Workfare: a marginal employment subsidy for public and private sectors (2nd edition)

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Workfare: A Marginal Employment Subsidy for Public and Private Sectors. (2nd edition).

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This paper is roughly 18,000 words long. There is an abbreviated version roughly 2,500 words at a blog: http://employerlastresort.blogspot.com/2009/03/employer-of-last-resort.html

The first edition of this paper (1991) was the basis of a paper written in 2004 and put online by Roskilde University: http://www.ruc.dk/upload/application/pdf/570263ca/ralph%20musgrave.pdf And these two papers were the basis of a chapter (by the same author) in "The Future of the Welfare State", 2006, edited by Bent Greve, published by Ashgate. The central points made in the latter three works are the same.

Introduction to 2nd Edition.

This 2nd edition is very similar to the 1st edition, except for the four changes set out below. In particular the main text does NOT reflect labour market research between publication of the 1st edition (1991) and the above 2004 paper or between 1991 and the date of publication of this 2nd edition. Readers who want to see the ideas in this paper presented in a way to reflects this more recent research should read the above 2004 paper or the above mentioned chapter in "The Future of the Welfare State". However, the research that appeared in the decade or so after 1991 did not seem to detracted from the basic points made in these papers: indeed much of this research supported the ideas advocated here. Thus readers will miss none of the basic ideas by reading the pages below.

Differences between 1st and 2nd edition.

1. The contents of the 3rd appendix is different. The original 3rd appendix was on the fallacies of labour supply reduction schemes (e.g. early retirement) as a cure for unemployment. This was not very relevant to the central points in this paper. This has been replaced with a few hundred words setting out the flaws in what are called "traditional marginal employment subsidies", i.e. rewarding each employer in proportion to the expansion in the numbers they employ compared to some starting date.

2. A fourth appendix has been added. This is on "fiat money / Chartalist" ideas on workfare. The relevance of this is that Chartalists claim that Chartalism facilitates a big rise in government deficit, which Chartalists think should be spent on workfare or "employer of last resort" schemes.

3. The summary has been lengthened a bit.

4. The rest of the paper is identical to the first edition except that about three spelling mistakes have been corrected and there are fewer words per page. Obviously the contents page has been altered to reflect this.

Acknowledgements etc in first edition:

I am indebted to Durham University for the use of its library, also to the British Library, and to G.D.N. Worswick for criticisms of an earlier draft of this work. The views expressed below are however those of the author alone. The arguments in this work are essentially an improvement on those in "Abolishing Unemployment" (Economic Research Council, London, Research Study No.7, 1980) by the same author.

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Summary

Workfare has had a chequered history because it has not been well thought out. It increases employment not just because it calls the bluff of the workshy; this element need not be all that harsh. It works because it acts as a marginal employment subsidy of a type not tried before (except unwittingly as part of workfare). The subsidy is as follows.

As full employment is approached (i.e.given rising demand), dole queue labour gets progressively less suited to available vacancies, which induces employers to out bid each other in an attempt to attract or retain better quality or more suitable labour, and this is inflationary. This phenomenon is behind NAIRU, the level of unemployment below which it is allegedly impossible to go. But the above unsuitability of the unemployed is temporary for each person: a job usually appears sooner or later for which they are suited. Thus the antidote is to compensate employers for this unsuitability, i.e. subsidise the unemployed into temporary jobs and this is more or less what workfare has always consisted of. This ought to reduce NAIRU.

The above NAIRU reducing characteristic of workfare is key to proving it should operate as much in the private as public sector. In fact it works better in the former because the private sector is better at employing relatively unskilled labour.

It is often claimed that workfare should take the form of specially set up job creation schemes. The arguments for this do not stand inspection (and nor do a large majority of other arguments for these schemes). Thus workfare jobs should be with ***existing*** employers.

To effect workfare in this form, the unemployed are made available to all employers at little or no charge to the latter, while the number of jobs so created is strictly limited so as to prevent employers replacing existing employees with workfare employees.

The above all amounts to saying that there is a much stronger case for heavily subsidised ***temporary*** employment agencies than for subsidised ***normal***

employment agencies (Job Centres in the U.K.). Or to put it yet another way, in a totally free market (i.e. in the absence of unemployment benefit) the unemployed have the choice of doing nothing, or doing a job other than their usual one for a while. To date, governments have subsidised only the former. This booklet claims governments should subsidise the latter activity (perhaps at the expense of the former).

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Definitions

The word workfare is used here to refer to giving the unemployed the choice of taking a government created job, a normal job, training, or, if they refuse these, having their unemployment benefit reduced.

The phrase 'unemployment benefit' is used to refer to *all* forms of social security received by the unemployed.

The above government created job is referred to with the phrase 'workfare job' or 'workfare employment'.

The phrase 'natural level of unemployment' is used in preference to non-accelerating inflation rate of unemployment. This is not to imply that the former is a better idea than the latter. In other words the phrase 'natural level' refers to whichever of the two, or variations on them, is the best idea. (For those not acquainted with economics, the natural level of unemployment is the level at which inflation becomes unacceptable.)

Introduction

The history of workfare is an unhappy one in that there is a lack of agreement as to what form it should take or whether it should operate at all. This disagreement partially explains the wide variety of different workfare schemes, particularly in the U.S., which are abandoned or greatly modified about as quickly as they are set up. The variety in the U.S. is also explained by the freedom individual states have had to design their own schemes. For the history see for example Rein (1982), Bernstein (1982), Helms (1983) or Burton (1987).

The object of this paper is to reduce the disagreement a little, firstly by pointing to a merit of workfare which does not seem to have been appreciated hitherto, namely that it acts as a marginal employment subsidy of a type not tried before (except unwittingly as part of workfare schemes). This characteristic of workfare is key to showing that in contrast to most workfare schemes to date, there should be no bias

towards creating workfare jobs in the public rather than the private sector. It is also argued that the jobs should be with ***existing*** employers, not in the form of projects or or places of work specially set up to employ those who would otherwise be unemployed. The latter type of system will be called a “Job Creation Scheme” (J.C.S.). One reason for choosing this name (probably not a brilliant reason) is that there was a make work scheme in the UK around 1970 which fitted the above description and which was actually called “The Job Creation Scheme”. The work houses of the 18th and 19th centuries were also examples of a J.C.S.

The main problem with J.C.S.s that the match of inputs (skilled labour, unskilled labour, capital equipment, etc.) is almost invariably superior with existing employers as compared to J.C.S.s. This is a simple point, but it is often overlooked even in works by leading labour market economists, a considerable blunder on their part.

For the sake of brevity, the discussion below glosses over many of the differences between the social security system in different countries.

The Marginal Employment Subsidy

As full employment is approached (as Keynes (1936) p42 amongst others pointed out), dole queue labour becomes progressively less suited to the available vacancies. In other words the marginal net revenue product of labour starts to drop below the going wage.

In a perfect market this would not happen, that is, there would be no such thing as the 'going' or standard wage. In the real world however there are several forces tending to bring about a standard or minimum wage in most professions:

1. Minimum wage laws imposed by governments.
2. Union imposed wage rates.
3. Wage rates imposed by custom or administrative convenience.
4. The belief by a significant proportion of employers that paying less than some minimum is immoral (see Roberts (1986) p.72).

5. The belief by a significant proportion of employers that paying wages above the market price results in a well motivated and loyal workforce.

6. Reluctance by employers to offer wages equal to or even near unemployment benefit because of the relatively few takers that result.

At any rate, as employment rises, the above mentioned decline in the marginal net revenue product of labour induces employers to start bidding up the price of labour that is already employed (for example by poaching each other's employees) rather than take further labour from the ranks of the unemployed. (See Haveman (1970) for some research on the extent of poaching at different employment levels).

But it is a nonsense to leave a portion of the workforce unemployed merely because revenue does not cover the wage. To the extent that the problem is inadequate marginal revenue, the solution must be some sort of marginal employment subsidy. Furthermore the above mentioned inadequate revenue product is a *temporary* phenomenon for each individual member of the dole queue; that is they find a job sooner or later where they are sufficiently productive to justify a wage. Thus the actual subsidy required i~ one that makes an unemployed person available to employers at a rate *below* the above mentioned standard or going rate, and does, so *temporarily,* that is pending the appearance of a vacancy that suits the person better, or is for other reasons more productive: a vacancy where the employer is prepared to finance the whole of the wage.

Having set out the basic nature of the subsidy, there is a qualification that needs making which is thus. While the fundamental cause of some people's unemployment is temporary, that is, a temporary mismatch between supply and demand for their type of labour in their local labour market, it is equally true that the fundamental cause of a significant proportion of unemployment is *not* temporary. In short, a subsidy based on the above argument would reduce frictional unemployment but not the more long term mismatches, that is structural unemployment (though, as is shown below, it is not a bad second-best cure for some forms of structural unemployment).

Two false assumptions in Workfare

We now turn to workfare and demonstrate that a temporary subsidised job based on the above argument comes to the same thing as the ideal workfare job. Before doing this however, two popular false assumptions behind workfare must be disposed of. The first is that the jobs concerned should be in the public sector and indeed nearly all workfare jobs to date have been in the public sector. The second, even narrower, assumption is that the work should be in the form of a J.C.S., rather than with existing public sector employers. For examples of these assumptions see Helms (1983) p.1, Minford (1985), p48, Burton (1987), and a very much earlier example comes from France in 1625 where Richelieu claimed that *"the able bodied poor could be employed on public works"* (Garraty (1979) p.46).

The assumption that workfare should take the form of a J.C.S. will be examined first. Readers already convinced that there is no place for J.C.S.s may skip the following section, that is, go straight to the heading 'Marginal Employment Subsidy Workfare' on page 10.

Job Creation Schemes

Introduction

'J.C.S.' is used here to refer to any organisation or employer set up partially or mainly to provide employment or work experience. In contrast, normal employers, public and private, do not aim to provide work experience (except as part of their own training needs). Also normal employers aim to *minimise* numbers employed in as far as this is consistent with other objectives like maximising profit or volume produced. For readers with any doubts as to the sort of scheme this definition is supposed to cover, a selection is listed in a footnote. [1]

1. Work Progress Administration (U.S. 1930s), Community Programme (U.K. 1980s), Job Creation Programme (U.K., 1970s), Employment Action (U.K., 1990s). At a pinch the workhouses of Europe and America in the 17th, 18th and 19th century might be classified as workfare in the form of job creation schemes.

Before examining J.C.S.'s, it is worth noting aspects of them which are certainly prima facie evidence that there is no good argument behind them. First, they are set up and abandoned with amazing rapidity, for example there have been about six J.C.S.s in the U.K. in the last twenty-five years. Secondly, as far as international comparisons go, there is little agreement on what the main objectives of these schemes is (for example see Jackson (1979) for some comparisons). Third, even the arguments in the literature of just one country can best be described as bright and varied. There is certainly no one fundamental theory to examine.

Flaws in Job Creation Schemes

Dealing with *demand deficient* unemployment is certainly not the role for J.C.S.s; this is best done by raising demand. Thus the role for J.C.S.s, if there is one, is to reduce the natural level of unemployment, a point about which there is general agreement in the literature.

The first difficulty in setting up a J.C.S. when unemployment is at its natural level is that (as pointed out above) the quality of labour available is poor, or where suitable labour is available it is scarce. Thus any J.C.S. set up in these circumstances will have an odd mix of different types of labour, skilled and unskilled in particular. This poor match of inputs leads to inefficiency compared to the situation that would obtain if the labour were subsidised into work with existing employers, where labour ratios are better.

