

**ACTU JOBS SUMMIT
PATHWAYS
TO RECOVERY**

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Notes on employment and skills development

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1. Current economic and policy environment

The current economic crisis is the result of poorly contrived economic policies which reflected the abandonment by national governments around the globe of their legitimate responsibilities for ensuring full employment was sustained and a dynamically efficient labour force was fostered through adequate skills development.

The pursuit of budget surpluses has undermined the capacity of the national government to address the spending gap left by the desire of the non-government to save and the results have been highly destructive in several ways:

- The only way the economy could continue growing during this period was for the private sector to become increasingly indebted;
- Aggregate demand was always being constrained below the level (and growth) that was required to generate enough jobs to fully employ the available workforce;
- The public sector cutbacks undermined the capacity of the economy to achieve high levels of employment and skills development;
- The accompanying privatisations of public service activities further exacerbated the capacity of the nation to generate skills given the essential role that public sector employment has played in this process; and
- Essential national infrastructure development and maintenance was abandoned including strategic positioning to meet the challenges of climate change.

The essential point is that the Australian government operates a fiat monetary system which means it is not revenue-constrained. The obsession with surpluses and the current deficit-debt hysteria ignores key economic facts – we no longer operate within a convertible, fixed exchange rate monetary system and the national government is the monopoly issuer of its own currency.

This means that the government is required to run deficits whenever the non-government sector desires to save if output and employment levels are to remain high. The recent period of rising private sector indebtedness (as a whole) and rising budget surpluses has been atypical rather than the norm. It will never represent a sustainable growth strategy.

The typical behaviour is for the non-government to desire to net save and for the public sector to finance that desire by running deficits. This typical behaviour is non-inflationary as long as nominal aggregate demand is held within the real capacity of the economy to absorb it. We are currently a long way from reaching any inflation barrier.

What is important to understand is that in this type of monetary system all the constraints that the government imposes on itself – “to balance the budget over the cycle”; “to issue debt \$-for-\$ in to the private markets to match net spending”; “to adopt a 2 per cent real spending growth rule” and related fiscal rules are all voluntary. These rules are not dictated by the underlying mechanics of the monetary system.

In that context, the only responsible fiscal rule is that the federal deficit should be sufficient to fill the spending gap left by non-government saving and thus be sufficient to underwrite high levels of employment. It becomes apparent then, that under the type of monetary system we operate within – a fiat monetary system – the federal government ultimately chooses, as a consequence of its budget position, the unemployment rate. Given that the federal government is not financially constrained in the same way as a household is, it can always ensure there are enough jobs available to meet the preferences of the available labour force.

Summary: Role of government in providing for a job rich future:

1. The Federal Government has to gear the current fiscal strategy towards direct job creation. The current Jobs Plan is inadequate. There should be an unconditional and universal employment guarantee introduced at the federal minimum wage to any workers who want a job but cannot get one.
2. A renewed investment in human skill development is the most durable investment that a government can make. The Federal Government in partnership with other levels of government should take responsibility to develop a coherent and integrated national skills development framework within the context of an employment guarantee.
3. National infrastructure development with a focus on fostering green industry initiatives and the skills that will be required to sustain the new activities.

2. Introducing a safety net – the Job Guarantee

The first step that the Federal Government should introduce a **Job Guarantee**, where the Federal government offers unconditionally a job at the minimum wage to anyone who is without work. This would provide a buffer stock of jobs that are always available and would address demographic and regional disadvantage more efficiently than any other strategy.

Modelling at the Centre of Full Employment and Equity (CofFEE) shows that if the Government introduced a Job Guarantee and paid the workers the current national minimum wage it could hire 557,000 full-time equivalent workers for around \$8.3 billion per year.

In a major report *Creating effective local labour markets: a new framework for regional employment* (CofFEE, 2008) that CofFEE released (in partnership with Jobs Australia) in November 2008 it was estimated that to achieve a full employment level (consistent with 2 per cent official unemployment, no hidden unemployment and no time-related underemployment), an extra 559.2 thousand jobs would have been required in May 2008. The figure will be higher now and increasing by the week.

