



**Centre of Full Employment and Equity**

**A Community Development Job Guarantee**

William Mitchell, Sally Cowling and Martin Watts

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*A New Paradigm in Employment Policy*

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## **The Centre of Full Employment and Equity**

The Centre of Full Employment and Equity (known as CofFEE) is an official research centre at the University of Newcastle and seeks to promote research aimed at restoring full employment and achieving an economy that delivers equitable outcomes for all.

CofFEE research projects include public sector employment policies and the Job Guarantee; central banks and financial markets; estimating the costs of inflation targeting and unemployment; gender segregation; defining local labour markets; and welfare-to-work dynamics.

Under development is CofFEE 1 - a large-scale macroeconometric model of the Australian economy, which will be available to the public for policy analysis and forecasting.

CofFEE has developed its labour market indicators - CLMI - which provide more accurate measures of labour underutilisation in Australia than the official summary data published by the Australian Bureau of Statistics.

CofFEE is active in public education and community development. Our research staff regularly speak at professional and public policy conferences within Australia and abroad.

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## Executive summary:

### Creating a new paradigm in employment policy

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#### Creating a path to full employment

1. This Report develops a proposal that represents a workable and effective solution to two of the most serious aspects of unemployment in Australia: youth unemployment (15-19 year olds) and long-term unemployment (spells longer than 52 weeks).
2. These two groups have been targeted because of the severe economic and social costs that result as the period of unemployment lengthens, or when unemployment occurs at the beginning of a person's working life. Material hardship and physiological and psychological damage tend to increase as the duration of unemployment lengthens. Unemployment among the young increases the probability of future joblessness, and is closely associated with crime, drug abuse, and vandalism. It promotes patterns of behaviour that are detrimental to the development and well being of young people, and are damaging for society as a whole.
3. The proposal for a Community Development Job Guarantee (CD-JG) has been developed by the Centre of Full Employment and Equity (hereafter CofFEE) and requires that two new employment initiatives be introduced:
  - a) a Job Guarantee for all long-term unemployed (people who have been unemployed longer than 12 months); and
  - b) a Youth Guarantee, comprising opportunities for education, technical training, and/or a place in the Job Guarantee program for all 15-19 year olds who are unemployed.

These initiatives would significantly augment the current labour market policies of the Federal Government.

4. Under this proposal, the Federal Government would maintain a "buffer stock" of jobs that would be available to the targeted groups. The CD-JG would be funded by the Commonwealth but organised on the basis of local partnerships between a range of government and non-government organisations. Local governments would act as employers, and CD-JG workers would be paid the Federal minimum award. Any unemployed teenager (15-19 year old) who was not participating in education or training would receive a full-time or part-time job. Equally, all long-term unemployed persons would be entitled to immediate employment under this scheme. CD-JG positions could be taken on a part-time basis in combination with structured training.

#### The current debate

5. In December 2002, the Government released a consultation paper titled *Building a Simpler System to Help Jobless Families and Individuals*. The paper proposes reform to the income support system for people of working-age, in order to promote participation and improve incentives to work. Modernising the social security system in order to simplify the payments structure and ameliorate poverty

traps is a worthy objective. However, an effective social support system can only “encourage and support people to participate in the life of the community through paid work” (DFACS, 2002a: i) if there are jobs available.

6. There are currently six unemployed people for every job vacancy in Australia (Cowling and Mitchell, 2002a: 5). A Community Development Job Guarantee would attend to the demand side of the economy and is the essential analogue to the reforms proposed for the income support system. CoffEE agrees that paid work “enhances both self-reliance and social inclusion and that policies to enable paid work benefit the whole community” (DFACS, 2002a: ii) but a policy agenda that aims to achieve these ends must create opportunities, as well as incentives, for paid employment.
7. Alternative proposals to reduce unemployment have centred on freezing safety net increases in award wages and replacing these adjustments with tax credits for low wage earners in low-income families. These proposals misconceive unemployment as a labour market or individual problem rather than a problem of deficient aggregate demand. The effect of medium term wage freezes on the rate of unemployment is likely to be relatively small and is unlikely to create employment opportunities for the current pool of long-term unemployed (Borland, 2002: 10).
8. The CD-JG proposal detailed in this report is a safer path to full employment than the wage cutting approach. While the CD-JG proposal provides certainty in two dimensions: (a) guaranteed employment, and (b) guaranteed income; the wage cutting methodology provides certainty in neither. It does not directly address demand deficiency and relies on questionable assumptions about elasticities, and lack of interdependence between wage income and spending, to generate its job growth projections (Mitchell and Watts, 2002: 109-110).

### The problem

9. In the midst of the on-going debates about labour market deregulation, minimum wages and welfare reform, policy-makers have ignored the key fact that actual GDP growth in the last 28 years has rarely reached the rate required to achieve and maintain full employment. Discretionary monetary and fiscal policy decisions have prevented the Australian economy from creating enough jobs in recent decades to match the preferences of the labour force, and enough hours of work to match the preferences of those who are employed.
10. The evidence of policy failure is overwhelming. The low point unemployment rate has ratcheted upwards over successive economic cycles, and the average duration of unemployment, which was 3 weeks when data was first collected in 1966, is now around 50 weeks (ABS, 6203.0) Despite a sustained period of economic growth since the recession of the early 1990s, the unemployment trend in Australia remains positive. In December 2002, there were 143,700 individuals who had been unemployed for 52 weeks or more (22.9 per cent of total unemployment) and the youth unemployment rate stood at 17.0 per cent (ABS, 6203.0).
11. The picture is even worse when broader measures of labour underutilisation are considered. In August 2002, CoffEE estimated that 11.2 per cent of Australia’s willing labour resources were being wasted. This estimate takes account of the hours desired by the unemployed, the underemployed (part-time workers who

would prefer more hours), and the hidden unemployed. The cost to the Australian economy of tolerating this level of labour wastage was estimated at \$39 billion in 2002, in lost potential output. This is around 6 per cent of current GDP or \$143 per week per Australian family (ABS, 5206.0 and 4102.0).

12. Given that economic policy should be concerned with the efficient use of resources, we must address the macro inefficiency associated with unemployment. The gravity of the problem posed by unemployment - and its deleterious effects on self-confidence, competence, and family and community life - can no longer be overlooked.
13. The current policy framework, in which active labour market programs aim to make people 'employable' should there be jobs available, has been largely ineffective. The poor employment outcomes for participants in existing programs like Work for the Dole and Intensive Assistance point to the futility of preparing the unemployed for jobs that are not there. The solution to unemployment lies in generating more opportunities for paid work. A new paradigm in employment policy is needed.

#### A new paradigm in employment policy

14. Prior to the mid 1970s, the Australian economy was able to sustain full employment. A key reason for the attainment of this outcome was the existence of a "buffer stock" of low skill jobs, many of which were in the public sector. These jobs were always available and provided easy access to employment for the most unskilled workers in the labour force. These workers had employment and income security during hard times.
15. The goal of CD-JG is to restore this buffer stock capacity to the economy to ensure that, at all times, the least advantaged workers in the community have opportunities to earn a wage and to attain independence. A strong community is one in which all members feel that they have a meaningful stake. The achievement of higher levels of employment under this proposal is likely to promote social cohesion.
16. While public sector job creation via the CD-JG will restore the buffer stock capacity of the economy, this does not require a return to the "buffer jobs" of old. The CD-JG philosophy accepts the political reality that corporatised entities such as utilities or the railways are no longer suitable arenas for the creation of CD-JG jobs. Nor do we aim to create jobs that substitute for private sector employment.
17. The aim of the CD-JG proposal is to create a new order of public sector jobs that support community development and advance environmental sustainability. CD-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. The work is worthwhile; much of it is labour intensive requiring little in the way of capital equipment and training; and will be of benefit to communities experiencing chronic unemployment. It is in this sense that the proposal represents a new paradigm in employment policy.
18. Given that unemployed people are already supported by the public sector welfare system, the CD-JG requires only a low level of additional public investment to allow unutilised labour to perform a range of activities of benefit to the broad

community. The policy would not eliminate inequality between geographical regions. However, it would help communities in disadvantaged areas to maintain continuity of income and labour force attachment, without recourse to welfare dependence.

19. The CD-JG strategy also acknowledges the strains on our natural ecosystems and the need to change the composition of final output towards environmentally sustainable activities. Environmental projects are ideal targets for public sector employment initiatives as they are likely to be under-produced by the private sector due to their heavy public good component.

#### What do we mean by community development?

20. The foundations of community development require that all citizens who are able to work have access to paid employment opportunities. Within communities, chronic joblessness is a major source of hardship, division and insecurity. It follows that an essential pre-condition for strong and cohesive communities is access to paid work through which the individuals can realise their desire to contribute to community well being, and sustain their own destiny.
21. The buffer stock of jobs is designed to be a fluctuating workforce that expands when the level of private sector activity falls and contracts when private demand for labour rises. Some may ask why CD-JG employment should be cyclical in nature, if the work undertaken is productive and supports community development. We would answer this question in two ways.
22. First, there is intrinsic merit in ensuring that everyone who wants a job can get one, given the substantial economic and social costs that unemployment imposes on individuals and communities. While it will be a challenge to design productive CD-JG jobs that can be created and destroyed in line with the vagaries of the private business cycle, this is far from an impossible task. The 2000 Olympic Games showed that the public sector can quickly mobilise a diverse range of resources, and accomplish thousands of tasks requiring complex organisation. While many CD-JG jobs would be ephemeral in nature, this does not mean that the activities would be worthless or of little benefit to the communities in which the workers live. We estimate that a core of about 500 thousand CD-JG jobs would be available, irrespective of the flux of the private sector over the business cycle, given other likely federal macro policy settings.
23. Second, the CD-JG proposal distinguishes between activities that benefit communities and a comprehensive community development strategy. Political choices are being made constantly. The CD-JG does not preclude a strong public sector commitment to broad social expenditure in areas like education, hospitals, aged care, environmental reconstruction, and recreational services. Such a commitment could serve to revitalise communities, and the spending would certainly create a number of employment opportunities and expand the income of the regions. A full commitment to promoting regional and community development would thus include this type of discretionary government spending, in addition to the CD-JG program. The latter is the essential “floor” to healthy communities.
24. Thus, in advocating the CD-JG, we are not suggesting that it is the solution to community development. The CD-JG is a path towards full employment and offers essential job opportunities to the most disadvantaged and vulnerable

workers in the labour market. It ensures that such workers can maintain an attachment with paid employment and not be forced, by systemic job shortage, into welfare dependency.

25. The CD-JG recognises that if there is to be a true path to full employment, the public sector must maintain a stock of jobs that provide opportunities for the less skilled and the less qualified. Through creative job design, the activities that the CD-JG workers perform can support environmental sustainability and enhance community life.

### Investment and Results

26. To implement the CD-JG Proposal at a national level would require an estimated net investment by the Commonwealth of \$3.27 billion per annum. The net investment required to employ all unemployed 15-19 year olds under the Youth Guarantee component of the proposal would be \$1.19 billion. On the other hand, \$1.96 billion is required to employ all long-term unemployed persons aged 20 and over. The impacts of the proposal on output, revenue and expenditure, and employment are set out in the table at the end of the Executive Summary. Clearly, the stronger is the private sector activity the lower this public investment becomes.
27. The creation of 265.3 thousand CD-JG jobs would be required to eliminate youth unemployment and to provide jobs for people aged 20 years and over who are long-term unemployed. As a result, national output would rise by \$7.71 billion; private sector consumption would rise by \$2.38 billion; and an additional 68.9 thousand jobs would be created in the private sector. The full implementation of the CD-JG proposal would thus yield an additional 334.2 thousand jobs. The unemployment rate would fall to 4.0 per cent, after taking account of the labour market participation effects.

### A CD-JG for the Hunter Region

28. The paper also estimates the investment that would be required to implement the CD-JG proposal in the Hunter Region of New South Wales, which incorporates the Local Government Areas of Cessnock, Dungog, Gloucester, Great Lakes, Lake Macquarie, Maitland, Merriwa, Murrurundi, Muswellbrook, Newcastle, Port Stephens, Scone and Singleton. The Hunter has consistently experienced a high rate of unemployment relative to other regions. To fully implement the CD-JG proposal in the Hunter Region would require net investment by the Commonwealth of \$120.4 million per annum.
29. As shown in the Table overleaf, about 9.6 thousand unemployed people in the Hunter would be the direct beneficiaries of CD-JG jobs with a further 2.5 thousand jobs being created in the private sector. Output in the Hunter Region would rise by over \$284.4 million and private sector consumption by \$85.2 million.