The next point is that those employed on a J.C.S. must engage in a serious job search for normal jobs and be as willing to move to the latter as when unemployed. If this does not obtain, labour supply to the normal jobs market is reduced which is inflationary. (Any readers who do not agree, please see Appendix III). But this availability to normal jobs means that those concerned will quite their J.C.S. jobs on average within a few months of starting, in other words labour turnover will be high by the standards of a normal employer and hence make the inefficiency even worse.

Again, in contrast to the above, if the same people were subsidised into work with

existing employers, the labour turnover of the people concerned would be the same, but the ratio of permanent staff to 'rapidly turning over' staff would be superior, which would result in higher output from the latter.

It could be claimed in objection to the above that the failure of J.C.S. employees to job search would not significantly reduce labour supply to the extent that J.C.S.s are biased, as they often are, towards the employment of types of labour prone to higher than usual unemployment or towards high unemployment areas. (See Baily (1978) and Addison (1979) for a consideration of J.C.S. in this role.)

The first answer to the above point is that it confuses issues that to a large extent are separate; in other words the fact that J.C.S.s may be suitable for dealing with the above 'specific type of labour' unemployment and regional unemployment does not prove they are the best means of putting workfare into effect. Put it another way, workfare as defined here is not primarily concerned with the above types of unemployment.

However it might be argued that the unemployed *are* a specific type of labour, in that they tend to consist of the less skilled and enthusiastic members of the workforce. Furthermore, in the U.S., workfare has to a large extent concentrated on a specific type of labour: potentially employable labour that has become dependent on the welfare system. So the question as to whether J.C.S.s are better than existing employers for catering for specific types of labour is now considered. (High unemployment areas are considered several paragraphs hence.)

The problem with J.C.S.s aimed at specific types of labour is that this exacerbates the above mentioned problem of the poor match of inputs. In other words the mere fact of concentrating one type of labour on a particular project leads to even worse inefficiency as compared to subsidising the labour concerned into employment with existing employers.

The above point about the better match of inputs that obtains with employment subsidies may seem a simple one, but it is an example of the sort of simple point that needs making. For example Messrs Baily and Tobin, two of America's most reputable economists, failed to spot the point in their paper on the subject published

by the Brookings Institution (Baily (1978)). As a result they come to no firm conclusion on the relative merits of J.C.S.s and employment subsidies. (Even economists who have *attacked* J.C.S.s do not seem to have done so in a very competent manner, for example, J. T. Addison (1979) (see Appendix II)).

It could be argued against the above paragraph but one that while the match of inputs may be better with employment subsidies, in practice there are two possible problems: first, the excess supply of some types of labour (of which youths may be an example) may be large, and secondly the elasticity of demand for the labour may be low. In consequence, even making the labour available to employers for free might not result in unemployment amongst the type of labour concerned being reduced to its natural level.

A good answer to the above comes from the New Testament: if you have good wine and stale wine, you start with the former and only use of much of the latter as you have to. In other words the ***first*** step in dealing with the above unemployment is to subsidise the labour concerned into work with existing employers, and if necessary make the subsidy so heavy that the labour is in effect being allocated to employers for free, or thereabouts. In practice, the policy for youth unemployment, at least in the U.K. in the 1970s was the wrong way round; relatively large amounts were spent subsidising people into work on *J.C.S.s;* for example the wage on the Job Creation Programme was the going or union rate for the job. In contrast the amounts spent subsidising youths into work with existing employers were relatively small, for example £10 a week on the Young Workers scheme. The relative emphasis has improved somewhat since the 1970s, but not by nearly enough.

If, after taking the above first step, the 'excess supply' type of unemployment still seems to be above its natural level, it is still highly questionable as to whether a *J.C.S.* should be implemented, and for the following reasons. If a particular type of labour is offered to employers for free, then the marginal net product of such labour will be zero. Given that *J.C.S.s* are less efficient than existing employers it follows that the net product of the labour on a *J.C.S.* will be *negative.* To be more precise, it would be physically possible to set up a positive net product *J.C.S.* in these circumstances by moving sufficient skilled labour, capital equipment, and so on from the existing economy; but this re-allocation of the above inputs would reduce GNP by

more than the *J.C.S.* could possibly increase it. In short the effective net product of the labour concerned would still be negative. If the advocates of *J.C.S.s* seriously want *J.C.S.s* in these circumstances, they must tell us why they are opting for what appears to be the worst of two alternatives. Furthermore, the word 'job', as in job creation scheme, is inappropriate; the word 'job' normally means to make a net contribution to national income. When output is negative, one is in the area of pure training or education, and not the 'job' area.

As to whether there is justification for negative output work with *existing* employers, there possibly is, in that there is a training or 'learning by doing' element. The Victorians used to operate something along these lines in that apprentices and articled clerks sometimes had to pay for the privilege of being taken on. Paying employers to take on, and train people is one element of 'Employment Training' a scheme introduced in the U.K. a couple of years ago, though, as is shown elsewhere, other characteristics of Employment Training are not so desirable.

Returning for a moment to the point made several paragraphs above namely that a type of labour in surplus, like youths, could be allocated to employers for free, this is a slight over-simplification in that it would be administratively difficult. For example, if government offered to underwrite all youth's wages, employers would double such wages overnight, which is not on. However, there would be no great administrative difficulty in a flat subsidy equal to the average youth wage or some fairly high proportion thereof (perhaps paid for by a tax on prime aged labour).

Furthermore, this latter form of subsidy does not in any way invalidate the above points about the marginal net product of a particular type of labour. To illustrate, the fact that some employers are paying relatively productive youths more than the subsidy has nothing to do with what happens at the margin, that is with the *least* productive youths.

One of the arguments used by J.C.S. enthusiasts against the above sort of subsidy for youths is that it induces employers to use youths 'as cheap labour' or that the type of labour concerned is given 'menial' work to do. The answers to this are as follows.

First, as is shown under criticism no 15 below, the word 'menial' is devoid of any significant meaning so far as practical labour market policy goes.

Secondly, as has been shown above, work with existing employers is more productive than work on J.C.S.s. Advocates of the 'menial' argument must tell us why they have a right to sacrifice other peoples' living standards so as to satisfy their own idiosyncratic preferences.

Thirdly, in view of some of the near fatuous activities that J.C.S.s involve, it is a little strange to claim that they involve vastly less menial work than work with existing employers.

Returning from this diversion on youth employment to the main argument, the next step is to deal with the suggestion several paragraphs above that J.C.S.s can be used to deal with high unemployment areas. The problem with a J.C.S. in this role is that it is very hard to see the sense in such regions of having one group of heavily subsidised employers (J.C.S.s) working alongside another group (normal employers) which are not subsidised or not so heavily subsidised. It would make a great deal more sense to subsidise *all* or nearly all employers in the region by about the same amount, and indeed this is more or less what normal regional measures consist of: subsidies for every or nearly every employer in the region concerned, whether in the form of capital equipment subsidies or labour subsidies.

Having done that, in other words offered about the same subsidy to every employer in the region concerned, J.C.S.s included, the latter are out of business because there is no way they can compete with normal employers.

It might seem that the case for J.C.S.s is now starting to look weak.

Unfortunately as pointed out above, the arguments dreamed up by advocates of these schemes are many and varied. In particular, there is one argument they are fond of, and could throw at the above argument on 'specific type of labour' unemployment and regional unemployment. It is that the cost per job to the taxpayer of a J.C.S. is small (which it is) compared to the cost per job created by the above sort of blanket subsidies for all labour in high unemployment areas or all members of

a particular type of labour. The answer to this is that cost per job is irrelevant and for the following reasons.

J.C.S.s, as has been shown above, involve a misallocation of *real* resources as compared to subsidising the labour concerned into employment with existing employers. There have doubtless been cases of *J.C.S.s* with impressively low 'costs per job' being so inefficient that they contribute nothing to national income or even reduce it. Turning now to blanket subsidies, these certainly involve subsidising a large amount of labour that would be employed anyway (and hence involve a relatively high 'cost per job'), but assuming normal competitive forces are working, this money ends up back in the pockets of the taxpayer/consumer's from whence it originated, in the form of lower prices. It thus cannot be construed as a *real* cost, and certainly does not diminish national income. For those not convinced by this argument, an expanded version is set out in Appendix I.

Another possible argument for *J.C.S.s* is that the sort of tasks they undertake can be of a kind not already undertaken by the existing public sector, and hence that there is a case for an organisation or type of employer different from the existing public sector. The flaw in this argument has to do with the value of the output concerned as is as follows.

The decisions as to what the public sector shall produce, what the relative amounts of each public sector product shall be, and what the size of the public versus private sector shall be, are decisions taken by the electorate, not the market. Economists and those concerned with setting up *J.C.S.s* can only assume that the marginal product of different public sector departments and of the private sector are all the same. Now if a *J.C.S.* produces something substantially different from those public sector products that voters normally vote for, namely medical services, education, police, armed services and so on, then it must be assumed that the output will be of relatively little utility or worth compared to the output that would come from expanding the existing public and private sector. Alternatively, if a *J.C.S.* and the existing public sector produce the same product, this is duplication of effort.

To summarise, four points have been made about subsidising people into work on *J.C.S.s* as compared to subsidising them into work with existing employers.

1. The ratios of different types of labour will be far from optimum.
2. There will be high labour turnover.
3. To the extent that high labour turnover is avoided by concentrating on types of labour that are in surplus, this leads to even worse labour ratios. 4. Regarding the public sector, if these schemes produce something different from the existing public sector, the output will be of relatively little worth; alternatively if they produce the same as the existing public sector, this is duplication of effort.

As to empirical evidence to support the above four points, it might be claimed by advocates of J.C.S.s that the evidence from the 1930s (e.g. Kesselman (1978)) is that while such schemes were certainly not as efficient as normal employers, output per head was sometimes well over three quarters that of normal employees. The first answer to this is that even if output were ninety-nine per cent that of normal employers, £100 a week of output is better than £99. Secondly in the 1930s there was massive demand deficient unemployment. In that J.C.S.s then were dealing with this form of unemployment, the above problems of high labour turnover and badly matched inputs would not have applied. Hence the good productivity.

It should incidentally be pointed out that the argument so far has compared the allocation of particular types of labour to two types of employer, J.C.S.s and existing employers public and private. This is a slight over-simplification, in that there are shades of grey between the above two. The latter has been more common in the U.S. than elsewhere and has taken the form of concentrating specific types of labour in existing public sector institutions. All the arguments in the previous pages apply to this latter sort of policy just as much as to J.C.S.s: in other words the artificial concentration of any type of labour in any sector or part of the economy constitutes a misallocation of resources.

Training

Another argument cited for J.C.S.s is that they can combine employment and training. The first answer to this is that employment with existing employers can and does combine the two perfectly well. Moreover there are reasons for thinking J.C.S.s

are particularly poor at combining the two. Jackson (1979, Ch. 10) and Ridley (1980), p.265 give some reasons here. Also the combination suffers from the 'timescale clash' pointed out in the penultimate paragraph of 'criticism No to' below.

The above arguments, which are largely theoretical, seem to have been born out in practice in the case of 'Employment Training', a scheme in the U.K. which combines training and J.C.S.s. In other words the training in this schemes appears to have involved poor value for money (see Wood (1991) and Bassett (1991)).

Seasonal or Cyclical Factors

Another argument for J.C.S.s is that they are suitable for dealing with seasonal or cyclical unemployment, the former being of particular importance in Canada and Sweden (see Francomb (1979) and Janerus (1979) respectively). It is probably a measure of the weakness of the theory behind J.C.S.s that the above two authors confine themselves to *describing* the schemes in their respective countries, without giving any reasons for them being better than alternative measures for dealing with seasonal or cyclical employment.

If seasonally unemployed labour is to be made available for free to J.C.S.s it is hard to see why it should not be made similarly available to existing employers public and private. A resource is allocated most efficiently when allocated to the highest bidder, not by artificially preventing the majority of potential bidders from bidding, or potential users from using the resource.

