers (Green, Mitchell and Watts, 1992).

Unless direct measures are taken by government to address the problem of unemployment and its uneven distribution across the community, there will be a growing pool of those in poverty by virtue of their inability to participate in regular employment and there will remain regions in recession long after the onset of a general economic recovery. Eventual recovery from the current recession will not see any dramatic reduction in either the unemployment rate or in the numbers in LTU (Chapman, Junankar, and Kapuscinski, 1992).

3. Unemployment in Australia

The Australian experience with unemployment replicates the experience across many OECD economies over the past two decades (Burgess, 1990). Over this period, and in common with other countries (Gregg, 1990), there has been an array of LMP designed to address the problems associated with high and persistent unemployment. These have included training and educational programs, work-experience programs, job search and job counselling programs, wage subsidy schemes (WSS), direct PSJCS and special schemes for disadvantaged job seekers. The range of programs, the rapidity with which new programs were introduced, existing programs modified or terminated and the lack of clear objectives or evaluation criteria have been one of the constant criticisms applied to the Australian experience with LMP (Whitfield, 1987; Kirby Report, 1985).

Nevertheless, both the theory and evidence on unemployment (see Layard, Nickell and Jackman, 1991, ch.10) suggests that the unemployment problem in all its dimensions can only be addressed in the context of policies that:

- a. increase job opportunities in the economy through economic growth
- b. constrain the bargaining power of "insiders"
- c. improve the efficiency of the labour market through ensuring that those searching for work have the skills, qualifications and experience required to fill job vacancies
- d. directly address the labour market disadvantage suffered by the group of "outsiders", predominantly those in LTU

The current federal government has attempted to implement a broad program encompassing the above elements. The Accord has effectively constrained the power of insiders (see Chapman, 1990) and there has been a substantial increase in the funding for secondary and tertiary education, in turn secondary post year ten retention rates and participation rates in tertiary education have increased dramatically (see Budget Statement no.3, 1991/92; Dawkins and Duncan, 1989). Finally, the government has introduced a range of programs designed directly to address labour market disadvantage including the Aboriginal Employment Development Policy and the JOBTRAIN program for those in LTU.

Despite these policies, unemployment persists at double digit rates, with the current recession increasing estimated unemployment by 300 000 over 18 months. There are over 900 000 unemployed and over 800 000 recipients of unemployment benefits. Other aspects of the depressed labour market require emphasis:

- the number of employed persons in February 1992 is less than the number in employment in July 1990
- the number of full-time employed is now less than the number in October 1989
- the average duration of unemployment has increased from 36 to 44 weeks over the year to February 1992
- the numbers in LTU have dramatically increased from 168 000 to 310 000 in the year to February 1992.

To reduce the unemployment rate requires a growth in real output of the order of 3.5 per cent per annum² (Green, Mitchell, and Watts, 1992). There is insufficient growth in the economy to generate the increase in the demand for labour to either significantly reduce the unemployment rate in the short-term or the large numbers in LTU over the longer term.

4. The Post 1973 History of Labour Market Programs

Over the last two decades there have been many LMP in Australia, the history of which can be found documented in the Kirby Report (1985), Stretton and Chapman (1990) and the National Board of Employment, Education and Training (NBEET, 1991). In general LMP expenditure has been counter-cyclical and related to the unemployment rate (Stretton and Chapman, 1990, p. 17). In terms of real LMP expenditure as a ratio of unemployment benefit expenditure, there has been no growth since 1983/84 when the government implemented its Community Employment Program (CEP) (Chapman and Stretton, 1990, p. 17).

Whitfield (1987, ch.8) contends that LMP till the mid eighties were subject to 4 criticisms:

- they were an ad-hoc response to increasing unemployment, as a consequence of which there developed a large number of apparently un-coordinated and confusing programs
- the initial emphasis upon job creation through the Regional Employment Development Scheme (REDS) was seen to be an expensive way to create a small number of jobs
- training and vocational schemes developed during a recession equipped the unemployed with skills for jobs that did not exist
- there was a lack of any long-term labour market planning.