## The CD-JG bottom line

## 30. The Community Development Job Guarantee – the bottom line

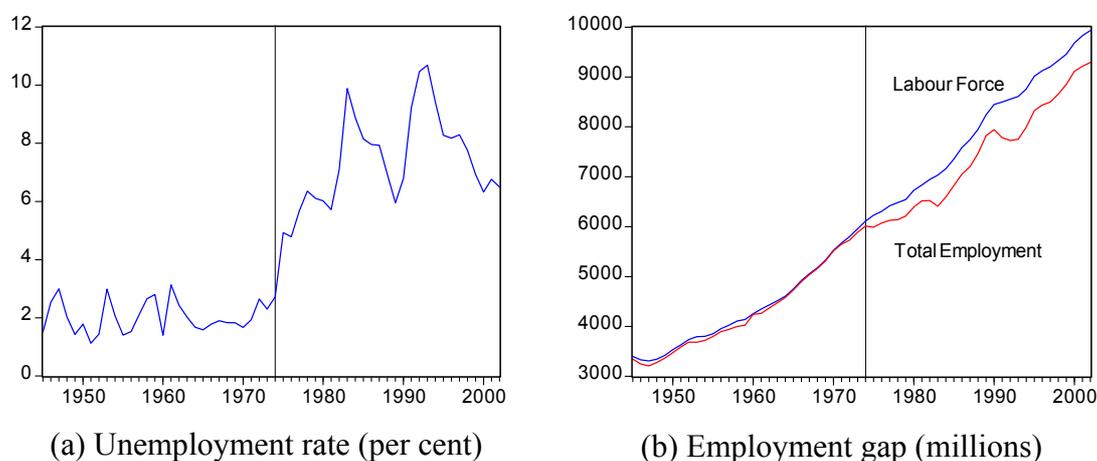
<b>Impact</b>	<b>National</b>		<b>Hunter</b>	
	Youth unemployed (15-19 yrs)	Long-term unemployed (>20 yrs)	Total CD-JG	Total CD-JG
Extra GDP	\$2.76b	\$4.68b	\$7.71b	\$284.4m
Extra total employment ('000)	163.1	156.3	334.2	12.1
Required CD-JG jobs ('000)	133.8	120.0	265.3	9.6
Private sector employment ('000)	29.2	36.3	68.9	2.5
New unemployment rate (%)	4.95	4.99	3.98	
<b>Net government expenditure</b>	<b>\$1.19b</b>	<b>\$1.96b</b>	<b>\$3.27b</b>	<b>\$120.4m</b>

## 1. Creating a new paradigm in employment policy

### 1.1 The problem

In the midst of the on-going debates about labour market deregulation, minimum wages and welfare reform, policy-makers have ignored the key fact that actual GDP growth in the last 28 years has rarely reached the rate required to achieve and maintain full employment. Discretionary monetary and fiscal policy decisions have prevented the Australian economy from creating enough jobs in recent decades to match the preferences of the labour force, and enough hours of work to match the preferences of those who are employed. This is starkly shown in Figure 1. As a consequence, many socially useful, labour-intensive projects have not been undertaken to the detriment of all.

Figure 1 Unemployment rate and the Employment Gap, Australia, 1945 to 2002



Source: Mitchell and Carlson (2001a) with updates from ABS, *The Labour Force, Australia*, 6203.0.

The cumulative costs of foregone output and unemployment are huge and dwarf the costs of alleged microeconomic inefficiency. The solution to unemployment lies in producing more work. Policy makers must address this fact before they turn their attention to anything else.

Full employment should be a major macroeconomic goal of the Australian Government because it maximises output. In addition, high and persistent unemployment acts as a form of social exclusion and violates basic concepts of membership and citizenship. The costs of unemployment are significant and include not only income and output loss, but the deleterious effects on self confidence, competence, social integration and harmony, and the appreciation and use of individual freedom and responsibility (Sen, 1997: 169). For example, recent Australian research (Chapman, Weatherburn *et al.*, 2002) found a strong positive relationship between criminal activity and the extent of long-term unemployment among young males.

**The Australian economy does not produce enough jobs ...**

**the solution to unemployment lies in producing more work ...**

**... and paid employment opportunities for the less skilled and less educated ...**

## 1.2 The solution – creating a path to full employment

This Report proposes a workable and effective solution to two of the most serious aspects of unemployment: youth unemployment (15-19 year olds) and long-term unemployment (spells longer than 52 weeks).

The proposal is based on CoffEE’s Job Guarantee (JG) model, which is an integral part of our proposed macroeconomic policy strategy. While the current proposal considers a subset of unemployed persons, the arguments and analysis presented apply equally to the introduction of a Job Guarantee for all those who are unemployed.

As shown in Summary Box 1, CoffEE’s Community Development Job Guarantee (CD-JG) would require that two new employment initiatives be introduced to significantly augment the current labour market policies of the Federal Government:

1. a Job Guarantee for all long-term unemployed (people who have been unemployed for longer than 12 months); and
2. a Youth Guarantee, comprising opportunities for education, technical training and/or a place in the Job Guarantee program for all 15-19 year olds.

Under the proposal, the Federal Government would maintain a “buffer stock” of jobs that would be available to these targeted groups. Any unemployed teenager (15-19 year old) who was not participating in education or training could expect to receive a full-time or part-time job under the policy structure outlined in this proposal. Equally, any long-term unemployed person would be entitled to immediate employment under this scheme. CD-JG positions may also be taken on a part-time basis in combination with structured training.

### **Summary Box 1    The Community Development Job Guarantee**

The CoffEE Community Development Job Guarantee (CD-JG) proposal requires:

1. a Job Guarantee for all long-term unemployed (people who have been unemployed longer than 12 months); and
2. a Youth Guarantee where the Government will guarantee all 15-19 year olds either:
  - a) A place in upper secondary level education;
  - b) A place in technical training, which leads to a certificated qualification (equivalent to a trade certificate); or
  - c) A place in the Job Guarantee program that is also available to all long-term unemployed and which may be combined with formal training.

The proposal is to be introduced and funded by the Federal Government and made operational at a local level.

### 1.3 The need for a buffer stock of low skill jobs

In the period spanning the immediate post-war years through to the mid 1970s, Australia, like most advanced western nations, maintained very low levels of unemployment. This era was marked by the willingness of governments to maintain levels of aggregate demand that would create enough jobs to meet the preferences of the labour force, given labour productivity growth. Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending. Unemployment rates throughout this period were usually below 2 per cent.

While both private and public employment growth was relatively strong, the major reason that the economy was able to sustain full employment was that it maintained a “buffer” of jobs that were always available, and which provided easy employment access to the least skilled workers in the labour force. Some of these jobs, such as process work in factories, were available in the private sector. However, the public sector also offered many “buffer jobs” that sustained workers with a range of skills through hard times. In some cases, these jobs provided permanent work for the low skilled and otherwise disadvantaged workers.

**The goal of the CD-JG is to provide a ‘buffer stock’ of jobs in the economy to ensure that, at all times, the young and the least advantaged workers in our community have opportunities to earn a wage and to live free of welfare support ...**

Importantly, the economies that avoided the plunge into high unemployment in the 1970s maintained what Paul Ormerod has described as a “...sector of the economy 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” (1994: 203). Ormerod acknowledges that employment of this type may not satisfy narrow neoclassical efficiency benchmarks, but notes that societies with a high degree of social cohesion have been willing to broaden their concept of ‘costs’ and ‘benefits’ of resource usage to ensure everyone has access to paid employment opportunities. He argues that countries like Japan, Austria, Norway, and Switzerland were able to maintain this capacity because each exhibited “...a high degree of shared social values, of what may be termed social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time” (1994: 203).

The CD-JG proposal recognises that a stock of jobs providing opportunities for the less skilled must be maintained by the public sector if there is to be a true path to full employment. This type of cohesion is a pre-condition for strong communities.

Why did Australia relinquish this cohesion over the past 28 years? In the 1980s, we began to live in economies rather than societies or communities. The concomitant focus on the individual began to erode a sense of social cohesion. In the same period, unemployment persisted at high levels in most OECD countries. The two points are not unrelated. Unemployment ultimately arises due to a lack of collective will to make political choices which favour maintaining adequate levels of demand and a buffer stock of jobs.

As part of this trend, the Australian public sector began to shrink in absolute terms and as a proportion of total employment. Mass privatisations of public enterprises saw

the transfer of public sector employment to the private sector. However, the growth of private sector employment has not been sufficient to offset public sector job losses (Mitchell, 2001a: 194).

The goal of the CD-JG is to restore the buffer stock capacity to the Australian economy and to ensure that, at all times, the least advantaged workers in our community have opportunities to earn a wage and to live free of welfare support. While public sector job creation, via the CD-JG, will restore such capacity, this does not require a return to the “buffer jobs” of old. Many of the areas within the public sector that once provided such jobs have been restructured, outsourced or sold, with the aim of improving efficiency. Although we might question the balance sheet that has generated “efficiency gains” at the expense of massive “unemployment losses”, the CD-JG philosophy accepts that corporatised entities such as the water, gas and electricity utilities or the railways are no longer suitable arenas for the creation of CD-JG jobs. Nor do we aim to create jobs that substitute for private sector employment.

In fact, an explicit aim of the CD-JG is to create a new order of public sector jobs that support community development and advance environmental sustainability. They should be designed and offered only if they satisfy these broad criteria. Specifically, CD-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. The work is worthwhile with much of it labour intensive requiring little in the way of capital equipment and training. It will be of benefit to communities experiencing chronic unemployment.

We discuss how these jobs fit into a community development paradigm in Section 1.5.

#### 1.4 What does a buffer stock of jobs mean?

The buffer stock of jobs is designed to be a fluctuating workforce that expands when the level of private sector activity falls and contracts when private demand for labour rises. Instead of forcing workers into unemployment when private demand slumped, the CD-JG would ensure that all those in the target groups would have immediate access to a public sector job at the safety net wage. The specific details about the wages and conditions pertaining to CD-JG jobs are set out in Section 7 and the Technical Appendix.

The cyclical nature of CD-JG jobs presents an operational design problem for the administration of such a scheme. CD-JG jobs would have to be productive yet amenable to being created and destroyed in line with the movements of the private business cycle. While challenging, this task is far from being impossible. The 2000 Sydney Olympic Games, for example, demonstrated that the public sector could mobilise a diverse range of resources and successfully complete thousands of tasks within a tight and complex schedule.

To simplify the design task, we would split the buffer stock into two components:

1. a core component that represents the “average” buffer stock over the typical business cycle given government policy settings and trend private spending growth; and
2. a transitory component that fluctuates around the core as private demand ebbs and flows.

The existence of a stable core, which might change slowly and predictably as government policy settings change, would allow CD-JG administrators to more easily allocate workers to jobs. Many of these core jobs would be more or less permanent. More ephemeral CD-JG activities could then be designed to “switch on” when private demand declined below trend. These activities would not be used to deliver outputs that might be required on an ongoing basis, but would still advance community welfare. For example, CD-JG jobs in a particular region might be used to provide regular shopping or gardening services for the frail aged, to support the desire of many older Australians to remain in their own homes. It would not be sensible to make the provision of these services transitory or variable, and they would thus be provided from the core buffer.

It is difficult to be precise about the size of the typical average buffer stock over the course of a business cycle. However, in recent years the national unemployment rate has fluctuated around 6.5 per cent, reflecting the stance of fiscal and monetary policy and levels of private spending. This implies that if a full Job Guarantee (JG) was introduced (where all unemployed could access a public sector job under the conditions outlined for the CD-JG) then around 4 per cent of the current labour force would be employed in core buffer stock jobs, given the mildly expansionary impact of this policy. However, if the government decided to play a more substantial role in the economy by expanding their commitment to areas like public education, public health or environmental sustainability, then the core “buffer” would fall substantially.

In earlier modelling of a full JG proposal (where all the unemployed could access a public sector job), CoffEE estimated that the core buffer stock would be around 600 thousand jobs, given current macroeconomic policy settings (Watts and Mitchell, 2001). We show in Section 7 that to implement the more limited CD-JG proposal would require 134 thousand jobs for young people and 120 thousand jobs for the long-term unemployed aged 20 years and over, in the first instance. These parameters were computed for August 2002, a month in which private demand had fallen slightly off the previous peak. It would thus be reasonable to assume that a somewhat smaller number of jobs would constitute the core buffer stock.

This type of modelling can provide a guide to the “steady-state” jobs that would be initially offered under the CD-JG scheme. Administrators would then prioritise work allocations from a broad array of community enhancing activities. In this way, it is unlikely that any important function or service would be terminated abruptly, due to a lack of buffer stock workers, when the private demand for labour rises.

Thus, the design and nature of CD-JG jobs would reflect the underlying notion of a buffer stock. This stock would, in turn, have a “steady-state” or core component determined by government macroeconomic policy settings, and a transitory component determined by the vagaries of private spending. In the short-term, the buffer stock would fluctuate with private sector activity and workers would move between the two sectors as demand changes. Longer-term changes in the size of the average buffer stock would reflect discrete changes in government policy.

Given that unemployed people are already supported by the public sector welfare system, the CD-JG would require only a low level of additional public investment to allow currently unutilised labour to perform a range of useful activities of benefit to the broad community.

By ensuring that there are always employment opportunities for people within the target groups, the CD-JG strategy would help to reduce poverty. It is a policy direction that facilitates social inclusion, not exclusion, and the focus on community development recognises the multi-faceted nature of the problems confronting areas of high unemployment. The CD-JG would also serve to reduce regional disadvantage. The policy would not eliminate inequality between geographical regions on its own. However, it would help communities in disadvantaged areas to maintain continuity of income and labour force attachment, without recourse to welfare dependence.

Importantly, the CD-JG strategy also acknowledges the strains on our natural ecosystems and the need to change the composition of final output towards environmentally sustainable activities. Environmental projects are ideal targets for public sector employment initiatives as they are likely to be under-produced by the private sector due to their heavy public good component. If a portion of CD-JG jobs were used to repair and restore the environment, the workers would re-gain personal dignity, and society would gain from the increased provision of goods and services which support sustainability. It is not increased demand *per se* that is necessary but increased demand in sustainable areas of activity.

### Summary Box 2 Take the CD-JG test ...

Have a look at the following list of jobs that could become Community Development Job Guarantee opportunities:

- assisting in the maintenance of rivers and waterways;
- helping in re-forestation and the removal of noxious weeds;
- working on sand dune and coastal stabilisation;
- being part of urban renewal projects;
- providing people who are frail, ill or disabled with meals, assistance with shopping, transport to appointments, and help in the garden;
- providing elements of community and neighbourhood safety;
- assisting in the provision of emergency services and fire prevention activities;
- maintaining community sporting facilities and being part of community sports schemes; and
- looking after parks and playgrounds.

Now answer the following questions:

1. Would this work be productive?
2. Could young and long-term unemployed workers perform these tasks if given the opportunity?
3. Is the provision of these services and activities a legitimate role for government?
4. Is the private sector likely to offer thousands of jobs in these areas?
5. Will the work contribute to community and environmental well being?

