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Creating Jobs – the Role of Government: Introduction

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Abstract
This article introduces the papers presented at the conference 'Creating Jobs – the Role of Government' held at the Australian National University, 6-7 September 2001, and offers some critical comments on what was learned at the Conference and on where further research is still required.

This issue of the *Australian Journal of Labour Economics* contains papers presented at the conference 'Creating Jobs – the Role of Government' held at the Australian National University, 6-7 September 2001 and jointly sponsored by the CEPR and the Public Policy Program at ANU and the Melbourne Institute. The aim of the Conference was to explore policy options for the reduction of Australia's unemployment.

The story of Australia's recent unemployment experience has been told often (for surveys, see, for example, Borland and Kennedy, 1998; and Dawkins, 2000). Also, we know a lot about the unemployed in terms of socio-economic characteristics such as age, sex, educational attainment, ethnicity, language skills, occupation and industry of previous employment, if any (see Le and Miller, 2000). However, despite the fact that Australia's unemployment has remained persistently above the level consistent with what most people would regard as full employment for nearly 30 years, economic and social policy makers have been either unable or unwilling to achieve full employment.

For Dr Ken Henry, Secretary to the Treasury, who opened the Conference, this has been a matter of choice. Echoing remarks made at a previous CEPR conference on unemployment in 1993 by his predecessor at the Treasury, Mr Ted Evans, Dr Henry told the conference that the unemployment rate that we are experiencing is the result a particular set of choices that have been exercised. He argued that government can best achieve a reduction in unemployment through the adoption of policies which promote the rate of output growth. These he identified as being a disciplined fiscal policy with a clear medium-term strategy, microeconomic reform, including labour market reform, and improvements to the tax transfer system which minimise the deleterious effects of taxes and transfers on labour supply.

The first of these policies, by which he presumably meant a fiscal strategy which achieves a balance between expenditure and revenue over the cycle, is deemed important because of the consequent growth-enhancing effects on real interest rates and the real exchange rate; the second, microeconomic reform, because of its effect on the level and growth of potential output and improvement of the capacity for growth which would be reflected

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in lower unemployment; the third, tax and transfer reform, because it will reduce the adverse effects on employment that may arise if these policies are poorly designed (by containing, for example, high effective marginal tax rates which lead to poverty traps). Henry pointed out the remarkably good growth performance of the Australian economy by international standards since Evans set this agenda for unemployment reduction in 1993 and noted that the sectors that experienced the strongest productivity growth over the 1990s were, generally, those that had been subject to the most deregulation and those subject to the most competition.

These themes were repeated at various points throughout the conference. However, appealing as these observations are, they do not explain much of the unemployment *reduction* that actually occurred through the 1990s, even though they might be desirable policies more generally for promoting growth (and, of course, growth of output is essential for growth in employment).

As Dr Barry Hughes pointed out in the Reserve Bank conference volume surveying the Australian economy in the 1990s, growth and unemployment reduction have certainly marched in step over the recent decade, but not in any reassuring way which would suggest that growth promotion *alone* can be counted on for further unemployment reduction (Hughes, 2000). A quick back of the envelope Okun analysis by Hughes shows that when labour productivity growth in the market sector is accounted for and labour supply growth is factored in, there is very little left over for the demand side of the labour market to explain in relation to unemployment reduction. It appears that the failure of an encouraged worker effect to materialise, especially in regard to women workers, at least for most of the 1990s and in to the 2000s, is a major factor in explaining a good deal of the observed fall in unemployment. Hughes argued that this has little or nothing to do with growth enhancement policies.

More reassuring is the improvement in the productivity-employment nexus, where the substantial and remarkable increase in productivity in Australia that has occurred since the mid-1990s has been accompanied by employment outcomes better than those suggested by the historical relationship between economic growth and unemployment reduction (see Hughes, 2000). This is often attributed to the beneficial effects of microeconomic reform on labour market flexibility, but such links are extremely difficult to tie down with any empirical precision (see Loundes et al., 2002). However, as Professor Bob Gregory argued in his summing up of important topics not covered in sufficient depth at the conference, total jobs growth and falling unemployment (albeit, slowly) mask a deeper malaise that has characterised the Australian labour market of the last ten years in particular, and that is the failure of the labour market to generate sufficient full-time jobs despite relatively high levels of economic growth. This, he argues, masks deeper social and economic problems and leads to unwarranted optimism as to the success of employment generating policies. He suggests that whereas the fall in unemployment that accompanied recovery through the 1980s was principally the result of full-time jobs growth, the fall in unemployment over the 1990s was due in large part to a fall in full-time labour supply (a point consistent with Barry Hughes' Okun-type analysis).