There has been a re-orientation of LMP since the Kirby Report (1985). Up until the mid eighties, PSJCS were dominant with the REDS (1974-76), the Wage Pause Program (1983-84) and the CEP (1983-87) being the major

initiatives. Other programs addressed the problem of high youth unemployment rates (eg Community Youth Support Scheme (CYSS), Special Youth Employment Training Program (SYETP)). LMP were subsequently re-oriented towards training and education, greater program co-ordination and a more active approach by local CES offices towards counselling, placement and assistance to the unemployed (the Active Employment Program). There is now greater integration between welfare support for the unemployed and LMP, the unemployment benefit system being integrated into the NEW-START and JOBSEARCH programs in 1991.

5. Australian Labour Market Programs in an International Context

Internationally, Australia ranks low in terms of expenditure on LMP, either as a ratio of GDP or in terms of per unemployed person (Jackman, Pissarides and Savouri, 1990, p. 454). In 1988/89, only Japan and the USA spent less on LMP as a proportion of GDP. Likewise, as a ratio of expenditure on unemployment benefits, LMP for Australia only ranks above Belgium and the Netherlands. The low ranking is especially apparent in the areas of labour market training and in direct job creation (Jackman, Pissarides and Savouri, 1990, p. 454). More recent estimates by Stretton and Chapman (1990, p. 32) and by the NBEET (1991) confirm the relatively low Australian expenditure levels on LMP in an international context. Since these estimates, expenditure on LMP in Australia has increased considerably, especially on labour market training programs, but so too has the unemployment rate.

International expenditure comparisons on LMP must be treated with caution. First, the composition of programs between training, income support and job creation vary widely. Second, the extent and length of unemployment benefit support also varies across countries (Layard, Nickell and Jackman, 1991, ch.10). Third, the effectiveness of programs can differ significantly in terms of their targeting, administration, delivery and costs. Despite these important reservations there is evidence supporting the view that "better" unemployment performance, the achievement of a lower NAIRU and better labour market matching are directly related to LMP expenditure (see Jackman, Pissarides and Savouri, 1990).

International comparisons thus suggest that Australia can increase its expenditure on LMP. However, the composition of LMP expenditure is important; in the context of a recession there is a need to reduce emphasis upon supply-side measures and to increase expenditure on demand side measures such as PSJCS.

6. Current Labour Market Policies

As with other OECD economies, Australia's LMP have developed as a response to escalating unemployment rates. The 1991/92 Budget increased expenditure on LMPs, with the major initiatives being:

- increased expenditure of \$38m. on the combined training and work experience program, JOBSKILLS
- increased expenditure of \$16m. on the training program for those in LTU, SKILLSHARE
- The major LMP's and their projected expenditure in 1991/92 were:
- JOBTRAIN (\$137.5m.) which attempts to assist disadvantaged job-seekers through the provision of short-term vocational training
- JOBSTART (\$93.8m.) which provides temporary wage subsidies to private sector employers who employ those in LTU
- JOBSKILLS (\$45.5m.) which combines community work experience and training for the LTU
- SKILLSHARE (\$119.7m.) which provides grants to non-profit community groups for the provision of skill training packages for the LTU and disadvantaged job-seekers

Subsequently, the government in its "One Nation" policy statement of February 1992 announced increased expenditure on LMP. The major initiatives included:

- \$100m. increased expenditure on JOBSTART
- \$30m. increased expenditure on JOBSKILLS.

LMP has largely become supply-side orientated in that they attempt to improve the human capital attributes of those in unemployment. In turn, these programs attempt to reduce the numbers in LTU, generate a better matching between labour supply and demand, and eventually reduce the division between insiders and outsiders in the labour market. Such initiatives should be placed in the perspective of an increased emphasis upon the acquisition of formal education credentials through TAFE and universities, increased post year 10 school retention rates, the program of workplace reform under the umbrella of award restructuring with its emphasis upon skills acquisition and the introduction of the Training Guarantee Act in 1990.

