Active Labour Market Policy and Macroeconomic Stabilisation[1]

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ABSTRACT

This paper considers the feasibility of a flexible system of active labour market policy which would adjust to the changing phases of the business cycle, and would dispense with the necessity to reinvent systems from scratch in every phase of every cycle. The proposed system would have an expenditure allocation which varied with the levels of short-term and long-term unemployment, and would allocate funds flexibly between a range of programs.

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Introduction

The recent slowdown in economic activity in Australia and abroad has raised new issues in the debate over unemployment policy. In particular, it is evident that Australia is poorly prepared for the possibility of an extended recession. Recent developments in the labour market provide clear evidence of the failure of the economic policies adopted since the election of the Howard government.

Although growth over the period from 1996 to 2000 was quite strong, and has slowed only modestly, very little progress has been made in reducing unemployment. After falling from a little above 8 per cent when the government took office to a low of 5.9 per cent, the official rate of unemployment has rebounded to 7 per cent and now appears likely to exceed 7.5 per cent during 2002. Measures of long-term unemployment and unofficial measures such as those collected by the Morgan Gallup survey show even less progress, with estimated unemployment rates having hardly fallen since 1996. A more detailed analysis of underemployment and hidden unemployment is given by Wooden (1996).

The experience of the United States during 2001 also raised doubts about the wisdom of relying exclusively on monetary policy as an instrument for macroeconomic stabilisation. Even allowing for the lags inherent in the operation of monetary policy, it might have been expected that the effects of the numerous cuts in interest rates made by the US Federal Reserve since January 2001 would now be apparent. In fact, there is now little expectation of economic recovery before the middle of 2002 at the earliest.[2]

In this context, it is desirable to reconsider the role and potential of labour market policy. It is important, however, to consider the interaction between labour market policy and countercyclical fiscal policy. Ideally, labour market policies should have the properties of an automatic fiscal stabiliser. That is, such policies should provide a fiscal stimulus when aggregate demand is weak, and withdraw that stimulus when demand recovers. Under existing institutional arrangements, 'passive' welfare policies, such as unemployment benefits, operate as automatic stabilisers, since expenditure rises with the level of unemployment. By contrast, active labour market policy is a discretionary policy instrument that adjusts to changes in macroeconomic conditions with a long lag.

Expenditure on active labour market policy tends to rise as unemployment rises (Commonwealth of Australia 1994, p. 109; OECD 2001, p. 85) however this increase is reactive rather than proactive policy. Increasing expenditure on active labour

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[2] This assessment was written before the terrorist attacks in the United States on September 11, 2001. At most, the psychological effects of these attacks have hastened the arrival of a recession that was already inevitable.

market programs after unemployment has become very high wastes the opportunity for the expenditures to become effective before state dependence among the unemployed becomes a big problem, and to boost aggregate demand early in the downturn when it is needed most.

The object of the present paper is to consider the possible role of active labour market policies as an automatic fiscal stabiliser. The paper begins with a brief survey of the theoretical underpinnings of active labour market policy and of Australian and international experience. The concept of automatic fiscal stabilisation is discussed in relation to the debate over rules and discretion in macroeconomic policy. Possible institutional frameworks for an active labour market policy with an automatic stabilising effect are discussed, and the obstacles to the development of such a policy are considered. Some concluding comments are offered.

It should be emphasised that this paper represents a preliminary discussion of a complex issue. Considerably more work needs to be done before firm policy implications are derived.

Active Labour Market Policy: Overview of Theory and Experience

Active labour market policies have been analysed in a variety of theoretical frameworks. In this section, the concepts of human and social capital are used as the basis of analysis.

Human capital theory

The concept of human capital (Mincer 1958, Becker 1964) is an elaboration of the metaphorical statement that education is an investment in the future. The analytical tools normally applied to investments in physical capital, such as measures of capital stock and rates of return may be extended to analyse the set of skills and knowledge relevant to an individual worker's labour market experience.