Many environmental tensions emerge in regional communities with limited employment opportunities. The introduction of the CD-JG would provide a “safety-valve” for these communities, allowing them to appraise activities with the potential to damage the environment, such as logging, in a different light. By removing the urgency to provide employment, a more realistic cost-benefit analysis could be undertaken. In this sense, the CD-JG would be an important element of an overall “green” strategy for regional Australia.

**The CD-JG would be an important element of an overall ‘green’ strategy for regional Australia**

### 1.5 What do we mean by community development?

What do we mean by community development? The foundations of community development require that all citizens who are able to work have access to paid employment opportunities. Within communities, chronic joblessness is a major source of hardship, division and insecurity. It follows that an essential pre-condition for strong and cohesive communities is access to paid work through which people can realise their desire to contribute to community well being, and sustain their own destiny. This is not to say that properly targeted welfare is not an essential aspect of community health. But to provide people, who are willing and able to work, with welfare payments rather than employment opportunities abrogates the responsibility of governments for full employment, and undermines the notion of welfare.

Critics of the CD-JG proposal may question how we can argue for community development as a worthy new paradigm in public policy, while advocating a “buffer job” of CD-JG jobs that would contract when economic activity was strong and expand when it was weak. If the jobs that the CD-JG workers are doing are useful, and necessary for community development, why should they be cyclical in nature? This criticism confuses two different issues.

**The foundations of community development require that all people are able to realise their desire to contribute to community well being via paid employment and to sustain their own destiny independent of welfare support.**

On the one hand, there is intrinsic merit in ensuring that everyone who wants a job can get one. For the most disadvantaged unemployed, this requires the maintenance of a buffer stock of jobs in the public sector. On the other hand, the type of activities that these jobs encompass would have to reflect the possibility that they would be ephemeral. However, this does not mean that the activities would be worthless, or would not support the development of the communities in which the workers live.

It is critical that we distinguish between CD-JG activities of benefit to communities and a fully-fledged community development strategy. Political choices are being made constantly. The CD-JG does not preclude a strong public sector commitment to broad social expenditure in areas like education, hospitals, aged care, environmental reconstruction and recreational services, all of which could, arguably, underpin the revitalisation of communities. The spending would create a number of employment opportunities for skilled workers and expand the income of the regions. A full commitment to regional and community development program would thus include this type of discretionary government spending in addition to the CD-JG scheme. The latter is the essential “floor” to healthy communities.

By advocating a CD-JG we are not suggesting that it is the solution to community development. The CD-JG is a solution to unemployment and would offer essential employment opportunities to the most disadvantaged and vulnerable workers in the labour market. It would ensure that such workers can maintain an attachment to paid employment and not be forced, by systemic job shortage, into welfare dependency. Through creative job design, the activities that CD-JG workers do would also enhance community and environmental well being.

## 2. Policy failure – why a new approach is needed

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### 2.1 The problem and its scale

Since 1975, the Australian economy has failed to generate sufficient employment opportunities to match the preferences of the labour force. In the past, the public sector acted as a counter-cyclical employer and ensured that any surplus labour would be absorbed into paid employment. However, the decline in public employment shares over the last 25 years coupled with the desire to push the public budget into surplus has removed this capacity from the Government (Mitchell, 2001a). Fluctuations in private spending now create unemployment.

The dominant economic orthodoxy has, since the mid-1970s, supported policy makers who have deliberately and persistently constrained their economies, and who claim that the role of policy is to ensure that the economy functions at the ‘natural rate of unemployment’. Persistently high unemployment is then speciously ascribed to institutional arrangements in the labour market (like wage setting mechanisms and trade unions), and/or faulty government welfare policies, which are said to encourage inefficient search and to promote welfare dependence. Policy now focuses on overcoming these microeconomic constraints. However, after 28 years of harsh cutbacks and structural dislocation, unemployment remains persistently high and the incidence of hidden unemployment and underemployment is rising (Mitchell and Carlson, 2001a).

The evidence of policy failure is overwhelming. The low point unemployment rate has steadily ratcheted upwards over successive economic cycles. In the last four economic cycles the low point unemployment rates have been 4.6 per cent (June 1976), 5.5 per cent (June 1981), 5.6 per cent (November 1989) and 6.0 per cent in September 2000 (Mitchell and Carlson, 2001a). In December 2002 it stood at 6.2 per cent. The average duration of unemployment, which was 3 weeks when data was first collected in 1966, is now around 50 weeks (ABS, 6203.0). Despite a sustained period of economic growth since the recession of the early 1990s, the unemployment rate remains about 6.0 per cent in Australia. In December 2002, there were 143,700 individuals who had been unemployed for 52 weeks or more (22.9 per cent of total unemployment). The youth unemployment rate stood at 17.0 per cent (ABS, 6203.0).

#### **The evidence of policy failure is overwhelming ...**

However, the labour wastage evident in the upward trending unemployment rate is even worse when broader measures of labour underutilisation are considered. To measure the extent of the underutilisation problem, CoffEE has developed three indicators which estimate how many hours of work are desired by (1) the unemployed; (2) the hidden unemployed (discouraged workers who want to work, are available to work, but believe search activity is futile given the poor state of the labour market); and (3) the underemployed (part-time workers who would like full-time work or additional part-time hours). In August 2002, the official unemployment rate was 5.9 per cent. However, as Summary Box 3 shows, the addition of underemployment increased the degree of labour underutilisation to 9.2 per cent, while including the hours aspirations of the hidden unemployed saw the degree of labour wastage rise to 11.2 per cent.

### Summary Box 3 Labour Underutilisation in Australia

The CoffEE Labour Market Indicators (CLMI) are published regularly to provide an alternative and broader picture of the degree to which the economy wastes its willing labour resources. The measures in the Table below are in percentage terms and include:

1. the official unemployment rate (U3) expressed in persons;
2. the underemployment rate (UE) expressed in hours;
3. the combined unemployment and underemployment rate (CU7) expressed in hours; and
4. CU7 plus the hidden unemployment rate expressed in hours (CU8).

Month	U3	UE	CU7	CU8
Aug-01	6.6	3.4	10.0	12.3
Nov-01	6.6	3.6	10.2	12.6
Feb-02	7.1	3.6	10.7	13.3
May-02	6.3	3.4	9.7	11.9
Aug-02	5.9	3.3	9.2	11.2

UE, CU7 and CU8 are part of the CLMI which were compiled using hours of labour underutilisation as a percentage of total available hours, whereas the official unemployment rate (U3) is measured in persons.

As we broaden the measure of underutilisation, the significance of the failure of economic policy becomes clearer.

A full description of the indicators is available at the CoffEE WWW site <http://e1.newcastle.edu.au/coffee/indicators/indicators.cfm>. For detailed notes on the derivation of UE, CU7 and CU8 see Mitchell and Carlson (2001a), Carlson and Mitchell (2002).

## 2.2 Roads to nowhere

There is also strong evidence to show that active labour market programs, which aim to improve the 'employability' of young and long-term unemployed people, have been largely ineffective (Cowling and Mitchell, 2002a, 2002b). The poor employment outcomes for participants in programs like Work for the Dole and Intensive Assistance point to the futility of preparing the unemployed for jobs that are not there.

The expanding Work for the Dole program is the principle destination for unemployed youth but data on labour market assistance outcomes for the year to March 2002 show that three months after completing Work for the Dole just 11.6 per cent of participants were in full-time work. Half of the participants remained unemployed or had withdrawn from the labour force, while one-quarter were in receipt of further assistance (DEWR, 2002a). In addition, unpublished data for 2000-2001 reveal that 65 per cent of employment exits from Work for the Dole were to temporary, casual or seasonal positions (Senate Committee, 2002: Question W71).

For individuals experiencing long-term unemployment, the results of the Job Network's Intensive Assistance program are instructive. Three months after completing Intensive Assistance, just 16.3 per cent of individuals were in full-time work while 51 per cent were not employed or studying (either full-time or part-time). For the most disadvantaged job seekers (Intensive Assistance Funding Level B) just 11.2 per cent had attained full-time work while 61.3 per cent remained unemployed or had left the labour force (DEWR, 2002a: 4).

In addition, the Productivity Commission (2002a: Chapter 9) found that the payments structure to Job Network providers has led to a substantial proportion of Intensive Assistance recipients being 'parked'. Job seekers with the greater chance of achieving a payable outcome are targeted while those in greater need of assistance (with low employment probabilities) receive scant support. For example, just 20 per cent of the current cohort of Intensive Assistance recipients will undertake some training activity while participating in the program (Senate Committee, 2002: Question W105).

In September 2002, the Department of Employment and Workplace Relations (DEWR) released the findings from Stage 3 of their Job Network Evaluation, which assessed the Network's "effectiveness". The evaluation presented preliminary estimates of the 'net impact' of referral to, and participation in, Intensive Assistance on an individual's employment prospects. The Department estimated the net impact on employment of Intensive Assistance for job seekers who *commenced* the program in May 2000 at 0.6 of a percentage point – the difference between the actual employment rate (25.6 per cent) and the estimated employment rate of the control group (25.0 per cent). It is noted that this estimate is likely to be conservative, as it does not present a pure comparison between an intervention and no intervention, but compares an intervention to a combination of no intervention and other forms of assistance (DEWR, 2002b: 3). Cowling and Mitchell (2002a: 55) argue that this caveat aside, the Job Network has failed to deliver a reasonable return on investment.

Taken together, these results suggest that the supply-side strategy lauded by the OECD has not been effective in increasing the employability of disadvantaged workers. The OECD's Jobs Study (1994) emphasised training, more stringent benefit regimes and active measures to address the skill and attitudinal deficiencies of the unemployed. It is important to ask why we should expect other than poor results in the absence of policy measures designed to increase the quantum of jobs (Cowling and Mitchell, 2002b: 15).

In isolation, supply-side measures merely re-shuffle the jobless queue. The clear danger of this kind of zero-sum redistribution is that policies achieve tentative or short-term reattachments to the labour force at the expense of deepening employment insecurity. Labour market instability, poverty, and welfare dependency are not solved by such measures; they are simply redistributed amongst the same at risk groups (Peck and Theodore, 1999: 14).

### 3. The cost of holding the line

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*While the initial consequences of unemployment are restricted to reduced income and increased risk of poverty, over time these give rise to other effects such as depression and poor health that reinforce their initial cause. These in turn flow on to affect families and communities in ways that are socially disruptive and self-reinforcing. Areas of high unemployment become increasingly prone to crime and this drives potential businesses and key local services away, further entrenching their isolation and unemployment. As families struggle to cope with the personal crises associated with unemployment, they withdraw from social life, disrupting the normal channels of community interaction that constitute public life. Communities are sent into a tailspin of decline as the adverse effects of unemployment reverberate and multiply. .... Peter Saunders (2002: 5).*

The burden of unemployment is not shared evenly either across the community or between communities. In a major study on social exclusion and distressed urban areas, the Organisation for Economic Cooperation and Development (OECD, 1998) found that deprived areas limit the opportunities and prospects of people who live in them. It was argued, "...without a vision of their potential, a nation not only bears the costs but also fails to realise the possibilities inherent in these places and their populations" (OECD, 1998: 11).

Research conducted by the Australian Housing and Urban Research Institute (AHURI) has highlighted the spatial patterns of change in population, employment and investment, social disadvantage, infrastructure and environmental quality in Australia's cities and the resulting wide disparities in the vitality of local communities. The researchers argue that we need to consider the issues involved in problems such as social polarisation, and prescribe workable strategies through which disadvantaged communities can regenerate. Such initiatives will need to extend beyond 'parachuting' solutions into localities from outside or relocating individuals and families to communities of greater opportunity (AHURI, 1999: 3).

CofFEE agrees that new initiatives are indeed required if we are to attenuate the economic and social costs that flow from unemployment. However, we must recognise that these problems have a macroeconomic origin. The 'bottom-up' solutions that are often proposed under the banner of social entrepreneurship do not indicate how they will remove the macroeconomic constraint (Cook, Dodds and Mitchell, 2003).

#### 3.1 The price of inefficiency

Given that economic policy should be concerned with the efficient use of resources, it is paramount that we address the macro inefficiency associated with unemployment. The gravity of the problem posed by labour underutilisation, and its attendant economic and social costs, are being overlooked by policy makers in almost all OECD economies.

The output losses that arise when around 11.2 per cent of willing labour resources are underutilised are enormous. CofFEE estimates that this will have cost the Australian economy \$39 billion in 2002 in lost potential output. This is around 6 per cent of current GDP or \$143 per week per Australian family (ABS, 5206.0, 4102.0). As we

will discuss in Section 4.6, the economic gains from fully employing the labour resources currently wasted in Australia far outweigh any potential efficiency gains from further labour market deregulation and microeconomic reform. CoffEE's indicators (see Summary Box 3) show the need for a new approach to employment policy.

### 3.2 The costs of long-term unemployment

In December 2002, there were 143,700 Australians who had been unemployed for 52 weeks or more (ABS, 6203.0). In comparison to the rest of the labour force, people who are long-term unemployed are less educated and qualified, their last job was on average less skilled, they reside in lower socio-economic locations, are more likely to live with other non-working adults and are less likely to speak English well (Dockery and Webster, 2001: 13).

Reducing long-term unemployment is critical if we aspire to economic outcomes that are both efficient and equitable. In general, the longer a person is unemployed the greater the costs of each additional period of unemployment, both to the person and to society. Material hardships, and the physiological and psychological damage resulting from unemployment, are all likely to increase as the duration of unemployment grows (O'Higgins, 2001: 50).

It is often the case that a person gradually loses skills, becomes increasingly depressed or angry at their situation, and suffers more from ill health, as the period of unemployment lengthens. At the same time, the person may miss out on opportunities for skill development, which arise through employment, imposing long-term cumulative income losses (Nevile, 2002: 249). The loss of skills and potential skills is a loss to both the individual and society and helps to explain hysteresis in the unemployment rate, which is worsening over successive business cycles.