It should be said in defence of Sweden's J.C.S.s that to a large extent they consist of bringing forward public sector projects that have already been planned, and in a few cases private employers take the labour concerned (e.g. see Ginsburg (1983) p.129). To this extent Sweden's job creation is not far from what is advocated in this paper.

Maintaining Skills

The final argument for J.C.S.s to be considered here is that they enable those concerned to maintain their skills. This argument appears in the official literature produced to explain Employment Action, a J.C.S. just introduced in the U.K. at the time of writing. This is a poor argument in view of the narrow range of activities encompassed by J.C.S.s, Employment Action in particular. The actual range in the case of Employment Action is very typical of J.C.S.s and appears to consist of construction, horticulture, two or three others, and that's it.

This weakness in J.C.S.s it should be emphasised, is an *inevitable* one; it is not just the result of how one or two such schemes happen to have been organised. This is because unless J.C.S.s infiltrate almost every industry and sector of the economy, they cannot hope to offer a wide variety of skilled work experience. For example complaints were being made in Sweden fifteen years ago that the type of work experience (and training) on J.C.S.s was irrelevant to the aspirations of those involved (this despite Sweden's job creation being on a much larger scale relative to its population than the U.K.).

The conclusion at the end of this section is that none of the main arguments for J.C.S.s stand inspection. It is always dangerous to say there is no argument at all for something, but certainly the arguments for J.C.S.s are weak in the extreme.

Marginal Employment Subsidy Workfare

Having concluded that existing employers are preferable to J.C.S.s the question as to whether workfare labour should be allocated to just public employers or both public and private employers is now examined.

Before doing this however a few words about the difference between public and private sectors are required. By definition the distinction between the two is who owns them. Unfortunately this is not the distinction relevant to workfare (or many other topics in economics). For our purposes the important distinction is between the sector that *sells* its output and the sector that *gives away* its output, which of course

does not coincide exactly with public and private sectors. This little problem will be solved by *using* the words public and private, but in reference to the 'give' and 'sell' sectors respectively. We now turn to the problem that private sector workfare requires an increase in demand and that this might be inflationary.

The answer to this problem is that raising demand does not matter to the extent that such demand is channelled towards otherwise unemployed labour, and *not* towards types of labour in short supply. Now if workfare labour is made available at little or no charge to employers then the latter have a clear incentive to direct work towards the newly available labour. The *exact* extent to which the latter would obtain is of course hard to quantify without some extensive research and econometrics. That itself, if not the ideas in this paper would keep someone employed for a year!

At any rate most readers will by now have realised that what is advocated here as being the best form of workfare amounts to all intents and purposes as the same thing as the marginal employment subsidy set out at the beginning; making the unemployed available to all employers at little or no charge to the latter pending the appearance for each person concerned of a normal vacancy.

This will for want of a better phrase be called Marginal Employment Subsidy Workfare (MES Workfare). The word 'workfare' will still be used below, but will refer to the word as defined at the outset; this is a broader definition that incorporates MES Workfare and most workfare schemes in the U.S.

Returning for a moment to the above mentioned difficulty in estimating the extent to which MES Workfare would improve the inflation/unemployment trade off, it might seem safer to leave it confined to the public sector because of the possible inflationary impact of private sector workfare. This idea however contains flaws, the first of which is best revealed by reconsidering the marginal employment subsidy set out at the beginning.

Let us assume that the severity of the sanction involved and the wage for MES Workfare jobs is such that MES Workfare people have exactly the same incentive to seek normal jobs as when unemployed. Let us also assume that MES Workfare people are charged to employers at £x a week (perhaps because it is regarded as

not socially acceptable for people to do work where the net product is less than £x a week). As the number of MES Workfare people rises the point at which employers poaching each other's employees becomes excessive compared to the extent to which they take MES Workfare people will be the point at which the marginal product of MES Workfare people has dropped to about £x a week, or some function of £x a week. Furthermore there is not a vast difference between the organisation of, or working practices in, the public and private sectors. Thus the fact that at some point private sector MES Workfare ceases to contain inflation is no compensation for the public sector: at this point the marginal product of public sector MES Workfare will also have dropped to about £x a week or some function of it. Hence the latter cannot be expanded any further, given the assumptions with which we started.

Of course these assumptions can be altered, but this still does nothing for the public sector. For example with a view to expanding the number of MES Workfare people they could be allocated to employers for free. All the above arguments still apply except that £x is replaced with £0. Furthermore so far as the private sector goes, no additional demand is required to create a zero net product job, and zero additional demand cannot possibly have an inflationary effect. It is doubtless justifiable to ask what the point of a zero net product job is. The answer it that it might perhaps be justifiable in terms of work experience and the 'employee to employer introduction' element involved.

Another assumption made above was that MES Workfare people have the same incentive to seek normal work as when unemployed. Altering this assumption, again, does nothing for the public sector. For example if relatively generous wages are paid for MES Workfare jobs, this reduces the above incentive, the effect of which would be inflationary. Furthermore the inflationary effect is just the same in both sectors. In other words one MES Workfare person in the public sector failing to seek normal employment has exactly the same inflationary effect as one similar person in the private sector.

Another point against the public sector is that it cannot even be claimed, if U.S. experience is any guide, that the public sector is less prone to fraud than the private sector, given sloppy administration. There have been cases where over half the so-called workfare employees in state governments were in fact normal permanent

employees. State governments were defrauding central government (see Johnson (1979).

The final point against any bias towards the public sector is that the proportion of public sector employees who are skilled is higher than in the private sector. Since MES Workfare jobs would be concentrated at the unskilled end of the spectrum, the public sector is *less* suited to MES Workfare than the private sector.

The conclusion is that there is certainly no logic in any preference for the public sector; if anything there is a case for a bias in favour of the private sector.

To summarise so far, it is advocated here that there is a case for subsidised temporary jobs for the unemployed with all existing employers, with government in effect operating a subsidised temporary employment agency. Indeed the case for this is probably stronger than the case for government subsidised *normal* employment agencies (Job Centres in the U.K.). It is far from clear that the flow of information about jobs provided by newspaper adverts, private employment agencies, and so on is less than the optimum in the absence of Job Centres, a point which private agencies made in no uncertain terms when Job Centres first arrived. **In** contrast, MES Workfare, or subsidised temporary agencies, would deal with some very obvious and blatant labour market defects: the six points set out at the beginning.

Implementing MES Workfare

The basic problem in implementing MES Workfare is how to make labour available to employers at little or no charge without them replacing their existing employees wholesale with MES Workfare people with a view to reducing payroll costs. There are at least four ways of controlling this problem which are as follows.

1. Limit the number of MES Workfare people to a small proportion of each employer's workforce.

2. Limit the number allowed by the government employment agency in a particular

town or area.

3. Charge employers a relatively large amount for the labour.

4. Limit the time for which a MES Workfare person stayed with a particular employer. One workfare scheme (in Utah) placed a twelve week limit on the duration of workfare jobs (Germanis (1983), p. 144).

As to time limits, it is important to distinguish between limiting the time someone stays in the workfare *system* (regardless of how many different employers they work for) and on the other hand limiting the time someone stays with a particular employer. There is no reason to limit people's time in the *system* as long as they are making serious attempts to find normal jobs. **In** contrast, as intimated in point No 4 above, limiting the time someone stays with a given employer *is* desirable so as to make it difficult for the employer to use them as substitutes for normal permanent employees. Of course there must be *something* to dissuade people from staying in the system too long: the best measures are keeping the workfare wage relatively low and/or spending more on government employment agency job search efforts.

These issues seem to have been somewhat confused in Utah in that they limited the time people stayed with a particular employer so as to encourage them to find normal jobs. Doubtless the desired cause-effect relationship existed to some extent, but they were not using the right tools for the job.

The above twelve week limit adopted in Utah is probably of much the right order, assuming the time limit method of control was used for MES Workfare. This is because MES Workfare amounts to doing very much what would occur in a totally free market; unemployment benefit is not a free market phenomenon (except to the extent that people would voluntarily take out insurance against unemployment) and in the absence of unemployment benefit, people would to a greater extent than at present when made unemployed take jobs other than the ones they wanted pending the appearance of the latter. Now the average time for which people are unemployed is roughly twelve weeks, thus if MES Workfare is to mimic the free market, then twelve weeks looks about right.

Indeed the very fact that MES Workfare mimics the free market is evidence that it would reduce unemployment, since in a perfect market there is no unemployment.

There is not a vast amount to choose between the above four methods of controlling the number of MES Workfare people. The time limit is probably better than limiting the numbers with each employer. This is because the number of temporary and relatively unskilled people that employers can use varies widely, and there is no good reason it should not be allowed to vary widely. Indeed the introduction of MES Workfare might result in some firms setting up entirely new operations, like simple assembly operations employing largely MES Workfare people.

Lest there be any doubt that the time limit would keep control of the system, it should be remembered that probably a good ninety per cent of the employees of most firms have skills specific to their firms and the latter would not be able to afford to lose them by registering them as MES Workfare. For example the lowliest office job, making the tea and coffee, involves skills specific to the office concerned. It can be a nuisance if the tea brewer quits: permanent staff have to sacrifice working time to teaching the replacement how to work canteen equipment without wrecking it, and so on. In short the role for MES Workfare employees is *assisting* existing permanent employees, not replacing them, although some replacement is bound to occur.

As to using the price employers pay for MES Workfare people as the control, a relatively high price has the advantage that it will raise the net product of those involved. The disadvantage is that the nearer the price comes to what employers would have to par in the absence of MES

Workfare, the more likely they are to take on 'already employed' labour rather than dole queue labour, hence the 'natural level of unemployment reducing' effect of MES Workfare is reduced.

The Variable Elements in MES Workfare

In addition to the above mentioned four variables than can be used to control displacement of normal employees by MES Workfare employees, MES Workfare

incorporates several other elements that can be varied by large amounts depending on how one views the relevant costs and benefits. These are as follows.

1. The period of unemployment allowed before sanctioning those who insist on remaining unemployed.

2. The size of the sanction, that is the amount of benefit reduction.

3. The sophistication with which the system is run. The bare essentials are obvious: government must keep track of who is working for which employer (something it does anyway in most developed countries) and must administer some method of keeping control of the total number of MES Workfare people, like one or more of the above four methods. But over and above these basic requirements there are numerous possible refinements. For example employers and employees could report back to government about each other with a view to weeding out employers trying to abuse the system in some way and with a view to sorting out the unemployables from the employables.

4. The wage paid to those doing MES Workfare.

5. Number of MES Workfare people.

6. Number of unemployed. It might perhaps seem that since the aim is to remove people from the dole queues and into MES Workfare, that the number of unemployed and number of MES Workfare people would change inversely or even that the sum of the two would equal some constant. However neither of these would necessarily obtain; for example, a very harsh policy would result in the sum of the two declining.

7. National Income

It is not the purpose of this paper to advocate any particular level for the above seven variables. A few paragraphs will however be devoted to showing that MES Workfare is a flexible policy, that is to showing roughly by how much some of the above variables can be varied. The relevance, of this is that to the extent that it is a flexible policy, it is one that can form a permanent part of overall employment policy regardless of changes in the political climate, or changes in how leniently or harshly it is deemed desirable to treat the unemployed. We start with wages.

