

# Public Sector Job Creation Schemes: A Reply

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## Crowding-Out

1. *"many projects undertaken as part of PSJCS would have been undertaken in the absence of the program"*

This is the fiscal substitution argument. Under different economic conditions, or under different Federal-State financing arrangements, some of the PSJCS may have been carried out. Or alternatively, as suggested by S&W, PSJCS may involve the moving forward of some projects. Such an inter-temporal re-allocation of expenditure is an appropriate policy response to the problems associated with high unemployment rates, not a disadvantage. Overall the argument suggests that PSJCS have no net job creation impact – available evidence suggests otherwise (Stretton and Chapman, 1990, 37).

2. *"non-subsidised labour is displaced by subsidised labour"*

With fiscal substitution, the above occurs, the result is job substitution, together with undesirable efficiency effects (dealt with later). Once again the line of argument is that there are no net job creation effects from PSJCS – where is the evidence?

3. *"these costs have to be financed in some way, raising the spectre of crowding out and the choking off of job creation in the private sector"*

If fiscal substitution were to occur, would not this reduce the extent of crowding-out? S&W cannot argue for both fiscal substitution and for crowding out. On crowding out, S&W fail to recognise the technical conditions determining the extent (if any) of any crowding-out effect, and the fact that these conditions would be unlikely

to apply with high national or regional unemployment rates. If we accept their crowding out arguments then the \$18 billion plus turn-around in the Federal fiscal position over the past four years would have led to increasing interest rates over the same period. In addition, their crowding-out arguments would equally apply to any labour market program (LMP) whether it be training, placement, wage-subsidies or unemployment benefits. Are they claiming that all public expenditure increases, especially during a recession, crowd-out the private sector, or only certain types of expenditure result in crowding-out?

### **Inefficiency**

1. *"relatively more skilled and experienced labour is displaced by unskilled labour with little work experience"*

The implication being that the productivity of the targeted employees would be lower than other job seekers. This rests upon a static notion of efficiency and ignores the dynamic efficiency gains that can be generated if targeted groups improve their access to employment and raise their productivity through on-the-job work experience. PSJCS are targeted for largely equity reasons and as a result there will always be a trade-off in terms of total job creation versus providing employment access for targeted groups.

2. *"projects which do not involve fiscal substitution are likely to be less profitable and/or more wasteful of community resources"*

Thus S&W argue that if by some chance PSJCS did create jobs, then they are only jobs in wasteful projects. What evidence do S&W have to suggest that CEP or WPP projects were of no value to the participating communities? Available evidence suggests that local and community infrastructure was enhanced by such projects (BLMR, 1984, 29; National Advisory Group on Local Employment Initiatives, 1987). If finding examples of waste and inefficiency were the criteria for determining the acceptability of any expenditure program, then there would be no expenditure justification in either the public or private sectors.

## Equity

1. *"there are numerous examples from overseas where employment prospects are actually made worse by participation in PSJCS"*

This is interesting, since all the available evidence for Australia indicates a significant improvement in post-employment prospects through participation in PSJCS (Sutton, 1985, 12; DEIR, 1985). With an integrated LMP, incorporating PSJCS and training programmes, the employment prospects of participants can be enhanced. PSJCS are in general targeted to the most disadvantaged job seekers for good reason. Those who are already stigmatised because of various forms of labour market disadvantage, including unemployment duration, and cannot gain any entry into employment, even through wage subsidy programs, are those who are often targeted by such programs. To claim, as S&W do, that employment in PSJCS is counter-productive since it stigmatises participants ignores that fact that the targeted participants are already stigmatised.

2. *"more important than mere employment is the quality of the jobs obtained and the quality of the skills and training received"*

S&W claim that participants can gain few marketable skills from such jobs because the bulk of the jobs require low skill levels. First, the targeted groups often have low or limited skill levels. Hence, it is not unusual that the majority of placements are in jobs requiring limited skills. Second, on-the-job experiences and work routines are an important enskilling aspect of such employment. S&W cite the WPP experience of having 53 percent placements in low skilled jobs, yet two thirds of the participants in these jobs claimed to have acquired some new skill on the job (BLMR, 1985, 121). Finally, PSJCS integrated with other LMP can combine work experience, training and counselling in order to enhance the longer-term employment prospects of participants.

## Conclusion

Where did S&W get their two "golden rules" with respect to job creation schemes? Targeting has long been recognised as an essential

component of all labour market programmes (Kirby Report, 1985) and, indeed, the case for PSJCS is enhanced by their ability to target groups such as those in long-term unemployment (Chapman, Junankar, Kapuscinski, 1993, 30). The claim that job creation schemes "must" be temporary presumes that labour market disadvantage, and indeed LTU, are purely temporary – evidence suggests otherwise (Chapman, Junankar, Kapuscinski, 1993).

One lesson for government is that, unlike S&W, they should leave their policy options open. There is a need for an active LMP to deal with the increasing numbers in long-term unemployment and the uneven regional distribution of unemployment. Since 1990 the Federal government has developed a more integrated and active LMP, my argument is that part of this LMP should incorporate a demand side PSJCS.

There are many things PSJCS cannot do and there have been documented problems associated with specific programs in Australia and overseas (Sutton, 1985; Jackson and Hanby, 1982). It is one thing to suggest that they do have problems, it is another to close your mind and suggest they have no place to play in an economy with record post-war unemployment rates, with a third of the unemployed in long-term unemployment and with considerable regional disparities in the distribution of unemployment.

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