In particular, analysis of long-term unemployment has focused on the idea that, whereas experience of work is associated with accumulation of human capital, prolonged unemployment leads to depreciation of the stock of human capital, also referred to as 'skill atrophy' (Layard, Nickell and Jackman 1991). Skills become rusty through lack of practice and knowledge becomes obsolete and is not updated. In addition, employment is associated with a particular set of learned behaviours and attitudes regarding punctuality, modes of dress and communication, and so on. Prolonged unemployment tends to result in the erosion of those behaviours.

Search, networks and social capital

In human capital models, attention is focused on individual skills and endowments and the changes that arise from prolonged unemployment. The central theme is that individuals become less attractive to employers as a result of prolonged unemployment. An implicit assumption is that employers seeking to fill a vacancy compare a range of potential employees in a competitive process.

In reality, however, a significant proportion of jobs are filled through informal processes in which candidates are recommended by contacts within or close to the employing firm. There are a number of reasons why employers might prefer informal processes relying on networks of contacts to formal procedures. Informal methods may yield a saving in time and effort. More importantly, perhaps, the recommendation of employees or business contacts, whose reputation will suffer if an employee they recommend performs poorly, may be regarded as more valuable than training credentials or references from previous employers.

The concept of social capital has been developed by analogy with that of human capital. However, both the nature of social capital, and its usefulness as an analytical concept remain matters of dispute. For example, whereas social democrats such as Cox (1995) argue that reductions in the value of social welfare payments diminish the stock of social capital by undermining belief in fairness, advocates of free-market policies, such as Norton (1998) claim that such cuts enhance social capital by reducing the corrosive effects of welfare dependency. Similarly, as Woolcock (2000, p. xix) observes: 'While the idea of social capital may have a long intellectual pedigree, the same cannot be said for the state of our empirical knowledge about it'.

Despite these difficulties, the idea that a network of social contacts has many of the properties of a jointly-owned capital good appears to be useful in understanding problems of job search and matching. Informal contacts work relatively well within communities with a high degree of social capital, where members of the community know and trust each other (Putnam 1993, Fukuyama 1995).

The social networks through which employment contacts are made typically depend on active participation in the labour force. Workers who have been unemployed for long periods tend to lose contact with such networks, particularly if they live in areas of high unemployment, where many of their friends and neighbours will also be unemployed. Areas of high unemployment are not always low in social capital in a general sense, but they are unlikely to possess the kind of social capital required for access to informal employment recruitment networks.

The social capital approach represents an improvement on 'signalling' models of long-term unemployment. In such models, a history of unemployment is taken by employers as a signal that workers may have low skills. The problem with these models is that they are relevant to policy only if employers, on average, underestimate the skills of long term unemployed workers, and individual signalling models do not provide an adequate understanding of such biases.

Cyclical aspects of active labour market policy

The relative importance of human capital, social capital and the macroeconomic environment varies over the course of the economic cycle. This point may be illustrated by considering the cyclical nature of job creation and job destruction in the labour market. During the contraction phase at the beginning of a recession, market rates of job creation[3] are low and rates of job destruction are high (Layard, Nickell and Jackman 1991). Although unskilled workers are more vulnerable to job loss, differences in individual characteristics and social networks are of relatively limited importance in this phase of the cycle. The basic problem is a simple shortage of job vacancies. Anyone who becomes unemployed or seeks to enter the labour market in a contraction phase faces severe difficulties.

When the contraction phase ends, it may be succeeded either by a period of stagnation or by a recovery in output. In either case, market rates of job creation and job destruction tend to be low. Employers seek to expand output by seeking increased hours of work and extra effort from existing workers rather than by taking on new workers. Vacancies may be filled by rehiring workers who have been laid off but have maintained contact with their former employer. It is also relatively easy to recruit through recommendations from employees and other sources, since their social networks are likely to include relatively large numbers of unemployed workers. It is in this phase of the cycle that social capital and informal networks are most important.

