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economic notes

WORKING NATION: FROM GREEN TO WHITE PAPER

Frank Stilwell

Q: What is a White Paper?

A: A photocopy of a Green Paper.

The above quip is not entirely appropriate in that the Australian Government's White Paper of May 1994 embodied some new ideas for dealing with unemployment and embraced some elements of industry and regional policy which had not been addressed in the December 1993 Green Paper. It also shelved the idea of a possible 'jobs levy' to finance extra spending on employment policies. However, it did not add any significant measures for job creation or the redistribution of work and incomes. The process of rethinking how government policies can reduce unemployment has turned out to be a saga of positive initiatives soured by missed opportunities.

Background

The decision to establish a committee to investigate possible remedies for unemployment was taken by the Federal Government after its re-election in 1993. This amounted to an official recognition that the problem of protracted unemployment had become a national disgrace. Unemployment is economically irrational, personally damaging and socially wasteful. Its divisive character threatens the cohesion of Australian society and further polarises the distribution of income and wealth. The establishment of a committee to prepare a Green Paper on these issues inevitably raised the hopes of many people that imaginative and effective solutions would be sought. It was not unreasonable to expect the Government to develop a new 'social charter' comparable in

significance to the 1945 White Paper which established full employment as the top priority of public policy.

The outcome has fallen well short of these expectations. The Green Paper effectively sought to hose down these expectations by setting out a more modest programme to deal with the problem of long-term unemployment. This was to be achieved mainly by labour-market programmes, particularly a 'jobs compact' which would give people out of work for over 18 months a guaranteed job for 6-9 months, subsidised by the government, in exchange for making the entitlement to continuing social security dependent on the acceptance of a 'reasonable' job offer. The goal of full-employment was effectively abandoned in favour of the target of a 5% unemployment rate by the end of the decade. *Restoring Full Employment* was an ironic title for the Green Paper.

The public was given three months to make submissions responding to the Green Paper. The Government then issued its own policy statement as a White Paper, presented by Prime Minister Keating to the Parliament on May 4th 1994. It carried the title *Working Nation*, evidently as a means of indicating continuity with the 'One Nation' statement produced to combat the Liberals' *Fightback* package prior to the 1993 general election. *Working Nation* was followed within a week by the presentation of the Federal budget, brought forward to early May from its usual date in August. This consolidated the proposals into the broader context of the government's fiscal policy.

The Policy Package

What are the dominant features of the policies set out in the White Paper and embodied in the budget? The key elements are:

- a target unemployment rate of around 5% by the year 2000;
- a reliance on economic growth in the private sector to generate most of the approximately 2 million jobs needed to hit that target;

- a reassertion that current policy settings and the microeconomic reforms already in place provide the appropriate basis to generate that growth;
- special policies to create job opportunities for the long-term unemployed (the "jobs compact");
- reform of other aspects of labour market assistance and training, including more funding for entry-level training and some specific measures targeted at women, Aboriginal and Torres Strait Islanders and people with a disability;
- changes to social security arrangements to eliminate disincentives for unemployed people to take on part-time employment;
- some modest initiatives in regard to industry policy and regional policy;
- an expenditure commitment totalling \$6.5 billion over three years to cover these policies; but coupled with a commitment to reduce the budgetary deficit to around 1% of GDP by 1996-7.

This list does not include all the detailed proposals in *Working Nation* whose two volumes run to over 250 pages. However, it indicates the general policy stance. Table 1 indicates the principal budgetary allocations involved, as set out in *Working Nation*.

The public response to the White Paper and budget was generally favourable. Welfare groups welcomed the attention given to the long-term unemployed. Business groups welcomed the commitment to government subsidies for training schemes and work experience under the 'jobs compact'. ACTU leaders were supportive, effectively already locked in to the policy program. The players in the financial markets frowned on the extra government spending but were generally reassured by the Government's commitment to reducing the fiscal deficit in the medium term. Some financial journalists frothed about the continued failure to deregulate the labour market and pursue a vigorous programme of wage-cutting. However, despite headlining the Treasurer's 'gamble of growth', there was little questioning in the media of underlying assumptions about the technology-employment

relationship or the problems involved in an economic strategy of open-door internationalisation. The ALP left gave the policy package a qualified thumbs-up, but expressed concerns about the further privatisations announced in the budget (which are proposed to finance two-thirds of the extra spending on labour market programmes). Yes, it was business as usual ...