Gregory argues that the weakening of the centralised wage fixing system and moving the wage bargaining process to the workplace has not been successful in creating sufficient full-time job growth.[1] Employment and wage data show that relative wages

[1] Gregory dates the effective start of the labour market reform sometimes at 1990 and at other times at 1996. Of course, it is always difficult to date precisely the effective start of a complex policy when policy development is a process that occurs over time (arguably over the entire period from 1986 to now).

have moved in favour of lower-paid casual and part-time workers at the same time as employment has also moved decisively away from permanent full-time jobs.[2] Also, for the twenty years prior to the period of labour market reform (1976 to 1996) median real full-time earnings did not increase, while the full-time employment-population ratio continued to fall, casting doubt on the proposition that labour market flexibility in the form of feasible real wage moderation will boost full-time jobs. Gregory's pessimism about the employment-generating capacity of relative wage changes brought about through labour market reform is stiffened by the observation that over the past 25 years, full-time earnings at the 10th percentile have not increased in real terms and have fallen 15 per cent relative to the median, without substantially generating sufficient full-time jobs for these workers. These observations have important implications for an employment policy based on real wage reductions for low income earners. As Gregory said '[f]or policy advisers who have argued that a deregulated labour market would moderate real wage growth, produce real wage reductions at the bottom of the wage distribution and create full-time jobs, these are disturbing outcomes.'

Much further work needs to be done to support with firm and unequivocal evidence the link that Henry makes between microeconomic reform, labour market flexibility and employment growth, a link which is made intuitively by many economists and other commentators.

Whereas Henry stressed the importance of policies that enhance the demand for employment as a result of economic growth, the keynote speaker of the Conference, the Brookings Institution's Dr Gary Burtless, asked whether supply-side policies can reduce unemployment. Drawing on recent US experience, which can usefully be labelled as 'welfare to work policies', he suggests that policies which target the labour supply of low skilled, low income earners and welfare recipients can significantly boost employment, especially of hard-to-employ individuals, and can also keep structural unemployment to modest levels.

Supply-side policies can either enhance the attractiveness of work for the unemployed by improving the incomes or circumstances of the jobless who accept jobs (for example through basic education and training) or by increasing the incentive for employers to offer jobs to the unemployed (wage subsidies for employing the long-term unemployed, for example). Or they can make remaining jobless less attractive to the unemployed by increasing the difficulty of accessing or remaining on social welfare (for example, by requiring specific actions to be undertaken in searching for a job or by reducing the time limit for welfare assistance). These policies, for the most part, are not similar in terms of the demands they put on taxpayers, nor in terms of social objectives. Whereas the former set of policies might be more directed at increasing the living standards of the unemployed, they are typically more burdensome to taxpayers. However, the latter policies increase the burden on the unemployed while reducing the burden on the employed.

As Burtless suggests, this contrast raises an important question about the goal of public policy concerning unemployment. Is the goal to reduce joblessness and increase the living standards of the unemployed, or is it to improve the performance of the job market and to reduce net burdens on taxpayers? Ideally, good public policy should achieve both goals. But, as Burtless reiterates, the harsh reality is that it is often difficult to accomplish both goals at the same time.

[2] Gregory's inferences are somewhat problematic in that data are for weekly earnings and not for hours.

His assessment of recent US evidence suggests that two supply-side policies that have been introduced or greatly expanded in the US since the mid-1980s have dramatically increased the employment rate of targeted groups of disadvantaged people. These policies were the expansion of earned income supplements for low wage workers and the substantial limiting of the time of access to US social assistance programs for all social security recipients. These programs especially affected employment rates of parents, because one of the policies, expanded earned income supplements, was directed particularly at low income earners with dependents.

Burtless is clear in saying that, while these 'welfare to work' policies have undoubtedly achieved much higher employment levels and lower unemployment in the US, they have not had only benign outcomes. In conjunction with a falling minimum wage, they have led to an expansion in the numbers of the working poor and have increased the burden on the non-working poor. Also, whilst limiting access to social welfare and making access more stringent has reduced the burden on taxpayers, the expanded earned income credits policy is expensive.

