



A Jobs Guarantee Could be a Better Form of Welfare

In the US and Australia anti-poverty advocates have been calling for increased income support for those in the lowest income brackets. This has taken on a different form in each country, with a jobs guarantee and higher minimum wages being promoted in the US and a higher Newstart Allowance (unemployment payments) being promoted in Australia.

This article focusses on the Australia situation as an example of how a jobs guarantee could be used to lift incomes and increase workforce participation, at little or potentially even negative cost. If implemented correctly, a jobs guarantee is something that could be supported by all parts of the political spectrum with substantial benefits for those moved from welfare to work.

The Basic Numbers

The campaign for a higher Newstart Allowance has been led by the Australian Council of Social Service (ACOSS). They are [calling for the Newstart Allowance to be increased](#) from \$273 per week to \$348 per week. As of [June 2018, 745,902 people](#) were receiving a Newstart Allowance. An across the Board increase of \$75 per week would cost \$2.917 billion.

The [Australian minimum wage is \\$18.93 per hour](#), with many industries having higher rates and casual workers receiving an additional payment of at least 25%. ACOSS's proposed Newstart Allowance is equivalent to 18.4 hours of work per week at the minimum wage with the current Newstart Allowance being equivalent to 14.4 hours.

What Would a Jobs Guarantee Look Like?

The design of a jobs guarantee is critical in determining whether it becomes a successful program or yet another well-meaning government program that delivers little practical improvement at substantial cost. Crucially, a jobs guarantee needs to create new jobs rather than merely shifting existing jobs between people. Targeting areas where the work isn't being done because potential employees are being fussy (e.g. fruit picking or food processing) or areas where the work doesn't exist because the minimum wage makes it unviable (e.g. not for profit programs, manufacturing, labour intensive infrastructure and environmental works).

Employer participation in a jobs guarantee program would be voluntary. Where employers chose to use the jobs guarantee system (with the potential of receiving a subsidy for doing so) a nearby Newstart recipient would be contacted. The potential employee would be instructed to attend the workplace at set times (minimum 18 hours per week) and undertake the work required. The employee would look like any other new employee, receiving the legally required minimum wage from the employer.

Newstart recipients that have shown the least progress in obtaining employment or undertaking employment training would be the first to be contacted when a job via the jobs guarantee program arises. Failure to attend work when instructed would result in a reduction or cessation of their Newstart Allowance. Once the employment begins the Newstart Allowance would be replaced by the wage from the employer.

Lessons learnt from successful jobs programs should be studied and where appropriate adopted in Australia. Examples include [US programs in the Great Depression](#) and an [ongoing program in Utah](#) that helps people with finding both work and housing. An example of what not do comes from the Obama administration, where [the average cost of creating a new job was \\$53,000](#). The Productivity Commission is well placed to review these and other examples of job creation programs and advise on the optimum design. Small scale trials in regional and suburban areas with higher rates of unemployment would an ideal way to road test potential designs.

What Would a Jobs Guarantee Cost?

Forecasting the ultimate cost of a jobs guarantee is not a simple exercise. It requires assumptions on the number of jobs that are part of the program, the subsidies required, administration costs, welfare drop out rates, increased tax collections and numerous second order impacts. It is noted that some parts of Australia already have something like a jobs guarantee program in place via welfare to work programs and activity tests.

The cost of the program could be greatly reduced by requiring potential employers to bid for places in a “Dutch auction” with those asking for the least subsidies being awarded places. Examples could include local councils bidding for places to conduct labour intensive infrastructure and environmental works, not for profits seeking workers for food collection and distribution, employers in regional areas needing workers for fruit picking, or private sector employers for 3 month traineeships, internships or seasonal work. The use of Dutch auctions would substantially lessen the government component of the weekly payment.

The second order effects of a jobs guarantee are likely to be substantially positive for government, taxpayers and unemployed people. Whilst the percentage is highly debated, there is no doubt that a meaningful percentage of welfare recipients are either not motivated to work or are undertaking undeclared cash in hand work. A jobs guarantee provides an instant activity test. Those who fail to attend their designated workplace without valid reason will see a reduction or cessation of their government payments. People taking cash in hand jobs would find a requirement to attend a workplace at set times greatly reduces their ability to undertake undeclared work.

Another benefit is the upskilling of those currently unemployed as they undertake a form of paid work. This is particularly the case where employers are using the subsidy as a form of traineeship period for a new employee. Those who work hard when undertaking seasonal or traineeship work will be best placed to become regular employees when vacancies arise. Increased employment also benefits society by reducing crime and other costly social issues.

The combination of fewer welfare recipients reducing the total benefits paid, more taxes collected as cash in hand work reduces, and lower spending on crime and other social issues would greatly decrease the overall cost of a higher Newstart Allowance. Whilst the overall cost is not easy to estimate, a review by the Productivity Commission would provide greater clarity of the costs and benefits of switching Newstart Allowance recipients to a jobs guarantee.

What are the Downsides of a Jobs Guarantee?

The primary downside of a jobs guarantee is that it may create few new jobs. In a worst case, existing unsubsidised employees could be replaced with subsidised employees. There is a natural barrier to this possibility becoming widespread as well as several mechanisms that could be used to push back against employers doing this. The use of a Dutch auction to reduce the subsidies is likely to see minimal subsidies paid relative to the wages received, leading to a substantial reduction in government benefits paid. Few employers are likely to find that churning through minimally subsidised untrained employees is more profitable than retaining trained and motivated existing employees.

It is also possible that the introduction of small subsidies and work attendance requirements substantially reduces the number of individuals undertaking cash in hand work or work at below the minimum wage. Bringing these individuals into legitimate employment arrangements will materially increase tax collections (directly for PAYG and indirectly for GST and corporate taxes) and reduce welfare payments.



Mechanisms to reduce churning of subsidised employees could include:

- limiting the percentage of subsidised employees in a workplace;
- structuring subsidies to step down over time;
- monitoring employer usage of the scheme to ensure that a reasonable proportion of traineeship positions convert to ongoing unsubsidised employment; and
- seeking feedback from employers and employees on why employment arrangements ended.

There could also be arguments that a jobs guarantee will create only menial low skill jobs, with the requirement to attend work reducing the ability of unemployed people to apply for work in their preferred sector. It is expected that most jobs created through a jobs guarantee are likely to be part time positions, requiring 18-25 hours per week. This would leave sufficient time for participants to apply for work and attend interviews for more preferred positions. The requirement to attend a menial job may turn out to be a substantial motivator for long term unemployed individuals to find more interesting or better paying work elsewhere.

Written by Jonathan Rochford for Narrow Road Capital on September 26, 2018. Comments and criticisms are welcomed and can be sent to info@narrowroadcapital.com

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