As the expansion phase proceeds, market rates of job creation rise. The capacity to increase the output of existing workers and to draw on informal networks is gradually exhausted. However, a large pool of long term unemployed workers remains. Over time, this pool is increasingly dominated by those with relatively low skills or those who have suffered from skill atrophy as a result of being unemployed for long periods. Problems of human capital assume increasing importance.

These cyclical variations have important implications for the appropriate balance of active labour market policies. In the contraction phase of a recession, there are few vacancies and little hope for the unemployed, however well-trained or heavily-subsidised to obtain market employment. Public sector job creation schemes offer some possibility of avoiding the skill atrophy or erosion of human capital that accompanies prolonged unemployment. In the early phase of a recovery, the difficulty of matching the unemployed with appropriate vacancies is a major problem, and wage subsidy programs may be beneficial. Moreover, the job-displacement problems associated with wage subsidies are likely to be mitigated in an expansion. Finally, in the later stages of an economic expansion, the most attractive

3 This term is used in contradistinction to the use of public sector job creation as a component of an active labour market policy

candidates from the unemployment pool are likely to have found work and those remaining may well require enhancement of their human capital in the form of training, case management and so on.

International and Australian experience of active labour market policies

Assessments of active labour market policies in Australia and overseas have produced mixed results. There are a number of difficulties in determining what kinds of active labour market policy are likely to be successful.

First, with the exception of employment search services, labour market policies in most countries have been subject to constant change, making any medium-term assessment difficult (Martin 1998). Second, different individuals have different needs, so that the effectiveness of particular types of programs will depend on the target groups. Finally, and most importantly in the current context, the effectiveness of different kinds of labour market policies will vary over the course of the economic cycle.

Some of these issues are discussed by Martin (1998) and Chapman (1998). Martin draws on OECD research regarding the effectiveness of a range of active labour market policies, arriving at generally pessimistic conclusions. Martin's discussion takes account of individual heterogeneity but, as Chapman points out, disregards cyclical effects.

For example, Martin argues that public sector job creation programs have only limited success in raising the likelihood that participants will find unsupported private employment. However, as he observes, by this definition an active labour market policy can only be successful in the presence of a plentiful supply of job vacancies. Reliance on public sector job creation is most reasonable, and most prevalent, in the contraction phases of the cycle when job vacancies are limited or non-existent.

The most comprehensive approach to active labour market policy in Australia has been the *Working Nation* program introduced by the Keating government in 1994, though even this program was modest in budgetary terms and was scaled down after only one year of operation. The central principle underlying the *Working Nation* labour market programs was the Job Compact, under which the government committed itself to offer 'substantial paid employment' to all workers unemployed for 18 months or more. The reciprocal obligation was that workers were obliged to accept 'a reasonable offer of a job' or lose entitlement to benefit.

The *Working Nation* program had three main components: training schemes similar to those already in place; an expanded version of a wage subsidy scheme called Jobstart, introduced on a small scale in 1991; and a job creation scheme called New Work Opportunities. Following arguments of the Committee on Employment Opportunities (1993), which concluded that wage subsidies were, in general, the most cost-effective class of program, the primary focus was this component, with job creation being seen as a last resort.

Evaluation of *Working Nation* is difficult in view of the fact that the programs were only in operation for two years. Official evaluations have varied from glowing (Crean 1995) to circumspect (Department of Employment, Education, Training and Youth Affairs 1996) to damning (unpublished research cited by the Howard government) according to the political demands of the occasion. The critical issue relates to the cost of creating jobs through programs of this kind. Piggott and Chapman (1995) give an *ex ante* evaluation suggesting that the net budgetary cost per job created would be low, a view broadly supported by the *ex post* studies of Junankar and Kapuscinski (1997) and Stromback, Dockery and Ying (1997).