There can be little objection to a policy which attempts to raise the skills and education of the workforce, increase the efficiency of the labour market and in the process increase aggregate productivity levels and raise living standards. However, such an approach has a long-term perspective and in

itself is deficient in dealing with recession where the major problem is one of an insufficient demand for labour. Even if supply side policies achieved a better matching between labour supply and demand, and all currently estimated vacancies were filled instantaneously, there would still be close to 900 000 persons unemployed.

Supply-side policies can be of assistance in a growing economy for improving the dynamic efficiency of the labour market and in reducing the numbers in LTU. In a recession they will be ineffective unless job vacancies can be generated to utilise the acquisition of new skills.

Thus the effectiveness of supply-side LMP can be questioned on four grounds:

- they are a longer-term approach to labour market problems that require short-term action; it takes time to obtain skills, credentials and work experience that can better equip the LTU and disadvantaged groups for employment.
- they ignore the institutional segmentation of the labour market by personal characteristics such as age, race, gender and ethnic background. Systematic labour market segmentation and discrimination cannot be addressed through supply-side policies.
- they are generally ineffective in a recession. Labour market disadvantage intensifies and the number in LTU increases. Acquiring skills for non-existent job vacancies will not reduce the unemployment rate, the numbers of LTU and the numbers of disadvantaged job seekers.
- they have limited application to depressed regions where the effects of structural decline results in continued job-shedding even when the national economy is recovering.

For deep seated labour market problems such as disadvantage and segmentation, and for the labour market problems associated with recession and regional disadvantage, demand side programs are required to increase the number of jobs, to target disadvantaged groups and regions, and to provide job placements for the LTU.

7. Why Not an Expanded Private Wage Subsidy Scheme?

The major job creation program currently operating is the JOBSTART scheme. Under this program those eligible for participation must have been unemployed for six of nine months and be located on the CES register. A subsidy is paid for 20 weeks to participating employers with the rate of the subsidy dependent upon the age and relative disadvantage of the job seeker. The rationale for the subsidy is that it incorporates:

- the “fixed cost” element associated with employers training workers who possess few job skills
- the compensation required to enable employers to hire workers who they would normally consider to be “less productive” by virtue of their lack of skills or work experience.

The subsidy is designed to ensure that job seekers who would otherwise be placed at the end of the job queue are given access to employment. In turn those participating in the scheme not only gain employment but have the opportunity to obtain job skills and work experience that should enhance their longer term employment prospects. When the subsidy period terminates there is the chance that employers will retain the previously subsidised workers or that such workers can readily find alternative employment. The other advantage of WSS is that it reduces the effective wage rate and as such does not add to wage inflation pressures.

WSS are job creation schemes to the extent that the effective reduction in the wage rate for subsidised labour will induce employers to increase their levels of employment under certain conditions (see Lewis and Ryan, 1985, p. 3). However, there are several reasons why a WSS is not appropriate for dealing with unemployment in a recession.

First there are substitution effects. The subsidy may only lead to substitution of subsidised for non-subsidised labour. Second, and associated with the above, WSS may have minimal impact in terms of net job creation. Third, in order to secure WSS placements at the local level, there is the possibility of “creaming” occurring. That is, employers selecting those near the top of the unemployment queue and rejecting disadvantaged groups and those in LTU. WSS needs to be targeted if it is to have its intended effect. Fourth, the subsidisation of wages raises wider issues. It could be seen to be undermining the system of awards, exploiting those in LTU and subsidising those firms and sectors participating in WSS relative to those non-participating firms and sectors.

Some analysts have doubts over the ability of WSS to be an effective job creation policy during a recession (see Stretton and Chapman, 1990, p. 10). To be effective in recession WSS may require a longer period of subsidisation and an increase in the level of the subsidy. In turn this is likely to intensify substitution effects and to increase the marginal costs of job creation. The other problem is that in communities and regions hardest hit by recession there are likely to be insufficient firms in a position to be able to participate in a WSS.