Table 1: Net Fiscal Impact of White Paper Measures

	Estimated impact on outlays			
	1994/95 (\$m)	1995/96 (\$m)	1996/97 (\$m)	1997/98 (\$m)
Outlays				
Employment and training				
Job Compact	538.1	911.4	1030.5	960.9
Entry Level training	72.7	134.5	138.3	179.1
Youth	34.2	71.3	86.9	87.4
Measures for women	0.0	5.1	18.2	26.2
Measures for Aboriginal and Torres Strait				
Islander people	6.8	12.6	22.2	27.7
Measures for people with a disability	7.3	7.9	7.8	7.7
Improved delivery of labour market assistance	149.6	29.0	-0.3	3.0
Other related measures	63.0	74.0	64.8	52.6
Sub-total employment and training	871.7	1245.7	1368.4	1344.6
Income support	37.2	278.5	270.1	293.1
Industry	71.4	100.3	113.4	106.5
Regional development	35.7	52.9	93.2	81.1
Science	31.3	37.2	42.5	47.1
Trade	19.2	19.1	18.7	14.8
Total outlays	1066.5	1733.8	196.3	1887.2
Revenue changes	-7.8	-8.1	-18.2	-17.6
Total cost	1058.7	1725.7	1881.1	1869.6

Source: *Working Nation*.

However, the Green Paper - White Paper - budget process has sidestepped some thorny issues. These include the reliance on economic growth, the limits of policies which focus on the long-term unemployed, the effective subordination of industry and regional

policy, and the neglect of some more fundamental requirements for job-generation and redistribution.

Economic Growth as Panacea

The dominant emphasis is on the role of economic growth in generating employment opportunities. As stated in *Working Nation* (p 1): "Economic growth is the best way of generating new and worthwhile jobs to meet the needs of an expanding workforce and to make inroads into unemployment. Jobs created by economic growth need no subsidies and contribute to a higher standard of living for all Australians. Economic growth and employment growth thus go together". This central theme in the Government's strategy is subject to at least five problems:

- No substantial new policies are proposed to generate the faster economic growth. Rather, the focus is on creating the appropriate 'environment for economic growth' (p.17). The dominant assumption is that existing policies of microeconomic reform, together with further tariff cuts, the new industrial relations legislation, a national competition policy and the appropriately stable macroeconomic settings, will raise productivity and export performance sufficiently for this purpose. This is evidently uncertain in circumstances where other competing nations are vigorously pursuing similar goals. Certainly, the general Australian economic indicators are showing a strongly positive trend in 1994 from the very low base of the recession. But to assume a 14.5% annual increase in investment, as the 1994-5 budget does, is an optimistic stab in the dark. Yet this, rather than a leading role for the public sector, is the driving force on which the posited economic growth depends.
- The reassertion of economic growth also assumes freedom from the constraints which have operated in the past (eg. the balance of payments current account deficit, inflationary tendencies, capital capacity constraint). The current account problem is particularly worrying since, if increased incomes are spent on imported goods or if increased investment is financed by further capital inflow, then a

growing current account deficit is likely to recur. In that event the government can be expected to tighten fiscal and/or monetary policy, as it did in the late 1980's, leading in to 'the recession we had to have'. The result is the re-emergence of 'stop-go' economics.

