

Job Creation: From Public Works to a Job Compact

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Abstract

The premise of this paper is that when long-term unemployment reaches very high levels, increasingly costly forms of assistance, like job creation have to be used to redress the disadvantage the long-term unemployed encounter. It then goes on to argue that effective job creation requires a new institutional framework, regional or local employment boards formed by local business and community organisations. Such an institution is well placed to satisfy the many conflicting objectives of job creation, and would ensure the public funds are used imaginatively to the benefit of both the unemployed and the community as a whole.

1. Introduction

Labour market programs have come a long way since the days when relief work was the only option that governments could offer the unemployed. Like most other countries, Australia has tried, discarded, modified, extended and developed a very wide range of programs with the result that there is now a bewildering array of labour market programs at the government's disposal. In the process not only the content but also the form of these programs have changed. The programs have to be labelled and packaged to be attractive to both clients and the community at large. Thus, when the Committee on Employment Opportunities suggest a Job Compact, the suggestion should not be dismissed as old wine in new bottles. It is a

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well developed and imaginative concept which provides a focus for the debate that is now under way.

Much has also been learned in this process. It is fairly widely accepted that the main issue is not the number of additional jobs created by job creation or any other form of assistance to the unemployed. It is the ability of labour market programs to redress the inequalities that unemployment give rise to that matters, and to ensure that the future efficiency of the market is not impaired by the virtual disappearance from the effective labour supply of those who have been unemployed for a long time.

If we accept this proposition it is almost inevitable that the cost of assistance, on a per person basis, increases with the severity of the unemployment. As the unemployment queue lengthens, the queue becomes more diverse in terms of the type of assistance required, and those at the bottom are increasingly disadvantaged by the length of their unemployment. It follows that to redress this disadvantage, a wider range of programs are required, and increasingly costly forms of assistance, like job creation, have to be used.

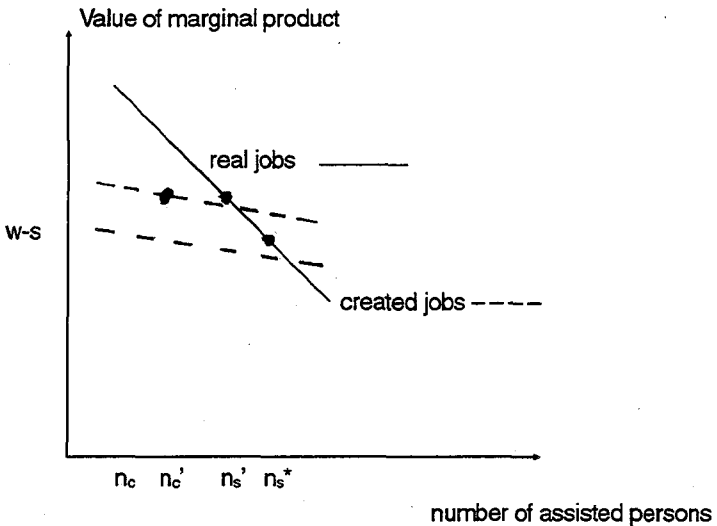
Generally speaking, international evidence also indicates that the mix of labour market programs shifts towards job creation during a prolonged or severe recession. The Australian program mix has also followed this principle in the past, particularly during and in the aftermath of the 1982-83 recession. However, so far job creation has played a relatively minor part in the expansion of labour market programs to deal with the current unemployment.

A major reason for this seems to be that the Australian experience with job creation is not judged to have been very successful. The Committee on Employment Opportunities is careful not to pass judgement, but they are extremely concerned about the high cost of job creation and its ability to improve the employment opportunities for participants. Therefore they favour the expansion of lower cost intervention, notably wage subsidies, as the main form of assistance to the long-term unemployed.

2. Job Creation and the Program Mix

In view of what has been said before, we believe that the Committee takes a too negative view about job creation, and that there is a case for increasing the share of job creation beyond that proposed by the Committee (the program mix proposed by the Committee is given in Table 5.1, p. 129 of the report). To develop the argument, a simple model, set out in Figure 1, is helpful. The model assumes that we wish to assist N unemployed persons

Figure 1. The Optimal Mix of Wage Subsidies and Job Creation



and that we have two programs at our disposal; wage subsidies with a given subsidy rate, and job creation. When we use wage subsidies, those assisted are placed in 'real' jobs and the value of the output produced in those jobs are depicted by the 'real' value of marginal product curve. When the unemployed persons are placed in created jobs, the output produced has a lower value and in the diagram we have depicted two possibilities.

