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Dangerous currents flowing against full employment

William Mitchell[1]

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Centre of Full Employment and Equity
The University of Newcastle, Callaghan NSW 2308, Australia
Home Page: http://e1.newcastle.edu.au/coffee
Email: coffee@newcastle.edu.au

1. Introduction

Unemployment rates in almost all OECD economies have risen and persisted at higher levels since the first oil price shocks in the 1970s. The prevailing orthodoxy amongst economists and policy makers sources the persistently high unemployment in institutional arrangements in the labour market, like wage setting mechanisms and trade unions, and/or faulty government welfare policies, which have encouraged people to engage in inefficient search or to embrace welfare dependence (for example, Layard *et al*, 1991). Accordingly, the policy emphasis now focuses on supply side measures aimed at overcoming these microeconomic constraints. Full employability has now replaced full employment as the legitimate responsibility of government. However, after 25 years of harsh cutbacks and structural dislocation, unemployment remains persistently high. In the midst of the on-going debates about labour market deregulation, minimum wages and taxation reform, the most salient, empirically robust fact that has pervaded the last two and a half decades is that actual GDP growth has rarely reached the rate required to maintain, let alone achieve, full employment (Mitchell, 2001a).

Activist fiscal policy essential to the maintenance of full employment is now eschewed and monetary policy has become focused on inflation control. There are many arguments (fears) used to justify this position, including the (alleged) dangers of inflation and the need to avoid crowding out in financial markets. Section 3 and 4 demonstrate that these justifications are largely fallacious. There is no economic basis for restricting the level of net government spending below that which is required to generate full employment. The pursuit of budget surpluses, while purporting to exemplify fiscal prudence, in fact reflects an ideological obsession about "small" government. Indulging in this obsession imposes disproportionate costs on the most disadvantaged members of our society (Mitchell and Mosler, 2001; Mitchell and Carlson, 2001a).

What parades now as macroeconomic policy is a mishmash of half-truths and fallacy. A scan of the recent media and data releases reveals the dilemma facing anyone who is trying to make sense of the macroeconomic policy stance. The Prime Minister recently noted that "… the economy is going gangbusters … I think the economy is performing beautifully … The hum of the machine of the Australian economy is a delight to the ear" (quoted in Sydney Morning Herald, April 12, 2002).[2] The terminology has caught on, with an Access Economics economist recently seeing an “Australian economy going absolutely gangbusters and yet at the moment … there is a considerable feeling out there that the budget’s very weak” (ABC AM transcript, May 9, 2002). He went on to outline how we needed bigger budget surpluses and that he hoped that “the Government will be able to get the message across that that surplus and more will be chewed up by, initially, the retirement of Australia's baby boomers and then the growing healthcare costs for them as they age further” (ABC AM transcript, May 9, 2002). In Section 4, the fallacy of this “money in the shed” argument is explained.

The expected reaction to the strong GDP growth figures came on May 8 when the Reserve Bank of Australia (RBA) released its latest “Statement of Monetary Policy”, which is the official statement of the RBA’s worldview. As predicted, the RBA’s obsession with inflation control was evident in their conclusion that “the significant strengthening in the domestic economy that has become evident in recent months suggests that the longer-term risks to the inflation outlook have increased, with upward pressures on inflation likely to predominate beyond the end of this year.” (RBA, 2002: 3). Accordingly, the RBA concluded that current monetary policy was inappropriate and that “maintaining the cash rate at such a low level risked amplifying inflationary risks and fuelling other imbalances that could jeopardise a continuation of the current economic expansion. The decision to raise the cash rate by 25 basis points was aimed at reducing these risks, and thereby enhancing the prospects for sustained growth with low inflation” (RBA, 2002: 3). But the basis of their inflationary fears rested on a belief that capacity constraints would soon be reached and demand push inflation was thus inevitable. That means that they want growth to be slower. Yet, GDP growth is already insufficient to make any real inroads into the persistently high unemployment rate. So without admitting it, the RBA is once again committing the economy to suffering on-going unemployment.

If we think about this conclusion in the light of the latest ABS Labour Force data (ABS, 6203.0, April) we see the problem. The labour market is hardly going “gangbusters” with employment falling in April 2002 by 43,500 (full-time employment decreased by 55,100 while part-time employment increased by 11,600). The maintenance of the unemployment rate at 6.3 per cent was due to a 0.4 per cent decrease in the labour force participation rate, an indication that the demand side in the labour market is far from buoyant. Despite the long period of robust economic growth since the early 1990s recession, the Australian economy did not remotely approach full employment. In the last four economic cycles the low point (seasonally adjusted) unemployment rates have been 4.6 per cent (June 1976), 5.5 per cent (June 1981), 5.6 per cent (November 1989) and then 6.0 percent in September 2000 (Mitchell, 2001a). The low point unemployment has steadily ratcheted upwards over successive cycles. Despite one of the stronger growth rates in the 1990s among OECD economies, the unemployment trend remains positive. The problem is even worse when one considers the rising incidence of hidden unemployment and underemployment (see Mitchell and Carlson, 2001b).

So if the economy reaches capacity constraints long before full employment is achieved then there is a necessity to stimulate both private and public investment. Monetary policy that puts on the brakes every time there are favourable investment conditions and the pursuit of budget surpluses are both inconsistent with this need. Full employment has been abandoned as a policy goal.

The problem compounds when we seek an explanation for the growth achieved during the 1990s. In Section 3 the accounting relationships between the private and public sectors are explained. To maintain real GDP growth, spending from all sources must be growing in real terms. If the public sector pursues budget surpluses and therefore withdraws spending power from the economy (thus destroying private sector wealth), the only way that the economy can continue to grow is if the indebtedness of the non-government sector (local and foreign) increases. In Australia, this has been manifest in record levels of household debt. The RBA (2002: 2) notes that Australian households now face serious risks because their debt levels had grown well above their income levels – over the last decade it has risen from 45 per cent of household after tax income to 110 per cent (ABS, 5232.0). With household debt rising by 16.5 per cent over the six months to March, the RBA (2002: 2) concludes that a "continuation of this trend clearly carries the risk of households, at some point, becoming overstretched." The pursuit of budget surpluses and a reliance on rising household indebtednesses to underwrite private spending represents a very fragile and ultimately, unsustainable growth strategy. The household sector (and the spending the debt has supported) becomes increasingly vulnerable to increases in interest rates and any declines in asset values. A far more sensible strategy is to use budget deficits more generally and not force the private sector into debt accumulation. Overall, we conclude that in terms of providing the conditions for full employment, the neo-liberal policy agenda has been a stark failure.