### 3.3 The costs of youth unemployment

Despite a plethora of policies targeting young Australians, their unemployment rates continue to be more than two-and-a-half times the national average (ABS, 6203.0, December 2002). In 2001, Australia had the twelfth highest rate of youth unemployment among 30 OECD countries (OECD, 2002).

Youth unemployment has long-term implications because it occurs at the beginning of a person's working life. Not only does the person suffer from a lack of income, but joblessness at this age also means that they miss out on the opportunity for skill development that results from on-the-job training and subsequent work experience. The person's future earnings growth prospects and future job stability are thus undermined by the lost opportunities for skill development (ILO, 1998: 179).

Australian research by Chapman and Gray shows that young Australians experiencing either very long or frequent spells of unemployment have poor future labour market outcomes. Those most at risk of 'scarring' include young people with low levels of educational attainment, indigenous Australians and those living in low socio-economic areas. Thus, the long-term costs of youth unemployment are inequitable, being concentrated on the socially and economically vulnerable (2002: 87).

In addition, long-term unemployment amongst young males has a substantial effect on property crime. New research has highlighted the potential societal benefits (in terms of crime reduction) that could flow from policies that reduce long-term

unemployment and promote young people's educational success. For example, elimination of long-term unemployment amongst males aged 15-24 through direct job creation, would reduce property crime in New South Wales by close to 7 per cent per annum. If these individuals continued in formal education to the end of Year 12 the reduction in break, enter and steal offences over the course of a year would amount to almost 15 per cent (Chapman, Weatherburn *et al.*, 2002: 24).

Youth unemployment has long-term implications for the stability of the nation's social fabric because it frustrates two important transitions in life: (a) the passage from adolescence to adulthood, and (b) the passage of the individual into household and family establishment.

In *Making Transitions Work*, the OECD (2000) recommends that all transition policies for young people should include a commitment to a high level of youth employment as well as to post-secondary education. International and Australian research supports a new policy emphasis on helping young people make a successful transition from education to the workforce. The social and economic costs of maintaining the status quo are too high.

In 2002, the International Labour Organisation (ILO) published a major study on youth unemployment and employment policy. The study found little support for the argument that youth unemployment is frictional in nature and reflects a transitional phase that quickly leads to more or less permanent employment. Rather, prolonged spells of unemployment at the beginning of a young person's working life increases the probability of future joblessness. In addition, joblessness among the young is closely associated with crime, drug abuse, and vandalism. It promotes patterns of behaviour that are detrimental to the development and well being of young people, and damaging for society as a whole. High levels of youth unemployment are also likely to lead to alienation and social unrest (O'Higgins, 2001: 2).

In Australia, sustainable employment is a scarce commodity for teenagers. Many young people experience a difficult transition from full-time education to secure employment due to the relative absence of full-time jobs for this age group (Curtain, 2002: 14).

Australian statistics on the labour market status of young people are sobering. In December 2002, there were 172,400 persons aged 15 to 19 years in Australia who were either unemployed or not in the labour force, and not in full-time education. The unemployment rate for all 15-19 year olds stood at 17.0 per cent and at 22.3 per cent for 15 to 19 year olds looking for full-time work (ABS, 6203.0).

Early school leavers are less likely to participate in the labour force and more likely to be unemployed than are Year 12 leavers. In May 2001, 28.3 per cent of non Year 12 completers who left school in the year 2000 were not in education and were either unemployed or not in the labour force. This compared with 7.3 per cent of Year 12 completers (Applied Economics, 2002: 22).

Research on early school leaving points to school performance and socio-economic background as significant factors. Students in the lowest quartile of achievement in literacy and numeracy tests in Year 9 were almost four times more likely to leave school early than those in highest quartile of achievement (Ball and Lamb, 2001 cited in Applied Economics, 2002).

Teese (2002) reported that 38 per cent of the earliest leavers say they are not doing well enough to continue at school and that low achievers are particularly likely to

view school as a prison. He also found a strong relationship between school completions and socioeconomic class. In addition, Marks and Fleming (1999) have reported that early school leavers are more likely to have parents in low skilled jobs or with little formal education. In this way, the difficult transitions experienced by early school leavers serve to reinforce the impact of disadvantages experienced earlier in the school and social system (Curtain, 2002: 14).

Ainley and McKenzie (1999) found that the first experiences early school leavers have in the labour market are crucial. Young people who do not experience full-time employment in their first year after leaving school spend substantially less time in work over the next five years than those who are employed full-time in their first year.

Although about half of all early school leavers return to some form of education or training at some time (Lamb and Rumberger, 1998), completion rates for post-school vocational and education courses appear to be low. Unpublished data from the National Centre for Vocational Education Research (NCVER) indicate that less than half of the teenagers who take up vocational courses complete all their modules, while 14 per cent do not successfully complete any module (cited in Curtain, 2002: 11).

It is clear that a significant number of young Australians fail to make a smooth transition from school to employment and that long-term disadvantages flow from this difficult process. Analysis of long-term trends from the Longitudinal Survey of Australian Youth shows that up to a third of young people experience a difficult transition. For 7 per cent it involves long-term unemployment while another 13 per cent attain full-time work but only after an extended period (up to four years) of unemployment, part-time work or activities outside the labour force (Lamb and McKenzie, 2001 cited in Curtain, 2002: 14).

The evidence of policy failure and the significant economic and social costs associated with youth unemployment, demand a new response from policy-makers. The ILO study argued in favour of moving towards a more demand-oriented strategy based on social partnership (O'Higgins, 2001: 1). It was critical of the excessive focus, in countries like Australia, on supply-side 'flexibility' and 'employability' policies. According to this viewpoint "young people are unemployed because they do not have the right skills and attitudes, not because society has failed to create enough jobs for them" (O'Higgins, 2001: 2). The ILO argues that promoting the skills formation of young people is an important aspect of policy, but is not sufficient to address the problem of youth unemployment. Young people can develop skills in the workplace, but this can only occur if they have access to jobs.

## **4. Frequently asked questions about the Community Development Job Guarantee**

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In this section, we address many of the questions that are frequently asked in relation to the concept of a Job Guarantee. The responses are intended to supplement the discussion throughout the Report. More detailed technical information can be obtained from Mitchell (1998) and Mitchell and Carlson (2001b).

### **4.1 How would the CD-JG differ from active labour market programs?**

The CD-JG proposal is a path towards full employment with price stability. It is neither a labour market program nor an Australian version of the U.S. ‘Workfare’ model. Unlike active labour market programs, CD-JG jobs would provide participants with the opportunity to enjoy secure and on-going employment, and wage and non-wage benefits (such as paid annual leave and superannuation) consistent with minimum awards. The CD-JG is not a time-limited program or placement, and would begin to redefine the concept of ‘mutual obligation’. Under the proposal, the government accepts greater responsibility for job generation and pays CD-JG workers the Federal minimum award. In order to receive the award wage, those who are eligible would be required to accept a CD-JG job. We propose that unemployment benefits in their various forms would not be available to members of the target group who refuse a suitable CD-JG position (see Section 4.10 for a discussion of incentive effects).

This is a marked departure from the status quo in which receipt of unemployment benefits is conditional on the individual fulfilling participation requirements while the government fails to ensure that the economy generates enough jobs. Under the CD-JG, the concept of an activity test for the targeted groups becomes irrelevant. A meaningful work test is reinstated – the guarantee of a job.

### **4.2 What would CD-JG workers do?**

CD-JG workers could perform many socially useful activities including urban renewal projects and other environmental and construction schemes (such as reforestation, sand dune stabilisation, and erosion control), the provision of personal support to people who are frail or have disabilities, and other community schemes. The stock of CD-JG jobs would fluctuate as private sector activity ebbed and flowed and, as discussed in Section 1.4, the design of these jobs and functions would have to reflect this. Projects or functions requiring critical mass might face difficulties as the private sector expanded. As such, the CD-JG should only provide essential functions or services where labour requirements could be met from the core component of the buffer stock.

The CD-JG would provide the least skilled, and most disadvantaged, workers with opportunities for paid employment. Economic circumstances may dictate that more skilled workers take up these jobs from time to time. But, in principle, CD-JG jobs are pitched to the most disadvantaged workers in the economy to ensure maximum inclusion in paid work.

### 4.3 Would the CD-JG create unproductive 'dead end' jobs?

The CD-JG is not about creating unproductive or 'dead end' jobs. An economy aiming to achieve full employment must ensure that there is a stock of jobs, continuously available, that can absorb the most disadvantaged workers in the community. The philosophy underpinning the CD-JG is that there are intrinsic benefits to the individual and society of the unemployed having a job rather than being dependent on the welfare system. This is our starting point and the provision of buffer jobs by the government is inherently productive for that reason. A person who can remain attached to paid employment has greater prospects for upward mobility, than if they languish for years in long-term unemployment. A teenager who is engaged in useful activity at an early age is less likely to be "lost" from the system of paid work in later life.

With some imagination and foresight, CD-JG jobs could be designed to create opportunities and career paths in a way that promotes both static and dynamic efficiency. CD-JG workers would receive on-the-job training and have the option of combining formal training and paid employment. CD-JG positions could be undertaken on a part-time or block basis to facilitate this. For example, a person who took up a CD-JG job providing meals, shopping and gardening assistance to the frail aged could undertake a TAFE certificate course leading to qualification as a Personal Care Attendant. Vacancies for this entry-level job in the aged and community care sector exist now and are projected to grow (DEWR, 2002c).

It is important to recognise that while many of those eligible for CD-JG employment have few formal qualifications, many have acquired skills outside the classroom. Assessing competencies that have been learned informally, and creating means through which unemployed people can combine work, training and learning processes, are important policy goals that promote dynamic efficiency.

**The Community Development Job Guarantee is not about creating 'dead end' jobs. It is about providing a safety net which can be the springboard for future mobility and career progression ....**

A key international trend in the conduct of effective public service employment programs is the incorporation of skills training and assistance. For instance, Germany's 1997 reforms encouraged training in its Job Creation Measures program and Ireland's Community Employment Program has improved the job prospects of the long-term unemployed by providing 20 days of training. In the Netherlands, the Jobseekers Integration Act includes a training component in job contracts, while Sweden's ALU program includes a skills-training component in public sector jobs (Brodsky, 2000: 38). This integrated approach contrasts sharply with the design of employment assistance in Australia. Support provided to unemployed individuals through the Job Network provides little by way of specific skills training (Senate Committee, 2002, Question W105), while Work for the Dole is framed as a work experience program. During a Work for the Dole placement, training is restricted to 'Passport to Employment' instruction on job search methods, the preparation of job applications and managing job interviews. It is only on the completion of at least 200 hours (if aged under 21) or 240 hours (if aged 21 or over) of Work for the Dole activities that individuals become eligible for a Training Credit of between \$500 and \$800. This Credit can be used for a wide range of competency-based and accredited courses (DEWR, 2003).

In addition, a major review of support programs for disadvantaged young people in the US (Martin and Grubb, 2001) found that the few effective programs:

- were closely linked to the local labour market;
- targeted jobs with strong employment growth and good opportunities for advancement;
- provided a mix of occupational skill development and on-the-job training in an integrated manner; and
- Promoted pathways to further education so that the young could continue to develop their skills and competencies.

It is obvious that a focus on training and employability measures for the unemployed in a highly demand-constrained labour market is as inefficient as it is demoralising. By linking the provision of training to paid employment CD-JG jobs, the CoffEE proposal supports the development of skills and promotes future transitions to non-CD-JG jobs.

#### 4.4 Would the CD-JG be inflationary?

Mitchell (1998) has earlier shown that the implementation of a full Job Guarantee (where all the unemployed could access a public sector job) provides a path to full employment and price stability. The modified CD-JG proposal inherits the same characteristics and would not generate inflationary pressures. Under the CD-JG model, the government would not compete for goods and services or labour “in the market” by paying “market prices” or “market wages”. The CD-JG is a permanent job offer at a fixed wage rate (the minimum Federal award rate) to members of the target groups. As a result, the offer sets a wage floor and does not disturb the private sector wage structure. Further analysis of the ‘inflation-proofing’ provided by a Job Guarantee approach can be found in Mitchell (1998).

The introduction of a CD-JG would provide a modest boost to aggregate demand because, while a majority of unemployed persons in the targeted groups are currently receiving either Newstart or Youth Allowance, all would experience an increase in disposable income.

Importantly, the CD-JG will be attractive to employers because it will help to reduce the costs of hiring. The workers who are employed under this program will be able to maintain essential general labour market skills and to participate in on-the-job and formal training programs within the paid-employment environment.

#### 4.5 How would the CD-JG affect the Balance of Payments?

The introduction of the CD-JG will not generate any chronic external instability. A once off, modest increase in import spending is likely to flow from the higher disposable incomes of CD-JG workers. However, any depreciation in the exchange rate is likely to improve the contribution of net exports to local employment, given estimates of import and export elasticities (Dwyer and Kent, 1993; Bullock, Grenville and Heenan, 1993). Given the prominence of capital flows in balance of payments dynamics, it is likely that an economy with higher levels of employment and price stability would be more attractive to long-term investors.

#### 4.6 Would the CD-JG violate National Competition Policy?

*Not all inefficiencies are created equal. In particular, high unemployment represents a waste of resources so colossal that no one truly interested in efficiency can be complacent about it. It is both ironic and tragic that, in searching out ways to improve economic efficiency, we seem to have ignored the biggest inefficiency of them all.*

Alan Blinder (1987: 33)

The CD-JG proposal would see the Federal Government provide direct funding to local governments to support the employment of CD-JG workers. CD-JG workers would, in turn, produce outputs that support community development and sustainability objectives. The administrative and funding mechanisms that would underpin the operation of the proposal are detailed in Sections 6 and 7, and in the Technical Appendix. An alternative ‘competitive’ model would see the Federal Government specify the outputs it wished to produce and put the provision of these outputs to competitive tender. The tender would typically be awarded to the public or private entity that claims it can provide the good or service for the least cost to the public purse. Theory would suggest that the competitive price and employment level would be lower in this competitive model than under the CD-JG.