In addition, the research that underpinned the report was based on a three-year study funded by the Australian Research Council which involved interviewing a high proportion of local governments across Australia. The national survey asked local experts to assess the extent of unmet community need; to assess how many low-skill jobs could be created in addressing this unmet need and obtained detailed information about how much these jobs would cost to create and manage.

The national survey of local governments in Australia identified enormous levels of unmet need for public works and community services across regional Australia. It also identified hundreds of thousands of jobs that would be suitable for low-skill workers in areas such as community development and environmental care services.

A Job Guarantee would restore the role of the public sector as a significant employer, and to do so in a way that also controls inflation.

A Job Guarantee provides a platform for developing the national skills base, by comparing the observed skills and competencies of the Job Guarantee workforce with the emerging skills

requirements of each regional labour market. This would inform the provision of accredited training (both in-house and via external providers such as TAFE), the indenturing of apprentices, and the design of Job Guarantee activities so that they include experiential development of skills expected to be in local demand, thereby restoring the role of the public sector as a net trainer of skilled workers and minimising the likelihood of inflationary bottle-necks in labour supply.

The flexibility of the Job Guarantee would extend to designing jobs to accommodate individuals with special physical, intellectual and behavioural needs. It could also be adapted to address the needs of rural and remote communities, and to reflect cultural norms within indigenous and other non-Anglo Australian communities.

The Job Guarantee is intended as a platform to: provide economic security and social integration for those whose labour is currently being under-utilised; reduce social dislocation arising from unemployment and poverty; and contribute to the quality of life of all by its contributions to a better environment, public amenity and improved services.

As a minimum wage employer that accommodates the poaching of its skilled workers by other employers, and even facilitates this practice when extra workers are needed in the private sector, the Job Guarantee is a superior price stabiliser than the present method that entails keeping over a million people precariously unemployed and under-employed, and in a condition of skill-atrophying idleness, social exclusion and poverty.

Benefits of a full employment policy

The implications of a full employment policy based around an employment guarantee are considerable.

First, it would mean greater use of labour and capital resources, as mentioned the single most significant efficiency reform that could be implemented in Australia is the elimination of unemployment. The direct financial benefits to the economy would be enormous; as indicated, of the order of 10 per cent additional GDP every year.

Second, it would mean fewer fluctuations in aggregate economic activity. Such a situation would offer greater certainty for investors in the private sector since investment decisions would be undertaken in an ongoing full employment economy.

Third, the extent of exclusion, poverty and costs associated with unemployment will be significantly reduced. It would be a policy that facilitated social inclusion rather than social exclusion.

Fourth, governments would have to approach other economic goals from a full employment context, not, as currently, assume a given rate of unemployment and attempt to stabilise prices or reduce the current account deficit at this unemployment rate.

Fifth, employers would be forced to contemplate how to better utilise labour and how to raise labour productivity through investment in machinery, technology and training. There would no longer be the emphasis upon cost cutting, lower wages and static efficiency gains associated with surplus labour conditions.

3. A National Skills Development Framework

The Report - *Creating effective local labour markets: a new framework for regional employment* (CofFEE, 2008) - also proposes a role for the state in direct skill formation through a National Skills Development (NSD) framework which we consider will address the skills problem and support the global competitiveness of Australian industry.

Skills shortages

Australia has a poor record in skills formation. Skill formation is a challenge that Australia, along with other countries in the Anglo-American and neo-liberal mould are clearly failing to meet. When we look to societies with a high skills formation capacity, we see their success underpinned by institutional arrangements that place national, collective interest at the forefront.

High-skill countries such as Germany, Japan and Singapore have institutional arrangements which include a significant role for the state in creating the social underpinnings of high skill formation, including:

- Social cohesion and cooperation among societal players;
- Value-adding rather than competing on the basis of cost reduction;
- Continuous investment in new skills and particularly skills of communication and problem solving that support collaboration and innovation;

- Coordination to produce system coherence;
- High skills diffusion throughout the labour force rather than a polarisation of high and low skilled workers;
- Social inclusion in the benefits of a high skilled society.

Australia performs poorly in most of these areas. Successive Australian governments and employer bodies have undermined high skill formation over 30 years by their efforts to minimise the size and role of the state. Peak employer groups and their political advocates publicly and privately advocated for the abandonment of full employment in the early 1970s, to restore (socially exclusive) labour underutilisation as a productivity driver, and achieved their objective by significant cuts to public sector employment.

