

What Role for Government?

Nic Frances and **Peter Saunders** debate whether government should create one million new jobs to soak up the unemployed

Why we need a government with bigger vision and bolder leadership

Nic Frances

The major sectors and political parties see Australia through their concerns for their constituents: welfare for those who are severely disadvantaged, the corporate world of economic restructuring for the business sector, the environmental movement for the greens, and then the major political parties—one committed to universal services and the other serving middle Australia and above, or the employed fortunate majority.

The problem we face in a world where change is accelerating almost beyond our grasp is that solutions for our future don't lie in separate compartments; they are inextricably connected. Unless we have people committed to working across their separate interest groups and developing policies, we will have trouble establishing a vision for an inclusive and truly prosperous Australia.

When Peter Saunders and I talked recently at a conference it seemed to me that one of the big differences in our views was on government's role and size. This is the nub of the problem. I am committed to universal services for all, ensuring that all Australians get an opportunity

to contribute their best. When I make the case for big government, I mean a government with bigger vision and bolder leadership, and with a focus on the long term rather than the short.

Peter said recently he saw government's role as getting out of the way and allowing the country to thrive—not overburdening its citizens with taxation or welfare, but ensuring that a vibrant economy allows all Australians to create enough personal wealth to make choices in health care, lifestyle and ageing. I have no problem with that, but what happens when we realise that we're short of one million jobs? We've got at least 600,000 people unemployed, and a further 600,000 underemployed and wanting more work to get them beyond poverty. I want us to do something about creating opportunities so that well over a million people actually have enough income to be able to start making some of those choices.

I'm not going to do the old Keynesian trick of making a pure argument for job creation for the sake of it, particularly government-delivered job creation. But I know that all of us, regardless of income and wealth, want to contribute to an Australia we'll be proud to hand on to our children and grandchildren. If we continue as we are it's difficult to see how future generations can have ample fresh water or even produce all their own food. We'll end up with a two-tiered country with as many as a third of the population out of work, not seeing a place or role for themselves, and with

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huge financial, social and environmental costs. We're beginning to experience those costs now.

I'm advocating a big investment in three areas. The first is environment, which has little to do historically with welfare. Recent work by the Australian Conservation Foundation indicates that we need to spend \$65 billion over the next ten years to restore our environment in the city and country. Australians use the most energy and water per person anywhere in the world, on this the driest continent outside Antarctica. Clearly we must change our behaviour and care differently for our environment. It will take a huge commitment and tens of thousands of people to do this work, and if it's left to the market it won't be done. It's long term and big vision, and no sector has much financial interest in taking responsibility for this situation.

We estimate the cost in welfare of unemployment is \$16 billion a year, and we know that unemployment creates a huge demand for welfare. So is it possible that the environmental restoration cost of \$6.5 billion a year can be met and offset against reducing the costs of unemployment by employing people in environmental repair, restoration, conservation, recycling and reuse, in regional and remote Australia and in the cities?

Apart from meeting our environmental goals at greatly reduced cost, we'd be helping thousands of people currently excluded from our society to make an important contribution to building our future. One of the great privileges of my work in the UK and at the Brotherhood of St Laurence (BSL) is to see the transformation in people when they move from reliance on welfare to a participatory role in society. I don't believe we can ever underestimate the difference this makes to a person's life and to those around them. Currently in Australia one in six children are living in a family where no-one has paid work, and there are enormous social implications of allowing this sort of poverty and exclusion to continue.

It is not clear what the direct savings may be if we shift the focus on welfare expenditure to expenditure on the environment. Obviously it relies on ensuring that unemployed people get the benefit of a proportion of these jobs, and at the BSL we plan to investigate the costs of such a scheme with partner groups from other sectors. But if the

merits of the idea add up for the environment, the proposal can extend to areas like education and ageing. Schemes in Europe and the UK have already demonstrated the success of targeting jobs to excluded groups and communities. Can Australia afford not to make this kind of investment?

In public education it's clear we need better support for our children and teachers. Class sizes are high, there are great demands on teachers and we have a shortage of staff. Studies in the UK have shown that extra support staff help take the pressure off teachers and enhance the educational attainment of students. Providing a teachers' aide in every primary school classroom could enhance the education environment for many children and their teachers.

One of the local primary schools near the BSL in inner Melbourne has lots of Vietnamese kids, a high incidence of welfare in children's families, low family involvement in the school, and predominantly white Australian teaching staff. If we targeted some of the teaching aide jobs to culturally relevant, unemployed parents of children at this school, we'd be supporting the teachers, focusing on the day-to-day classroom experiences with culturally appropriate support, improving parent participation and strengthening the local community.