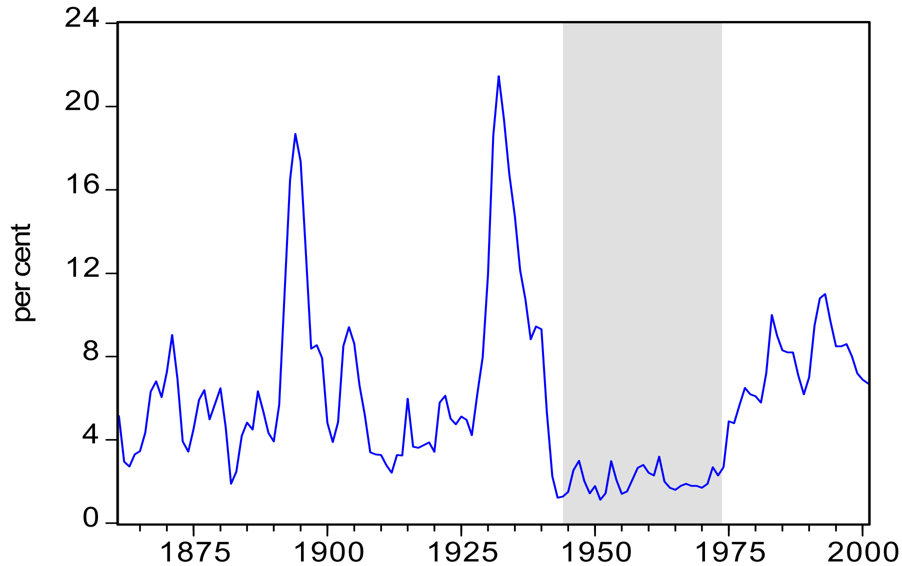
Why has neo-liberal economics remained dominant given its less than convincing track record? The thesis in this paper is that the individualistic and market-based constructs inherent in neo-liberalism have been diversified into several separate policy agendas, which has obscured its failure to achieve full employment. Unemployment has been desensitised and rendered an individual problem – the ultimate "privatisation". A series of "solution packages" or separate policy agendas, begin with individualistic explanations for unemployment and accept the litany of myths used to justify the damaging changes in the conduct of macroeconomic policy. We are thus continually being asked to address "false agendas", which abstract from the real causes of the phenomena in focus. By failing to ask the correct questions, these "solution packages" then appear, on first blush, to have (undeserved) plausibility. In this paper, the packages in focus will be the "new models" of welfare provision, popularly called Social Entrepreneurship (SE), and the "emerging orthodoxy in urban and regional scholarship (Jones and MacLeod, 2002: 5) now referred to as New Regionalism (NR). Both have been infused with neo-liberal constructs and reinforce the abandonment of sound macroeconomic policy and the persistence of high unemployment and rising levels of underemployment.

Section 2 rehearses some salient facts that any policy maker should consider. Section 3 places these facts in the context of a macroeconomic theory of unemployment, while Section 4 ties this into an explanation of the fiscal options facing a government, which is the monopoly supplier of the currency. It is concluded that mass unemployment arises because government spending is deficient given private sector saving patterns and that the government faces financial constraint and thus can redress spending deficiencies. Section 5 introduces two antithetical responses (SE and NR) that have reinforced the neo-liberal abandonment of sound macroeconomic policy. Sections 6 and 7 analyse each in turn and outline a definitive argument against their claims to be "solutions" to the problems of high unemployment, welfare dependence, and regional inequality. Concluding remarks follow.

2. Learning from the facts

The Great Depression taught us that capitalist economies are prone to lengthy periods of unemployment without government intervention. From 1945 until 1975, governments used fiscal and monetary policy to maintain levels of overall spending sufficient to generate employment growth in line with labour force growth. Throughout this Keynesian full employment period unemployment rates rarely rose above 2 per cent (see shaded area of Figure 1).

Figure 1 An historical view of the unemployment rate in Australia, 1861-2000.



Source: ABS, The Labour Force, Australia, 6203.0, and Withers *et al.* (1985).

Prior to and after the Keynesian demand management phase the Australian economy rarely achieved unemployment rates below 5 per cent with the averages during those periods being well above that (see Table 1).

Table 1 Historical unemployment rate averages, Australia, 1861-2001

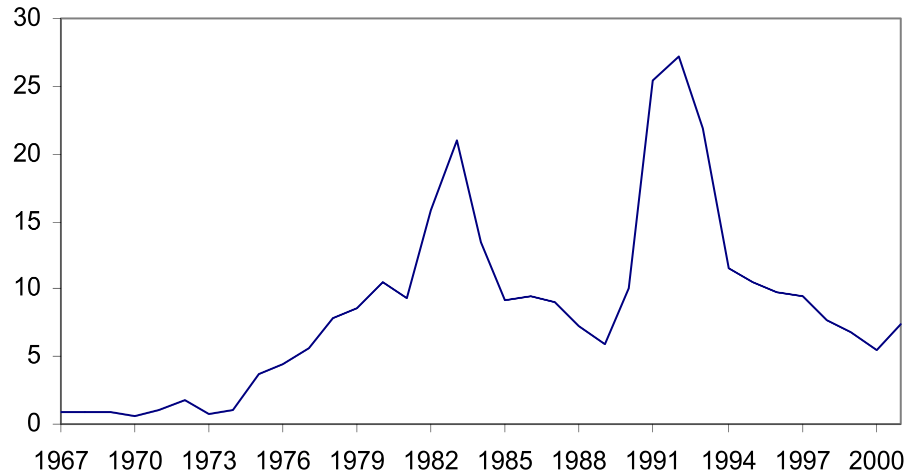
Period	Average Unemployment Rate (%)
1861-1939	6.93
1939-1974	2.53
1975-2001	7.65

See Figure 1.