The Wage

The wage paid to MES Workfare people is made up of the hourly rate and hours per week. The higher the wage, the less the incentive to seek normal jobs, the effect of which would be inflationary, though the wage needs to be at least a token amount above unemployment benefit. As to hours worked, it is possible in some cases that unions would insist on some minimum hourly rate; thus to keep the weekly wage within limits, the work might well have to be part time. This meshes nicely with the fact that it might bl: desirable to leave those concerned with some free time to job search. The above mentioned workfare scheme in Utah involved three days work a week and two days left for job searching (Germanis (1983) p.144). An alternative would be to allocate MES Workfare people in pairs with each member of the pair working half a week. This would amount to one full time employee and would be of value where the vacancy needed to be occupied for every hour of the working week.

While as pointed out above generous pay for those on workfare has an inflationary effect, other things being equal, there is nothing to prevent relatively generous pay, as long as 'other things' are altered: in other words the reduced job search efforts by MES Workfare people could be compensated for by an increased job search effort by government employment agencies. But of course the price paid for this is a reduction in national income. This policy of relatively generous pay is roughly speaking the position in Sweden and for the following reasons. One can argue the J.C.S.s there amount to workfare in that there is more pressure on the unemployed to get out to work than in the U.K. The pay on such schemes is the going rate for the job, and to compensate, there are about six times as many employment exchange people per thousand unemployed as in the U.K. This of course is a thoroughly crude analysis of Sweden's policy, but it illustrates the point.

While relatively small increases in pay for MES Workfare jobs over and above unemployment benefit can be countered easily enough by increased government employment agency job search efforts, the problems become much more serious as the wage for MES Workfare approaches that which the employees concerned would expect to get in their normal employment. Indeed if the net attractions of MES Workfare, taking into consideration the hours (probably relatively few), the demands of the work (probably fairly light), exceed the net attractions of a normal job, there is

no way of inducing those concerned to move from one to the other. In Sweden considerable difficulty has been experienced sometimes in getting people to move from job creation work to normal jobs. A partial solution to this, suggested by Ashby (1988) is to hold back a proportion of the wage until those concerned get normal jobs.

The Sanction

Having considered the wage for MES Workfare, we now turn to the sanction. There is no question but that some sort of sanction is required, indeed most developed countries' benefit systems have sanctions for those who stay on unemployment benefit for too long. However there is evidence that the behaviour of the unemployed is less responsive to changes in the weekly income derived from unemployment benefit than to their perception of how efficiently the social security system is being run, that is how closely the unemployed think they are being watched (e.g. see Layard (1986) Ch. 4, Burton (1987) pp. 4 and 17, and Bernstein (1982) pp. 46-49). Also Sweden has relatively generous unemployment benefit, yet this does not result in high unemployment. Thus just as generous MES Workfare wages are feasible, though at the expense of administration costs, a light sanction is probably also feasible, but again at the expense of administration costs. (There has been a movement in this direction in the U.K. in very recent years in the form of 'Restart' interviews.)

Indeed, given the big difference between workfare as advocated in this paper and workfare in its more traditional forms, a light sanction would make it *so* different from its traditional meaning that it would be something of a nonsense to call it workfare.

Turning now to a relatively large scale MES Workfare scheme with a relatively harsh sanction, there are some perfectly good arguments for this sort of policy. For example it could well be argued as did Beveridge (1942, pp. 57 and 58) that the maximum period of unconditional unemployment benefit should be closely related to age, with a six months maximum for older people reducing to practically nothing for youths. The logic in this of course is that young people can adapt to new jobs, MES

Workfare or otherwise, relatively quickly. Indeed the above six month limit is not based on any objective criteria: one could well argue that if someone cannot find a vacancy in their normal profession within *two* months of becoming unemployed, that is quite possibly because demand for the profession has declined on a permanent basis or at least for a matter of years, hence the sooner they start gaining experience in some other working environment the better. If on the other hand a vacancy of the sort originally required turns up, then the person concerned will have lost nothing in doing a MES Workfare job, or other job, for a while. Indeed unless the person concerned is feeble minded, then they will almost certainly have gained something: there is almost no such thing as a job in which those with their eyes open do not learn something.

Further arguments on this point are set out under 'criticisms number nine' below.

As to reducing the time for unconditional unemployment much below two months, the argument against this of course is that of those made unemployed at any given point in time, the proportion finding jobs in the early weeks of unemployment is relatively high, but declines as time passes. In other words too short a period would result in a relatively large number of very short term MES Workfare jobs, the costs of which might exceed the benefits.

MES Workfare and Structural Unemployment

An important aspect of any employment measure is the extent to which it deals with types of unemployment *other* than the one for which it is designed. This is because it is impossible to gauge with any accuracy how much unemployment is frictional, structural, voluntary, cyclical and so on. MES Workfare scores quite well in this respect.

i) Like unemployment benefit it would act as a counter cyclical device, assuming it were so organised that the number of MES Workfare people varied with the number of unemployed. Arguably it would work better than unemployment benefit because it would act from the supply side as well as the demand side. In other words if the

number of MES Workfare people rose in a recession this would help keep employers' costs down and thus help them sell a relatively constant volume of goods. (Palmer (1978) p. 36 suggests employment subsidies might make good counter cyclical devices.)

ii) As to high unemployment regions one way of ameliorating the problem is a straight labour subsidy (which was tried in the U.K. about twenty years ago in the form of Regional Employment Premium). Clearly such regions require more *full time permanent* jobs, but part time temporary jobs in the form of MES Workfare would be a second best.

iii) Another problem, highlighted by Berthoud (1978), is the difficulty trainees have adjusting to their new jobs: many of them fail because the change is too abrupt or because they cannot compete with more experienced people in the trade concerned. The ideal solution as Berthoud makes clear is some form of transitional subsidy. However a second best would be MES Workfare. (This point is doubtless of relevance to Employment Training, a scheme introduced in the U.K. a couple of years ago.)

iv) Unemployment is to a significant extent caused by the sheer inability or lack of intelligence of a proportion of the workforce. There are all shades of grey between geniuses and morons, a point which crude devices like the minimum wage rules set out at the beginning totally fail to take into account. The ideal measure to counter a serious lack of ability is some form of permanent employment subsidy for those concerned. But again, a temporary subsidy in the form of MES Workfare would be a second best.

Criticisms of MES Workfare

There are numerous criticisms that can be made of MES Workfare, and some of these are dealt with below. They are listed in the contents page at the beginning so that readers can skip those that do not interest them

1. MES Workfare people would displace existing employees

This sub-section is divided into two. The first deals with actual displacement. The second deals with the possibility that fear of displacement would induce unions (or non-union labour) to obstruct the system.

Actual Displacement

A finite amount of displacement is bound to occur, but it would be those on the verge of being unemployed anyway who would get displaced: put it another way, employers would not register their most valuable employees as MES Workfare; that way they would just lose them. Also this form of displacement occurs under the existing system: the unemployed and the least productive people *in* work are constantly displacing each other.

While displacement would usually be undesirable, there is arguably an instance of where it might be desirable: the displacement of permanent unskilled staff. It could be said that unskilled vacancies are best filled by those who temporarily cannot find jobs using their skills. If the latter people displace others from unskilled jobs and the displaced people move on to jobs using their skills or to training, that might make sense, though of course if the displaced person had no skills and could not learn any, the displacement would be undesirable.

It might be said in objection to the above that there cannot be many instances of skilled people occupying unskilled vacancies. It is certainly true that this would not obtain to any great extent in a free market, but unfortunately the labour market is a long way from being a free market: wages are to a significant extent determined by unions which have a positive dislike of free markets. For example the teachers' unions in the U.K. have long obstructed additional pay for mathematics and physics teachers relative to that of other teachers so as to deal with the shortage of mathematics and physics teachers. [1]

Another example comes from the engineering industry in the u.K. which a few years ago found itself unusually short of skilled workers and did some research to find out where the skilled employees had gone. A significant proportion were

found doing unskilled jobs like postmen. The reason for this was doubtless not entirely unconnected with the fact that Post Office unions are in a position to exploit the monopoly position of their employer, whereas engineering firms face genuine competition.

Another type of displacement to which some readers might wish to point is the type that would occur if a government introduced MES Workfare but subsequently failed to raise demand, or failed to raise it by an amount that corresponded to the reduction in the natural level of unemployment brought about by MES Workfare. This is a trivial objection to MES Workfare and for the following reasons.

Every device employed by governments to reduce the natural level, training or subsidised employment agencies for example, suffer the same defect; that is governments normally have only the vaguest idea as to by how much such measures reduce the natural level. Furthermore they do not earmark particular amounts of increased demand to take advantage of the reduced natural level. This is because while no government can ever know exactly where the natural level is, it can nevertheless keep the *actual* level of unemployment hovering around the natural level by doing exactly what every government does, namely keeping demand as high as is consistent with avoiding too much inflation.

1. Apart from the free market, there is only one other known method of resource allocation: the bureaucracy, which in the case of labour equals direction of labour. Unions do not like the latter either. The policy of the trade union movement in the U.K. thus seems to be: obstruct both of the basic methods of getting people into jobs and then blame whatever government is in power for the resulting unemployment.

Another form of displacement is that which occurs with *any* attempt to subsidise an over priced type of labour into work: there is always a finite increase in unemployment amongst other types of labour. This is because subsidising the overpriced type of labour into work must add a finite amount to inflationary pressure, hence a reduction in inflationary pressure must be obtained from somewhere to compensate. With luck, the overpriced type of labour will be on a relatively flat part of its Phillips curve and the rest of the labour force on a relatively steep part, hence a

relatively large increase in employment for the overpriced type of labour can be brought about in exchange for a small decrease in employment for the rest of the labour force. (see Baily (1978) for more on this.)

Fear of displacement

Fear of displacement would induce unions or even non-unionised labour to make MES Workfare unworkable.

There are several answers to this.

i) The proportion of the workforce that is unionised is less than half in the u.K. and less than a quarter in the U.S. Thus there is not "much chance of unions as such totally obstructing the system. Furthermore, MES Workfare as pointed out earlier is somewhat more suited to the private sector than the public sector, and the private sector is less heavily unionised than the public sector.

As to Sweden where over three-quarters of the workforce is unionised, there is a yawning gulf between the behaviour of unions in Sweden and in the U.K. The policy of unions in Sweden is (or certainly was) to make an intelligent assessment of any new proposal and back it if it looks like being in the interests of the country as a whole.

ii) The mere existence of an obstruction is not necessarily an argument for paying much attention to it; unions have on occasions obstructed new technology ever since the Luddites and in the U.K. have obstructed half the training schemes introduced since the second World War. This is hardly a good argument against new technology or training. (This is not to imply that it is only working class unions which obstruct training: middle class 'professional associations' (which are in effect trade unions) can be equally guilty, for example the medical profession in the U.S. and Australia places strict limits on the numbers of doctors being trained so as to boost their incomes. Anyone interested in what the free market price for doctors would be might care to look at Russia where doctors get about the same as truck drivers.)

iii) Every employer is continually hiring new employees for various reasons: replacement of retiring employees, fluctuations in demand and so on. It is far from a rarity for an employer to find some of the new recruits more efficient than existing employees, and hence to sack or make redundant the less productive existing employees at the first opportunity. In other words if employees are going to obstruct MES Workfare, one has to wonder why they do not obstruct *all* new employees.

iv) Once MES Workfare was generally understood, permanent employees would not object to MES Workfare because the latter would be seen as temporary. There is no widespread obstruction in the hiring of temporary labour from temporary employment agencies.

v) In practice in the U.S., the objections from public sector unions to workfare people have not been of such proportions as to scupper it.

Returning to temporary employment agencies for a moment, it might seem that MES Workfare would cut into their share of the market. No doubt this would happen to some extent and protests would ensue just as protests came from existing employment agencies when Job Centres first arrived in the U.K. However MES Workfare and temporary employment agencies would be in essentially different sections of the market. The former deals with relatively unproductive labour allocated to employers at little or no charge whereas the latter deals with labour that is fully qualified (or at least ostensibly qualified) for the jobs concerned and is charged to employers at *above* the normal hourly rate for the type of labour concerned.