The Howard government initially rejected the idea of active labour market policy and abandoned the Job Compact soon after coming to office. In the 1996–97 Budget, expenditure on labour market programs was reduced by $575 million (*Budget Statements 1996–97,* Budget Paper No 1, Table 4). In early 1997, however, Prime Minister Howard unexpectedly announced the introduction of a 'work for the dole' scheme, which would be compulsory for recipients of unemployment benefits aged between 18 and 25. By the time of the 2000–01 Budget, the 'work for the dole' program was, in effect, a cut-down version of the 'New Work Opportunities' component of Working Nation.

The crucial change was embodied in a rhetorical shift from 'reciprocal obligation' to 'mutual obligation'. The substantive shift associated with this change in rhetoric was a unilateral restatement of the government's side of the obligation. The 'reciprocal obligation' model envisaged an obligation on the part of the government to provide substantial paid employment, and thus implied a continuing commitment to a goal of full employment. By contrast, under 'mutual obligation', the obligations of government are discharged by the payment of benefits, and the Howard government has declined to specify any full employment target.

The other major change undertaken by the present government was the replacement of the public job search agency, the Commonwealth Employment Service (CES), by a system of competitive outsourcing referred to as the Job Network. Under the tendering process, government, private and community organisations submitted bids to provide labour market services to groups of unemployed workers, classified in terms of need indicators such as the duration of unemployment. Success in tendering depended on willingness to meet tightly specified goals at low costs.

A crucial difficulty with the outcome of competitive incentive systems is 'cream-skimming' or 'cost-shifting'. Service providers face a strong incentive to seek out clients whose needs can be met at relatively low cost compared to others in the same payment class (the cream). Meanwhile, high-cost clients are diverted to residual 'providers of last resort', or receive no service at all. Cream-skimming and cost-shifting have been a common outcome of case-mix funding schemes for health-care providers.

At worst, competitive incentive systems promote the search for opportunities for arbitrage, that is, for the design of systems which yield a positive profit with no net effort. In the case of the Job Network, for example, a payment was offered for successfully placing a client in employment defined as a job of at least 15 hours employment over a period of no more than 5 consecutive days. Under the rules of the scheme, the requirements for this payment could be satisfied by a service provider who simply hired the client themselves at a cost less than the payment for a 'successful' outcome. According to a Senate inquiry, precisely this strategy was adopted by one of the largest service providers for the Job Network (Commonwealth of Australia 2001).

Because the measures of performance used to set payments are typically the same as those used in evaluation, it is quite possible for a competitive tendering scheme to perform well in official evaluations such as those of Department of Employment, Workplace Relations and Small Business (2001) and OECD (2001), while doing little to resolve the real unemployment problem.

Whether or not this has been the case, a noteworthy, and disturbing feature of the most recent economic cycle has been the relative weakness of employment growth during the expansion and the rapidity with which unemployment rose in response to the slowdown in activity. The unemployment rate, which had peaked at 11 per cent in 1993, was 8.4 per cent when the Howard government took office in 1996. Despite strong output growth and relatively weak growth in labour force participation, the unemployment rate never fell below 6 per cent during the expansion, and is now approximately 7 per cent. In the five years of the Howard government, which have generally been seen as prosperous, unemployment will have fallen by only 1 percentage point. The outlook for unemployment in the event of a sustained economic downturn can only be described as grim.

The Theory of Automatic Stabilisers

The concept of 'automatic stabilisers' arose in the period after World War II as a result of the interaction between Keynesian macroeconomic policy and the social-democratic welfare state. The central claim of the advocates of Keynesian macroeconomic policy was that a countercyclical fiscal policy, in which the government budget balance went into deficit in periods of recession and into surplus in periods of boom, could stabilise aggregate demand and therefore moderate the business cycle.