- The favoured economic growth strategy locks the nation more into the international capitalist economy and thereby increases its vulnerability to internationally induced economic cycles. Upswings produce booms but downswings leave the Australian economy ever more vulnerable to the recurrence of recession. The contrast with the 1945 White Paper's assertion of the government's ability to control the nation's own economic destiny is strikingly obvious. No doubt, the international integration of capital is a pervasive process, but there remains a potentially significant role for the state as strategic manager, a role requiring a more interventionist approach to industry and trade policies.
- The changing relationship between output growth and employment growth is insufficiently addressed. *Working Nation* stresses the economic benefits of higher productivity growth (p.7), doubtless an important factor in increasing competitiveness. The other side of the coin is 'delaborisation'. In modern technological conditions, where 'jobless growth' arises from the substitution of capital for labour across many sectors of the economy, it is not sensible to assume that economic growth generates corresponding increases in the number of jobs. Unemployment is now a *long-run structural phenomenon*, not merely a feature of economic recession.
- The environmental critique of economic growth needs more thorough consideration. Instead of the dominant emphasis on a conventional growth objective, it would be more appropriate to emphasise the economic restructuring needed to achieve *ecologically sustainable development*. This is not only more socially responsible, but it is also job-generating, since intermediate technologies which are less capital-intensive can provide numerous 'green jobs' in fields such as solar energy, public transport and waste management. Submissions arguing this point were put to the government by the Democrats, Green and various environmental groups.

The 'Jobs Compact'

The attention given to the plight of the long-term unemployed is a key feature of *Working Nation*. It is important to have policies which meet the needs of this rapidly growing and economically marginalised segment of our society - that is the 'growth plus' aspect of the White Paper. Over 50% of the total additional government expenditure announced in the budget is earmarked for this 'jobs compact'. It is estimated that around 160,000 jobs annually would have to be provided, mainly in the private sector. It requires a threefold increase in the number of subsidised places going to those unemployed for over 18 months.

The long-term unemployed get case-management, training, work experience and a training wage. Employers get subsidised labour. The effect, according to *Working Nation*, is a better 'social safety net for Australian workers, whether they now are employed or unemployed ... bringing improved social cohesion and equality, and a substantial return in terms of improving labour market efficiency and economic outlook for all Australians' (pp. 141, 142). However, there are problems here too.

- There is a tendency to redefine the concern with unemployment in terms of the personal characteristics of these particularly disadvantaged people - their loss of skills, tendency to degenerate into unemployability, and so forth. The simple fact of the matter is that the long-term unemployed are casualties of the changed labour market conditions. When conditions were buoyant, there was no major problems of unemployability. Whereas it is important on social grounds to tailor policies to this particularly disadvantaged group, this does not constitute a general solution to the unemployment problem.
- The Green Paper and *Working Nation* note the potential for positive outcomes from 'churning' the unemployed. The long-term unemployed themselves recurrently cite the importance of training and work-experience as key factors in helping them get jobs: over 70% did so in one survey (ACOSS/NSA, 1994). However, there is a danger that policies to help the long-term unemployed result in little more than a

reshuffling of the dole queues. Moreover, follow-up studies on previous labour-market programmes indicate that only about one-third of people in subsidised jobs flow through into ongoing long-term employment once the subsidised period of employment expires (Australian Government, DEET, 1994).

- Helping the unemployed to get back into the workforce through a reduced training wage may be effective in the short run, but at the expense of labour in general. The proposed training wage is set at 80% of the normal award rate. The danger is that this can lead to a more general erosion of the award wages system and to declining average real wages. This has obvious appeal to employers in competitive markets and fits in comfortably with the 'new right' industrial relations agenda. However, there is the possibility of a perverse outcome, as Keynesian reasoning should remind us: wage reductions have the potential to further reduce employment because of the negative effect on domestic consumers' purchasing power.

Industry and Regional Policies

The relationship between employment policy and other aspects of economic policy has been acknowledged by the Government. Indeed, it was a bold move to integrate the employment policy proposals arising from the Green Paper with its other reviews of industry and regional policy. This linking of employment policy with regional policy and industry policy should, in principle, have provided an effective means for integrating and restructuring the whole array of economic policies bearing on employment prospects. However, in practice, the commitment to more active industry and regional policies has been effectively marginalised in the White Paper process.