2. MES Workfare would result in some near futile forms of employment

The above would obtain to some extent. But there are several reasons for thinking this does not matter too much.

First, at least low output work would provide the unemployed with experience of new working environments which for youths or those with redundant skills might help

them decide in which environment they wished in the future to work.

Secondly, unemployment is to a significant extent a self perpetuating phenomenon and for several reasons: (i) it can become a way of life; (ii) a closely related phenomenon is the 'discouraged job searcher' effect - when people cannot find a job, some of them cease looking even when there are jobs available; and (iii) there is the so-called dual labour market phenomenon - first there are those with secure jobs, some of them not well paid but secure nevertheless, and secondly there are those who get shifted from one insecure job to another, often as not via the dole queue. The latter group can be forgiven for failing to seek work if their past experience tells them that after a short while they will end up back where they started, on the dole. MES Workfare, even where it involved very low output, would reduce the extend of these 'self-perpetuating' forms of unemployment.

Thirdly, it is very hard to say to what extent low revenue product proves that the output really is of little value or utility. People are unemployed not necessarily because whatever they wish to produce is of little value or utility, but often because there is a lack of demand or money with which to pay for their output.

Finally, the criticism that MES Workfare would involve work of very little worth is not one that a sizable proportion of the population are, in a position to make because of the very low output work which they themselves advocate. For example advocates of J.C.S.s can hardly make the above criticism of MES Workfare.

Also, the political left has over the last few decades in the U.K. usually been keen to see uneconomic jobs subsidised, sometimes even where output is literally zero. For example the least economic coal mines prior to the last coal miners' strike in the U.K. were not just making a loss; the value of coal coming out of the mines did not cover the cost of equipment, fuel, and so on consumed. Output was zero or negative. Just the same goes for those employed making Concorde (supported it must be said by people from right across the political spectrum).

3. There are few workshy amongst the unemployed, thus no form of workfare is justified.

The answers to this are as follows.

i) A study of unemployment benefit claimants in the U.K. by Daniel (1974, pp. 28 and 124) found that around 12% had no intention of seeking work. Of the remainder, just under a half were making less than one job application per month. This survey was done at a time of labour shortage; there were thus a relative abundance of jobs to apply for. A survey by the Department of Employment when unemployment was much higher found 25% had taken no steps to find work in the week of their survey. (D.E. Gazette, October 1985, p. 393).

The reasons given for not job searching, at least in the case of the above 12%, were reasonable enough. About three-quarters of these gave ill health, family or domestic problems or the fact that they regarded themselves as too old to work as the reasons. It is a nonsense to count these people as unemployed. Doubtless some of them should get some sort of benefit, but it should not be called unemployment benefit.

Thus it is not suggested here that a large proportion of unemployment benefit claimants are workshy. It is suggested however that the proportion not looking for work is quite large enough to help justify something like Workfare which helps distinguish the genuinely unemployed from others.

ii) When the unemployed are faced with a serious workfare sanction or when Social Security staff start making serious enquiries as to whether a given group of unemployed are actually able to work and are seeking work, it is common for up to half of them to cease claiming benefits. (See Burton (1987) p.9 and 17 for the U.K. and Bernstein (1982) pp.46 to 49 for the U.S.

It is probably not entirely a coincidence that the social security system in the two European countries with the lowest unemployment levels over the last thirty years in Europe, Switzerland and Sweden, *do* make what might be called *"serious enquiries as to whether the unemployed are actually able and willing to work".* For example in

Switzerland the unemployed have to report twice a week to the unemployment benefit office on their job search efforts (Fluckiger (1985) p. 32).

It might be argued against the above Swiss practice that it constitutes harassment of the unemployed. The answer to this is that when someone is being paid to do something, engage in a job search or anything else, it is perfectly reasonable to check up on what they are doing. Most employees have their seniors checking up on what they are doing much more often than twice a week. If the Swiss practice constitutes harassment, then every other employee on planet Earth is being harassed.

iii) The above suggestion that an expansion of the 'welfare culture' has a lot to do with the apparent rise in unemployment gains some sort of support from the figures for invalidity benefit in the U.K.: the number of 'invalids' has trebled to just over a million over the last twenty-five years despite the health of the population improving in the meantime (see Disney (1991) for more on this). To some extent this more relaxed attitude to the disbursement of taxpayers' money is acceptable as we grow richer; indeed both unemployment and invalidity benefit are in effect being used as flexible retirement systems; the proportion of those over 55 on these benefits is relatively high. But whether acceptable or not, it is important not to count people as unemployed when they are effectively retired.

iv) The proportion of the unemployed in the U.K. who are unemployed for over a year has risen from under a quarter in the early seventies to just about a half in the mid-eighties. This is certainly consistent with increased voluntary unemployment. In other words if an increased number of people who are essentially not in the labour market are picking up unemployment benefit for as long as they can because it is there for the asking, then the result will be a rising proportion of long term unemployed.

4. Time is needed for job searching

Mattilo (1974) found that fifty to sixty per cent of job changers in the U.S. do so with no intervening unemployment. In addition to this there is a proportion that finds its

new jobs before leaving its old jobs, but decides to take a period of unemployment, at the taxpayers' expense, between jobs. Thus job searching at the same time as working cannot be desperately difficult.

Furthermore there would be nothing to prevent those intent on spending a large amount of time job searching being excused MES Workfare jobs as long as they produce evidence that they have been job searching. In Switzerland *all* the unemployed have to keep a record of job applications, plus there is a fine of up to 20,000 Swiss Francs (about £8,000) for anyone faking their records.

5. MES Workfare is little different from some other subsidies, actual or proposed

Given the vast number of employment schemes and subsidies that have been proposed and/or implemented and/or abandoned in developed countries over the last few decades, it is certain that MES Workfare will be similar to some of them. It would take an entire book to deal with all of them, thus only a few are considered below.

First, though, where MES Workfare *is* similar to an existing system, there is no demerit in MES Workfare. The purpose of this paper is to set out some theory against J.C.S.s and in favour of temporary subsidised jobs with existing employers. Where a temporary subsidised employment scheme already exists, this theory will underpin it, and may. also be helpful in identifying weaknesses.

One marginal subsidy that might appear similar to the subsidy on which MES Workfare is based is the one that rewards employers in proportion to the increase in each employer's workforce as compared to some base or starting date. Perhaps the earliest example of this comes from Pigou (1927), but there has been a steady stream of advocates of the same idea ever since and several instances of the idea being implemented. Unfortunately many of the attempts to discredit the idea have been somewhat laboured, when in fact the fallacies in the idea are quite simple.

The most obvious flaw, which numerous authors have pointed out, is that the longer

the subsidy lasts, the more absurd it becomes, to illustrate: ten years after the starting date relatively new firms would be receiving large subsidies, whereas similar competing firms whose workforce had remained constant over the period would get no subsidy at all.

This has led some proponents of the idea to advocate it as just a short term measure. However, it does not even reduce the natural level of unemployment in the short term and for reasons connected with the decline in the marginal product of labour set out at the beginning, which are thus: the subsidy does nothing whatever to alleviate the fundamental problem that arises as full employment is approached, namely the fact that 'already employed' labour becomes better value for money than dole queue labour. That is, the subsidy does nothing to raise the relative attractions of the latter.

There is another category of employment subsidy with which MES Workfare might be confused, namely other subsidies aimed at the less skilled or productive members of the workforce (for example see Jackman (1986). Methods used to identify the people involved include low pay (as in Jackman's proposal), lack of skill, or the mere fact of having been unemployed for some time. The essential difference between these and MES Workfare is the size of the subsidy per person and the fact that MES Workfare is aimed at the *temporarily* unproductive whereas the above subsidies are aimed at the *permanently* unproductive (though the latter subsidies would doubtless in practice end up supporting a number of short term jobs).

The difference between MES Workfare and the other above mentioned subsidies is essentially an example of the point made at the outset, namely that MES Workfare is aimed at frictional and voluntary unemployment, whereas other remedies are best suited to structural unemployment.

Employment Training

The above, (ET), is a scheme introduced in the U.K. a couple of years ago. It has similarities to MES Workfare.

ET is designed to ease the longer term unemployed back into work by a combination of work and training, either on J.C.S.s or with existing employers. It can be argued that ET amounts to workfare in that at about the same time as introducing it, the government started tightening up on unemployment benefit by means of 'Restart' interviews. Readers with a grasp of the arguments behind MES Workfare will have no difficulty in seeing differences and similarities to ET, but for those who want to see the two compared and the weaknesses in ET spelled out, the following paragraphs do this.

First, as to the J.C.S. element in ET, J.C.S.s are deal with near the outset.

Turning now to ET with existing employers, the most obvious characteristic in ET which is indicative that something is wrong is thus: at least ninety per cent of the unemployed including the medium and long term unemployed have always succeeded in getting new jobs *without* any form of retraining. This is a very stark and strange contrast to the fact that *all* those on ET get some form of training. In other words the assumption that because someone is unemployed they therefore need, or can benefit from, training is totally false. This is not to suggest we do not need more training; possibly we should double expenditure on it. It is just the above assumption that is wrong.

To illustrate, there are several categories of labour for whom a straight employment subsidy *without* training (MES Workfare or other) will usually be the most appropriate measure. These are as follows:

i) The majority of the unemployed in the U.K. have some sort of paper qualification, some of them good qualifications. The latter are unlikely to benefit from the sort of relatively low grade training offered by ET. But they *could* do with a temporary job in their desired profession. Furthermore, society at large would benefit from their services.

ii) A slightly different category are those about to start or halfway through training for some profession where training is well organised, or better organised than on ET. University students during their vacation are an example.

iii) There are the voluntarily unemployed. These people need to be faced with the choice of working or ceasing to claim benefits. MES Workfare gives them that choice. They may subsequently engage in training, but that is a separate issue. Furthermore it is questionable as to whether the taxpayer has an obligation to pay for the training of those whose attachment to the labour market is a half-hearted one.

iv) There are those near the end of their working life. Again, it is highly questionable as to whether taxpayers' money should be devoted to training here. A straightforward employment subsidy, MES Workfare, or other, is probably better.

It might be claimed in objection to the above four points that there *are* schemes which offer short term subsidised employment without training, hence the above criticism is invalid. The answer to this is there are no such schemes at the time of *writing* (end of 1991). However employment and training schemes are set up and abandoned with such rapidity in the U.K. that this may have changed by the time of *reading.*

A weakness in formal training on existing employers' premises for a *specific length of time* which ET involves is that the labour concerned is not available to the rest of the labour market, hence ET in this form does not reduce unemployment (readers who do not agree, see Appendix III). Alternatively, where the training is not for a specific length of time, it follows that the training cannot be good quality (see penultimate paragraph of criticism No 10).

The implication of the above is a serious one, namely that any combination of work and training on the employer's premises which lasts for a specific length of time, which we shall call apprenticeship, is undesirable. Certainly there is a clash between the requirements of someone who ·wants a given amount of practical experience and theoretical learning as quickly as possible, and the requirements of the labour market which needs as much flexibility as possible. The answer to this little problem is that there is nothing wrong with a substantial proportion of those who wish to enhance their skills *aiming* to do so by means of apprenticeship as long as they are open to the influence of the market forces that alter the ratios of different types of labour when the pattern of demand changes. To illustrate with a simple example, in an economy consisting of just farmers and builders in a 50:50 ratio with equal

numbers of apprentices, it would be fatuous for the apprentices or for the society at large to ignore a change in demand that altered the ratio to say 60:40. Some apprentices halfway through their apprenticeship would have to change, or it might pay some of them to learn both skills.