The neo-liberal era has been defined, in part, by the increased precariousness of work and the centrality of the OECD-inspired “active employment strategy” which has undermined the development of institutions that are conducive to high skills formation.

The lack of institutions has been the result of a demolition of the national skills development framework that served the country well during the true full employment period after World War II. Up until the mid-1970s there was a capacity within the Federal and State employment departments to conduct occupational forecasting and integrate that with a comprehensive apprenticeship and training structure. Neo-liberal cutbacks in government spending and employment since the mid-1970s have targeted these crucial capacities.

The Cutler Review (2008: x-xi) recommended that:

High quality human capital is critical to innovation. Equipping our people with the skills to innovate is essential, not only for the generation and application of new knowledge, but also to use and adapt the knowledge produced elsewhere. Using the admittedly imperfect yardstick of the level of funds dedicated to public education, it is also an area in which our commitment has been waning, even absolutely as a share of our own economy, but far more emphatically so compared with other countries. For most of the post-war period Australia was one of the leading OECD countries in its commitment to education, as measured by the share of public expenditure. By 2003, however, Australian

public expenditure on education had dipped to 4.7 percent of GDP, below the OECD average of 5 percent.

Building high quality human capital requires attention at all levels of education: from early childhood education and schooling, through vocational education and training and higher education, and into the workplace.

It is most assuredly the case that high quality education is about far more than funding, a point made vivid by the fact that we have doubled the resources spent on each child at school since the 1970s with scant improvement in measured outcomes ... Even so, it is imperative that our educational institutions do receive adequate funding and it is likely this will require a substantial increase in funding as a share of GDP.

Cutler, T. (2008) *Venturous Australia – building strength in innovation*, Report of the Cutler Review of the National Innovation System, Federal Department of Innovation, September.

The creation of a national skills development framework

The creation of a National Skills Development (NSD) framework is needed to address the skills problem Australia faces. Most of the underutilised workers in Australia have relatively low education and skill levels. Further current skills will have to be updated to meet the requirements of new emerging green industries.

The essential components of a NSD are:

- The introduction of a Job Guarantee will create a dynamic training environment. Australia is wasting our experienced (skilled) aged workers who have been driven out of the labour market by the lack of employment possibilities. Some workers who lost their jobs in the last major recession have been idle since, some outside of the labour market on disability support pensions. On the other hand, we have high youth unemployment. This group desperately need paid work-training pathways and supervision. The two cohorts could be embraced by public job creation programmes to mutual benefit.
- The Federal and State Governments must renew their commitment to adequately fund our public schools and universities.

- Public policy must also set in place safety-net structures for the youth who leave school early as a matter of top priority. Every person under 20 years of age should be in education, training or a paid job. A strong public commitment to providing employment and integrated apprenticeship opportunities with a revitalised TAFE sector is necessary.
- Occupational planning capacities must be reintroduced to ensure that the apprenticeship and training programmes are targeted in areas of regional and industrial need.
- By maintaining full employment, private employers are forced by competition to take a major responsibility for training and skill development of our workforce.

The NSD should be integrated within the Job Guarantee structure to ensure that the employment creation also serves as a vehicle for dynamic efficiency

3. A Just Transition to new industries – opportunities to maximise a changing industrial structure

With manufacturing in terminal decline under the old Fordist models and the finance and insurance industry likely to be considerably smaller once growth resumes there is scope to deploy these resources for green production.

The current recession provides space for Government to fundamentally alter its approach to regional development, skills development, labour market policies and education. With idle resources available major funding initiatives are easier to implement and the cyclical response should be targeted not only at remedying the short-term crisis but also steering the nation forward to meet its longer term challenges.

Manufacturing, in particular, provides scope for green production. In general, our research shows that:

- Green jobs are secure, well-paid, environmentally-friendly jobs.
- Green jobs in renewable energy and energy efficiency are in manufacturing, installation, maintenance and servicing, operations, transport and delivery of goods, sales, research and design.