These problems were highlighted in an Australian Audit Office (1989) report on the JOBSTART program. Principal findings included:

- there was an under-representation of older age (over 45 years) in the program, often there was a reluctance by employers to accept the placement of older-aged workers, even though this group had the longest average duration of unemployment³
- many of the jobs lacked any skill or training content
- over half of the participants failed to complete the full spell of subsidised employment
- there were doubts expressed as to whether the program was meeting the particular labour market needs of the LTU.

There are serious doubts as to whether JOBSTART can even be regarded as a job creation program. It may be better regarded as an employment access program for the LTU. The NBEET (1991, p. 27) regards JOBSTART as a necessary access program for the LTU and one that, compared to training programs such as JOBTRAIN and SKILLSHARE, is far more effective in improving the post-subsidy employment prospects of the LTU. Indeed, the NBEET (1991, p. 27) recommended that JOBSTART become purely an access program, not a job creation program.

There is also the suspicion that the scheme has problems in securing employer participation in a recession. For example, the 1991/92 Budget Statement no. 3 reported that expenditure on JOBSTART was \$31.2m. less than budgeted because of fewer anticipated placements. This short-fall occurred at a time of increasing unemployment and growing numbers of LTU.

Despite this, the Government in its "One Nation" package announced increased funding of \$100m for JOBSTART as one of the major LMP responses to the current recession.

8. Arguments for a Direct and Permanent PSJCS

PSJCS have a stigma of being an inefficient and costly way to tackle unemployment. The REDS scheme (1973-75) is often cited as an example of the waste, extravagance and inefficiency associated with PSJCS. However, the BLMR (1984, 29) reported that the REDS did have positive aspects in that:

- at its peak it provided jobs equivalent to ten per-cent of registered unemployed
- it provided a large number of often disadvantaged and isolated communities with a range of facilities and services they would not have otherwise obtained
- net costs to the government were less than half of gross costs given

the reduction in unemployment benefit payments and the increase in income tax revenue collections.

The successor to REDS, the CEP also demonstrated the potential benefits of a PSJCS. This operated between 1983 and 1987. It generated an estimated 145 000 job placements in 23 000 projects and cost over \$1b (Stretton and Chapman, 1990, p. 25).

CEP had many advantages over previous PSJCS such as REDS and the Wage Pause Program (WPP). Assessments of CEP (DEET, 1985; Burgess, 1984) suggest it more effectively targeted disadvantaged groups and was more effective at job creation.

On a range of criteria PSJCS offer considerable advantages over WSS in addressing the problems of disadvantaged job seekers and those in LTU.

First, PSJCS have greater net job generation potential. They do create additional jobs and do not have the substitution problems associated with WSS. Estimates suggest that PSJCS are from four to eight times more effective than WSS in creating jobs.⁴

Second, PSJCS can create jobs in a recession, and can also generate jobs in regions and communities hard hit by recession. In contrast, there are doubts over the ability of WSS to be operational in depressed regions and in a recession. Furthermore, PSJCS have multiplier benefits in such regions. It has been estimated that for every two PSJCS jobs created another job is created through local community multiplier effects. (Stretton and Chapman, 1990, p. 38).⁵

Third, PSJCS do not compromise or undermine the system of award wage rates. There is no hidden subsidy to select firms or sectors who participate in WSS.

Fourth, PSJCS can be directly targeted towards the disadvantaged job seekers and the long-term unemployed. Placements into PSJCS can be directly through referral by CES offices.

Fifth, PSJCS can generate considerable externalities in that the funded employment can be used to develop and extend community infrastructure. The output can generate much greater community benefit than the private output orientation of WSS. Regions and communities that are hardest hit by recession are generally the ones lacking in community facilities and infrastructure.