Until we do the research we do not have accurate figures on what it costs to keep a person unemployed, but we estimate the benefit cost to support a single-parent family may be more than \$20,000. Giving an unemployed single parent work as a teacher's aide on a salary of \$28,000 to \$30,000 suggests the employment costs of providing this work may be low, once \$6,000 to \$7,000 is paid back in tax. For the person moving from welfare to paid work, it means

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status, meaning, connection and an opportunity to realise potential. What is the value of this?

Similarly in aged care we know that many community care organisations providing services that enable frail older people and people with disabilities to continue living at home cannot meet the demand for their services. This leaves many people with inadequate support. And for those older people who cannot continue to live at home, there are considerable waiting periods for some people to access residential facilities.

People on low incomes and battling poverty also suffer poorer health than the general community and bear the brunt of inadequate expenditure on public health and related services. Meeting health needs can create many jobs in community, health and aged care, and again a proportion of these jobs as carers can be targeted to unemployed people.

The question is do we need big government to make this happen? We certainly need big leadership and vision. All these issues are confronting every OECD country, and we have an opportunity to set this agenda. By setting a course for this future, does it require greater government? If we do something about our unacceptably high level of unemployment it may mean less government in terms of huge welfare structures. If we set a vision for the environment this is probably best met by the small businesses in the country like farmers and other rurally-based organisations who cannot keep their young people in some of the most remote areas. It's work that can be done by some of the emerging indigenous cooperatives and businesses.

In the cities, partnerships between welfare, environmental groups and business being explored by organisations like Visy and BP will be crucial for the solutions we are seeking. This is not about huge government expenditure; it's about targeted expenditure that creates opportunities where markets don't currently exist. We have done this in the past when we established the pharmaceutical market in this country, but we have not explored the potential of government using its fiscal power to create new markets for the future.

We must work together to safeguard the future of our great country and to include all Australians. It will take a government with big vision to encourage us to cross traditional boundaries and work together differently.

Looking for leadership, but in all the wrong places

Peter Saunders

It's good to get the opportunity to debate with Nic Frances. He is one of the most dynamic figures in the voluntary sector and I am a whole-hearted admirer of the energy and enthusiasm that he devotes to the cause of the poor and the unemployed in Australia.

There is some common ground between us. In particular, I agree with him that something has to be done to tackle unemployment—especially long-term unemployment. In a dynamic economy where new jobs are being created and old ones are disappearing, there will always be some unemployment and we should not be overly alarmed when we encounter workers who have been out of work for a short period. In Australia, more than one-third of people claiming unemployment allowances find a job within four weeks and half get fixed up within eight. We should, however, be alarmed at the incidence of long-term unemployment. As of June 2001 (the most recent available data), 57% of people claiming unemployment allowances had been on benefits for more than one year. In a country with one of the most vibrant economies in the world, this suggests that something is badly wrong.

Nic thinks the answer lies in large-scale government job creation. He wants the government to soak up the long-term unemployed by creating a raft of new environmental jobs, by putting teacher's aides in every primary classroom, and by employing carers for the elderly and the sick. This is where he and I part company, for while his proposal sounds superficially attractive there are three reasons for thinking it would be disastrous if it ever got implemented.

The first is that the skills and aptitudes of the long-term unemployed may not fit the requirements needed if these tasks are to be done properly. Creating jobs to employ people is putting the cart before the horse. It inevitably results in a conflict of objectives, for if tasks like environmental

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repair, teaching assistance and care for the elderly really do need doing, then shouldn't we try to recruit the best people for the job rather than drafting people who happen to be available on the unemployment rolls?

Attempts in the past to bribe private sector employers to take on unemployed workers have generally failed precisely because sensible employers know that it is more important to get somebody who is good rather than somebody who is cheap and readily available. Why should public sector service employment be any different? Do you want somebody who has no interest in children employed to help teach your kids to read simply because he or she needs a job? Do you want people who have no patience with elderly people let loose on your granny simply because they need employment? We already have enough problems with public liability lawsuits without the problems that can easily be imagined if we go down this road.

The second problem is that some of these tasks are already being performed on a voluntary basis, and Nic's 'big government' approach would smother such activities. There has been a lot of talk in recent years about the importance of nurturing 'social capital' in our communities, and all sorts of research is being done and expert consultants are being paid to tell us how to achieve it. But Edmund Burke told us how to create and sustain social capital more than two centuries ago when he noted the crucial importance of the role played by the 'little platoons' of family, church and neighbourhood associations. If you want people to engage with each other, help each other and build up trust in one another, then you have to leave these little platoons with something to do.

But Nic Frances wants the government to take over many of the tasks that people are currently doing for themselves. He wants paid classroom assistants in primary schools, so parents will no longer feel they can offer something useful by spending a few hours with the slow readers or the shy children. He wants paid carers for the elderly, but every full-time paid carer that is recruited means less responsibility for the family members, neighbours, friends and community organisations who currently come together in an unorganised and higgledy-piggledy way to look after those who need help. He wants to pay people full-time to

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organise recycling and conservation, rather than leaving it to those who are currently committed and enthusiastic about getting these things done in their local communities without the need of government 'vision' and 'leadership.'