He concludes by making an important point, one that is obvious but is often not recognised sufficiently by many economists. This is that policy is constrained as much by the political environment and the political wishes of the electorate as by economic argument. He judges that the US electorate is less sanguine about costly and extensive welfare systems for the non-working poor than may be the case in, say, Europe. It is an open question as to what the sentiment of the working segment of the Australian electorate is in terms of its preparedness to sacrifice its own disposable income to ensure the living standards of those in receipt of social welfare, including the unemployed, and to what extent it is willing to see the development of a substantial number of working poor, as may be the case if Australia follows recent US policy directions.

This choice may be looming as a major issue, given Bob Gregory's observation of the very substantial increase in the proportion of the population of workforce age receiving full-time government income support payments (from less than five per cent at the end of the 1960s to over 20 per cent today). Moreover, Gregory finds some evidence that there has been a significant increase in the number of the unemployed moving from unemployment to other income support programs. Therefore concentrating on just the unemployed is misleading in terms of judging labour market policy outcomes. The task of policy to boost full-time job-creation to make significant inroads into the numbers on welfare is daunting and becoming even more difficult, according to Gregory, given the numbers on welfare. For example, to get the number of welfare recipients receiving full-time income support back to levels prevailing at the beginning of the 1990s requires over 500,000 full-time jobs to be created over and above those needed to account for population and productivity growth. Over the 1990s, the annual average growth of full-time jobs was 35,000.

The US evidence is of direct relevance in assessing the contributions of three papers presented at the conference: those of Mr Mike Dockery and Dr Beth Webster, Professor Peter Dawkins, and Professor Bill Mitchell and Dr Warren Mosler. Dockery and Webster review Australia's recent experience with active labour market programs (LMPs). They find that there is some evidence that some specific programs, especially tightly targeted programs (for example, long term job creation schemes, targeted services for older unemployed, skill enhancement programs for the 'school weary' and English classes for those from non-English speaking backgrounds with poor English language skills) do reduce the numbers of long-term unemployed and do increase subsequent spells of employment. However, they also find that the effects of LMPs are disappointingly small and in many cases are achieved at high cost.[3,4] In general, however, the evidence is muddied by insufficient or inadequate evaluation studies. Specifically, they argue that there are too few independent studies, that is, studies independent of government agency evaluations; that too often appropriate methodologies are not used, especially random assignment experiments to minimise selection bias issues; and that at the root of these problems is often a lack of appropriate data.[5] Disturbingly, in some cases independent researchers seem unable to access extant agency data (although Dockery and Webster do note some recent improvements here). Along with more rigorous evaluations, they call for a more explicit targeting of LMPs based more firmly on the measured characteristics of the unemployed. However, the major conclusion, that the net impact of LMPs is either small or very small, is consistent with the international evidence on LMPs and raises the question of whether a more radical approach, such as that pursued in the US, as discussed by Gary Burtless, is needed in this country.

Professor Peter Dawkins thinks so, at least in terms of one arm of the U.S. policy package: the use of earned income tax credits (EITC). Dawkins reiterates the 'Five Economists' Plan' which essentially argues for a policy which delivers real money wage restraint at the lowest wage levels in exchange for an EITC scheme, similar to that in place in the US.[6] He starts with the observation, based on the work of Sue Richardson and Anne Harding (1998), that changes in award wages, presumably a different policy aimed at affecting the incomes of low income families than that of the Plan, is a very blunt instrument in that low wage earners are spread throughout the distribution of family incomes.

Dawkins then presents a number of simulations from a variety of sources on various aspects of the tax credit proposal on low income families, on the distribution of income and employment. He finds persuasive evidence for the efficacy of the Plan in raising the incomes of low income households and the level of employment, both in aggregate and for those with low skill levels who are likely to be earning low wages when employed. He then responded to a large number of criticisms that have been made of the Plan, concluding that it remains robust after due consideration of these criticisms.

Nevertheless, several criticisms of the Plan remain controversial. The first major criticism is the hoary issue of the wage elasticity of employment both in aggregate and for various types of labour, a point explored by Professor Jeff Borland in his comment on the Dawkins paper, by Gregory in his summing up and by Professor Phil Lewis in his contribution to the Round Table Discussion, which concluded the conference. Borland finds some empirical support for the direction of the employment and unemployment effects of the Plan, but finds smaller numbers than does the Dawkins quintet (although the discussion at the Conference revealed something of a convergence towards Borland's position). Gregory argues that indeed the real wage reductions, especially for lower

[3] Where policy has explicitly incorporated evaluation objectives and, therefore, the systematic collection and publication of appropriate data as part of LMP implementation, as, for example, was evident in the Working Nation initiative of the mid-1990s, much useful information about program effectiveness has been found. However, this policy was only in place for a very short time.