Discussion of policy options for Keynesian fiscal stimulus initially focused on active policy options such as public works and tax cuts. However, the idea of 'fine-tuning' the operations of the aggregate economy was criticised by Friedman (1959) who pointed out the 'long and variable lags' inherent in the adoption of active countercyclical policies (Friedman and Schwartz 1963). Friedman's core argument was that by the time the government has recognised, say, an economic downturn, enacted legislation to introduce countercyclical policies, implemented those policies and allowed time for the polices to take effect, the downturn may well have finished, and the policies may be inappropriate.

Even in the absence of discretionary fiscal policies, however, the institutions of the social democratic welfare state imply that fiscal policy will have a stabilising effect. Most obviously, expenditure on unemployment and related benefits automatically rises during recessions. Moreover, if a large proportion of government revenue is raised from progressive income taxes and taxes on company profits, tax revenue will decline more than proportionately in response to a decline in aggregate income arising from a recession. Thus, deficits will automatically arise in periods of recession and surpluses in periods of boom, tending to smooth out the fluctuations in the economy. The term 'automatic stabilisers' is used to describe the taxation and expenditure policies that give rise to this countercyclical effect.

Friedman's (1959) criticisms of discretionary fiscal policy were essentially pragmatic. More fundamental theoretical criticisms of Keynesian theory and the associated stabilisation policies were put forward by monetarists (including Friedman 1968) and advocates of new classical economics during the 1960s and 1970s. However, monetarist policies performed poorly and, by the 1990s, a generally eclectic consensus emerged suggesting that Keynesian theory gives a good description of the behaviour of the economy in the short term, although neoclassical models are valid in the long term.

In practice, governments in the 1990s have tended to allow automatic stabilisers to operate, producing a modestly countercyclical fiscal policy. Interest in a more active policy has focused on suggestions such as those of Gruen (1997) for an independent fiscal policy board using temporary variations in tax rates to stabilise aggregate demand.

Active Labour Market Policy and Macroeconomic Stabilisation

Since the re-emergence of mass unemployment in Australia in the mid-1970s, the history of active labour market policy has been one of short-term expedients and frequent policy reversals. Each of the major recessions since 1974 has been accompanied by the belated creation of large-scale job creation programs which have been scrapped in the ensuing recovery. A range of subsidy programs have also been introduced and abandoned. In the later phase of most expansions, labour market programs have been confined, almost exclusively, to training schemes.

This pattern is not entirely irrational. As has been noted above, the appropriate balance of active labour market policy changes over the course of the cycle and, to some extent, policymakers have responded to this. The crucial problem has been that pointed out by Friedman (1959) in relation to fiscal policy: the long and variable lag between changes in the macroeconomic cycle and adjustments in labour market policy. The time lags inherent in a purely discretionary labour market policy are exacerbated by the absence of any stability in programs. Although the basic menu of policy options — training programs, wage subsidies and job creation — has remained essentially unchanged for twenty-five years, most labour market programs have operated for less than five years, and many for as little as two years.

These problems were most notable in the 1989–92 recession. By the time the recession began in 1989, expenditure on active labour market policy had been reduced to low levels ($360 million in 1989–90), and what expenditure remained was focused almost exclusively on training (75 per cent in 1989–90, including about $60 million allocated to Aboriginal training programs).

Because of the failure of macroeconomic policymakers to recognise the severity of the recession and the influence of advocates of microeconomic reform, many of whom opposed public sector job creation on ideological grounds, policy was very slow to adjust in response to the recession. Real expenditure remained below the 1984–85 level until 1992–93, by which time the unemployment rate had already passed 10 per cent. Even then, expenditure on job creation programs, the most urgent need at the time was only $200 million per year (Committee for Employment Opportunities 1993). It was not until the advent of Working Nation in 1994 that any serious response to the unemployment crisis was offered. The lag between the onset of recession and the policy response was nearly five years or half a business cycle.

An ideal system of active labour market policy would differ in important respects from the policies of the past. First, it would be an established component of public policy, like monetary policy or social security policy, subject to review and periodic reform by government, but not reinvented from scratch on an *ad hoc* basis. Second, it would be designed so that public expenditure on active labour market policy adjusted automatically, or at least rapidly, in response to the changing phases of the business cycle. Third, the allocation of expenditure would vary automatically with the levels of short-term and long-term unemployment, and would allocate funds flexibly between a range of programs.