Following the first oil price rise in 1974, which led to accelerating inflation in most countries, there was a resurgence of pre-Keynesian thinking. Governments reacted with contractionary policies to quell inflation and unemployment rose. The economic dislocation that followed provoked a paradigm shift in macroeconomics (Thurow, 1983). The Keynesian notion of full employment, defined by Vickrey (1993) as "a situation where there are at least as many job openings as there are persons seeking employment" was abandoned as policy makers adopted the natural rate of unemployment (NRU) approach (Friedman, 1968), more recently referred to as the NAIRU paradigm (see Mitchell, 2001a).[3] This approach redefines full employment in terms of a unique unemployment rate (the NAIRU) where inflation is stable, which is determined by supply forces and is invariant to Keynesian demand-side policies. It alleges that free markets will always guarantee full employment and Keynesian attempts to drive unemployment below the NAIRU will ultimately be self-defeating and only generate inflation. The Keynesian notion that unemployment represents a macroeconomic failure that can be addressed by expansionary fiscal and/or monetary policy is rejected. Instead, unemployment reflects supply failures such as poor incentive structures facing individuals, skill mismatches, excessive government regulations (OECD, 1994).

There is a growing literature outlining fatal flaws in the NAIRU approach, which render it unsuitable as a policy framework (see Mitchell and Carlson, 2001a). After 25 years, neo-liberalist policy has clearly failed to provide sufficient employment to match the available workforce. The ratio of unemployment to unfilled vacancies (the UV ratio) for Australia from 1966 to 2001 is plotted in Figure 2 and indicates that the economy has been heavily demand-constrained since around 1975. On average there have been 11.1 unemployed persons per vacancy since June 1974 (Mitchell, 2001a). It is a compositional fallacy to blame the unemployed for a systemic failure to produce enough jobs. The unemployed cannot find jobs that are not there! Modigliani (2000: 5) says, "Everywhere unemployment has risen because of a large shrinkage in the number of positions needed to satisfy existing demand."

Figure 2 The ratio of unemployment to vacancies, Australia, 1966 to 2001.



Source: ABS, Treasury Model Database, AUSSTATS.

Supply-siders deny that this UV history depicts an insufficiency of jobs (OECD, 1994). Their explanation for unemployment lies in the attitudes, motivations and skills of the unemployed themselves. The Federal Minister for Employment, Tony Abbott sees the problem in terms of the generosity of the welfare system eroding individual incentives. In the Bert Evans Lecture in late 2000 he said:

> In the absence of rigorous work tests, welfare benefits pitched close to the level of minimum wages eventually create a glass floor below which unemployment cannot fall. Why do some people not work? Because they don't have to. Why might a generous safety net designed to help people on the dole coupled with wage restraint designed to boost jobs turn out to make unemployment worse? … The role of the welfare system in creating and sustaining unemployment has been one of the great unmentionables of Australian public policy debate … Tackling unemployment today is not just a matter of creating more jobs or training-up skilled workers. It requires powerful incentives for long-term job seekers to take the jobs that are there as well as new types of work for people who can't readily find paid employment. (Abbott, 2000)

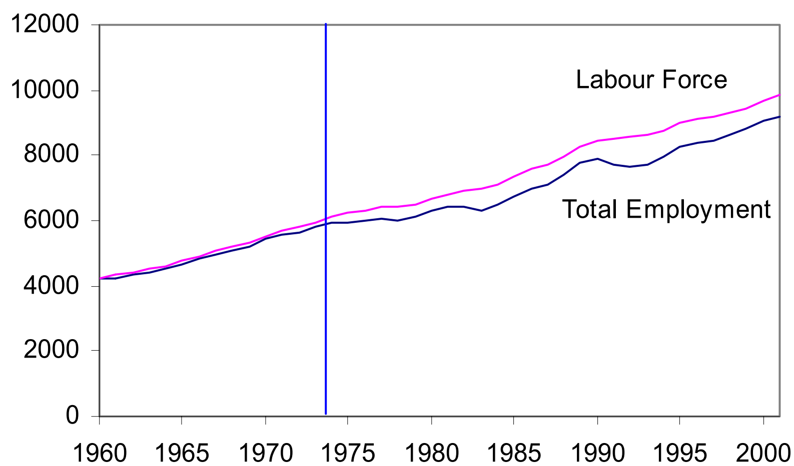
Consequently the role for government is confined to dismantling supply impediments (like minimum wages, social security payments) with an emphasis on the skills, attitudes and motivations of the unemployed themselves. The role for government under this conception is to achieve *full employability* rather than full employment, which manifests in the relentless imposition of active labour market programs, designed either to force the unemployed to churn through training programs and/or compliance programs like work for the dole.

Neo-liberals have been successful in making inflation appear to be a worse bogey person than unemployment. However, Blinder (1987: 51) presents a compelling critique of this view and concludes that the political importance of inflation has been blown out of all proportion to its economic significance. After dismissing the arguments that inflation imposes high costs on the economy, Blinder (1987: 33) notes[4]

> The political revival of free-market ideology in the 1980s is, I presume, based on the market's remarkable ability to root out inefficiency. But not all inefficiencies are created equal. In particular, high unemployment represents a waste of resources so colossal that no one truly interested in efficiency can be complacent about it. It is both ironic and tragic that, in searching out ways to improve economic efficiency, we seem to have ignored the biggest inefficiency of them all.

Further, the strong growth during the 1990s has not reignited inflation. Solow (1998), reflecting his Keynesian roots, criticises the neo-liberal substitution of full employability for full employment, and argues that inflationary pressures do not emanate from low-wage labour markets. He is skeptical that labour markets drives inflation at all, "It seems wholly unlikely that unskilled wage-push plays much of an independent inflationary role [so] an influx of former recipients will not give the Federal Reserve much of a cushion against over-heating" (Solow, 1998: 32-33) Mitchell and Muysken (2002a) and Mitchell (2002) show that the dynamics of unemployment and vacancies over the period of interest are inconsistent with the search effectiveness explanation and are instead consistent with the constrained aggregate demand thesis (see also Modigliani, 2000).

Figure 2 The employment gap in Australia, 1960-2001



Source: ABS, The Labour Force, Australia, 6203.0, various issues.

In Figure 2, the employment gap (defined as the difference between the Labour Force and Total Employment) is shown. From 1974 it is clear that the Australian economy has not provided enough jobs to match the willing labour force. The data supports the claim that despite the long period of robust economic growth since the early 1990s recession, the Australian economy did not remotely approach full employment.