In short, there are good arguments behind subsiding education and training, and for subsidising short term jobs in the form of MES Workfare or similar. It is questionable however whether the state should subsidise the tying down of people to particular employers for specific lengths of time.

6. MES Workfare would invite fraud

MES Workfare would certainly invite some fraud, but this must be set against the system it replaces or partially replaces, namely unemployment benefit. The latter consists at worst of offering people free money for claiming they cannot find work. It is hard to imagine a bigger invitation to fraud than this.

Indeed MES Workfare would consist of partially legalising and properly organising a fraud that is currently not exactly a rarity, namely working on the side while in receipt of benefits.

A fraud that MES Workfare would tend to give rise to would consist of employers registering employees who they regarded as temporary anyway as MES Workfare people. This fraud would be limited to some extent by the fact that employers like to have control of when a temporary employee leaves, whereas the employer would have less such control in the case of a MES Workfare employee. Nevertheless this fraud is a potential problem and might be particularly common in industries with a much higher than usual labour turnover, like the building industry. In view of this it might be necessary to have special regulations for such industries, just as in the U.K. there are special regulations in the building industry for the collection of income tax from sub-contractors because of the widespread defrauding of the income tax system that otherwise occurs. Alternatively this industry could be banned from employing MES Workfare people altogether.

Another possible fraud would be for an employer to register an employer as MES Workfare for the employee's first few months when the employer has every intention of keeping the employee permanently. The counter to this, of course, is to charge employers a relatively large amount (perhaps the full MES Workfare wage) for the initial months' use of the employee where the employee stays after the initial period.

7. MES Workfare jobs are temporary jobs and the latter are not worthwhile.

One answer to this is that the average normal job lasts only between two and three years, with a substantial proportion lasting a matter of months. Furthermore there is a whole industry (temporary employment agencies) devoted to supplying employers with labour for a matter of weeks, days and even hours.

Another point here is that when employment rises under *conventional* policies, i.e. a straight rise in demand, labour turnover rises. Thus the additional jobs created under *conventional* policies are to a significant extent temporary ones.

8. Administrative Costs

The important question here is the relationship between overall costs and benefits. The administration costs of workfare in the U.S. seem to have roughly speaking equalled the benefits, in the form of output from workfare people and savings in social security payments to those refusing the work (Helms (1983) and Schiller (1990»).

However workfare to date in the U.S. has been plagued by argument and muddle at least in a majority of states. Where there is a general agreement that it ought to work, like in West Virginia, then it works well (see Germanis (1983) p. 78). Moreover there are benefits other than the above mentioned to take into account, like the work experienced and the 'employee to employer introduction' element, and the output from those who decide to get normal jobs rather than do workfare jobs or have their benefits reduced.

9. The unemployed should not be forced or induced into unsuitable jobs

A substantial proportion of the unemployed *do* take jobs unlike· their previous jobs. Daniel (1974, p. 103) found that of those finding jobs relatively quickly, 59 per cent described the jobs as "very different" from their previous jobs. It could well be argued that these people have no obligation to pay taxes to support other individuals who are declining to work because they cannot find jobs with which they are acquainted.

As to just *how* unsuited MES Workfare people would be to their jobs, this is hard to estimate. Certainly *some* of the vacancies and their occupants would be just the same under MES Workfare as under a straight rise in demand without MES Workfare. Also to the extent that MES Workfare involved people in unsuitable jobs, there would not be the same commercial pressure on such people as in the case of *normal* jobs to which the employees concerned were not suited.

As for the idea that it is wrong for skilled people to have to do unskilled work for a while, this is thoroughly strange in view of the fact that skilled people spend a considerable portion of their time doing unskilled work both in the domestic and working environment. Brain surgeons dig their gardens during the weekend and help their spouses with washing the dishes. As to the working environment, anyone employed by a small firm has to 'muck in' and do any and every job that needs doing. The employees of small firms are not famous for nervous breakdowns or other harm that comes from this.

The exact extent to which MES Workfare would induce people into unsuitable work is intimately tied up with the cause of the rise in unemployment over the last twenty years or so. To illustrate, if the cause is an increased specialisation in the labour market, perhaps combined with a failure to train people for specialist jobs, then MES Workfare *would* induce people into relatively unsuitable jobs. However there is little evidence that the degree of specialisation or standards of training are vastly different to twenty years ago.

In contrast there are at least a couple of explanations for the rise in unemployment

which do *not* imply any increased specialisation. First there is the rise in voluntary unemployment dealt with under criticism No 3 above. Secondly it is possible that trade union wage claims go through the roof at a higher level of unemployment than twenty years ago and that this is the cause of the rise in unemployment. Certainly the trade union 'mark up' in the U.K. (that is the additional pay a union member gets compared to a similar non-union person) rose from about five per cent in the 1960s to about ten per cent in the 1980s, and then declined at the start of the '90s. The mark up has thus mirrored changes in unemployment to some extent which is evidence (albeit crude evidence) that unions are to some extent the cause of unemployment.

Finally, the only reason Beveridge gave for people not having to do jobs other than their normal ones was that this might reduce their chances of getting the latter. This was a valid point in the days when physical labour was extremely arduous and half the population did not have running hot water: turning up for an interview for a clerical job looking like a labourer obviously had disadvantages. But the above no longer obtains; physical work is much less arduous now, and everyone has decent washing facilities.

10. MES Workfare does not incorporate training

The word 'workfare' has been used in too broad a sense over the last twenty years in the U.S. and has incorporated in some instances pure training and no actual work; in others it has involved pure job searching and no work or training.

So far as the word in the sense used in this paper goes, workfare has nothing specifically to do with *formal* training, as distinct from 'learning by doing' which is an inevitable part of any- job, workfare or otherwise. Thus MES Workfare *does* involve some training, namely the learning by doing element.

Anyone who thinks that learning by doing is somehow inferior to formal training should note that there is far from universal agreement on this point amongst those actually employing trainees and amongst trainees themselves (see Roberts (1986)

Ch. 7). Of course a sizable proportion of what was learned in MES Workfare jobs would be wasted because the jobs are temporary, but then there is always a large wastage element in training (e.g. see Berthoud (1978)).

As to formal training, there is a fundamental clash between the basic characteristics of a workfare job and the characteristics of any formal training, which clash is as follows. The only efficient way to run any formal training involves courses running for a *specific length of time.* This is because unless one has a teacher-to-pupil ratio of one-to-one which is exorbitantly expensive, the different pupils on a particular course must be taught as a group. Workfare jobs in contrast last for a *random length of time.* Thus no formal training can be tied to a MES Workfare job. Something like evening classes which are *not* tied to the job, are of course quite different.

In case the above paragraphs give the impression that training is being belittled, this is not the intention. Doubtless we need more training, but this thesis is concerned primarily with employment. The question as to what training accompanies existing or additional employment is a separate issue, and is not an issue on which the author claims to be an expert.

11. It is not only the unemployed but also those in employment who would be attracted to the relatively easy going and unproductive MES Workfare jobs, hence the latter might reduce national output

This weakness in MES Workfare is a potentially serious one. The only counter to it is to keep control of the total number of MES Workfare jobs and keep it in line with the number of people induced to come off unemployment benefit as a result of MES Workfare.

This weakness is not of course unique to MES Workfare; it is a characteristic common to any attempt to reduce unemployment by creating jobs at the lower end of the market. J.C.S.s are an example, as was the entire Russian economy up to recently (see final paragraphs). Moreover it cannot be said that creating jobs at the lower end of the market is a weakness in MES Workfare or any other measure with

this characteristic; the unemployed tend to consist of the less skilled and competent members of the workforce. If jobs are to be created for them, they will inevitably tend to be those towards the lower end of the market.

12. MES Workfare would not improve the inflation/unemployment trade-off to the extent that inflation stems from areas of the economy other than the labour market

The above contains a truth but not a very significant one.

The factor of production that runs into short supply as full employment (of labour) is approached is *labour.* That may seem a statement of the obvious, but there is always an abundant supply of people who have not grasped the point, for example advocates of labour supply reduction cures for unemployment - early retirement, job sharing, overtime bans, etc. (see Appendix III).

There are any number of surveys of the proportion of factories and plant working at capacity which always produce roughly the same result: about twenty per cent at any one time are working at capacity, about twenty per cent are working at about ninety per cent capacity, about twenty per cent are working at eighty per cent capacity and so on. The proportion that reach capacity when demand rises by say five per cent is very small (maybe about five per cent). As to shortages of physical goods, these can usually be alleviated by imports.

Finally there is a vast amount of literature in which it is assumed without question that reducing unemployment is essentially a *labour market* question. Anyone wishing to claim that unemployment is to any significant extent caused by plant or equipment shortages is not disagreeing with MES Workfare as such but with probably a large majority of labour market economists.

13. The elasticity of demand for unproductive labour is low thus making labour available at little or no charge would not create many vacancies

The above is a popular sentiment, particularly with those who advocate minimum wage laws. It displays an ignorance of elementary economics. The opening pages of most basic economics text books make the point that humanity's needs and greed are infinite. In other words there is almost no limit to the work that can be found for labour if it is free or near free. Indeed the advocates of J.C.S.s never tire of telling us that there are an infinite number of socially useful jobs to be done. They are correct.

There are a number of reasons why the undoubted elasticity of demand for labour as it approaches the 'free' level does not translate into vacancies. The main one is that supply is also elastic; as the wage drops towards unemployment benefit levels, the amount of labour forthcoming falls away dramatically, and employers know it. Thus the latter do not bother creating many low paid vacancies under existing employment policies. Under MES Workfare, the number of such vacancies would rise.

As distinct from allocating MES Workfare people to existing employers, there is no reason they could not be allocated to keeping old aged pensions' gardens tidy. That itself would absorb about half a million unemployed in the U.K. The elasticity of demand for the labour is not the problem. The problem is how many of the unemployed are capable of turning up at the right place at the right time, and whether anything that brings a bead of sweat to their brow is too much for them, and whether they are capable of carrying out simple instructions. At a wild guess, the proportion of the unemployed in the U.K. capable of the above might be somewhere between half and three-quarters.

14. MES Workfare would gain a reputation for including the least productive and most troublesome employees, which would induce employers to avoid it altogether.

This is certainly a potential problem, but exactly the same applies to the government subsidised employment agencies in the U.K. (Job Centres), that is, employers.

aiming for high quality labour tend to recruit via private employment agencies or through advertisements in the press, whereas employers happy with lower quality labour tend to go to Job Centres. However this is only a *tendency,* and is not generally held to be a good criticism of Job Centres.

15. MES Workfare people would get used as cheap labour or be put on to menial work

First, the word or notion 'menial' is unquantifiable and thus of no practical use. Placing one brick on top of another all day long, that is, bricklaying, is pretty menial work (particularly in a winter wind).

If the above criticism is valid, this presumably means we should stop building houses. Collecting the garbage, labouring, lorry driving, train driving and a hundred other occupations are not exactly intellectually stimulating. Presumably these activities should be banned also.

Furthermore, there are numerous jobs which are on the face of it far from menial, which those concerned cannot stick - for example more school teachers in the U.K. are actively seeking alternative employment than members of almost any other profession. This presumably makes teaching menial.

If the word 'menial' means anything at all, one of its chief constituents is the monotony of the work involved. This is exactly what MES Workfare would not involve, that is it would involve people in more variety than they would otherwise get.

It is interesting to speculate on why anyone should employ terminology that is for all practical purposes devoid of meaning. The answer is probably that they are not interested in doing anything of practical use; their main objective is to appear socially concerned and caring and this is most easily done by making poorly thought out criticisms of existing or proposed economic or social systems (which, like any unconstructive criticism, often just makes the system worse). Indeed the main purpose of this paper is to put right the effects of a collection of people who at best have hearts bigger than their heads and at worse are vociferous and incompetent

do-gooders; the instigators of minimum wage rules of one sort or another.