The institutional framework

Existing frameworks for the implementation of economic and social policy suggest possible ways in which active labour market policy might be organised on a more sustainable basis. Three areas of policy worth considering are monetary policy, social security policy and job search assistance.

Decisions about monetary policy are made by the Reserve Bank, independently of the government, although the government retains the power to override Reserve

Bank decisions. The main benefits of this approach are the capacity of the Bank to respond rapidly to changing economic circumstances and the fact that the Bank is required to pursue a clearly-stated set of objectives, without regard to other concerns which may be politically salient at any given time.

The management of the economy by the Reserve Bank during the 1990s has generally been regarded as highly successful. A number of commentators, impressed by the achievements of the Bank, but concerned about the dangers of excessive reliance on monetary policy, have suggested that a similar institutional framework should be adopted to permit the more effective implementation of countercyclical fiscal policy.

The case for such an approach has been argued most strongly by Gruen (1997). Gruen suggests that a fiscal policy board could have the right to make temporary adjustments to income tax rates in response to macroeconomic fluctuations. Another possibility, arguably preferable in terms of the incentives to bring forward consumption expenditure, would be to allow temporary variations in the rate at which GST is levied.

If such a policy framework were adopted, it would be natural to add active labour market policy expenditure to the set of instruments under the control of the fiscal policy board. The balance between tax cuts and labour market expenditures would be a matter of judgement for the board, depending on the specific characteristics of individual macroeconomic cycles.

The policy board's allocation of expenditure for active labour market programs could be tied to statistical measures of need, such as the level of unemployment, as measured by the Australian Bureau of Statistics or the number of recipients of unemployment and related benefits.

One problem with the use of unemployment statistics as a basis for funding is that unemployment is a lagging indicator of the economic cycle. Unemployment rates tend to rise some time after the onset of a recession and to decline gradually thereafter. On the other hand, the macroeconomic indicators often used as leading indexes are not always well correlated with unemployment. The most appropriate approach may be one based on measures of job creation and job destruction.

In the absence of a fiscal policy board, governments would need to set up a stable policy framework for active labour market policy. An obvious analogy is the social security system, which operates with a countercyclical effect through automatic entitlements to unemployment and related benefits. A genuine approach to 'mutual obligation' would extend this entitlement to include an automatic right to participation in active labour market programs. Such an entitlement was part of the rhetoric of the Working Nation program but was never fully implemented. In order for the associated macroeconomic stimulus to counteract economic downturns, the qualifying period would have to be shorter than the 18 months now used to define 'long term unemployed'. Ideally, an unemployment spell of six months (the definition of long term unemployment before the 1980s) would qualify.

Finally, it is necessary to consider the current framework for job search assistance. The structure of the competitive tendering program, as it is currently designed, gives little scope for adjustment of policy parameters in the light of changing macroeconomic circumstances. Once tenders are called, most aspects of policy are effectively bound by contracts with the private sector for periods of three to four years. This is not to say, however, that private sector service providers could not be incorporated in a more flexible system.

Flexible readjustment

As has been argued above, the relative effectiveness of different labour market policies is likely to vary over the course of the economic cycle. It is therefore desirable that relative, as well as absolute, expenditure allocations should also vary flexibly. From a budgetary perspective, the achievement of such flexibility might be difficult, since it would not permit the establishment of specific allocations for programs. The management of active labour market policy by a fiscal policy board would appear to give the greatest possible flexibility in this regard.