National Competition Policy (NCP) posits the existence of a Pareto-optimal benchmark, such that any violation of Pareto-optimality imposes a cost. According to the first theorem of welfare economics, competitive equilibria are Pareto-efficient, meaning that there exists no reallocation of resources that can make someone better off without making someone else worse off. However, the mapping between this textbook benchmark and real competitive outcomes is far from clear and economists are left in the domain of nth-best analysis in which anti-competitive positions may, in fact, be welfare enhancing.

If the Pareto benchmark outcome does not hold then we cannot, through the application of economic theory, assert that a departure from the requirements of NCP is an unambiguous cost. We are instead left with the task of weighing up the costs and benefits associated with alternative arrangements for producing goods and services.

Importantly, Clause 3 of the Competition Principles Agreement (CPA) gives governments discretion in determining the nature and application of competitive neutrality policies (NCC, 1998). Governments are required to implement competitive neutrality principles to the extent that the benefits to the community of restricting competition outweigh the costs. In other words, both sides of the equation have to be examined. Given that the costs of unemployment are very high, it would take a substantial difference in the unit costs of producing CD-JG output, compared with those achieved through direct funding to local government, to justify a case against the CD-JG on these grounds. We would argue that any differences in costs would be more than offset by significant community benefits. The following public interest matters are listed in the CPA (Trembath, 2002: 15), and are relevant to the comparison of costs and benefits associated with the CD-JG:

- government policies relating to ecologically sustainable development.
- social welfare and equity considerations.
- economic and regional development, including employment and investment growth.

- the competitiveness of Australian business.

Addressing this issue from a slightly different perspective, we can compare the macroeconomic costs of unemployment, as measured by foregone output, with the costs of microeconomic inefficiency. Using conservative assumptions, CofFEE estimated that levels of labour underutilisation in excess of the full employment unemployment rate (assumed to be 2 per cent) cost the Australian economy \$39 billion in 2002 in lost potential output. This is around 6 per cent of current GDP (ABS, 2002a) and dwarfs recent estimates of the costs of microeconomic inefficiency.

In 1995, the Industry Commission estimated that the implementation of 'Hilmer and related reforms' (a microeconomic reform agenda centred on competition policy) would result in a 5.5 per cent increase in the level of GDP over a medium term of four to eight years (Industry Commission, 1995). If we assume that the benefits were realised over five years, this amounts to about 1.1 percentage points in annual GDP growth. Quiggin (1997) is critical of these estimates, noting that the Commission's productivity calculations assume zero productivity growth in the absence of reform. He also argues that the dominant flow-on effects of microeconomic reform will be negative because at least some of the workers directly displaced by reform will be permanently displaced from the employed labour force. Quiggin estimated the medium-term gains from the Hilmer program of microeconomic reform at just 0.67 per cent of GDP (1997: 257, Table 1). More recently, the Productivity Commission has estimated that, in the long-term, National Competition Policy is likely to increase GDP by 2.5 per cent with much wider variability across country regions than for metropolitan areas. In 33 of the 57 regions modelled, the long-run impact of NCP on employment was negative (Productivity Commission, 1999: 298-301).

There is thus persuasive evidence that the macroeconomic costs of unemployment dominate any realistic measure of the costs of microeconomic inefficiency, even before we consider the broader social costs imposed by unemployment. Direct macroeconomic intervention is clearly justified.

#### 4.7 Would the CD-JG be green?

While the CD-JG proposal begins with the notion that unemployment arises from deficient aggregate demand, it eschews traditional Keynesian remedies due to major concerns about inflationary biases and environmental impacts. We argue that any discussion about policies to increase employment must give regard to the debate that pits economic growth against sustainable development. Higher levels of output are required to increase employment and the composition of output is a pivotal policy issue.

The CD-JG would assist in changing the composition of output towards environmentally sustainable activities, which are unlikely to be undertaken by private sector firms due to their public good characteristics. CD-JG jobs can be designed that do not use, or make little use of, non-renewable resources, and that do not pollute or pollute as little as possible. These advantages may be gained even if the activity or service is not directly concerned with the environment (Forstater, 2002: 167). In addition, CD-JG jobs can help promote sustainability by providing environmental services such as reforestation, sand dune stabilisation and river valley erosion control. Forstater argues that a potential environmental benefit of public sector employment schemes is increasing the expertise in sustainability and sustainable practices

available in private industry through the movement of CD-JG workers into the private sector (2002: 171).

The CD-JG proposal would also partition decisions about activities such as logging from the pressure to create jobs in economically depressed regions. Considered decisions could then be made with reference to broad economic, social and environmental criteria.

#### 4.8 Are unemployed people 'work ready'?

Unemployed people possess a broad range of skills and experiences that would be utilised and extended in CD-JG jobs. Skills will have been acquired through formal and non-formal learning, paid and unpaid work, community and leisure activities, and in parenting and caring roles. In addition, the majority of people experiencing youth or long-term unemployment will have completed at least one labour market program or mutual obligation activity designed to enhance their 'employability'. In June 2002, half of the individuals participating in the Job Network's Intensive Assistance program had commenced the program at least once before, while nearly one-quarter had at least three earlier episodes of Intensive Assistance (Senate Committee: 2002, Question W104). It is argued that in a highly demand-constrained economy such as Australia's, integrating training and career planning with CD-JG employment is a more effective investment of public funds than expenditure on 'employability' measures.

#### 4.9 Would the most disadvantaged workers be supported by the CD-JG?

For any person to be able to work at their full productive capacity, basic conditions need to hold. These include access to adequate nutrition; housing and transport; a supportive home life free from violence; and care in the case of illness or addictions. We would argue that any society and government that values work and aspires to full employment should provide the social supports and structures implied by this objective. Indeed, it would be hard to understand the logic of current labour market programs in a policy environment that did not aspire to ensuring that these basic conditions of life are guaranteed.

A number of young and long-term unemployed people face chronic labour market disadvantage due to complex issues such as homelessness or insecure housing, episodic illness or substance abuse and poor literacy, numeracy and living skills. It is proposed that CD-JG employment could be taken on a part-time or block basis to accommodate access to support for such needs. This is analogous to providing for family and carers' leave in award agreements in order to support the personal needs and circumstances of employees. It is also argued that by providing disadvantaged individuals with sustainable employment and structured training opportunities, the CD-JG would support the attainment of housing, health and personal development outcomes.

#### 4.10 Would the CD-JG distort work incentives?

Mitchell and Watts (2002) have modelled the interaction between CD-JG employment and the welfare system in order to determine whether appropriate incentives would be provided on the supply side. The research demonstrates that a worker unable to find a private sector job and facing no income would prefer a CD-JG wage. However, if the same worker were offered the unemployment benefit or a CD-JG position, they would

prefer the benefit (under reasonable assumptions about the relativity between the two income sources). The research also found, under reasonable assumptions relating to pay and conditions, that most individuals would prefer a CD-JG job to participation on the Work for the Dole program.

Most importantly, the same individual would prefer a private sector job to a CD-JG position (again under reasonable assumptions about the wage relativities) should one become available. Thus the CD-JG would not interfere with preferences motivating a worker to take a private sector job. It would not create disincentives to work. These are not surprising results, however they do justify a policy mix in which CD-JG employment will be offered to members of the target groups who would then not have access to unemployment benefits.

#### 4.11 Have other countries tried a 'Job Guarantee' model?

Public-service employment policies continue to be important components of labor market policy in many countries. A panel of experts representing 11 OECD countries examined the effectiveness of labour market programs and concluded that direct creation of jobs through public-service employment programs may be the only way to help many of the unskilled long-term unemployed. These job creation programs have become more effective over time as they have become more flexible, more targeted to local needs, and better linked to other labor market services (Brodsky, 2000: 39). Summary Box 4 describes two employment creation initiatives in Europe, which can serve as models of public sector job creation for the young and long-term unemployed.

**Summary Box 4 Two European employment creation initiatives****Norway**

In 1993, the Norwegian government produced a long-term program to combat high and persistent levels of youth unemployment. Priority was given to facilitating the entry of young people into the labour market through the provision of relevant work experience and training. A major element of the policy response was the introduction of a Youth Guarantee. Under the Guarantee, all young people aged between 15 and 19 years who were not in either education or work, were offered a 6-months job with or without training (Hummeluhr, 1997). In 1995 this guarantee was extended to 20 to 24 year-olds. As a result of the Youth Guarantee, and measures to assist young people to complete secondary education, long-term youth unemployment in Norway has, to all intents and purposes, ceased to exist. Long-term unemployment among 15-19 year-olds dropped from 30 per cent in 1995 to zero in 1996, where it has remained ever since (Norwegian Ministry of Education, 2000).

**The Netherlands**

In 1995, the Dutch government introduced the 'Extra Employment for the Long-term Unemployed Scheme' (known as 'Melkert I') to create 40,000 permanent public sector jobs at the bottom of the labour market. The aim of the scheme is to enlarge the availability of low-skilled and low-paid jobs, while improving the quality of public services. The jobs are funded by the national Government, organised at the municipal level, and target the long-term unemployed who are entirely or partly dependent on social assistance. By January 1999, 34,700 Melkert-1 jobs had been created in areas such as public safety, urban renewal, providing care for the disabled, the elderly and young people at risk, and managing the environment (van Berkel, 1999: 84). Nearly 70 per cent of those employed were previously receiving social assistance (Finn, 1998).

On average, Melkert-1 workers are employed for 32 hours a week. The jobs are concentrated in the areas of highest unemployment and are 50 percent funded by money saved on benefit payments (Brodsky, 2000: 37). Although the Dutch Ministry of Social Affairs and Employment stresses that Melkert-1 jobs are 'regular jobs', van Berkel (1999) argues that they deviate from regular jobs in the following ways:

- Melkert-1 jobs are funded according to specific regulations;
- They are targeted at the long-term unemployed;
- They are subjected to the legal regulation that Melkert-1 workers can never earn more than 120 per cent of the minimum wage; and
- The work tasks of Melkert-1 workers are defined by legal regulations, and should only involve simple, routine tasks requiring little formal qualifications.

## 5. Case Studies

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At the heart of a successful public sector job creation strategy is designing jobs that complement rather than substitute for private sector activity. The following two case studies are indicative of the type of employment that CD-JG workers could undertake. The work would meet community development and sustainability criteria, minimise deadweight loss, and open up future employment opportunities in the public and private sectors for the target groups.

### 5.1 Case Study 1 – A caring workforce

The number of persons aged 65 and over in Australia is projected to grow from 2.3 million (12 per cent of the population) in 2000-01 to 4.2 million (18 per cent of the population) in 2020-21. Assuming that rates of 'severe and profound activity restriction' by age and gender do not change in the future then the number of people aged 65 and over who require at least some assistance in the areas of personal care, mobility and communication is projected to increase from 264,000 in 2001 to 421,000 in 2021 (Gibson and Griew, 2002: 1).

A range of community services such as home help, personal care, assistance with home maintenance, gardening, shopping and meals, is currently provided to support the desire of older people to remain living independently in the community wherever possible. Services are provided through the Home and Community Care (HACC) program and a myriad of private and volunteer services. However, despite this plethora of services, there is considerable unmet need recorded by older people and people with disabilities. The 1998 ABS Survey of Disability, Ageing and Carers reported that 40 per cent of all people with a major disability, who live independently and need assistance, felt that their needs were only partly being met (The Myer Foundation, 2002: 14).

In *20-20 A Vision for Aged Care*, the Myer Foundation identified fundamental gaps in the current range of aged care services including a serious shortfall in community care and wide variation from region to region. Home care services provided through the HACC program tend to be spread rather thinly. Victorian figures for 2001-02 show that 90 per cent of older people using HACC services receive less than 14 hours of assistance per month, with many people getting less than one hour a week. The unmet need for basic home support services is considerable. Improved access to such services increases the chance that older people who are dependent on aged care services will be able to remain living in the community (The Myer Foundation, 2002: 14).

The CD-JG proposal does not abrogate the need for substantial reform, expansion and consolidation of aged and community care services. However, while this reform agenda is being pursued, CD-JG workers could contribute to the provision of basic care services (such as gardening, shopping, meals, transport to appointments and social support) that enable older people to remain in their own homes as they age. CD-JG workers could cater to the demands of those who are unable to access basic HACC services and cannot afford to purchase these services from private providers.

The involvement of CD-JG workers in the provision of community care offers two additional benefits. First, the Commonwealth may achieve net savings if, by

increasing the availability of community services, it reduces premature or inappropriate entry to residential care. The Commonwealth subsidises the provision of residential aged care to approved recipients. In 2002, the average Commonwealth subsidy paid for each residential aged care recipient was \$38,685 for a high care resident and \$13,380 for a low care resident (DHAC, 2002: 25-26).

Second, CD-JG workers who gain experience in aged and community care services are likely to be in demand. The DEWR Jobs Outlook survey (2002) found existing skill shortages for home care workers and good job prospects into the future. Entry to this occupation is generally through a TAFE Certificate (Level II or III) or work experience. There are already five relevant national qualifications that are available under the National Community Services Training Framework which covers a wide range of occupational groups such as direct and indirect carers, personal carers, nursing assistants, community support workers and community care supervisors. Thus CD-JG work, such as accompanying people who are frail or have disabilities during the day, and providing assistance with meals, shopping and gardening would provide a solid experiential foundation and a springboard to non-CD-JG jobs and training. The Centre of Policy Studies has estimated that employment in the Australian Standard Classification of Occupations (ASCO) category "Carers and Aides" will increase at an average annual rate of 3.6 per cent between 1997/98 and 2009/10. This was the fifth highest growth rate out of the 81 occupation groupings considered (Centre of Policy Studies, 2000).