- *Working Nation* includes a wide array of industry policy initiatives, emphasising policies to 'build more competitive firms' through encouraging innovation, technology uptake, leadership and management skills, access to finance, and so forth. Yet the financial commitment is modest, totalling \$391.6 million over four years, less than 10% of the value of the whole policy package. The underlying

commitment is still to further tariff cuts, internationalisation and export-promotion rather than import-substitution, despite all the evident problems of uneven development and economic vulnerability which these policies have engendered.

- There is much discussion in the *Working Nation* document about government-industry relationships, but the dominant emphasis is on 'building a competitive environment' and 'building competitive firms'. This is coupled with extensive self-congratulation about the benefits already arising from internationalisation and export-promotion. Import-substitution policies do not get a mention. This approach constrains the array of policy instruments which could be used for job-generation. It also limits what can be achieved through regional economic policy, as the integration of industry policy and regional policy is essential for coherent economic planning.

- There is acceptance in *Working Nation* of the need for **regional policy**, drawing particularly on the proposals of the Kelty report for more investment in infrastructure and its financing through tax-favoured infrastructure bonds (Taskforce on Regional Development, 1994). There is encouragement to regional *leadership*, as urged by another study commissioned by the Government with emphasis on a 'Regional Best Practice' program and Regional Demonstration Project (McKinsey 1994). There is no significant accommodation to the Industry Commission's earlier proposals to allow for more inter-regional variation in wage-rates (Industry Commission 1993), although concern is expressed over the 'image' of poor industrial relations in some regions. However, if one can judge the strength of policy commitment by the allocation of funds, regional policy is to remain a marginal concern: only \$263 million over four years out of a total expenditure on *Working Nation* policies of \$6.5 billion. This is only about 4% of the total. (It is only 3% if you take out funds for the development of Badgery's Creek airport which, it could be argued, should be considered as an overdue modernisation of Sydney's air transport facilities rather than a regional development initiative). 'Regional self-help' appears to be the order of the day.

- The Regional Environmental Employment Program is proposed for expansion, employing 10,000 people annually on projects to reverse environmental degradation. *Working Nation* thereby accepts the logic of linking regional policy with 'green jobs', but remains constrained by a very narrow conception of the latter. Restructuring for *ecologically sustainable development* is a much bigger task, calling for a closer integration of regional, industry, trade and environment policies.

- The underlying problem in these areas of industry and regional policy is the continuing attachment to 'economic rationalism', notwithstanding the odium which many people have come to associate with that term. This entrenched economic orthodoxy continues to limit views of what is possible to minor elements of fine-tuning. This vitiates more ambitious and lateral thinking about the problems. The key question is how to cope with and reshape the dramatic economic, technological and social changes which have generated a situation in which the restoration of full employment appears effectively impossible. 'Economic rationalism' is part of that problem, not part of the solution. *Working Nation* does not repudiate this influence on economic policy, although it tempers it with policies targeted to help its principal victims.

Alternative Policies.

In addition to analysing the policy initiatives in *Working Nation* it is necessary to ask what else could be done? The following four elements are illustrative of what is missing:

- **Public sector job-creation.** Almost all critics of *Working Nation* have stressed that the workforce training initiatives of the 'jobs compact' are not matched by policies to generate long-term jobs. The missing ingredient here is the role of the public sector in filling the vacuum created by the private sector. Public sector jobs are no less productive: compare, for example, the provision of education, health care or better public transport with the 'productivity' of private sector employment in commercial advertising or the tax minimisation industry! Community employment schemes also have a vast potential

to use many otherwise unemployed resources for addressing pressing social needs. Although initial funding is needed, such employment generation tends to become self-financing as the extra incomes generate multiplier effects on other sectors of the economy, reduce the social security burden and increase tax revenues.