- Skills development and training are a critical part of creating green jobs. Investment in new training programs and apprenticeships in energy efficiency and renewable energy technologies is essential to attract these industries.
- A local renewable energy and energy efficiency industry, for example, has potential as a new export industry, supplying technology and expertise to other regions in NSW, Australia and to global markets.

Green regional development and industry policy must be based on what is known as **Just transition** policy which recognises that people and ecology are both important. It recognises that ‘business-as-usual’ and high risk technological fixes to unsustainable economic activity are not credible options for confronting climate change.

A just transition ensures that the costs of economic restructuring and the shift to sustainability do not fall on workers in targeted industries and their communities.

A just transition requires government intervention and community partnerships to create the regulatory framework, infrastructure and market incentives for the creation of well-paid, secure, healthy, satisfying environmentally-friendly jobs with particular attention to appropriately meeting the needs of affected workers and their communities.

Successful just transition policies for regional-scale transitions to green industry would involve:

- Clear environmental targets – the greenhouse gas emission cuts of at least 40 per cent by 2020;
- A clear decision to end investment in the affected area or industry – for example, a statement indicating an end to investment in coal-fired power stations and new coal mines;
- Availability of satisfactory technological alternatives to the technology being phased out – for example, an appropriate mix of renewable energy and energy efficiency technologies;
- Innovation and political leadership that promotes the diffusion of alternative technologies – a commitment to research, develop and invest in energy efficiency and renewable energy technologies and local jobs manufacturing and installing them;
- Policies to encourage research and development investment;

- A high degree of political integration among different government sectors – between environment, energy, regional development, industry ministries and between local, state, national and international levels of government;
- Funding for compensation to minimise social and regional disruption caused by change – compensation and income support to displaced workers and communities, and low-income families;
- Establishment of Regional Development Funds to facilitate research and investment incentives for the establishment of areas.

4. Legitimate role for government

What is the legitimate role of the Government in this regard? Should it introduce policies which will stimulate private market investment therefore relying on the market to create the innovation and structural changes? Should it also be a major player itself?

The starting point is that the Federal government has to understand that its fiscal capacity should be used to support employment and output growth. If the private sector wishes to save then the federal budget deficit is required to fill the spending gap up to the level that of private savings. The federal budget balance should not be the object of policy – that is, a policy target. It is largely an endogenous artefact of private spending and the correct policy targets should be high levels of employment and dynamic skills formation.

It is much easier to make significant structural adjustments via industry policy in a “high pressure” economy.

The Australian private sector has a relatively poor track record (by OECD standards) in innovation and skills development. Typically this has been public-sector driven in Australia. It is also fraught leaving infrastructure development solely in the hands of the private market given the potential significant social costs and benefits that will arise.

Therefore the public sector has a crucial role to play in the achievement of both these essential aspects of the creation of a viable green industry in Australia.

It can: (a) help to stimulate a domestic market place for green output to support virgin industry; (b) it is central in ensuring adequate skills are generated at all levels; (c) it has an important role as a direct employer of labour; and (d) it should be involved through public trading enterprises in the development of green industry.

Governments have a critical role fostering a just transition that protects local communities and environments during change. Government support should include:

- Substantial reassessment of the role of our university and tertiary education system which will require a “hands-off” approach from Government but significant new research funding;
- Investment in training programs and apprenticeships to create a highly trained ‘green’ workforce;
- Technical and vocational funding boost for TAFE to provide training to less advantaged workers.
- Alternative public sector employment opportunities must be created which are tailored to local and individual needs and opportunities. The Federal government should introduce a Job Guarantee to provide a national employment safety net for all;
- Special targeted support for older, disabled and less educated workers;
- Transition assistance for both displaced workers and for contractors including relocation assistance for displaced workers; equipment buy-outs for contractors; and income maintenance, redundancy entitlements and retraining allowances for displaced workers.
- Adequate notice of workplace change and closures with full consultation and engagement of relevant unions;
- Support for innovation and partnerships for new local industries, research and development and infrastructure investments including cheap loans for new industries and employers.

Further reading

The Centre of Full Employment and Equity – <http://e1.newcastle.edu.au/coffee>

My personal blog – <http://bilbo.economicoutlook.net/blog>

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