## 5.2 Case Study 2 – A healthy Hunter River

In 1996, the New South Wales Government established the Healthy Rivers Commission (HRC). The HRC is an independent Commission charged with conducting public inquiries into selected NSW river systems in order to make recommendations to government on long-term strategies to achieve environmental, social and economic objectives.

The concept of a healthy river includes water quality and adequate flow to sustain the river environment, the condition of riverbanks and riverbeds, the riparian vegetation, and so on. It can also involve the best and most sustainable ways of using the river as a source of potable and agricultural water, as a recreational resource or as a centrepiece in regional development or community well being.

The final report of the Independent Inquiry into the Hunter River system was released in May 2002 (Healthy Rivers Commission, 2002). It found that the Hunter River and its catchment supports economic activity with an estimated annual value of \$6 billion, while providing an important recreational and social amenity, and a site of special cultural significance to the local Aboriginal people. However in the generation of substantial economic returns and social benefits, the river valley has suffered significant environmental damage.

The Hunter River Inquiry showed that ecological sustainability was not being achieved in the Hunter catchment. Most streams in the Hunter Valley have had significant portions of their native riparian vegetation cleared, leading to erosion, sedimentation, channel instability and growth of weeds. An inventory of ecological damage (Healthy Rivers Commission, 2002: 10-11) includes:

- About 30 per cent of the catchment retains mostly native vegetation, but in some areas in the central valley about 99 per cent has been removed.

- Across the catchment, only a third of streams are in good condition, with stable banks, and about 10 per cent are highly unstable.
- Water quality is extremely variable; and phosphorus, salinity and bacteria are often found at higher than desirable levels.
- About 30 per cent of native fish species appear to have been lost in the Hunter catchment area.
- Much wetland habitat has been lost, and many estuarine and floodplain wetlands have been alienated from the river and are substantially degraded.
- At least 18 of the 33 species of migratory wading birds using the estuary have declined in numbers, and the estimated mean number fell by nearly 50 per cent between the 1970s and 1990s.

The Commission concluded that rehabilitation of Hunter River corridors and the adoption of sustainable agricultural practices are crucial for river health. It also argued that the priorities for environmental protection and rehabilitation must be clearly established and recognised in funding and works programs. Such priorities should be based on the value of the various environmental assets and the risks to their sustainability (Healthy Rivers Commission, 2002: 85).

The need to address the ecological damage to the Hunter River, and to fund and implement the recommendations made by the HRC, exists independently of the imperatives underpinning the CD-JG proposal. A commitment to the rehabilitation of the Hunter River is a discrete political and policy choice. However, once a political commitment to rehabilitate the Hunter River is made, and resources are allocated to meet this end, then a significant number of CD-JG jobs in the Hunter Region could be created to assist in this work.

While a broad political commitment is required to facilitate the employment of skilled labour (such as environmental engineers) and to provide an appropriate capital budget, there would be many tasks within the rehabilitation project that could readily be accomplished by the CD-JG target groups.

Already the Upper Hunter Riparian Rehabilitation Initiative (UHRRI) – a joint initiative of Macquarie University, the NSW Department of Land and Water Conservation and the Hunter Catchment Management Trust – has shown the capacity for scientific, government and local authorities to work together with the aim of restoring an 8-kilometre reach of the Hunter River between Muswellbrook and Denman. A number of riparian re-vegetation and river restoration options will be researched, ranging from planting more than 60,000 native trees and plants to investigating in-stream rehabilitation.

The project will contribute significantly to our knowledge and understanding of how Hunter streams can be effectively rehabilitated in the future. The CD-JG can provide part of the labour force charged with applying these techniques.

## 6. Administration of the Community Development Job Guarantee

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The successful operation of the Community Development Job Guarantee requires organisation through local partnerships between a range of government and non-government organisations, and a focus on adapting and responding to local needs.

At a 1998 OECD conference on decentralising employment policy, it was found that the involvement of decentralised bodies in implementing job creation, training and welfare-to-work initiatives, had become increasingly important, even when initiatives were funded by the central government. Such decentralised bodies include employment services, local government agencies, local authorities, and community groups (Thuy, Hansen and Price, 2001: 149).

Australia already has a well-developed employment services infrastructure that administers active labour market programs and employment assistance. The role of Community Work Coordinators (CWCs) and Area Consultative Committees (ACCs) in the management and administration of Work for the Dole placements and the Regional Assistance Program has been assessed as both efficient and effective in performance audits conducted by the Auditor General (see ANAO, 2001 and 2002). It is argued that the existing infrastructure has accumulated valuable experience and local expertise. Thus in proposing operational arrangements for the CD-JG we start by considering how the existing framework could be applied to the administration and management of paid work opportunities in the public sector. In the first instance, the following organisations would play key roles in the administration of the CD-JG.

### The Commonwealth Department of Employment and Work Place Relations (DEWR)

DEWR would purchase CD-JG positions on behalf of the Commonwealth and monitor and evaluate the effectiveness of Community Work Coordinators (CWCs) and local governments in achieving the policy's objectives. This is similar to the role the Commonwealth now plays in the administration of the Job Network and the Work for the Dole program, as a purchaser-provider. DEWR would also develop the community development and sustainability criteria against which proposals to provide employment under the CD-JG would be assessed.

### Local Governments

Local governments would act as the employer of CD-JG workers and would submit employment proposals, consistent with DEWR's criteria, to Community Work Coordinators. The financial arrangements between the Commonwealth and local government employers could be organised in a number of ways. A relatively simple model operates for public job creation programs in Norway. In this model, municipalities, counties and non-government organisations act as employers and every month receive a fixed amount per employee from the central government (Thuy, Hansen and Price, 2001: 85). Under the CoffEE proposal, local government authorities would receive fixed per capita funding from the Commonwealth for each CD-JG worker employed. The proposed funding arrangements are detailed in Section 7 and the Technical Appendix.

### Community Work Coordinators (CWCs)

It is proposed that Community Work Coordinators be contracted to manage CD-JG jobs in each local government area. Their task will be to tailor employment to the needs of their local communities and to the abilities and interests of people eligible for CD-JG employment. Under the CWC Services Tender 2002 (DEWR 2002d), the Commonwealth has provided contracts to 119 CWCs to make available Work for the Dole placements and administer Community Work placements in a particular Employment Service Area or labour market region. The role that CWCs would play with respect to a CD-JG scheme would not be dissimilar to their current responsibilities. The CWCs would assess employment proposals received from local government against the objectives established by DEWR and make recommendations to the Commonwealth. Once projects are determined, the CWCs would manage the placement of eligible individuals into CD-JG positions, following consultation with the employee and local government employer. The payment model for CWCs would follow the general payment structure set out in the CWC Services Tender 2002 (DEWR 2002d, Section 9) and would comprise a fixed administration fee per contracted CD-JG place and a tendered management fee based on the number of contracted places allocated to the CWC.

### Area Consultative Committees (ACCs)

Area Consultative Committees are non-profit, community-based organisations funded by the Commonwealth Government under the Regional Assistance Programme. There are 56 ACCs across Australia serving rural, regional, remote and metropolitan communities. ACCs are key regional stakeholders and have accumulated understanding of the local community and its needs, and experience in assessing project proposals submitted under various regional programs. In a CD-JG framework, ACCs would provide advice to local government and CWCs on regional community needs. The Commonwealth would forward all proposals received from the CWCs to the ACCs for comment on the local community and environmental benefits of activities proposed. After taking into account the comments and recommendations of both the CWC and the ACC, the Department would then determine the nature and allocation of CD-JG jobs.

## 7. How much does the Government need to invest in the Community Development Job Guarantee?

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CofFEE estimates that to implement the Community Development Job Guarantee at a national level would require net investment of around \$3.27 billion per annum. To implement the plan for the Hunter Statistical Region would cost just \$120.4 million per annum. In this section, we set out the returns on CD-JG investment, in the form of increased output, employment and reduced unemployment. A detailed exposition of the data and methodology used to derive these results is presented in the Technical Appendix.

Our calculations assume that the CD-JG proposal is implemented against the backdrop of the macroeconomic conditions, which prevailed in August 2002. For clarity, we compute the outlays and returns for our two target groups (unemployed persons aged 15-19; and the long-term unemployed aged 20 years and over) separately. The rise in the disposable income of individuals who take a CD-JG job would induce an increase in consumption expenditure. We assume that people aged 20 years and over who are short-term unemployed would absorb the net increase in the stock of private sector jobs. This group is likely to have more skills than the young unemployed and to have suffered less skill atrophy than adults who are long-term unemployed.

We then model the impact of the CD-JG Plan on employment, output, and direct and indirect taxes, and estimate the reduction in welfare allowances paid to the individuals in the CD-JG target groups and the older short-term unemployed. However, we do not try to quantify the wider economic and social benefits associated with a lower rate of unemployment. These include reduced government outlays on labour market programs, and improvements in the quality of government services (such as health, education and law and order) flowing from a reduction in social dysfunction (Sen, 1997).

### 7.1 Wages and conditions

Under the CD-JG proposal, an adult who was long-term unemployed would be employed at the full-time Federal Adult Minimum Wage of \$431.40 per week (AIRC, 2002). Annual productivity in these jobs was assumed to be \$30,000 or approximately one-third of the annual productivity per full-time equivalent employee in June 2002 (ABS, 6203.0, RBA, 2002a). The productivity assumption is a reflection of the typical tasks that would be undertaken by CD-JG workers. For simplicity, the young unemployed were assumed to earn 60 per cent of the Federal Adult Minimum Wage (\$258.80 per week) and their productivity was assumed to be 60 per cent of adult productivity (\$18,000). All CD-JG jobs were assumed to attract on-costs of 50 per cent, reflecting both the normal components of on-costs (including leave loadings, the employer's component of the Superannuation Guarantee Charge, public liability insurance, workers compensation, and occupational health and safety expenses) and an allowance for raw materials and equipment used in the work process.

The nominal productivity of newly employed full-time workers in the private sector was set at \$40,000, reflecting the lower skills of the unemployed and possible capital shortages resulting from the higher level of economic activity. This figure is inclusive of indirect taxes on private sector output of approximately 12.5 per cent. The full-time

adult wage in the private sector was assumed to be \$500 per week compared to private sector full-time adult weekly earnings of \$876.20 in May 2002 (ABS, 2002e). Private sector on-costs were assumed to be 30 per cent.

More detailed information on the modelling of CD-JG wages and productivity is contained in the Technical Appendix.

## 7.2 Administration

The model assumes that the net administrative costs associated with the implementation of the Community Development Job Guarantee will be zero. Instead, the composition of administrative outlays across the existing suite of labour market programs, and the new public sector jobs, would alter.

The organisational arrangements proposed for the CD-JG, and outlined in Section 6, would clearly require increased expenditure on additional Community Work Coordinators (CWCs) and the provision of administrative support to the Area Consultative Committees. At the same time, the characteristics of persons participating in mutual obligation programs like Work for the Dole, and accessing Intensive Assistance from the Job Network, would change as our target groups move into CD-JG jobs.

It is not the aim of the Community Development Job Guarantee to reduce government expenditure on employment assistance. Indeed, the CD-JG aims to provide a non-inflationary path towards full employment by reducing the spending gap in the macroeconomy. Thus while there may be some initial movements of staff between different areas of the employment services infrastructure, and a need to focus Job Network expenditure on services that support the short-term unemployed (such as improved job matching and skills assessment), this will not be associated with net job losses or administrative savings.

## 7.3 The calculations

We initially consider the introduction of the youth component of the CD-JG proposal as a stand-alone package. It should be borne in mind that under these circumstances, the degree of expansion would be smaller than would be the case if the overall proposal was introduced. If the CD-JG proposal was confined to providing paid public sector employment for the young (15-19 year old) unemployed, then the value of additional output would be \$2.76 billion. Of this, \$1.01 billion would be private sector output in the form of consumption goods. On top of the 133.8 thousand CD-JG jobs, the increase in consumption yields an increase in private sector employment. The fall in the official unemployment rate increases the participation rate of the young (and adults), through a reduction in the number of hidden unemployed. These additional young job seekers would be unemployed, unless the CD-JG proposal was expanded to absorb them. This process continues until the official unemployment rate and the youth labour force participation rate stabilises. The total increase in private sector employment is 29.2 thousand and aggregate employment grows by 163.1 thousand. Taking account of higher labour market participation rate of both the young and the old, the official unemployment rate drops to 4.95 per cent. The major economic outcomes are shown in Table 1. The saving in payments of Newstart Allowance and Youth Allowance resulting from the direct employment of the target group, and the induced private sector expansion, is estimated at \$0.45 billion. As discussed in the Technical Appendix, those unemployed workers who secure part-time employment will not lose all their allowances.

Table 1 The National CD-JG Plan for Youth: Eliminating unemployment for 15-19 year olds

<b>National Account and Labour Market Impacts</b>	
Increased Gross Domestic Product (\$b p.a.)	2.76
Increased Consumption (\$b p.a.)	1.01
Change in Total Employment (000's)	163.1
Public Sector Employment (000's)	133.8
Private Sector Employment (000's)	29.2
New Unemployment Rate (%)	4.95
<b>Government Accounts (Outlays/Revenue) Changes</b>	
Gross Government Outlays (\$b p.a.)	1.96
Unemployment Benefits (\$b p.a.)	-0.45
Taxes on Wages (\$b p.a.)	-0.19
Taxes on Profits (\$b p.a.)	-0.01
Indirect Taxes (\$b p.a.)	-0.12
Net Government Expenditure (\$b p.a.)	1.19

Table 2 The National CD-JG Plan to employ all long-term unemployed aged 20 +

<b>National Account and Labour Market Impacts</b>	
Increased Gross Domestic Product (\$b p.a.)	4.68
Increased Consumption (\$b p.a.)	1.25
Change in Total Employment (000's)	156.4
Public Sector Employment (000's)	120.0
Private Sector Employment (000's)	36.4
New Unemployment Rate (%)	4.99
<b>Government Accounts (Outlays/Revenue) Changes</b>	
Gross Government Outlays (\$b p.a.)	3.88
Unemployment Benefits (\$b p.a.)	-1.27
Taxes on Wages (\$b p.a.)	-0.48
Taxes on Profits (\$b p.a.)	-0.01
Indirect Taxes (\$b p.a.)	-0.16
Net Government Expenditure (\$b p.a.)	1.96

The increase in income tax revenue is estimated to be \$185 million. It reflects the full-time versus part-time employment status of the newly employed workers. We estimate the increase in indirect taxes resulting from the rise in private sector activity to be \$123 million. This is based on applying the share of indirect tax, which is implied by the ratio of GDP at factor cost to GDP at market price (0.878) to the value of additional private sector output.