Of course there is a role for government. Not everything can be achieved through spontaneous cooperation and free market exchanges. We need governments to organise policing and maintain an effective framework of law (though they haven't been very good at this of late—serious crime in Australia has risen fivefold since the 1960s). We need them to defend us against foreign aggression. We need them to maintain a predictable regulatory framework and to enforce contracts and property rights so that production and exchange of goods and services can proceed efficiently. But governments today have gone far beyond these traditional functions, and part of the price we pay for all the 'vision' and 'bold leadership' that politicians have inflicted on us is that we have stopped doing things for ourselves and have become increasingly dependent on political authority to organise things for us. We need to reverse this debilitating trend, not extend it.

The third problem with Nic Frances's proposals is that they would not work. It really is extraordinary how our leading social policy academics and welfare activists persist in advocating employment policies which are known to have failed while ignoring strategies that we know can and would succeed. Decades of bitter and costly experience here and around the world have demonstrated that governments are very bad at creating jobs, but can be extremely effective in destroying them. This is why (to use Nic's words) I favour government 'getting out of the way and allowing the country to thrive.'

Nic is basically arguing for the government to create a million new jobs to soak up the unemployed. But this proposal flies in the face of all the advice from the OECD which has looked at what different western governments have tried over the last ten years and which concludes that large-scale job creation like this ‘has been of little success’. The OECD suggests that direct job creation by governments can have a role in Work for the Dole schemes, but it warns that any such jobs ‘should be short in duration and not become a disguised form of heavily subsidised permanent employment’.¹

This is why, in a recent CIS *Issue Analysis* paper,² Kayoko Tsumori and I suggested that the long-term unemployed could be transferred to Work for the Dole after six months until such time as they find work in the real economy. The difference between this idea and Nic’s suggestion is that he wants to put the long-term unemployed into permanent government jobs on at least the minimum wage, whereas we insist that government jobs must be regarded as a temporary safety net while people continue to search for employment elsewhere. Nic’s proposal is a recipe for a massive expansion in the size of the public sector which in the end will mean even higher taxes and even more real jobs destroyed.

If we are serious about reducing long-term unemployment, we need to look to America. Between 1994 and 2001, US unemployment was consistently lower than in Europe or Australia, and its incidence of long-term unemployment was about one-quarter of ours. America did not achieve this with big visionary government programmes. Quite the opposite. They allowed the competitive market for labour and capital to function while government played a facilitative rather than a proactive role.

Compared with the US, Australia still has an over-regulated economy and an over-busy government. If we really want to get unemployment down, there are some simple and practical things we should be doing. The award system should be wound up so that employers and employees can agree on contracts which reflect the specific conditions and requirements of each individual business, industry and region. This would increase jobs in the less profitable regions and in the lower skill sectors of the economy. A more realistic minimum wage would similarly raise demand for lower skilled workers and

make it profitable for employers to take on more staff. The unfair dismissal laws need reforming so that small businesses in particular are not deterred from expanding their payroll. Income taxes should be cut (not increased, as the welfare lobby persistently recommends) so that it pays people to work, even at lower wages. And the welfare system needs a thorough overhaul.

Unfortunately, none of this meets the approval of welfare organisations like the Brotherhood of St Laurence. America is not to their taste. They prefer to stick with the failed policies of 1970s social democracy than to embrace the successful strategies of 1990s America (as Terry McCarthy of the St Vincent de Paul Society recently put it, we should ‘follow the line of the European social democratic countries, the same way as we used to do . . . as opposed to the Americanisation of the Australian culture and the Australian economy’). Their various submissions to the recent Senate poverty inquiry made clear their continuing commitment to increased public spending, higher taxes, increased welfare benefits, more subsidies and more regulation. Taken together with our sadly predictable social policy academics, the influence of our welfare activists in blocking fresh thinking represents one of the biggest obstacles to progress on unemployment that Australia currently faces.

Nic Frances wants us to put our faith in governments with ‘bigger vision and bolder leadership’ that are willing to spend on ‘big investment’. But if there is one lesson we should have learned from the last century—not just from the excesses of National Socialism and Communism, but also from the attempts at economic planning in social democratic countries—it is that big investments create gross waste and inefficiency, and that big political visions turn into nightmares. What Australia needs is not more politicians fired up with their own convictions about doing good, but a government that is willing to trust its own people a bit more and weaken its grip on the tiller.

Endnotes

- ¹ John Martin, ‘What Works Among Active Labour Market Policies’, *OECD Economic Studies* No.30 (Paris: OECD, 2000-01), p.98
- ² *How To Reduce Long-Term Unemployment* (Sydney: The Centre for Independent Studies, 2003).