On equity grounds alone there is a strong case for PSJCS. With growing unemployment and increasing numbers in LTU both the incidence of poverty and the degree of income inequality increases. Unemployment and a lack of access to regular or full-time employment remains one of the principal sources of poverty in Australia (Saunders and Matheson, 1991, p. 164). By creating jobs for the disadvantaged and those in LTU in a recession, a PSJCS can more effectively address the equity issue than a WSS (Chap-

man, Junanker and Kapuscinski, 1992, p. 29).

On cost grounds the “real” costs of a PSJCS are comparable, if not lower, than WSS. First, more net jobs are created. It is likely that a 20 percent wage subsidy will still be more costly per net job created than a fully funded PSJCS job. Second, the additional multiplier effects will generate additional net revenue gains to the government. Finally, the reduction in unemployment benefit payments and increased income tax revenue collections will further reduce the costs of a PSJCS.

9. Overseas Precedents for a Direct and Permanent PSJCS

Australia Reconstructed (1987, ch. 4) has been influential in shaping the development of employment and training programs in Australia. It argued for an increased commitment by government and business towards education and training, and for the development of an active and integrated LMP. It largely used the Swedish experience as the basis for its recommendations. These recommendations have been broadly followed, especially with respect to developments in workplace reform and award restructuring. While a more active and integrated LMP has evolved since 1987, one area in which the Swedish experience is not replicated is the absence of any employment guarantee in Australia.

In Sweden the state acts as employer of the last resort through PSJCS largely implemented by local government. These programs are viewed as an integral part of an active LMP, especially for:

- periods of recession
- disadvantaged labour market groups
- economically depressed regions and communities.

In Sweden, training, education, counselling, placement, re-location and work experience are all part of an active LMP strategy. The payment of unemployment benefits without participation in the LMP is regarded as an ineffective and costly option. By international standards Sweden is one of the largest spenders on LMP a proportion of GDP and in terms of expenditure per unemployed person (Jackman, Pissarides and Savouri, 1990, 455). The Relief Work Expenditure Program includes both private sector WSS and direct PSJCS. It is targeted towards youth, females and the disabled (BLMR, 1984, ch.3). After being in unemployment for 12 months there is a guarantee of temporary employment, usually of six months duration, in the program. Wages are paid at the legal rate. Most projects are initiated and implemented by municipal authorities. There is thus a commitment by

the government that all persons have a guaranteed right to employment and in turn that LTU can be avoided through direct job creation measures.

Denmark implemented the Job Offer Act in 1978. It provides jobs for those who have been unemployed for 21 months and to school leavers who have been unemployed for 12 months. It incorporates both public and private sector job placements, with over three-quarters of such jobs being located in the public sector. Jobs under the program last between seven and nine months. The program is also integrated into training schemes (Hollister and Freeman, 1988, p. 320).

The key point from these examples is that there are precedents for a permanent, counter cyclical PSJCS. It should be seen as being an essential component of an active LMP and it should be seen to be complementary to other LMP, especially supply-side measures. Moreover, a permanent PSJCS contains an implicit right to employment for all job-seekers. With economic recovery, greater emphasis can be given to training and job placement programs, including WSS for disadvantaged groups. However, there is still a place for PSJCS on a permanent basis since not all sectors or regions recover from recession, nor do all groups have equal access to job vacancies, and moreover, LTU persists for years beyond any national economic recovery.

10. A Permanent PSJCS for Australia?

There are compelling arguments for a permanent PSJCS in Australia. It can directly assist LTU and disadvantaged groups, it can provide facilities to disadvantaged communities and it can be an integral component of an active LMP. In the past PSJCS have been applied in Australia as a short-term response to increasing unemployment. As a consequence, many of the previous PSJCS experienced administrative and implementation problems. A permanent PSJCS would have the administrative structures in place to cope with increased demands and expectations.