In the next section we repeat the insights that come from introductory macroeconomics. Unless aggregate spending equals the value of goods and services supplied in expectation of that demand, unplanned inventory accumulation and increases in unemployment and/or underemployment will occur. To avoid this situation, net government spending (the budget deficit) must fill the spending gap. Thus, mass unemployment reflects a choice made by government to provide lower net government spending and accept higher unemployment (see Mitchell and Mosler, 2001, for a more technical discussion).

By failing to understand the true causes of mass unemployment, the new "solution packages" like SE and NR, that have captured the imagination of governments and development agencies, become indistinguishable from neo-liberal accounts of labour market dysfunction. Anyone concerned with welfare problems arising from unemployment or in designing a sustainable regional development policy should initially start with a theoretical understanding of why unemployment arises. A fully-employed economy imposes significantly lower welfare burdens than one beset with chronic, government-induced unemployment.

3. The macroeconomics of unemployment[5]

With today's central banking and floating exchange rates, bank deposit money is necessarily endogenous, as it only exists to the extent that there are outstanding bank loans. This is also true for all credit instruments - for every asset there is a corresponding liability. In aggregate, there can be no net savings of financial assets.

Involuntary unemployment is defined as idle labor offered for sale with no buyers at the current price (money wage). As a matter of accounting, for the aggregate output to be sold, total spending must equal the total of all wages and profits. Unemployment will occur when the private sector, in aggregate, desires to earn the monetary unit of account, but doesn't desire to spend all it earns. That results in involuntary inventory accumulation among sellers of goods and services and translates into decreased output and employment. In this situation, nominal (or real) wage cuts *per* se do not clear the labour market, unless those cuts somehow eliminate the desire of the private sector to net save, and thereby increase spending. This point is articulated in Post Keynesian theory but plays no role in the neoclassical/monetarist explanations of unemployment.[6] It is the introduction of "State Money" into a non-monetary economics that raises this spectre of involuntary unemployment.[7] Extending the model to include the foreign sector makes no fundamental difference to the analysis and so private domestic and foreign sectors can be consolidated into the *non-government sector* without loss of analytical insight.

The only entity that can provide the non-government sector with net financial assets (net savings) and thereby simultaneously accommodate any net desire to save and eliminate unemployment is the government sector. It does this by (deficit) spending. Furthermore, such net savings can only come from and is necessarily equal to cumulative government deficit spending. National income accounting is thus underpinned by the identity; the government deficit (surplus) equals the non-government surplus (deficit). The systematic pursuit of government budget surpluses must be manifested as systematic declines in private sector savings. This is contrary to the mainstream rhetoric.

The non-government sector is dependent on the government to provide funds for both its desired net savings and payment of taxes to the government. To obtain these funds, non-government agents offer real goods and services for sale in exchange for the needed units of the currency. This includes, of-course, the offer of labor by the unemployed. The obvious conclusion is that unemployment occurs when net government spending is too low to accommodate the need to pay taxes and the desire to net save. We show in Section 4 that government spending is never inherently revenue-constrained. It is only constrained by what is offered for sale in exchange for its currency.

Returning to the textbook case (with a consolidated private sector including the foreign sector), total private savings thus equals private investment plus the government budget deficit. And, if we disaggregate the non-government sector into the private and foreign sectors, then total private savings is equal to private investment, the government budget deficit, and net exports, as net exports represent the net savings of non residents. Wray (1998: 81) says, "Normally, taxes in aggregate will have to be less than total government spending due to preferences of the public to hold some reserves of fiat money." Thus, in general, he expects deficit spending to be necessary to ensure high levels of employment.

This framework also allows us to see why the pursuit of government budget surpluses will be contractionary. Pursuing budget surpluses is necessarily equivalent to the pursuit of non-government sector deficits. They are the two sides of the same coin. In recent years, financial engineers have empowered consumers with innovative forms of credit, enabling them to sustain spending far in excess of income even as their net nominal wealth (savings) declines. Financial engineering has also empowered private-sector firms to increase their debt as they finance the increased investment and production. The resulting sharp decline in the desire to net save temporarily allowed the US government to realise a budget surplus, but the process was not sustainable (Godley, 1999). The decreasing levels of net savings 'financing' the government surplus increasingly leverage the private sector. Increasing financial fragility accompanies the deteriorating debt to income ratios and the system finally succumbs to the ongoing demand-draining fiscal drag through a slow-down in real activity. A similar trend has occurred in Australia.

The Federal Government and RBA have recently commented on the strength of the Australian economy and used this as a demonstration of the appropriateness of economic policy. For example, in a recent press release (April 25, 2000), Treasurer Costello said "The benefits of labour and product market reforms are evident in Australia's economic performance through the global economic downturn of 2001." In RBA (2002) we find that for the June Quarter 2001, annual private demand fell by 1.0 per cent driven largely by a 29.7 per cent fall in dwelling investment and a 4.8 per cent fall in business investment. Public spending grew by 0.2 per cent in the same period. By the December 2001 quarter, annual private spending growth was at 5.6 per cent, with consumption at 4.2 per cent, dwelling investment at 21.5 per cent, business investment at 4.5 per cent and public spending at 4.0 per cent. Three major (temporary) policy shifts led to this transition in the performance of the economy and the revitalisation of private sector spending. First, the Reserve Bank cut interest rates 6 times since February 2001, which provided the stimulus for private investment. Second, the Federal Government temporarily abandoned, for electoral purposes, its blind pursuit of budget surpluses. Recognising that the GST devastated home building, the Federal Government's First Home Owner's Grant injected over two billion Government dollars into the economy and substantially stimulated an ailing construction industry. Third, international events (East Timor and September 11) led to a surge in defence spending. Put together, the Australian economy received an old-fashioned Keynesian boost to say the least! Yet there is little recognition of the role that this increase in public spending, and, importantly, its timing has played in promoting Australia's quick return to growth. For example, there is no explicit analysis of this role in RBA (2002).

4. The fiscal constraints on government

The corollary of the abandonment of macroeconomic demand management has been the obsession by government with budget surpluses and a denial that they promote persistent unemployment (Mitchell and Mosler, 2001). Contrary to the myth peddled by neo-liberalism there are no financial constraints on federal government spending. The myth starts with a false analogy between household and government budgets. The analogy misunderstands that a household, the user of the currency, must finance its spending, *ex ante*, whereas the government, the issuer of the currency, spends first and never has to worry about financing.