If we take it that created jobs have a low social value, i.e. the lower 'created job' curve applies, then job subsidies should be used up to its limit n_s^* , where the marginal value of a subsidised person is equal to the cost to the employer, the wage minus the subsidy ($w-s$). The remainder of any assistance, $n_c = N - n_s^*$, should then be provided through job creation on the ground that the value of any created job is less than the value of the marginal subsidised job at the limit.

However, even if we accept that created jobs would typically have a low social value, the possibility that the higher 'created job' curve applies should not be dismissed. If that is the case, job subsidies should not be pushed to their limit as at that point the marginal created job has a higher social value than the marginal subsidised job. Instead the optimal mix requires that the marginal social values are equalised, by assisting n_c' and n_s' in job creation and subsidised jobs respectively.

This simple diagram does not capture all aspects of the problem. It does not take into account that the budget costs of job creation (\$300 plus per

person per week) are significantly larger than for subsidised jobs (\$200). Nor does it recognise that the real jobs are probably better in enhancing the employment opportunities of program participants. But notwithstanding these limitations it focuses our attention on several related issues. Firstly, that as unemployment deepens the cost of assistance inevitably increases as the disadvantage that labour market programs should alleviate becomes greater and greater. For that reason, each program type is effectively subject to a kind of diminishing return and thus the larger is unemployment the more types of programs are required. Secondly, the notion of an optimal program mix is useful even though it is virtually impossible to pin-point what this optimal mix is in practice. To the extent that we take issue with the Committee's views, it is that they seem to ignore this point. They appear to take the view that job creation, the extra works option, should only be pursued as a last resort when job subsidies have been expanded to their take up limit. Of course, a possible reason for this is that they take a very pessimistic view about the value marginal product, the social value of the goods and services produced by the incumbents of the created jobs. It is true that the Australian experiences with job creation give cause for caution. But when job subsidies (at \$200 per week) are taken up to their fullest extent, the social value at the margin is only \$150-200. It should not be beyond the imagination of the community to create jobs which have this low level of social value.

3. Implementing Job Creation

It is, however, easier said than done. The Committee received numerous suggestions about job creation. It would serve little purpose to simply add to this list. What is needed is a conceptual framework into which some or most of these ideas can be incorporated.

Australia, like most developed economies has a set of highly developed institutions. The premier institution is the market economy, a highly developed network of producers and consumers connected through the price system. Another is the public service which through its different levels provide a wide range of services to the community. A third institution is a wide range of community organisations around which much of the social lives of individuals revolve.

All three of these institutions have the capacity to create jobs, which essentially means adding value to inputs through the use of labour. However, all have problems in doing so through the use of persons who have been unemployed for a long time. When job creation has been used in the

past, the task fell mainly on state government departments (the Wage Pause Program) and local authorities (the Community Employment Program). Although these programs did not fail to achieve their aims, a number of problems were highlighted by their evaluators. In particular, the inherent conflict between the three main objectives, speedy implementation, high social value and assisting the target groups (long-term unemployed) was not satisfactorily resolved – satisfying one aim usually meant that another aim was seriously compromised. No doubt the performance of these institutions to run job creation programs could be improved in the light of accumulated experience. But the satisfaction of these three conflicting aims is an inherently difficult task. If Australia is to make more use of job creation over the next few years, the argument of this paper is that it would be better to create a new institution, rather than to seek to obtain marginal improvements on what has been done before. The case for this is even stronger if we accept the Committee's view that there is a fourth aim which public sector job creation is not well placed to satisfy – that of improving the employment opportunities for program participants.

Clearly, this new institution faces a formidable task. Its primary requirements are the ability to identify, initiate and manage projects of high social value, using workers drawn from among the long-term unemployed and in a way which improves the employment prospects of these workers. Some of the requirements are met by community organisations who work with unemployed persons in a welfare, support, training or job search role. Being very close to the unemployed, they understand the needs of the unemployed and what kind of program they could contribute to and derive benefit from. They do not, however, have the capabilities to initiate and manage projects which have a large social value. That is where the business sector comes in. Without being unkind to public authorities, it is fair to say that most of the relevant skills and knowledge reside among those who occupy managerial positions in private enterprise. They are the entrepreneurs who can identify opportunities which have a high social value, and the managerial and administrative skills to exploit those opportunities. Our suggestion is, therefore, that the new institution is created by a combination of talent from private business and community organisations.