Turning to the second target group - the long-term unemployed aged 20 years and over -we find that net government expenditure of \$1.96 billion would be required to fully employ this group. The total increase in employment would be 156.4 thousand, of which 120 thousand positions would be in the public sector. The unemployment rate would fall to 4.99 per cent. The major economic outcomes are shown in Table 2.

Combining both components of the proposal could be expected to result in outlays and returns equal to the addition of the corresponding figures in Tables 1 and 2. However, the greater stimulus to economic activity that would accompany the implementation of the full CD-JG proposal would lead to a greater number of hidden unemployed aged 15-19 joining the labour force. Extra jobs would need to be created to accommodate these extra labour market participants. The overall outcomes are presented in Table 3.

The induced growth in the youth labour force would be 24.2 thousand requiring that 265.3 thousand CD-JG jobs be created to employ our target groups. Private sector employment would rise by 68.9 thousand via the induced increase in consumption and output. The unemployment rate would fall to 3.98 per cent after taking account of higher labour force participation.

Table 3 The National CD-JG Plan: Eliminating youth unemployment (15-19 year olds) and long-term unemployment for persons aged 20 and over

<b>National Account and Labour Market Impacts</b>	
Increased Gross Domestic Product (\$b p.a.)	7.71
Increased Consumption (\$b p.a.)	2.38
Change in Total Employment (000's)	334.2
Public Sector Employment (000's)	265.3
Private Sector Employment (000's)	68.9
New Unemployment Rate (%)	3.98
<b>Government Accounts (Outlays/Revenue) Changes</b>	
Gross Government Outlays (\$b p.a.)	6.01
Unemployment Benefits (\$b p.a.)	-1.74
Taxes on Wages (\$b p.a.)	-0.68
Taxes on Profits (\$b p.a.)	-0.02
Indirect Taxes (\$b p.a.)	-0.29
Net Government Expenditure (\$b p.a.)	3.27

## 7.4 The Hunter Region

The Hunter Region embraces the following 13 Local Government Areas: Cessnock, Dungog, Gloucester, Great Lakes, Lake Macquarie, Maitland, Merriwa, Murrurundi, Muswellbrook, Newcastle, Port Stephens, Scone and Singleton. The total level of unemployment across the Hunter Region in September 2002 was 23.7 thousand (DEWR, 2002e).

The only currently available Centrelink data on allowance recipients measures the total number of NSA and YA (other) Job Seekers, as defined by their status under the MO requirements. As noted in the Technical Appendix, the calculation of the outlays and returns to the CD-JG model is quite demanding with respect to the required Centrelink data. Accordingly, at this stage, calculating outlays and returns to implementing the proposal in the Hunter Region has been based on a pro-rata calculation to obtain orders of magnitude. In other words, the composition of the unemployed and allowance recipients by age and duration in the Hunter, along with their preferences for full-time and part-time employment, are assumed to be the same as at the national level.

Using the calculations described in Section 7.3 and the Technical Appendix, we estimate that 9.6 thousand unemployed people would be the direct beneficiaries of CD-JG jobs in the Hunter Region, with a further 2.5 thousand jobs being created in the private sector in Australia. Output would rise by approximately \$284.4 million and consumption by \$85.2 million. The net government expenditure that would be required to yield these returns is estimated to be \$120.4 million once taxes and the claw back of allowances are taken into account.

Table 4 The CD-JG Plan in the Hunter Region

<b>National Account and Labour Market Impacts</b>	
Increased Gross Domestic Product (\$b p.a.)	284.4
Increased Consumption (\$b p.a.)	85.2
Change in Total Employment (000's)	12.1
Public Sector Employment (000's)	9.6
Private Sector Employment (000's)	2.5
<b>Government Accounts (Outlays/Revenue) Changes</b>	
Gross Government Outlays (\$b p.a.)	224.9
Unemployment Benefits (\$b p.a.)	-67.8
Taxes on Wages (\$b p.a.)	-25.5
Taxes on Profits (\$b p.a.)	-0.8
Indirect Taxes (\$b p.a.)	-10.4
Net Government Expenditure (\$b p.a.)	120.4

It should be noted that the CD-JG proposal for the Hunter Region would be funded by the Federal Government, but implemented at the local level. The estimated net

government investment that would be required is based on this distinction. As a result, some of the saving on allowances and additional tax revenue is likely to be generated outside the Hunter Region, because the increase in private sector employment could be dispersed across Australia.

Finally, as noted earlier, these calculations do not take account of any reduced outlays on government programs or services that would flow from the implementation of the CD-JG proposal. We would expect reduced demand for health, welfare and justice services to result from the employment of our target groups. However, it could be argued that the current level of service provision is insufficient, and that rather than cuts in outlays, on health or law and order, being included in the calculations, it is more appropriate to argue that the *effective* level of service provision is increased through maintaining the level of expenditure.

### 7.5 Putting the expenditure in perspective

Summary Box 6 lists a number of significant outlays made by the Federal Government in recent years. Comparing these outlays with the net expenditure required to implement the Community Development Job Guarantee suggests that the benefits associated with the CD-JG proposal far outweigh the alleged benefits of the listed programs. This is particularly so when account is taken of the unmeasured social and environmental benefits of the CD-JG scheme.

Renowned US economist Wendell Gordon (1997: 817) addressing the debate about the costs of a Job Guarantee program concluded that:

*Beyond this, there is an important sense in which the job guarantee program would not cost anything. The goods or services produced by the labor of the beneficiary of the job guarantee increase the gross national product and the national welfare by as much as the worker is paid as reliably as does any 'free market' labour. The labourer is 'earning' the wage or salary received. Also, and importantly, the worker under the job guarantee program has a job of which the worker can be as proud as are other citizens with their jobs.*

### Summary Box 6 Putting the Expenditure in Perspective

The net investment required to implement the Community Development Job Guarantee Proposal is estimated at \$3.27 billion per annum on a national level and \$120.4 million per annum for the Hunter Statistical Region. This expenditure would eliminate unemployment for 15-19 year olds and all long-term unemployed. It would mean that a guaranteed job was always available to these workers when there are not sufficient jobs available in the private sector.

So how does this net investment compare to recent expenditures that the Federal Government has made?

The following puts the dollars in perspective:

(1) Commonwealth Budgetary Assistance and Tax Breaks to Industry 2001-02	\$3.9 billion
(2) 30% Private Health Insurance Rebate in 2002-03	\$2.1 billion
(3) Commonwealth Government losses from the foreign currency swaps program in 2001-02	\$1 billion
(4) Additional revenue from Tax Office audits of high wealth individuals in 2001-02	\$920 million
(5) Capital Gains Tax discounts for individuals and trusts in 2001-02	\$1.8 billion
(6) Estimated minimum extra military cost of War on Iraq	\$750 million

Notes:

- (1) Productivity Commission, 2002b: xi.
- (2) Department of Health and Aged Care, 2003: Table C8.1.
- (3) Australian Office of Financial Management, 2002: 161.
- (4) Australian Taxation Office, 2002.
- (5) Treasury, 2003: Table 5.1
- (6) Treasurer, March 30, 2003 - <http://www.treasurer.gov.au/tsr/content/transcripts/2003/019.asp>

## 8. Future research

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The Centre of Full Employment and Equity has received competitive research funding to develop a fully costed prototype of the CD-JG that could be implemented in the Hunter Region. The research, to be completed in 2003, will include a survey of local governments in the Region to assess the feasibility of creating paid public sector employment opportunities in community development. In addition, a series of structured interviews will be used to assess the capital and managerial capacity of local governments to implement the CD-JG scheme and the efficacy of existing local partnerships between government authorities, employment services, and community organisations. Wallis and Dollery (2002: 83) have argued that before local authorities can be called on to assume a role that enables community development through the development of multi-organisational partnerships, attention needs to be given to whether they have the capacity to take on this more ambitious activist role. This requires not only an assessment of the institutional, technical and administrative dimensions of their capacity, but the stocks of social capital they need to draw on to engage other organisations in community development initiatives.

The development of a prototype specifying the nature of jobs that could be created under the CD-JG will enable a more comprehensive cost-benefit analysis of the proposal to be undertaken including more precise specification of physical capital requirements and associated capital costs. In addition, we can use the Genuine Progress Indicator framework to evaluate the broader benefits flowing from CD-JG employment. These benefits may include reductions in the social and psychological costs associated with unemployment; reduced residential aged care subsidies by increasing support for community-based care; and improvements in the stock of our natural resources arising from environmental rehabilitation projects to which CD-JG workers contribute.

## 9. Conclusion

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The Community Development Job Guarantee proposal has been developed by the Centre of Full Employment and Equity to inject new ideas into the public policy debate on unemployment. CofFEE believes that the existing policy debate has become bogged down in minutiae about active participation models. While the types of policies that emerge from such discussions have some merit, it is clear that they have not provided a solution to the persistently high unemployment that has plagued Australia since 1975.

In this regard, the CD-JG proposal is intended to be a constructive alternative to the current thinking. It provides a direct and on-going solution to youth and long-term unemployment. The net investment required to achieve this important outcome is minor relative to the sustained benefits that accrue to the individuals who gain employment and to society at large.

CofFEE believes that the provision of a job guarantee to the most disadvantaged workers in the economy is an essential starting point to developing and maintaining strong and vibrant communities.

## 10. Technical Appendix

### 10.1 Labour force parameters

Tables A1 and A2 set out the labour force parameters for our CD-JG computations, using August 2002 as the basis for analysis. The official unemployment rate in August 2002 was 6.0 per cent when 596.1 thousand persons were recorded as unemployed. Among 15-19 year olds, 121.0 thousand were seeking employment (with 54.8 thousand seeking full-time employment). In addition, 120.0 thousand individuals aged 20 years or more were long-term unemployed, of whom 110.5 thousand were seeking full-time employment. These are the two groups targeted in the CD-JG proposal.

Table A1 Employment and Unemployment by Age and Participation in Education, August 2002 ('000s)

	Employment			Unemployment		
	F/T	P/T	Total	F/T	P/T	Total
<b>Civilian population aged 15+</b>	6,643.4	2,666.7	9,310.1	441.1	154.9	596.1
<b>15-19 years</b>						
Not attending F/T education	201.5	97.8	299.3	46.5	3.3	49.8
Attending F/T education	5.3	347.0	352.3	8.3	63.0	71.2
Total	206.8	444.8	651.6	54.8	66.3	121.0
<b>20-24 years</b>						
Not attending F/T education	674.1	157.0	831.1	85.5	9.3	94.8
Attending F/T education	13.1	166.2	179.3	4.1	16.2	20.4
Total	687.2	323.2	1,010.4	89.6	25.5	115.2
<b>20 years +</b>	6,436.6	2,221.9	8,658.5	386.3	88.8	475.1
<b>STU</b>				275.8	79.3	355.1
<b>LTU</b>				110.5	9.5	120.0

Source: AUSSTATS, ABS, 6203.0

Notes: The unemployed seeking F/T and P/T employment are identified. STU denotes short-term unemployment; LTU denotes long-term unemployment.

The impact of the CD-JG on the official unemployment rate will be moderated to the extent that persons who are hidden unemployed enter or re-enter the labour market. Utilising the model of hidden unemployment developed by Mitchell (2001b), we estimate that 223.7 thousand hidden unemployed were associated with an unemployment rate of 2 per cent in August 2002, of whom 47.7 thousand were aged 15-19. The hidden unemployed are assumed to enter the labour market at a constant linear rate as the official rate of unemployment declines.

Table A2 Labour force status by Age and Participation in Education, August 2002 ('000s)

	Labour Force	Not in Labour Force	Total
<b>Civilian population aged 15+</b>	9,906.1	5,761.7	15,667.8
<b>15-19 years</b>			
Not attending F/T education	349.1	54.1	403.2
Attending F/T education	423.5	539.9	963.4
Total	772.6	594.0	1,366.6
<b>20-24 years</b>			
Not attending F/T education	925.9	127.2	1,053.1
Attending F/T education	199.7	148.7	348.4
Total	1,125.6	275.9	1,401.5
<b>20 years +</b>	9,133.5	5,167.7	14,301.2

Source: Table A1

## 10.2 Modelling the CD-JG - unemployment and the welfare system

In order to calculate the savings on welfare allowances, we must first determine how many unemployed people currently receive payments, and of what type and magnitude. The gross allowance paid to the individual will depend on the age of the recipient, whether they are defined as dependent or independent, and the threshold and taper rates which apply to any relevant income or assets tests.

Since July 1998, individuals aged 18 to 24 years who have been unemployed for at least six months have been required to undertake Mutual Obligation (MO) activities in addition to job search. MO requirements aim to improve an individual's 'employability' and have been progressively extended to older age groups. Since 1 July 2002, all job seekers aged up to 49 years have been subject to MO requirements (ABS, 2002c: 172).