Neo-liberalism uses the government budget constraint (GBC) framework to formalise their claim that the GBC represents an *ex ante* financial constraint on government spending, whereas in fact it is only an *ex post* accounting identity. The GBC literature outlines three sources of government "finance": (1) taxation; (2) selling interest-bearing government bonds to the private sector; and (3) printing money. A deficit (spending above taxes) is thus "financed" by a combination of (2) and (3). Various scenarios are constructed to show that deficits are either inflationary, if financed by printing money, or crowd-out private sector spending by pushing up interest rates, if financed by debt.

A summary of the many flaws in this argument is presented here (see Mitchell and Mosler, 2001 for more detail). The Federal Government is the sole provider of *fiat currency* or money. A monetary economy (like Australia) typically requires a federal budget deficit for smooth functioning and full employment. To understand this argument we note that tax liabilities must be discharged using this currency. Federal Government spending provides the private sector with the currency they need to pay their taxes and to net save. As government spending precedes tax payments it logically cannot be financed by taxes. Further, if private sector desires to net save are to be fulfilled then aggregate government spending must exceed taxation (a budget deficit). Budget surpluses squeeze the desires of the private sector to hold financial assets, net save and pay taxes and ultimately lead to mass unemployment.

The GBC approach then argues that budget deficits have to be financed with debt issues, which place upward pressure on interest rates by increasing demand for private funds. However, this fundamentally misconstrues the way the banking system operates. All transactions between private entities, like commercial banks, net to zero because for every asset created, a matching liability exists. Thus no *net* assets can be *created* by transactions between private entities. The money creating role of banks specified in economics textbooks is thus misleading. The only source of net money creation is via exchanges between government (including the RBA) and the private sector (net government spending; government bond trading and foreign exchange trading by the RBA).

The RBA conducts monetary policy by setting and maintaining a target cash (short-term) interest rate, which then influences the overall structure of interest rates. For example, if there is upwards pressure on the cash rate due to heavy demands for funds in the commercial banking system, the RBA will buy government bonds from the private sector and thus inject cash.

A budget deficit amounts to a *net* injection of cash into the system and creates a *system-wide* excess in the reserve accounts that commercial banks hold with the RBA (exchange settlement accounts). These accounts are central to the settlements system where the multitude of transactions between individuals and banks are resolved. Banks do not like to hold excess reserves in these accounts because in Australia they earn 25 basis points below the cash rate. Thus, system-wide cash surpluses place downward pressure on the cash rate as banks try to lend out the excess reserves. Of-course, in *net* terms these transactions cannot clear an overall cash surplus. If the RBA is intent on holding its interest rate target then it must drain these excess reserves from the system. This is why government debt is issued. It serves as a liquidity drain to allow the RBA interest rate target to be sustained. The private sector purchases the debt to earn a market yield on their reserve holdings. So, far from pushing interest rates up, debt issues maintain existing rates, which would otherwise fall. If there no debt were issued, then the cash rate would fall. However, this would not constrain government spending but merely alter the asset returns available to the private sector.

The private sector may increase their consumption if they cannot find suitable interest-bearing assets to absorb their cash surplus. This would necessitate a decline in net government spending to avoid an overheated economy. This also relates to the neo-liberal claim that money creation always creates inflation. The relationship between monetary growth (nominal demand) and the price level is complex and depends on the state of aggregate supply. In times of deficient-demand, business firms have excess capacity and will respond to increased demand for their products by increasing production and employment rather than increasing prices.

In summary, the government, as the issuer of money, cannot be financially constrained and has an obligation to ensure that its net spending is sufficient to maintain full employment. Any "package" that justifies its position on the basis of perceived government financial constraints is thus based on erroneous foundations. In that context, we examine two of these packages more closely.

5. Antithetical new solution packages

The persistently high unemployment has put pressures on the welfare services provision and has been exacerbated by the regionally-specific declines in manufacturing and ancillary employment. Declining manufacturing employment in areas such as Newcastle and Wollongong has been exacerbated by National Competition Policy (Treasury, 1998). In response to these problems new debates and conjectures have emerged offering "solution packages"[8] that purport to steer a route through the "extremes" of Keynesianism and neo-liberalism. These so-called progressive Third Way movements, including SE and NR, however, ignore the facts and theory presented in Sections 2 to 4. In doing so they adopt a characterisation of unemployment, albeit somewhat blurred, that is hard to distinguish from the NAIRU hypothesis (Lovering, 1999; Peck, 2001; Cook, Dodds and Mitchell (CDM), 2001). The proponents of SE and NR suggest that government fiscal and monetary policy is impotent and that individuals have to be empowered with appropriate market-based incentives (Castells and Hall, 1994; Botsman and Latham, 2001). Lovering (1999: 387) says that "NR reproduces neoliberalism's methodologically individualist myopia and forgets Marx's and Keynes' discovery that the economy is not the sum of its parts."

The failure of the increasingly influential SE to see mass unemployment in macroeconomic terms represents what CDM (2001) called its "first false premise." Clearly, the accusation can be extended to NR. Both "solution packages" highlight local schemes or initiatives (for example, Henton *et al*, 1997), but fail to understand that in a constrained macroeconomy the scale of job creation required is beyond the capacity of local schemes. This specific-to-general logic also pervades neo-liberal logic and formed the basis of the Keynesian attack on orthodoxy during the Great Depression.

So while these packages reject economic rationalism as a way forward and argue that they are neither Keynesian nor rationalist, the reality is different. In fact, the infusion of the individualistic rhetoric throughout the public debate, driven by a blind acceptance of binding financial constraints on the Federal Government has led these "solution packages" to lean firmly towards market solutions and maintain the notion of full employability rather than advance full employment in any meaningful way. By largely disregarding the macro-economy these solutions will fail to deliver full employment (CDM, 2001; Lovering, 1999: 387). As a consequence, the neo-liberal position is left unchallenged and is actually reinforced.

6. Social Entrepreneurship[9]

By ignoring the real causes of strains on the welfare system and embracing a market-based approach to welfare provision, SE introduces three major new problems that do not arise with a rights-based welfare system:

(a) A flawed model of welfare provision;

(b) A flawed model of community development; and

(c) A flawed conception of citizenship.