Benefits

If they are adjusted in a countercyclical fashion, active labour market policies have desirable characteristics when considered as short-run Keynesian macroeconomic policies. Expenditure flows primarily to unemployed workers who are likely to have a high marginal propensity to consume. The same is true of 'passive' transfer payments such as unemployment benefits. However, although the idea of making the rate of unemployment benefit contingent on the state of the macroeconomic cycle has some theoretical attractions, it would appear to raise serious problems of administrative practicality and equity. By contrast, if the number of active labour market program places is adjusted sufficiently flexibly, expenditure per unemployed worker can vary in a countercyclical fashion.

The establishment of a stable institutional framework would also dispense with the necessity to reinvent labour market policy from scratch in every phase of every cycle. As has been noted, the current instability of policy has many drawbacks, notably including the absence of any real possibility of evaluating successful and unsuccessful interventions. This difficulty is exacerbated when account is taken of the fact that the usefulness of individual programs varies over the course of the macroeconomic cycle.

Finally, the inclusion of active labour market policy as a central component of macroeconomic policy would represent an important symbolic commitment to full employment similar to that made by the original White Paper on *Full Employment in Australia* (Commonwealth of Australia 1945). Although the existence of a symbolic commitment is no guarantee of success, its importance should not be understated. The maintenance of low levels of unemployment in Sweden during the 1970s and 1980s was in part due to the maintenance of a public commitment to full employment that had been abandoned in other countries. Admittedly, this commitment was insufficient to withstand the fiscal crisis of the early 1990s, but this fact does not render the earlier successes irrelevant.

Obstacles

There are a number of obstacles to the use of labour market policy as an automatic stabiliser. The first main problem is that an effective system would require bipartisan support. By contrast, every change of government since 1975 (including the transition from Hawke to Keating) has been followed by the scrapping of the labour market programs inherited from the previous government, and the introduction, usually with a considerable time lag, of new programs.

The second obstacle is the general problem of independence and accountability that arises whenever any direct political control of any area of policy is limited by institutional arrangements. Governments are ultimately held responsible for the performance of the economy and particularly for levels of unemployment. Faced with high levels of unemployment, governments face inevitable demands to 'do something' which may not be met by the automatic operation of an institutionalised labour market policy.

The final obstacle is the need for substantially expanded funding. In developing a program for full employment incorporating an active labour market program, Langmore and Quiggin (1994) suggested a range of policy options that could be used to finance such a program, which would also include significant expansion of public employment in the health, education and community services sectors.

A number of studies have found that Australians are willing to accept higher taxes in return for improved services (Baldry and Vinson 1998; Papadakis 1990; Withers, Throsby and Johnstone 1994). However, Saunders (2000) reports that a majority of respondents would prefer tax cuts to an expansion of 'welfare services', a reversal of the situation which prevailed in the 1960s. The term 'welfare services' is not explicitly defined, but it seems likely that most respondents would interpret it as referring to transfer payments and services directed to disadvantaged, and frequently stigmatised, groups including the unemployed.

However, community support for active labour market programs appears to be stronger than that for passive transfer payments. Even the popularity of 'Work for the Dole' rests as much on its perceived benefits for the unemployed as on punitive attitudes towards 'dole bludgers'. Given strong political leadership, community support could be mobilised for the higher taxes necessary to finance a permanent program of countercyclical active labour market policy.

Concluding Comments

Analysis such as that of the OECD (1990) has given support to the view that appropriately designed active labour market policies should play an important role in reducing unemployment. This view now commands broad support among policymakers.

It is generally agreed that no single labour market program will suit all unemployed workers or all economic conditions. There has, however, been relatively little analysis of the relationship between the macroeconomic cycle and the design of labour market policy.

In this paper, the relationship has been considered from two perspectives. First, it has been argued that the proportion of resources allocated to training, wage subsidies and direct job creation should vary over the course of the macroeconomic cycle. Second, and more significantly, active labour market policies have been considered in their potential role as automatic fiscal stabilisers.

The discussion presented above represents some preliminary thoughts on a very complex issue. However, it appears that both the macroeconomic cycle and large-scale unemployment will be with us for some time to come. There is, therefore, every reason to examine this problem in more detail in the future.

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