[4] Lewis also makes the often forgotten point that the effectiveness of supply-side policies also depends on the elasticity of labour demand.

[5] Nevertheless obtaining and maintaining non-problematic randomised assignments is not a trivial problem as Denise Doiron points out in her comment on Dockery and Webster's paper.

[6] The 'Five Economists' Plan' had its genesis as a letter to Prime Minister Howard in October 1998 - the five economists being John Freebairn, Ross Garnaut, Michael Keating and Chris Richardson and Peter Dawkins. The Plan has subsequently generated a widespread debate and much published work either amplifying and refining the Plan or criticising it.

income earners, which would be necessary to achieve substantial full-time employment growth are just too large to be feasible.[7] This crucial empirical issue remains unsettled and, as Lewis suggested in the Round Table, this is a priority for future research.

The second issue, which is stressed by Professor Patricia Apps in her comment on the Dawkins paper, is the affect of an EITC scheme based on household incomes on dual income families where the individuals that make up the household have low rates of pay. Apps argues that high effective marginal tax rates will apply to the low wage secondary earner, typically the mother, as the earned income tax credit is withdrawn. She argues that this may have substantial disincentive effects on labour supply which outweigh the positive employment effects.

Professor Bill Mitchell and Dr Warren Mosler have an altogether different approach to LMPs and the 'welfare to work' policy plus EITC approach to reducing unemployment. Mitchell and Mosler argue, first, that policy choices have led to the current high level of unemployment through what they perceive is an erroneously over-cautious approach to inflation control through monetary and fiscal policies. They argue that if the government's budget constraint is properly understood, then there is not a problem for aggregate price stability when there is deficient aggregate demand. Therefore, they argue, the government can and should guarantee jobs through public sector employment. There are important questions that could be asked about the nature of such employment – for example, Professor Raja Junankar asks what jobs would those on the jobs guarantee scheme do, how would their wages be determined and what would be the incentive effects as a result? However, a government job guarantee is not the most controversial part of Mitchell and Mosler's proposal. It is how the jobs are to be paid for by the government, that is, how the job guarantee scheme affects the government's budget constraint. According to Mitchell and Mosler, there is no financing constraint on public sector job creation when there is deficient aggregate demand. In these circumstances, the aggregate price elasticity of output supply is close to infinity over what they perceive as the relevant range for policy purposes. Several conference participants, in accord with Mitchell and Moslers' discussants, recorded strong differences to the policy perspective offered by the paper and saw their dismissal of a government budget constraint as radical and unorthodox.

It is the belief of at least one of the authors of this Introduction that it is perhaps only mildly controversial to suggest that deficient aggregate demand has been at crucial times, such as the early 1980s and early 1990s, the root cause of the development of high unemployment and that appropriate expansionary fiscal and monetary policy at that time would have alleviated it before it became entrenched.[8] Further, there are good economic arguments to support increased levels of government spending on infrastructure that will reverse the huge welfare costs that persistent unemployment has imposed on the Australian economy (see Kenyon, 1997, for the arguments, and Kenyon, 1998, for the costs).[9] However, most unreformed Keynesians of this ilk, while

[7] This point is supported by the careful analysis of the international and Australian labour demand elasticity literature by Borland and Woodbridge (2000) who find that employment effects are likely to be small and a long time in coming, with the consequence being a small effect on measured unemployment.

[8] The reason for unemployment becoming entrenched at relatively high levels is a complex story, and one too complex to do justice to here. However, an incomplete list of explanations includes: wage bargaining by 'insiders' which ignore the plight of the unemployed 'outsiders', with this neglect becoming greater as the duration of unemployment lengthens; skill atrophy and loss of employability characteristics which increase with duration; a range of equilibrium rates of unemployment brought about by attitudes of workers towards income loss; policy bias towards inflation; and the role of income support on the incentive to search for work whilst unemployed.

[9] Given the huge welfare loss due to unemployment, it is rather finicky to worry overly much about the absolute efficiency of public infrastructure spending – surely it is better to get close to the efficiency frontier from well within it than worry if the public spending to boost aggregate demand might leave us a little short. Nevertheless, McDonald's concern about meeting adequate cost-benefit criteria for public projects is a valid one: see McDonald (1997).

sympathetic to Mitchell and Mosler's call for increased government spending to generate higher levels of employment and lower unemployment, would balk at the notion that the government does not face a budget constraint in spending whatever it needs to in order to address deficient aggregate demand.