6.1 Welfare Provision

While SE evades an exact definition, it appears to embrace both corporate and not-for-profit commercial behaviour designed to achieve social objectives and/or seek cost-cutting efficiencies or revenue diversification (see Fowler, 2000; Johnson, 2001; and CDM, 2001). For example, the commercial pursuits by non-profit organisations are seen as a means to cross subsidise social goals. Within the SE literature on non-profit organisations, the entrepreneurial activities and abilities of individuals take primacy over the social dimensions (Dees, 1998; Henton *et al*, 1997).

Why has this movement evolved? Social Entrepreneurs (SE's) argue that welfare services need to be delivered more *efficiently* and that entrepreneurial profits via full-blown business activities are required to cross-subsidise welfare provision, in an era where budget allocations are highly constrained. The concepts used in the SE literature are heavily borrowed from neoclassical microeconomics. For example, efficiency appears in standard microeconomic text-books and refers to the highest output at the lowest cost. According to this model, while unfettered private markets allocate resources to the most efficient uses, the presence of any social (external) costs arising from private market transactions which are not valued in the market, will render private entrepreneurship inefficient. *Social justice* aims cannot be valued in the market and so private entrepreneurial models of welfare provision are unlikely to achieve efficiency. For example, how would a social entrepreneur allocate resources between profit-making and welfare-providing activities? Despite SE's using text-book terminology to claim legitimacy for their agenda, no such authority exists. No neoclassical underpinning exists to suggest that SE delivers welfare more efficiently than the Welfare State model it seeks to replace. Dees (1998: 2) admits that "Markets do not work as well for social entrepreneurs … markets do not do a good job of valuing social improvements, public goods and harms, and benefits for people who cannot afford to pay." Accordingly, the market is not a legitimate benchmark to justify the changes from rights-based welfare.

6.2 Entrepreneurship, communities and welfare provision

SE's advocate abandoning the government-individual welfare nexus and instead want government to fund local social entrepreneurs and encourage entrepreneurial projects

(Botsman and Latham, 2001). Further, non-profit organisations should enter commercial alliances with corporate businesses (see d'Indy, 2000: 12). There are significant problems that arise from these proposals (see CDM, 2001). First, it is unclear how adopting corporate aims to guide social spending advances social justice, which requires that resources are allocated according to an ordering of societal needs, determined in the public domain, rather than by corporations. Second, non-profit organisations who implement state welfare programs for commercial gain become co-opted (lose their independence) and may undergo fundamental internal changes. Under the Job Network, non-profit welfare agencies now impose harsh income-losses on some of the most disadvantaged members of the community and it is hard to reconcile this behaviour with their long-standing welfare missions. Third, the community pooling arrangements proposed to underpin community entrepreneurship are unsuitable vehicles for welfare provision. SE's propose to pool government allocations for health, education, housing, training and employment and social security payments, currently paid to individuals "to invest in community cooperatives that allocate a living wage for community employment" (Botsman, 2001a: 71). Accordingly, the government would become a venture capital provider and underwrite small-scale capitalist production, which is known to have high rates of business failure (ABS, Cat. No.1321.0). It is undesirable to make the fortunes of the disadvantaged at the behest of entrepreneurial vagaries. More significant community entrepreneurship would fail due to *moral hazard* (where the government takes on a moral obligation to prevent an entrepreneur from failing). The entrepreneur would face distorted risk and return choices because they can effectively ignore downside risks of any investment. Endemic market failure would result in a proliferation of wasteful investments. There is no problem of moral hazard in a government provided welfare model because allocations reflect political accountability.

Fourth, SE's claim that social cohesion is best developed at the community level (Latham, 2001b). Social cohesion can take many forms. Some countries like Japan, Switzerland, and Norway avoided the sustained unemployment that beset most economies after the mid-1970s by maintaining "a sector of the economy which … functions as an employer of last resort … [and] … exhibited a high degree of shared social values … [or] … social cohesion, a characteristic of almost all societies in which unemployment has remained low for long periods of time" (Ormerod, 1994: 203). Social cohesion, here, refers to the willingness of citizens to allow the state to use macroeconomic policies to maintain full employment. According to SE's, the community-based model of social cohesion overcomes the "one size fits all" aspect of bureaucratic Welfare States. However, a plethora of separate, entrepreneurial (competitive) communities are unlikely to develop shared values or social cohesion. Further, the substitution of community-developed, for bureaucratically determined, programs may introduce discord between sections of the community with divergent priorities, including intolerance of minorities. Finally, any positive outcomes of a small number of organisations will not automatically be transferable to every community. Social entrepreneurs would compete with private companies and employment generated in these communities may be partially or totally offset losses in the private sector.

In short there are numerous dangers in pursuing the community entrepreneurship model. Communities working together with the fiscal power of the federal government to achieve national goals would best ensure the protection of citizens' rights originally secured by the introduction of the Welfare State, and, avert the possibility of divisiveness between and within communities.

6.3 The rights of citizenship

The Keynesian full employment commitment was buttressed socially by the development of the Welfare State, which defined the state's obligation to provide security to all citizens. Citizenship embraced the notion that society had "a collective responsibility for the wellbeing of its citizens" (Jamrozik, 2001: 15) and replaced the deserving-undeserving poor dichotomy (Timmins, 1995: 21). Transfer payments were provided to disadvantaged individuals and groups and a professional public sector, provided standardised services at an equivalent level to all citizens.

Accompanying neo-liberal attacks on macroeconomic policy have been concerted attacks on supplementary institutions such as the industrial relations system and the Welfare State. To force individuals to become accountable for their own outcomes, welfare policy changes have introduced alleged responsibilities to counter-balance existing rights while promoting the movement from passive to active welfare (Burgess and Watts, 2001).

Individuals now face broader obligations and their rights as citizens have been replaced by compulsory contractual relationships with behavioural criteria imposed as a condition of benefit receipt. SE's are supportive and claim that individuals have to accept responsibility, be self-reliant, and fulfill their obligations to society (Latham, 2001a; Pearson, 2001; Giddens, 1998). Unemployment is couched as a problem of welfare dependence rather than a deficiency of jobs. SE's propose that they can break this welfare dependency by shifting responsibility from government to the individual. The necessity of reintegrating the allegedly, welfare dependent underclass into the community provides the justification for 'mutual obligation' and the concept of 'no rights without responsibilities' (Latham, 2001b: 258). Reciprocal obligation was developed initially in Australia by the previous Labour administration and has been refined to an art form by the current government. Unfortunately, no reciprocal obligation is on government to ensure that there are enough jobs. The major shortcoming is that the focus on the individual ignores the role that macroeconomic constraints play in creating welfare dependence? Their preoccupation with instituting behavioural requirements and enforcing sanctions for welfare recipients suggest that they perceive dependence as an individual preference. However, as noted in Section 2, it is a compositional fallacy to consider that the difference between getting a job and being unemployed is a matter of individual endeavour. Adopting welfare dependency as a lifestyle is different to an individual, who is powerless in the face of macroeconomic failure, seeking income support as a right of citizenry.