This new institution would operate at a regional or local level within a unifying national framework. In view of their task, an appropriate name might be employment councils. However, since the word council is usually identified with local authorities, perhaps boards is a better word, or better still, they should be able to call themselves what they wish. These boards should be funded by the Commonwealth Government with a brief to use the funds to improve the employment opportunities of long-term unem-

ployed persons living in the locality. The amount of funding should depend on the broad direction of labour market programs at the national level and on the local labour market situation. The funding should be as unconditional as possible. Subject to boards being properly constituted and agreeing to comply with broadly specified guidelines, they should be left to do what they think is best with the money.

These boards could initiate and manage a wide range of activities. Some projects may well entail mending roads and building cycle paths, but our expectation is that these types of projects would be the exception rather than the rule. Numerous suggestions were made to the Committee and some are listed under the Extra Work Options Examples (p. 131). Many more ideas could be developed. The important issue is to set up the framework within which experimentation and innovation can take place. Nor is there any need to restrict the boards to non-marketed outputs. Some activities may be best run as subsidised business whose output is sold in the market place. When this is the case, cries of unfair competition are of course possible, but the inherent conflict is something that the boards are best placed to manage. The business community would be represented on the boards, and they should be trusted to exercise judgement about the anti-competitive effects of the boards' operations.

Since the boards' funding are dependent on the national and local labour market situation, great flexibility would be called for. Normally this could only be achieved by operating a portfolio of projects. If they were to put all eggs in one basket, the whole project may have to be abandoned (if it is not viable on a reduced scale) when the funding is reduced. To cope with this variability in funds the boards would also have the ability to take the hard decisions of laying off some of its workers.

Finally, to turn to the accountability issue, we would argue that it is the conflicting interests among the representatives on the boards which will ensure that the funds are used effectively. Business representatives will not be able to direct the funds to ends which serve their own pecuniary interests. By the same token, particular community organisations would not be able to claim a disproportionate share for their particular client group. Normally one would not design organisations to have this type of built in conflict. In this case, however, there is no escape. The objectives of job creation are conflicting – high social value and improved employment opportunities for the most disadvantaged. These conflicting objectives have to be reconciled at some stage. We would argue that this is best done through the information sharing and discussions that the boards have to engage in, rather than being ordained by inflexible guidelines issued by a government department.

Many of the issues raised above were canvassed by the Committee in its report. However, while the argument for the Job Compact is carried forward through its own internal logic throughout the first half of the report, when we come to Chapter 6, about the delivery of labour market programs, transparency is abandoned in favour of bureaucratic mumble-jumble. The Committee recognises that a regional or local focus is important, that existing funding arrangements are insensitive to local needs and discourage local innovation, that the links between the CES and local and regional communities are not effective to mention just a few things. But they are not keen to devolve authority for delivery to the local level. The New Zealand experiment with regional employment councils is held up as a strawman and they warn that 'for devolution to work well, clearly specified objectives and performance targets are necessary' (ibid p. 156). While it is true that the Committee is not dismissive of the many suggestions they received to devolve delivery, in almost all cases they stress the importance of accountability and adequate control. But instead of offering any cohesive ideas, refuge is sought in the usual prescriptions – comprehensive and effective links, changes to the consultative structures, greater coordination and the like. The conclusion to Chapter 6 is just as bland – 'Local communities should be involved in developing solutions to unemployment.' Indeed they should! But how?

4. Conclusion

The argument of this paper is two fold. Firstly, that there is a greater case for turning to job creation measures in the present labour market circumstances than that made by the Committee. Second, while DEET, through the CES, may be a very effective deliverer of most labour market programs, they can not create jobs. To be effective, and to satisfy the many conflicting objectives, job creation must draw on a range of capabilities; entrepreneurship, management skills, concern and understanding of the long-term unemployed's situation and many more. These capabilities do not exist in any one institution, but must be harnessed by drawing on resources of the business sector and community organisations. A lot of goodwill exists, but capable persons do not just want to be 'involved' – they want to do something. Thus job creation inevitably involves devolution to the regional or local level. But this does not necessarily imply a lack of accountability. The conflict of interests among representatives on these regional or local employment boards is a strength not a weakness. It is this conflict which

ensures that funds will not be misappropriated, but imaginatively used to the benefit of both the unemployed and the community as a whole.

Reference

Committee on Employment Opportunities (1993), *Restoring full employment*, AGPS, Canberra.