The basis for the Mitchell-Mosler position is that, as the monopoly supplier of the currency, the government can pay for whatever spending it wants to undertake. The public must, initially, hold whatever level of outside money the government decides to issue through its spending decisions. However, the resulting excess liquidity has to go somewhere – Mitchell and Mosler correctly say that the excess liquidity will be 'drained' by the central bank selling government securities, assuming that the central bank does not wish to alter the cash rate.

However, as Tony Aspromourgos argued, this leaves out a very vital step, the effects of the subsequent portfolio rearrangement that the public will make to bring its demand for money and bonds into line with the supply of money and bonds on the level of activity and the aggregate price level. The effects will be through spending decisions which will affect *both* activity and the price level and, moreover, that the range of output growth over which there is an aggregate inflationary effect is considerable and very relevant for policy purposes. This Mitchell and Mosler deny. They write '… an economy constrained by deficient demand (defined as demand below the full employment level) can respond to a nominal impulse by expanding real output. *We refute the inevitability of the association of inflation with monetary growth within relevant capacity utilisation ranges*.' (Emphasis added).

As the second discussant, Raja Junankar, puts it, Mitchell and Mosler downplay one of the key characteristics of money: its store of value characteristic. It is this which gives substance to the government's budget constraint through the decisions of the public to adjust its holdings of money to desired levels through spending decisions. There really are no free monetary lunches, as too many central banks have discovered in the past and which Australia's has, advisedly, never been tempted to try and find.

Mitchell and Mosler resort to what many regard as monetary unorthodoxy, but they do not need to as they do not need to in order to make the case for increased government responsibility for maintaining full employment. What they would need to say, however, as most orthodox Keynesians do say, is that this means tough choices for taxpayers.[10] The employed will have to make sacrifices if the unemployed are to have the opportunity to leave unemployment in significant numbers through the route of government-funded projects. There are quite a few public goods (and services) that, for example, Grant Belchamber and Peter Davidson discussed in the Round Table, where there is a good case for an expansion in public provision in order to better satisfy the community's preferences for a more civilised society and which has the consequence of lowering unemployment as well.[11]

This leads us to Dr Mardi Dungey's paper which, through macroeconometrics, makes the case that in the face of international shocks, activist domestic macroeconomic policy choices do make a difference to domestic economy outcomes. Her focus is on monetary

[10] A point made clearly by both Grant Belchamber and Peter Davidson in their contributions to the Round Table.
[11] There is no way in economic theory that *a priori* we can determine the split between public goods and services and private goods and services through market determined preference revelation. Claims to the contrary are ideological and not scientific claims. Thus the role of the government in the provision of these goods and services is a politically determined decision, and not one dictated by economic principles. There are implications here, also, for local public good provision through LMPs.

policy, although the analysis can be extended to fiscal policy by analogy. Building on earlier work by Dungey and Pagan, (2000), Dungey specifies a minimalist structure which is based on two key assumptions: firstly, a small country assumption whereby Australian conditions do not impact on the foreign sector (proxied by the US economy) and, secondly, the assumption that the Australian economy reacts to foreign conditions through GDP, investment and financial markets (Tobin's Q and the exchange rate). Monetary policy operates on the real economy with a short lag (two quarters). Dungey shows the importance of monetary policy in two episodes: the late 1980s and early 1990s and in recent times. According to this model, in the earlier period monetary policy tended to reduce GDP below what it otherwise would have been (the recession we had to have?) whilst in the latter period it acted to boost GDP above its counterfactual level. Policy does matter in a small open economy like Australia's for the path that GDP follows.

As Dr David Gruen observes in his commentary on Dungey's paper, this obviously matters for labour markets and it is incumbent on policy authorities to use macroeconomic policy for employment targeting as well as inflation targeting. Perhaps, given his employer, it is unsurprising that Gruen attributes the solid performance of the Australian economy in reducing output variability to the actions of policy authorities and the pursuit of a dual objective of price stability (or, more accurately a modest inflation zone) and output stabilisation (around a growth path). However, this is too churlish! Mardi Dungey's results do support this conclusion with strong empirical evidence.

The Round Table Discussion at the end of the Conference contributed many other observations about the nature of the unemployment problem, the failure of the Australian economy to generate full employment and the various policies which have been tried (and not tried) to deal with these problems. There is much work still be done to fully understand the issues. We conclude this Introduction by reflecting on what we have learned and provide some thoughts on where further research may fruitfully be directed.