7. New Regionalism – the disappearance of the nation state

7.1 What is New Regionalism?

With is underlying themes of localised democracy, community initiative, and self-supporting associative synergies, SE is a close ally to the new dialogue that has swamped the urban and regional development literature – the so-called NR (see Lee and Wills, 1997; Lovering, 1999). NR emerged in the mid-1980s and was largely driven by case studies documenting economic successes in California (Silicon Valley) and some European regions (such as Baden Württemberg and Emilia Romagna). Lovering (1999: 380) says that NR consists of a series of ideas comprising: "(1) the historico-empirical claim that ‘the region’ is becoming the ‘crucible’ of economic development; and (2) the normative bias that ‘the region’ should be the prime focus of economic policy.”

Scott and Storper (1989) argued that regions had displaced nation states as sites of successful economic organisation. This arose as a result of changing technological and organisation dimensions of production and the downfall of ‘Fordism’ as a production mode (Piore and Sable, 1984; Storper, 1995). Following the deindustrialisation of many regions (the decline of Fordism in the NR jargon) “many small firms began to adopt a system of flexible specialization as a means of dealing with the uncertainty engendered by the fragmentation of formerly secure and stable mass markets” (Danson, 2000: 857).

NR advocates argue that regional spaces provided the best platform to achieve flexible economies of scope that were required to adjust to increasingly unstable markets. These socio-spatial processes involve localised knowledge creation, the rise of inter-firm (rather than intra-firm) relationships, collaborative value-adding chains, the development of highly supportive localised institutions and the training of highly skilled labour, which were loyal to an area due to supportive social relations (Lovering, 1999; Granovetter, 1985; Ohmae, 1995). These dynamics required firms to locate in clusters, often grouped by new associational typologies (for example, the use of creative talent) rather than by a traditional economic sector such as steel. The new post-Fordist production modes emphasised new knowledge-intensive activities encouraging local participative systems (Mayer, 1992; Sassen, 1994). By achieving critical mass of local collaborators, a region could be dynamic and globally competitive (Castells 1997; Cooke and Morgan, 1998).

Most these claims are based on induction of regional “successes” without regard for the specific cultural or institutional contexts, and lack any coherent unifying theoretical underpinning. Lovering (1999: 384) concludes that NR is “a set of stories about how *parts* of the regional economy *might* work, placed next to a set of policy ideas which *might* just be useful in *some* cases.” There is also dispute about whether some of the examples used to advance the case for NR actually represent successful demonstrations of the approach. For example, Staber (1996) argues that the Baden Württemberg region does not fit the NR model; Markusen (1996) criticises the applicability of the Silicon Valley; and Jones and MacLeod (2002) and Lovering (1999) challenge the empirical claims concerning regions in the UK. As an example of the dangers in generalisation outside of context, Lovering (1999: 382)

> If one factor has to be singled out as the key influence on Wales' recent economic development … it is not foreign investment, the new-found flexibility of the labour force, the development of clusters and networks of interdependencies or any of the other features so often seized upon as an indication that the Welsh economy has successfully 'globalized'. Something else has been at work which is more important than any of these, and it is a something which is almost entirely ignored in New Regionalist thought … It is the national (British) state.

The theoretical and empirical debate over NR has become entangled with the emergence of derivative approaches to regional policy. For example, "Porter's diamond" has provided regional development practitioners with an empowering policy agenda in the face of tight fiscal policy and a growing reluctance by governments to take responsibility for regional economic performance beyond introducing the microeconomic reform programs noted above (Jessop, 1999; Peck, 2001). Some agencies, established by governments to assist accumulation and distributional strategies founded on the nation state, now find themselves asserting the new regionalist agenda.

So the growing popularity of NR in the policy arena stands in contrast to its increasingly contested status among academics. Two major issues are unresolved: (a) the claim that the region offers a convincing theoretical explanation of recent and future economic development is under-researched and has weak empirical underpinnings. There is a failure to outline how macroeconomic policy influences regional performance and to specify how regions engage beyond their borders (Lovering, 1999; Jones and MacLeod, 2002); and (b) the uncritical acceptance of NR as the best policy approach is also challenged (Lovering, 1999). There is no empirical validation of the claims that a new capitalism based on regionally-autonomous economies with passive macroeconomic fiscal policy is the natural path to prosperity and an avoidance of social exclusion, predominantly driven by persistent unemployment. The practical manifestation is far from satisfactory.

7.2 The absence of macroeconomics in New Regionalist thought

The lack of development of any coherent macroeconomics in the NR is terminal. Some NR writers argue the localised economic and political developments at the regional level render the nation state obsolete (Ohmae, 1995). The argument is sketchy but suggests that globalisation of financial and trade markets have empowered the export-oriented regions. Danson (2000: 858) says there is a "widespread consensus that these developments have rendered the nation-state an inappropriate level at which to formulate and co-ordinate economic policy. Too small to deal with capitalism as a global system and too large to respond effectively to the rapid changes taking place at the local level…"

We see a new style of Says Law emerging with claims that post-Fordist economies need to focus on the "supply-side architecture" where regions "become the fundamental basis of economic and social life" (Storper, 1997: 211). The monetary and financial aspects on the demand-side are ignored. There is thus no coherent explanation of how global finance functions to shift resources from direct investment into financial and non-productive asset speculation and how the speculative capital flows can seriously impede regional development by damaging the trading and monetary capacity of nations. There is also no description of the role played by the large international (governmental) institutions like the World Bank and the International Monetary Fund that wreak havoc on nations and the regions as they defend "first-world capital".