Some Final Remarks· Russia's Workfare

In July 1991 the Russians announced their intention of introducing unemployment benefit equal to half the national average wage. Furthermore the unemployed are to be allowed to do a limited number of jobs while still in receipt of their benefit, which of course has similarities to MES Workfare. But it remains to be seen how well this is administered. Given their other problems, the chances of it being administered with any sophistication are minimal at least for a year or two.

As to the employment system in Russia before the recent dramatic changes there, this amounted to workfare on a grand scale. There was no unemployment benefit, but a ready availability of low output jobs in the absence of productive ones, for those claiming to want work. The mistake under this system (as at least one Russian economist, Popov, pointed out (see Binyon (1981)) was that the pay for the low output jobs was often as not little different from the high output ones. Thus employers with relatively productive jobs on offer frequently could not fill the vacancies even though they knew there was suitable labour in the vicinity, labour engaged in near fatuous activities. So serious was this problem that Popov claimed unemployment was preferable to the 'high wage/unproductive' work. This experience will hopefully underline the importance of not offering too generous wages for MES Workfare jobs unless government employment agency job search efforts are greatly expanded to compensate.

As an alternative to unemployment, it is interesting to note that Popov advocated much the same as the typical workfare advocate. He claimed there are an infinite number of 'socially useful' things to be done, like keeping the streets free of litter, and that the unemployed be put on to this sort of work.

To paraphrase Popov with his claim that unemployment is preferable to high wage-unproductive work, the claim of this paper is that temporary, subsidised, modest wage/unproductive work with existing employers, for all its lack of

glamour, would reduce unemployment.

Appendix I: The Irrelevance of Cost per Job

The idea that cost per job created by a subsidy or J.C.S. is no criterion by which to judge it is not new, e.g. see Baily (1978) p. 51, or Wachter (1978) p. 82. However the latter and other authors do not pursue the matter at length, thus a more detailed and hopefully better argument is set out below.

The argument is in two halves: the first deals with subsidies that aim to lower the price of types of labour in surplus, so that demand can then be raised. The second half concentrates on the spurious claim that there is merit in minimising the additional demand per job.

The *reason* for J.C.S.s low cost per job is thus: employment subsidies and schemes can be divided into two categories. First there are those that *subsidise all* members of a particular type of labour, for example all youths. These will be called blanket subsidies. Secondly there are those that subsidise just the additional jobs created. These will be called marginal subsidies. J.C.S.s belong to the latter group, which clearly involves an apparently lower cost per job than the former.

The fundamental reason why cost per job is irrelevant is that the total cost is made up of two or three entirely different types of cost which in no way can be compared to each other. Thus the *total* cost per job is irrelevant. It is the make-up of this total, or the *type* of cost that is of supreme relevance.

It is generally accepted that there are at least *two* different types of public expenditure cost: first there are resource costs or real costs (for example expenditure on the military or on a civil engineering project) and secondly, transfers (for example transfers from taxpayers to old aged pensions). But there is a third not so widely recognised cost, sometimes called an unreal cost, which consists of government expenditure which ends up back in the very same taxpayer/consumers' pockets from whence it originated. This occurs when government subsidises something consumed by the population at large. To the extent that this expenditure

ends up in the form of lower prices for the very same people who paid the tax that financed the subsidy, such expenditure is not even a transfer.

Where the subsidy is implemented for no good reason, a straightforward distortion of prices occurs, and methods for calculating the resulting reduction in welfare or national income are adequately set out in the text books. Thus the total amount of the subsidy can be split into three types of cost. First there is a real cost, that is administration costs plus the reduction in national income. Second and third there are transfers and unreal costs.

Returning now to blanket employment subsidies, we are concerned here with subsidies of specific underutilised types of labour, the aim of the subsidy being to increase employment amongst the type of labour concerned, with, hopefully, little decrease in employment elsewhere in the labour market. Unless something is seriously wrong somewhere, national income does not decline, it rises. Thus one cannot talk of any real or resource cost being involved (apart from administration costs).

As to J.C.S.s, these for reasons spelled out in the main text involve a misallocation of *real* resources as compared to the allocation that pertains when the labour concerned is subsidised into employment with existing employers. The public expenditure costs on the other hand of blanket subsidies are largely unreal costs. That is, assuming the normal competitive processes are working, such expenditure (minus administration costs) ends up back in the taxpayer/consumer's pocket. Even if the normal competitive processes are *not* working properly, in other words if some of the subsidy leaks to profits, this is still primarily a transfer (from taxpayer to employer) and not a resource cost. Furthermore the fact of competitive forces not working properly is not a weakness in the blanket subsidy. It is a more general problem and will doubtless result in the misallocation of resources that have nothing specifically to do with the subsidy.

The above argument about the largely unreal nature of the costs of blanket subsidies is certainly valid if the labour concerned suffers excess unemployment merely because it is overpriced, for example because of minimum wage laws in the case of youths. In short, if the problem is an incorrect price then the solution, pretty

obviously, is to correct the price.

But, of course, an artificially high price is not necessarily the explanation or the whole explanation for the unemployment concerned, for example unemployment amongst youths is certainly on the high side to some extent because of youths' tendency to quit their jobs voluntarily more often than other groups. This, however, is no compensation for J.C.S.s. In other words the fact of an employment subsidy *not* being a cure for a particular type or cause of unemployment is no proof that a J.C.S. *is* a cure, for example it is very hard to see how a J.C.S. can get at the above mentioned tendency of youths to quit their jobs.

The conclusion is that the misallocation of resources caused by J.C.S.s involves *resource costs,* whereas while the public expenditure costs per job of blanket subsidies are higher than for J.C.S.s the former involve largely *unreal costs.* Thus the relatively low cost per job of J.C.S. is no merit.

Some readers may be worried that the above argument implies a vast expenditure on employment subsidies. One answer to this is that the sole purpose of blanket subsidies is to alter the relative price of different types of labour. This can be achieved as much by an employment tax as an employment subsidy, or by a combination of the two, that is taking the type of labour that is too cheap and subsidising the type that is too expensive (see Jackman (1986) for an example of this). Indeed for those who insist on claiming that subsidies leak to profits, a tax/subsidy regime is the answer, since this cannot involve any net leakage to profits.

Additional demand per job.

We now turn to a quite different and spurious cost per job argument which is concerned solely with net additions to aggregate demand. The argument is that increasing public expenditure creates more jobs than the equivalent amount of tax cut. Hence, so it is argued, the former is better value for money than the latter, or creates more jobs for a given impact on inflation than the latter. This is sometimes

cited in favour of J.C.S.s since these involve public expenditure rather than tax cuts. For example Richard Layard in an otherwise very informative and well worth reading study of unemployment uses this argument (Layard (1986) p. 90). For another example see Metcalf (1982). The basic flaw in this argument is that while some factors that influence demand per job *are* of relevance, others are definitely not, hence demand per job *as such* is not relevant. The fallacious demand per job arguments are as follows:

1. Raising demand does not involve any sort of resource cost: it merely involves printing more money and making book-keeping entries at banks. In the words of Armstrong (1978) p. 278, "Exchequer costs are illusory". Thus these costs cannot be compared to, or set against, the *real* benefits or *real* output from various forms of employment as Layard does. To illustrate with Layard's figures, Layard argues that the Exchequer cost of a J.C.S. job is £2,000 per annum, whereas the equivalent cost of a job brought about by tax cuts is £40,000 a year. Hence, so he argues, unless output from the tax cut job is more than 40,000/2,000 times more than the J.C.S. job, the latter will be better value for money. The fallacy here is that the *real* cost of the £2,000 is nothing at all, and the same goes for the £40,000. Thus the only relevant question is whether the tax cut job involves greater net product than the J.C.S. job and there are strong reasons set out earlier for thinking it does.

2. The main reason for the relatively large increase in demand per job required by the private sector is simply that the private sector *sells* its output whereas the public sector *gives away* its output for the most part. The extra demand is *required* by the private sector. To this extent, there is no reason why the additional demand a private sector job entails will cause any additional inflation.

3. Another argument sometimes produced by the 'low demand per job' enthusiasts is that the large demand required by a private sector job somehow seeps into the rest of the economy and causes inflation there. The answer to this is that if it did, it would cause additional employment there which means that the original demand per job calculation is wrong, which is a self contradiction.

4. It is not demand in isolation that causes inflation. It is the *relationship between* aggregate demand and aggregate supply that counts; to be more precise, it is the

spare capacity in the ultimate source of all supply, the labour market, that really counts. Inflation takes off when labour market spare capacity becomes inadequate. Whether this inadequacy comes about as a result of increased demand or not is irrelevant. Layard himself quite correctly makes this point in his Chapter 12 in which he argues against labour supply reduction cures for unemployment (early retirement, job sharing, job splitting, emigration, etc.).

In short, removing people from the dole queues and into work with little increase in demand is no great achievement, it can be done with *no increase in demand at all* in the case of early retirement, but this is no merit in the latter.

5. Another point sometimes raised by the low demand per job enthusiasts (which in effect is probably just a variation on some of the above arguments) is that the multiplier effects of some forms of employment creation are low relative to others. The answer to this is that a low multiplier is no demerit; it can be countered by in effect printing more money, and that costs nothing.

6. The above points themselves destroy one final argument put by the demand per job enthusiasts, namely the inflationary expectations argument. The argument is that if demand per job is kept down, people will not expect inflation, hence the latter will be ameliorated. The answer to this is that if the above five points are rational and people's inflationary expectations are rationally based, then demand per job will be irrelevant for them. For example, if government announced it was going to remove people from the dole queues and into jobs by means of early retirement, this would involve *no* increase in demand per person removed from the dole queues; but if the 'inflation expectors' behaved rationally they might well be right to expect inflation.

Having criticised some demand per job arguments, it is worth repeating that other demand per job arguments are valid. For example the unemployed tend to consist of the less productive members of the workforce, thus any measure to provide work for them will involve a relatively small increase in demand per job. But the fact remains that demand per job *as such* is irrelevant. As an illustration of this irrelevance, the main measure advocated in this thesis, MES Workfare, has a relatively low demand per job for the above reason. Also its cost per job in the sense used in the first half of the appendix is low because it is a marginal rather than blanket subsidy. On the

other hand the measure advocated near the outset for dealing with youth unemployment was a blanket subsidy, which involves a relatively high cost per job. There is no contradiction here: there are solid arguments behind both measures.

Finally, having criticised one small part of Layard's work, readers not already acquainted with his work are advised that if they want to read something worthwhile on unemployment, they cannot do much better than read Layard's works.

Appendix II: Weaknesses in some criticisms of job creation schemes

This appendix concentrates primarily on J T Addison's 1979 paper entitled 'Does Job Creation Work?'. This is one of a collection of papers in a book entitled 'Job Creation - or Destruction?'

The first weakness in this paper is its definition of the phrase job creation. The phrase is used to start with simply as a synonym for 'employment subsidy'. There is in fact no sharp dividing line between J.C.S.s as defined earlier in the main text of this present paper and employment subsidies: a J.C.S. is simply an employer who is in receipt of a subsidy that is so large or is structured so that the employer can pay little attention to the usual requirement placed on employers namely that they minimise numbers employed.