Concluding Comments

What have we learned from this conference?

The first point is that unemployment is but one, and maybe not the most important, indicator of the structural problems that have beset the Australian labour market for the last 25 years and the failure of policy to deliver sufficient jobs growth to achieve full employment. Despite relatively high economic growth over the past decade, and despite the extensive microeconomic and labour market reform, the economy is not generating sufficient full-time jobs. One of the consequences is that the proportion of working age population on full-time government income support has increased dramatically and that much of the fall in unemployment that occurred in the 1990s can be explained by changes in the effective supply of labour. The demand for labour is simply not doing the job! The nature and causes of the significant jump in welfare support is an area that needs a very large research effort.[12]

[12] For example, a number of questions come to mind when looking at the figures presented by Bob Gregory before these data are accepted as an accurate picture of changing social trends, and not just an artifact of the data. For example, how much of the data reflect shifts between welfare provision by the States and welfare provision by the Commonwealth? How much of the data reflect a shift in social security policy away from dependency-based payments for women? This is significant because, for example, an unemployed couple now receives two payments instead of one. Is the increase in income support a reflection of an actual increase in numbers of people dependent upon the government, or a reflection of a different method of welfare provision? Much welfare provision used to come through institutionalisation (psychiatric hospitals, asylums, orphanages, hostels and the like) and would have constituted government support but not support to individuals. There are also substantive research questions, too, which are not simply concerned with artifacts of the data: for example, the effects of improvements in the health system leading to more people surviving trauma but living with disabilities; the effects of population ageing on aggregate disability rates and so on. We thank Jan Wright and Peter Davidson for these observations.

Evidence from the US does suggest that tough supply side policy – 'welfare to work' policies – do work in the sense of reducing the numbers on welfare and increasing the numbers in work, especially the hard-to-employ. But this is a tough choice for both for the disadvantaged and for voters. Tough 'welfare to work' policies create the very real possibility of significant numbers of working poor, and the alleviation of their poverty through income supplementation, through, for example, an earned income tax credit scheme is costly for the government. However, the budgetary implications are only one consequence, and perhaps not most important.

The creation of a class of a significant number of low skilled, disadvantaged people who are unable to earn sufficient income from full-time work in the labour market to remain out of poverty and who depend on income supplementation from the government does not constitute a well-functioning labour market. Moreover, it is a system which will put significant strain on taxpayers. We cannot foresee how, if such a model constituted a long-term arrangement, the system could prevent significant social division and unrest. Such a model does not seem a model of a stable and well functioning polity.

Moreover, there is considerable doubt as to the efficacy of relative real wage reductions for low income earners complemented by an EITC scheme. There is considerable doubt about how such a policy program would actually achieve the results suggested for it by its proponents. Significant doubts remain about the wage elasticity of employment, both in aggregate and for specific groups of workers. Also, the effects on labour supply, especially of women in low income, two-earner households, remain problematic. It is true, as we have noted, that the US evidence does suggest that welfare dependence can be reduced and employment boosted for the hard-to-employ. But the devil is in the detail. This is an area that requires significant amounts of research.

The efficacy of active labour market programs is still problematic in Australia because of poor evaluation methodologies and inadequate data. What is of real concern is that these difficulties are often imposed because of government agency policy and thus, because of political choices. There is considerable scope for improved policy design in this area.

Macroeconomic stabilisation policy matters and the use of, in particular, countercyclical monetary policy now seems relatively undogmatic and uncontroversial. This is a real advance given the wild swings in what constituted 'fashion' in monetary policy over the 1960s, 1970s and 1980s. However, the use of countercyclical fiscal policy seems to have been rejected as a policy weapon. Why? Is it because of the implication of hard choices having to be made about the level of taxation that would be required over the cycle? We are not sure that more research, at least in technical economics will find answers here, rather it may be that such research should really be about the nature of distributional politics in this country.

Finally, the role of microeconomic reform in respect of generating sufficient full-time employment growth remains problematic, despite the oft-repeated mantras that such reform will promote economic growth and international competitiveness (through productivity gains) and, eventually, employment growth. These linkages may well be there and may well be the answer. However, the empirical evidence is simply not sufficient at present to confirm the existence of these links let alone whether this will be enough to generate the required level of full-time jobs growth. Indeed, there is some evidence that casts doubt on at least the last link. Much research is needed here.

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