The program should be funded by the Federal government. It has prime responsibility for reducing unemployment and for ensuring that all labour force participants have access to employment. Such a scheme would provide an effective right to employment for all Australians who actively seek work.

Job placements should be made directly by the CES. It can identify those groups and individuals who are most likely to benefit from participation in such a program. Priority can be accorded to disadvantaged groups and to the LTU.

Employment in the PSJCS should be at award wage rates. This ensures that there is no perceived exploitation of the unemployed, that the existing

award wage system is not being undermined and that there are no "hidden" subsidies to select firms or industries.

The delivery of projects should be initially vested with local government. They have an administrative infrastructure capable of generating projects that benefit local communities. The funded jobs can provide varied work experience, training and skills for participants in an existing workplace.

Funded projects should fulfil the criteria that was applicable to the CEP, namely that they be marginal, labour intensive, deliver effective work experience and provide positive benefits to local communities.

In such an administrative context of federal funding, CES placement and local government delivery a large number of schemes and additional jobs can be developed within a short period.

A permanent PSJCS can be integrated into other LMP. For example training and counselling schemes could be utilised to ensure that the work experience derived through participating in a PSJCS can be effectively used to maximise the long-term employment prospects of participants.

Regions with high rates of unemployment and large numbers in LTU are often those with poor and inadequate public facilities. A permanent PSJCS can assist in addressing the developing long-term social infrastructure for many of Australia's poorest urban areas and regions. In turn, the PSJCS can be seen to be complementary to the priority accorded by the Government in its *One Nation* policy statement to the development of Australia's social infrastructure.

A permanent PSJCS would be funded on a counter-cyclical basis. In periods of sustained growth the unemployment rate and the numbers in LTU decline, as such funding for the PSJCS would also diminish. In such a context greater emphasis could be given to training and WSS. In a recession the need for and the funding for a PSJCS would increase, some funding should come from a diversion of funds from other LMP such as training and WSS.

11. Conclusion

Australia has developed an integrated and active LMP since the mid 1980s. However, high rates of unemployment and large numbers in LTU persist. Australia should increase its expenditure on LMP through the introduction of a permanent PSJCS. Modern unemployment theory suggests that inefficiencies and inequities persist in the labour market despite attempts to improve the human capital attributes of job-seekers. In turn, large numbers of LTU can increase the NAIRU and limit the ability of an economy to sustain a non-inflationary recovery from recession. PSJCS is an effective

and direct means of acting upon the LTU problem. There are major weaknesses in alternative supply side measures and in WSS in dealing with LTU, especially during a recession. A permanent PSJCS has strong equity virtues in that it would assist those most affected by recession. A PSJCS could be relatively easily implemented through using the job referral services of the CES and the employment provision ability of local government. A PSJCS could be integrated into the range of active employment measures currently being offered by the CES to ensure that participants receive maximum benefit from their participation in the PSJCS. Finally, a permanent PSJCS would provide a fundamental right for those in LTU to participate in paid employment and to receive a wage income.

Notes

1. Funding details are dependent upon many issues including inter-governmental financial arrangements, the involvement of community groups, the criteria for the selection of participants, the number of participants, average wage rates and on-costs, and administrative and other non-labour costs.
2. This assumes that the combined growth in the labour force and labour productivity will average around three per cent per annum.
3. As a February 1992 the average duration of unemployment was 44 weeks. For those in the 35-54 age group it was 52.6 weeks, for males in this age group it was close to 56 weeks.
4. Such estimates are very approximate depending on the nature of those participating in programs, the completion rate in the program, the degree of substitution occurring and the state of the economy. Stretton and Chapman (1991, p. 36-37) report on net job creation estimates for different PSJCS and WSS in Australia. WSS were found to be in the range of 10 to 20 per cent effective in net job generation terms while PSJCS were 75 to 85 percent effective in net job generation terms.
5. The local multiplier effect will depend on a host of conditions including income tax rates, the marginal propensity to consume and the proportion of expenditure being allocated to locally produced goods and services.

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