- **Planned industry development.** The proposals of *Working Nation* are designed to create an economic environment conducive to private-sector expansion and to foster entrepreneurial initiative. However, a more actively approach to industry policy could be pursued. This is not unproblematic, as the article by Thomas Bramble in this issue of JAPE argues. However, by comparison with the alternative of reliance on market induced structural changes a more active industry policy does offer some instruments for controlling processes of economic change. Industry policies can be regionally targeted. They can be linked to a programme of generating 'green jobs' through restructuring the economy towards ecologically sustainable development. They can emphasise import-substitution as well as the export-promotion to which previous policies have been directed. They can be funded through the development of a national investment fund - drawing on the vast pool of savings currently in superannuation schemes. Mobilising domestic savings for this purpose can reduce the reliance on foreign investment and overseas corporate borrowing which has been largely responsible for the current account deficit. The policies are no instant panacea for complex problems of unbalanced economic development, but they address the problems directly rather than through faith in market processes. Their marginal role in *Working Nation* is indicative that the basic faith is maintained.

- **Re-distribution of employment.** In a technologically advanced economy, it is possible to take advantage of the potential for more leisure by sharing the work more equitably. It makes neither economic nor social sense for some people to be working extraordinarily long hours while others are denied employment altogether. A shorter working week coupled with a ban on all but essential overtime would be a step in dealing with this inequity. The Green Paper debunked this option on the grounds that an 'optimistic' scenario is preferred! (Committee on Employment Opportunities, p. 70). But what could be

more optimistic than the idea of harnessing modern technology to create opportunities for more flexible and equitable working lives? Modern technology makes possible a society in which each person can work for, say, 30,000 hours in their lifetime, scheduled according to their own preferences while maintaining a steady income stream. What constrains the achievement of that goal are existing institutional arrangements: hence the question of how to adapt or replace the institutions of capitalism to accommodate this liberating alternative. This is a radical challenge, of course, so it comes as little surprise that *Working Nation* does not address it. However, by not doing so it renders itself irrelevant to broader political-economic issues which must eventually be confronted.

- **Tax reform.** Public discussion of a possible 'jobs levy' after its tentative consideration in the Green Paper deflected attention away from more fundamental tax reforms that need to accompany employment policies. If more revenue is needed to finance public expenditure on employment-creation, industry policy or regional policy, it can more sensibly come from a general progressive restructuring of the tax scales. The almost total neglect of these revenue considerations in *Working Nation* is explicable on political grounds, the Government shying away from any further embarrassment about deferred tax cuts. Income from further privatisations plus rapid economic growth are the items which reconcile the extra labour market expenditures with the commitment to a reduced budgetary deficit. But ignoring revenue issues limits the agenda of social reform. It puts any discussion of financing a *guaranteed minimum income* scheme into a political never-never land. It even shelves the *payroll tax* issue. Removing payroll tax would reduce employers' on-costs, widely cited by small business in particular as an impediment to taking on more workers. However payroll taxes are State taxes and the Federal Government is already sharply pruning its financial allocations to the States. The prospect of having to compensate the States for their loss of payroll tax revenues is evidently not appealing to a Government committed to reducing the Federal fiscal deficit, whatever the more general merits of removing a tax on the use of labour.

An open policy process?

Finally, it is pertinent to note that the process of community consultation about these important economic policy issues has been quite constrained. Members of the public were invited to present their views on the Green Paper. Over 2200 responses were forthcoming, 1400 in the form of written submissions, 340 calls on the telephone 'hotline' and 430 meetings with interested groups in State and local government, business, trade unions and the community (Committee on Employment Opportunities, 1994). However, the Green Paper did not present options for consideration (as the discussion document preceding the 1985 Tax Summit had done). Rather, it seems that a restricted agenda was set at an early stage and that there was never a strong likelihood of the White Paper taking a substantially different policy approach. The process seemed more like a public "testing of the water" or (to use a marketing cliché) "running the flag up the flagpole to see who salutes"! This is a limited conception of what community consultation could mean. It is indicative of Labor's concern to be seen as responsive to broad community social concerns while pursuing an economic policy agenda which remains substantially on track ... to nowhere in particular.

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