The Youth Allowance (YA) is paid to individuals (aged 15-24) who satisfy their MO requirements through participation in full-time education. YA is means-tested on the basis of personal and partner's income, while dependent YA recipients are also subject to a parental means test (DFACS, 2001b: 25). Youth Allowance (other) is paid to 15-19 year olds who are not full-time students, and are either unemployed or combining part-time study with work or other approved activities. Since January 1999, persons under 18 years who have yet to complete Year 12 or equivalent must generally be engaged in full-time study or training to qualify for YA. In identifying these different cohorts, we will refer to the official age limits.

Full-time students (FTS) aged 15-19 have been modelled separately in our computations as they are subject to different income tests than other YA recipients of the same age, and have a stronger preference for part-time employment in comparison to their unemployed contemporaries (see Table A1).

Newstart Allowance (NSA) is payable to unemployed individuals aged 21 years and over who comply with the NSA activity test. We differentiate between NSA

recipients, and full-time students aged 20-24 years who are receiving YA, as they are subject to different income limits.

Our task is to identify the number of allowance recipients (by type) who would receive jobs under the CD-JG proposal, and the number of newly employed individuals who would not have been in receipt of an allowance. This latter group includes full-time students who were not eligible for YA, the hidden unemployed aged 15 to 19, and the older short-term unemployed who were not receiving NSA but gained employment in the private sector (where new jobs are generated through multiplier effects). This induced private sector employment will be distributed across the different groups of older short-term unemployed according to their relative shares.

ABS unemployment data is used to generate upper bound estimates of the number of persons seeking paid employment in different age groups. One advantage of using the ABS data is that individuals classified as ‘unemployed’ are, by definition, not receiving income from paid work. While a number of the unemployed may receive a reduced allowance due to non-work income and/or the ownership of assets, we ignore this in our calculations. As can be observed from Table A3 in the main document, the impact of changing the estimates of the allowances ‘clawed back’ through the implementation of the CD-JG proposal is relatively small.

Table A3 Estimated Composition of the Unemployed by Type of Allowance Received under CD-JG Plan to Eliminate Youth and Long-term Unemployment

	UN (‘000s)	Other (‘000s)	Estimated Job Seekers			
			Allowance Recipients		Number (‘000s)	Estimated allowance (\$ per fortnight)
			YA	NSA		
<b>CD-JG recipients</b>	265.3	95.5	53.7	115.1		
<b>15-19 year olds</b>	145.3	95.5	49.8	0.0		
Not attending FT education	49.8	0.0	49.8	0.0	244.70	N/A
Attending FT education	71.3	71.3	0.0	0.0	N/A	N/A
No longer hidden unemployed	24.2	24.2	0.0	0.0	N/A	N/A
<b>20+ long-term unemployed</b>	120	0.0	3.9	116.1	270.77	363.02
<b>Private Sector Job Seekers</b>						
<b>20+ short-term unemployed</b>	355.1	150.0	9.1	196	270.77	363.02

Source: ABS 6203.0, AUSSTATS and author’s calculations. UN refers to unemployment.

There are no administrative data available on the actual distribution of allowances received by the different labour market groups. Our calculations thus estimate the average allowance of individuals who secure employment through the CD-JG

proposal, by taking account of a range of factors including age, whether living at home, (in)dependence and marital status. Accordingly, the 'clawback' calculations are restricted to the application of means tests to personal income received (directly and indirectly) from the implementation of the proposal. A full discussion of the assumptions made in the modelling for each group is outlined below and results are summarised in Table A3.

### Allowances for 15-19 Year Olds

To compute the reduction in Youth Allowance (YA) outlays that would result from the implementation of the CD-JG proposal, we need to estimate the number of YA recipients aged 15-19 who would take up full-time or part-time employment, as well as the number not in receipt of the YA who would secure paid work.

In August 2002, there were 315.2 thousand full-time students (FTS) aged 15 and above in receipt of YA (DFACS, 2002a). On the basis of the corresponding figures for June 2000, we assume that 67.4 per cent of this cohort would be aged 15-19 out of a total FTS population in this age group of 963 thousand. The labour force status by age group and participation in education is detailed in Table A2.

For simplicity, we assume that none of the 71.2 thousand FTS seeking work were in receipt of YA. The quantitative impact of this assumption is small. Even if the estimated 212 thousand FTS receiving YA were uniformly distributed across the population of FTS aged 15-19 years (excluding those in full-time employment) just 22 per cent would be receiving an allowance. Given that only 8.3 thousand FTS are seeking full-time work and that they are able to earn \$236 per fortnight before their YA is subject to means testing, any loss of YA from the FTS securing employment is likely to be small.

We next calculate the number of 15-19 year olds not in full-time education, who were receiving YA (other). Figures from the Department of Family and Community Services (DFACS, 2001a: Table 23) reveal that 74.8 per cent of individuals receiving YA (other) in June 2000 were aged 15-19 years and that 84.7 per cent of all YA (other) recipients received no personal income. Applying these percentages to YA (other) data for August 2002 data suggests that 65.7 thousand of these recipients were aged 15-19, of whom 55.6 thousand received no personal income.

Table A1 identifies 49.8 thousand persons aged 15-19 who were unemployed and not in full-time education. We assume that each was receiving YA (other). In August 2002, less than 0.02 per cent of individuals receiving YA (other) were combining work and part-time study (DFACS, 2002: Table 3). Thus the assumption is plausible but excludes the unlikely event of a significant number of the 15-19 year olds who are neither in the labour force, nor in full-time education, being in receipt of YA (other). We now turn our attention to the level of allowance received.

In August 2002, YA recipients who resided at home received \$165.10 per fortnight if they were aged under 18, and \$198.60 per fortnight, if they were aged 18 or over. Using weights from June 2000 - when 26.5 per cent of 15-19 year olds receiving YA (other) were under 18 years (DFACS, 2001a) - yields an average benefit of \$175.02 per fortnight.

In June 2000, 59.1 per cent of the whole YA (other) cohort, which includes 20 and 21 year olds, lived away from home and received a higher YA of \$301.70 per fortnight, irrespective of age. Applying a slightly smaller weight of 55 per cent (because the

younger segment of this group is more likely to reside at home) we compute an average YA (other) for the 15-19 age group of \$244.69 per fortnight. This reflects the composition of the group by age and whether or not they lived at home. For simplicity, we have ignored those 15-19 year olds who are partnered with/out children who would represent a small minority of this cohort.

#### **Allowances for 20+ year olds: the long-term unemployed**

We also compute the impact of creating CD-JG positions for persons aged 20 years and over experiencing long-term unemployment. In August 2002, there were 120.0 thousand people in this predicament, 110.5 thousand of who were seeking full-time employment (see Table A1). Administrative data from the Department of Family and Community Services (DFACS, 2002, Table 3) identifies 45.3 thousand long-term recipients of YA (other). We estimate that 11.4 thousand of these are aged 20 and above (by applying the June 2000 share (25.2 per cent) of YA (other) recipients aged over 19) and 9.7 thousand of these recipients obtained no personal income (DFACS, 2001a: Table 23).

Newstart Allowance (NSA) is payable to individuals aged 21 and over. In August 2002, there were 338.2 thousand long-term NSA recipients, an estimated 84.1 per cent (284.4 thousand) of who received zero personal income (DFACS, 2001a, Table 26). We thus conclude that all long-term unemployed aged 20 and above, were in receipt of an allowance with (pro-rata) 3.9 thousand in receipt of YA (other) and the remainder receiving the NSA.

The maximum NSA in August 2002 ranged from \$332.80 per fortnight for each partner to \$369.00 for singles and \$399.00 for singles with children. In June 2000, 71.6 per cent of NSAs were paid to single individuals (DFACS, 2001a, Table 26). Using the June 2000 shares, and assuming a single NSA rate of \$375, yielded an average full payment of \$363.02 per fortnight for NSA recipients. Given that the same means-testing formula is applied to both NSA and YA (other) recipients, we estimated an average allowance for our cohort. The sum of the average full NSA and YA (other) allowances, weighted by their respective shares, yields an average allowance of \$358.93 per fortnight.

#### **Allowances for 20+ year olds: the short-term unemployed**

Youth Allowance is also payable to full-time students (FTS) and others, aged 20 years and over. In June 2000, 32.6 per cent of FTS receiving YA were aged over 19 (DFACS, 2001a). By applying this share to Centrelink data on YA recipients, we estimate that in August 2002, 102.7 thousand FTS aged 20 and above received YA. We again assume that (older) students in full-time education, who are seeking employment, do not receive the allowance. Even if the group of FTS receiving YA were uniformly distributed across the population of 20-24 year olds in full-time education, excluding those in FT employment, just over 30 per cent would receive an allowance. Thus the quantitative impact of our assumption is small, given that this group desires only 20.4 thousand additional jobs (see Table A1).

What of the other YA recipients aged 20 and above? In June 2000, 25.2 per cent of all YA (other) recipients were 20 years or more and 84.7 per cent received no personal income (DFACS, 2001a). Applying these shares to the 42.5 thousand short-term YA (other) recipients recorded in August 2002, generates an estimate of 10.7 thousand individuals receiving YA for less than 12 months, 9.1 thousand of who had no

personal income. YA recipients aged 20 and above received \$198.60 (home), or \$301.70 (away) per fortnight. If we assume that 70 per cent of this cohort lived away from home (consistent with an overall share of 59.1 per cent of all YA (other) recipients living away) yields an average full YA of \$270.77 per fortnight.

Using the same methodology to estimate short-term NSA recipients, CoffEE argues that approximately 205.0 thousand unemployed persons aged 20 and above were in receipt of either YA (other) or NSA in August 2002. Those individuals who were in receipt of personal income would be classified as employed, according to the ABS Labour Force Survey. Total short-term unemployment of individuals aged 20 or more is 355.1 thousand and we conclude that 150.0 thousand individuals are unemployed, with the same preferences for FT and P/T employment, but are not receiving allowances.

Using the same single and partnered weights as the previous section yields an average full payment of \$363.02 per fortnight for NSA recipients. NSA and YA (other) recipients are subject to the same means-testing formula. Consequently, we again estimate an average allowance for NSA and YA (other) recipients. The sum of the average full NSA and YA (other) allowances weighted by their respective shares of the total long-term (unemployed) allowance recipients yields an average allowance of \$358.93 per fortnight. For simplicity we assume that an average fortnight allowance of \$360.00 applies to short-term and long-term recipients of allowances aged 20 or more.

### 10.3 Modelling the CD-JG - wages and productivity

Nominal Gross Domestic Product for the year ending June 2002 was \$716.2 billion (RBA, 2002a). Average monthly full-time equivalent employment was 7,672 thousand over this period (AUSSTATS). Thus annual productivity per full-time equivalent employee was over \$93,000.

Under the CD-JG proposal, the adult long-term unemployed would be employed at the full-time Federal Adult Minimum Wage of \$431.40 per week (AIRC, 2002). We have assumed that annual productivity in these jobs would be \$30,000, reflecting the typical tasks to be undertaken by CD-JG workers. The statutory minimum wages for young people range from 40 per cent of the Federal Adult minimum wage for 15 year olds, up to 80 per cent for 19 year olds, in increments of 10 percentage points. For simplicity the young unemployed are assumed to earn the simple mean minimum wage of 60 per cent of the Federal Adult Minimum Wage, namely \$258.80 per week. Their productivity is assumed to be 60 per cent of adult productivity (\$18,000). All public sector jobs are assumed to attract on-costs of 50 per cent, reflecting both the normal components of on-costs (including leave loadings, the employer's component of the Superannuation Guarantee Charge, public liability insurance, workers compensation, and occupational health and safety expenses) and an allowance for raw materials and equipment used in the work process. If some members of the target groups chose to undertake some training, rather than exclusively paid employment, then this on-cost assumption (50 per cent) could be an overestimate. No allowance has been made for any induced private sector employment arising from the production of new capital goods, such as gardening equipment.

We have assumed nominal productivity of the newly employed full-time workers in the private sector of \$40,000, reflecting the lower skills of the unemployed and possible capital shortages resulting from the higher level of economic activity. This

figure is inclusive of indirect taxes on private sector output of approximately 12.2 per cent, based on the ratio of GDP at factor cost to GDP at market prices in the year to June 2002 (RBA, 2002a). Thus effective nominal productivity per full-time private sector worker would be closer to \$35,000. The full-time adult wage in the private sector was assumed to be \$500 per week as compared to private sector full-time adult weekly earnings of \$876.20 in May 2002 (ABS, 6305.0). Private sector on-costs were assumed to be 30 per cent. Average part-time hours in August 2002 (16.6 hours per week) (ABS, 6203.0) were 39.5 per cent of full-time hours. These figures were used to calculate the hours worked, wages and productivity of newly employed part-time workers in the private sector.

#### 10.4 Estimating the impacts of implementing the CD-JG

The returns on CD-JG investment, in the form of increased output, employment and reduced unemployment were set out in Section 7, Tables 1 to 4. The following parameters and assumptions were important in deriving the results.

The rise in disposable income that would result from the implementation of the CD-JG would reflect the increase in gross income, the prevailing tax rate and the claw back of allowances, as described above. The increase in disposable income would in turn increase domestic consumption of goods and services. CoffEE has assumed a domestic propensity to consume out of wage income of 0.75 and a propensity to consume out of profit of 0.6, reflecting the low annual savings ratio of 2-4 per cent over the last two years (RBA, 2002a) and an imports-to-GDP ratio of approximately 0.22 (RBA, 2002b).

The increase in domestic consumption would then give rise to increased private sector employment, the magnitude of which would depend on the level of private sector productivity per worker. The calculations spread the increase in private sector employment pro-rata, by part-time and full-time status, taking into account those who are receiving allowances. As discussed earlier, the calculations assume that the short-term adult unemployed would obtain the new private sector jobs. We do not rely on the private sector expansion to generate direct employment opportunities for some members of our two target groups.

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