The first two sections of Addison's paper deal with employment subsidies pure and simple. The third section is entitled 'Public Sector Job Creation'. There is no indication as to whether he has in mind subsidies for the public sector operating *alongside* similar subsidies for the private sector, or whether he has in mind the *concentrating* of subsidies in the public sector or parts of it thus turning the latter into something similar to J.C.S.s as defined at the outset of this present paper. However, we shall assume he means the former to start with, and then the latter and demonstrate that his arguments are about equally invalid in both cases. His third section makes three points. The first is that some efforts to subsidise types

of labour in surplus have failed because the subsidies have been diverted to the employment of normal labour. The answer to this is that numerous examples of the above type of subsidy have *succeeded* in their aim; in other words the fact that one or two attempts at administering something have involved incompetence does not prove that all present or future attempts will also involve incompetence. If of course there is some fundamental theoretical reason for thinking the above sort of subsidy can never be efficiently administered, then we need to be told what this is.

Point number two attacks the short term nature of the jobs created. The answer to this is given under 'criticism No 7' in the main text. Addison then points to the contrast between the relatively high skill content of public sector jobs vis-a-vis the relatively large amount of unskilled labour amongst the unemployed. The answer to this is that as long as the marginal product of unskilled labour with an employer is positive, there is scope for subsidising the labour into work with the employer. Indeed the logical extension of Addison's argument would seem to be that since the unemployed are *invariably* relatively unskilled compared to the employed workforce even in 1930s type depressions, unemployment can never be reduced even if it is at 1930s levels - a patent absurdity.

Under this third point Addison also claims that "As a general rule, although some managers in the public sector will have an incentive to produce efficiently, even here more factor inputs (workers) will be employed than are required on profit maximising grounds". The fallacy in this point is that it is a *general* weakness in the public sector, not a weakness in employment subsidies or J.C.S.s as such. It is moreover not a very good argument against the public sector: the electorate in most countries is happy to see the public sector constitute up to half their economies despite being well aware of the above weakness.

Let us now assume that Addison has in mind *concentrating* employment subsidies in the public sector, that is that he has in mind something nearer J.C.S.s as defined near the outset of this present paper.

Point No 1. The answer is the same. One instance of administrative incompetence does not prove all other instances present or future are or will be incompetent.

Point No 2. Addison's criticism is valid here. In other words it is not desirable to concentrate short term jobs on one sector of the economy for reasons given in the main text.

Point No 3. Addison's points are again invalid for reasons given above.

Finally, lest the reader gets the impression that works by J T Addison are not worth reading, this is far from the case. The sole purpose of this appendix is to illustrate that criticisms of' J.C.S.s to date seem to be a long way short of competent for some strange reason. There is no question but that had Addison really tried, he has the ability to put some much better arguments than the above.

Apart from Addison's contribution to 'Job Creation - or Destruction?', there were four other contributors. None of the arguments they deploy exactly leave J.C.S.s reeling.

Another attack was made on J.C.S.s by Milton Friedman (1976). This simply made the claim that money spent on a J.C.S. is money not spent elsewhere, so jobs created by a J.C.S. are jobs destroyed elsewhere. This of course is an over-simplification. However the article concerned was in Newsweek, not a publication in which one would expect any economist to produce his most sophisticated arguments.

Appendix III: The flaw in traditional marginal employment subsidies.

Subsidies can be divided in to two types. First there are marginal subsidies which subsidise or aim to subsidise just the additional units produced as a result of the subsidy. Second there are what are sometimes called “intra-marginal” or “average” subsidies. The latter type of subsidy subsidises ***all*** members of the target group, e.g. all youths or every employee in the country or all cabbages.

Marginal subsidy proposals have been around for a long time and probably the most popular (which will be called a “traditional marginal subsidy” (TMS)) is the idea that

each firm should be rewarded in proportion to the ***expansion*** in its workforce compared to some starting date.

With a view to illustrating the flaw in this idea, let us assume that people hired as a result of TMS are hired fairly quickly after its introduction, say within a month (and same goes for MES Workfare).

Ironically, there would be no difference between MES Workfare and TMS for the initial month or so. That is, employers would react (as pointed out above) by hiring whichever members of the dole queue they thought were most suitable. Let's say employers are induced to employ X% of the unemployed.

Put another way, any system which compensates employers for the unsuitability of this X% ***at any particular point in time*** will result in a reduction in the natural level of unemployment. But there is a problem. The actual set of people making up the two groups "perfectly employable and not requiring a subsidy" and "unsuitable and thus requiring a subsidy" are constantly changing. That is, employers constantly lose staff through retirement, voluntary quits and so on. And apart from that, employers' labour and skill requirements are constantly changing.

Thus a few months after TMS starts, employers will be looking for an assortment of different types of labour to replace those who have retired, quit or fallen ill (in exactly the same way as they were doing before the subsidy started).

But the big difference between the initial week or month of the subsidy and the situation a few months down the road is that in the former case the employees taken on were all relatively unsuitable, and employers were compensated for this unsuitability. In contrast, a few months down the road, employers do not just require relatively ***unsuitabl***e labour: they require ***all*** types of labour, including the highly skilled and the "very suitable" (who have retired, quit voluntarily, etc). And these latter types of labour just aren't there in the dole queue in sufficient numbers. (Remember the natural level of unemployment: there is a minimum feasible amount of unemployment for a given level of demand).

The latter point can be put another way. On implementing the subsidy, it is obvious

to employers (and everyone else come to that) which employees are being subsidised. In contrast, a few months later, the subsidy simply becomes a monthly cheque that comes from government which is not obviously applicable to any particular set of employees. Most importantly, the subsidy is not even necessarily applicable to the employees who were initially taken on as a result of the subsidy because not all of them will still be unsuitable. For example, some will have gained firm specific skills and will have become perfectly viable without the subsidy. In addition, most employer's labour requirements will have changed over the months, and some employees who were perfectly suited to their work are allocated to different jobs within their firm, jobs to which they are not so suited. Some of these latter employees in the absence of the subsidy and rise in demand would have lost their jobs and would have been available to help other employers fill vacancies. Unfortunately they are ***not*** available.

Conclusion: a few months after implementing TMS, its modus operandum evaporates.

Appendix IV. Fiat money and Chartalism.

This paper started by considering government as employer of last resort (ELR) and then argued towards something which is hopefully more sophisticated. It is thus of relevance to mention another theory in connection with ELR. This theory has a long history and is currently being promoted mainly by L.Randall Wray. References to the latter's publications will not be given because they are numerous, and these works are easily obtainable by entering relevant terms in a search engine (e.g. "Randall Wray", "fiat money" "employer of last resort"). Also the works which criticise the "fiat money / Chartalism" idea are easily available this way.

The basic idea of Chartalism is that fiat money derives its value not so much from the factors set out in economics text books, but from the fact that governments are the issuers of the money, and secondly the fact that citizens need this money to pay taxes. The idea is normally illustrated by references to economies where some form of fairly dictatorial government issues money and demands taxes and can reap

various advantages for itself from this arrangement.

These alleged characteristics of fiat money, so the argument goes, give government the ability to create large numbers of last resort public sector jobs. There are a huge number of weaknesses and flaws in this argument, as follows.

1. Clearly in dictatorial regimes a government which issues currency and collects tax can reap rewards for itself: such a government is simply exploiting monopoly powers. Such a government also has powers to set up ELR schemes and force or induce the unemployed to do this sort of work – powers not available in democracies.

However in democracies there are limits to the monopoly powers that governments can exploit. For example state schools and hospitals are effectively in competition with their private alternatives. If the former do not produce reasonable value for money, relative to the latter, the government gets booted out at the next election. Or citizens campaign for the removal of offending bureaucrats or politicians. (In the UK, state schools gain more “pupil qualifications” per £ than private sector schools. Thus state schools perform very satisfactorily on average. Private schools ARE higher standard, but this is only achieved by “throwing money at the problem.”)

In short, governments in a democracy are little more than glorified conglomerates, which have to produce reasonable value for money. The fact that payment by citizens to governments is called “tax” is irrelevant. One could equally well call the payment that people make to other large conglomerates, e.g. supermarkets, a “tax”.

2. In extremis, food and shelter takes priority over taxes. That is people are far more in “need” of money for the purpose of buying food and obtaining shelter than for the purposes of paying taxes. Indeed, people do not even need to go hungry before they start refusing to pay taxes. The refusal of large numbers of people in the UK to pay the “poll tax” in the 1980s was an example. Many of these people were not desperate for food or shelter: doubtless half of them consumed beer and cigarettes, and owned cars.

3. While governments do have a monopoly on the issue of base money, this is near irrelevant: between around 2000 and the peak of the boom just before the credit

crunch of 2008/9, commercial banks created so much money that the monetary base became almost irrelevant.

Another point which suggests that governments are of limited importance to the whole fiat money question is the fact that the UK was off the gold standard (i.e. it had a fiat currency) for longish periods between World War I and 1946 when the Bank of England was nationalised. I.e. the UK's fiat currency in this period was administered by a private bank, not by government.

Against that, it should be mentioned that a fiat currency, to a much greater extent than money which consists of a rare metal (or is backed by a rare metal) depends crucially on the rule of law. And it is governments which create and enforce laws. Put another way, gold forms a good currency in a relatively lawless society where for example anyone with a printing press can print fiat currency, or open a bank and run it in a fraudulent manner. But while in practice every government plays a large role in organising its fiat currency, a system where government just framed and enforced the laws, but privately owned banks administered all aspects of the fiat currency would be perfectly feasible: approximately the arrangement in the UK between the two world wars as mentioned above.

4. The claim that control of the monetary base enables governments to set up ELR schemes is nonsense. As will be clear from the rest of this paper, there is no big budgetary problem in setting up ELR systems. This is first because in most developed countries the unemployed get some form of payment anyway: unemployment benefit. A public sector ELR system in which those concerned just received more or less what they would have received in benefits with no expenditure on skilled permanent employees to run the system, or materials or capital equipment would be highly inefficient. That is, additional sums would be needed to attract skilled permanent labour, materials, and capital equipment away from the existing economy. But this is not a big problem. The relevant sums can come from tax.

5. The whole "fiat money / ELR" idea seems to be getting nowhere. There do not seem to be any papers in leading economics journals on the subject.

6. The claim that citizens need "the government's money" with which to pay taxes is

certainly not true in the UK, which has a perfectly viable fiat currency. Citizens can pay taxes with anything they like: houses, lumps of gold or antique furniture. This method of paying taxes is extremely unusual because of the sheer inconvenience, but it happens from time to time. (The UK tax authorities fall over themselves to be flexible if it facilitates relieving citizens of their worldly wealth!)

The above “barter” point could be answered by saying that the tax authorities are bound to convert the above sort of physical commodities into fiat currency upon receiving them, and hence that the tax is effectively being paid in the fiat currency. But this latter argument is invalid: the important point is that the tax liability is extinguished by giving the physical commodity to the tax authorities. Period. End of story.

Of course the tax authority will almost certainly convert the physical commodity into the fiat currency, but if the tax authority was operating in a country with some other form of currency it would do exactly the same: that is convert the physical commodity into the dominant currency in the country concerned. Thus this conversion has nothing to do with fiat money as such.

7. Any idea that because governments issue base money and collect tax that therefore they can print money willy nilly or let demand go through the roof so as to help them set up ELR systems is plain nonsense. Indeed, advocates of Cartalism seem to start their works with eloquent displays of concern about unemployed resources, labour in particular. They then tend to claim that Chartalism facilitates additional spending. However they are normally very quiet on why or to what extent the generally accepted sources in inflation (skilled labour shortages) have been moderated.

8. Chartalists often claim that it can bring price stability if the wage of ERL people is fixed, and all other prices are allowed to adjust themselves relative to this price. But it would be possible to do exactly the same with any other commodity. For example it would be possible to control inflation by concentrating solely on the price of cabbages. If the price of cabbages rose, demand could be curtailed or reduced until the price of cabbages declined to its target level. Exactly what is achieved by this strange form of inflation control is a mystery.

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