More important to the theme of this paper is the disregard for the centrality of the Federal government as the monopoly supplier of fiat currency, and the powers and responsibilities that that status brings (outlined in Sections 3 and 4). This disregard betrays a total lack of comprehension of how monetary capitalist economies operate. There is no escaping the basic national accounting relationships between spending and inventories. The central government is always powerful if it spends its own currency as long as it can enforce basic tax obligations. Its spending decisions have a significant influence on the aggregate level of activity and, in turn, the performance of regional economies. While distributional changes between regions can occur at a given aggregate level of activity, it is a compositional fallacy to assume that all regions can lift themselves without a buoyant aggregate climate. Furthermore, innovation and skill development is more likely to develop when the national economy is strong. Mass unemployment is a symptom of the central government's unwillingness to spend sufficient amounts of currency given the non-government sector's propensity to save. Its solution requires this deficiency to be reversed. While increasing indebtedness within the non-government sector can temporarily bridge a spending gap, it ultimately is not a sustainable path to full employment growth. Minor changes in exchange rates and interest rates can drive a heavily indebted private sector into multiple bankruptcies.

7.3 A microeconomic bias

The excessive emphasis on export-production firms as the "principal foundation of local prosperity" (Scott, 1998: 53) totally disregards the reality that regional output per capita is increased by the activities of the financial, service and government sectors, quite apart from their contribution to local manufacturing development.

New regionalist writers place innovation at centre stage in their analysis of the factors that predispose regions to produce employment growth (Castells, 1997). While is new technology that will provide the basis of cluster-based regional development there is little analysis of the way the macroeconomic context connects innovation to employment growth. Lovering (1999: 387) says that "Much of the literature is little more than a de-contextualized discussion of the possible advantages for the parties involved of more collaboration at the regional level … At the extreme vulgar end of the New Regionalist spectrum, innovation and innovation-promoting policies are simple celebrated per se."

If the NR explanation was a general theory, one would expect to see the major employment growth coming from scientific, high technology, research and development areas using information technology. Lovering (1999: 387) shows that the evidence does not support this contention. He argues that "these sources of employment have been static or declining in most advanced industrial countries in recent years … [and in the UK] … employment in research and development … has fallen … [and] … innovation and new technology has mainly been used … to cut jobs…"

In Australia, a similar case can be made. Data from the DEWR Skilled Vacancy survey shows the trends in new job creation over the 1990s. Ratios of the index value in April 2002 divided by the value in January 1990 for each of the occupational categories are shown in Table 2. The data suggests that the growth in vacancies is the service trades has been robust compared to the professions and associated professions. While hardly definitive it does not provide a strong indication that the sort of processes that underpin the NR claims dominate. Skilled vacancies in information technology have been declining in Australia consistently for the last two years (DEWR ITC Survey).

Table 2 Index value at April 2002 divided by index value at January 1990

Professionals		Associate Professionals		Trades	
Science	0.72	Medical & Science	0.60	Chefs	2.60
Building & Engineering	0.61	Building & Engineering	0.50	Metal Trades	0.55
Accountants & Auditors	0.58			Automotive Trades	0.87
Marketing & Adverts	0.59			Electrical & Electronics	0.41
Organisation & Info	1.10			Construction Trades	1.06
Health	0.94			Food Trades	0.67
Social	0.83			Printing Trades	0.52
				Wood & Textile Trades	0.92
				Hairdressers	1.92
Total	0.75	Total	0.43	Total	0.85

Source: DEWR Skilled Vacancy Survey.

7.3 Labour market, welfare-to-work and skill development issues

It is hard to find reference in the NR literature to the institutional nature of the labour market – that is, how labour markets actually work and their reliance on the performance of the national economy. The NR focus is on technical exigencies imposed from the demand side and the need to develop skills to match. This supply-side emphasis fits nicely into the neo-liberal active labour market policy approach. Lovering (1999: 388) says that "the labour market is regularly portrayed in New Regionalist writings as a space of transactions little different from that presented by modern neoclassical economic accounts. It is important in static terms as the means of mobilizing human capital and in dynamic terms as a domain for the circulation of 'untraded interdependencies', transfers of embodied knowledge (formal or tacit) and collective sharing of learning." Amin (1999: 366) considers these untraded interdependencies are "embedded in networks of interpersonal relations." However, once one cuts through the smog of post-modern rhetoric it is clear that the claim becomes one of the regional labour market is of an ideal size for networks to develop, which are comprised of people who meet regularly on a face to face basis to negotiate deals and develop cooperation and trust. So what is the optimal size? How can we translate this concept of a region into a real space? What does this mean for labour market policy? In a highly demand-constrained labour market with high unemployment rates the imagery of all the resources on the supply and demand side meeting to develop mutually beneficial and multiplicative synergies appears far fetched.

In times of persistent unemployment with marked regional disparities, it is more apposite to understand the ways in which the labour market prorates the surplus workers to the scarce jobs. Some groups are clearly excluded from jobs *per se* based on a range of crude screens. In this sense, their productive capacities are lost. But moreover, with a demand-constrained labour market it is unclear how the supply focus can be effective.

The emphasis on skill development as the fuel for innovation also does not appear to translate into practice. The persistence of unemployment has changed the nature of labour market policy (Haughton, Jones, Peck, Tickell and While, 2000). Temporary assistance to smooth out the business cycle under a system of full employment has been replaced by a system of compliance and relentless training requirement to fix the problem of welfare dependence and make the unemployed work ready for the relative trickle of jobs that are now considered the normal operations of the neo-liberal economy. Shades of the SE literature are clear here.

In the UK, an influential Labor Party advisor and NR sympathiser, Richard Layard noted

> In the very bad old days, people thought unemployment could be permanently reduced by stimulating aggregate demand in the economy … But … [this] …did not address the fundamental problem; to ensure that inflationary pressures do not develop while there are still massive pockets of unemployment people. The only way to address this problem is to make all the unemployed more attractive to employers – through help with motivation and job finding, through skill-formation, and through a flexible system of wage differentials. Nothing else will do the trick (Layard, 1998: 27).

The OECD Jobs Study (1994), which was considerably influenced by the work of Layard and his colleagues, set the tone for this neo-liberal labour market agenda – the targetting of welfare-to-work policies that stress full employability and the disregard for policies that might increase the rate of overall job creation. This agenda was first implemented in Australia under the Keating Labour Government and refined under the Coalition government with the introduction of the Job Network. Australia has been praised by the OECD (2001: 11) for our path-breaking lead in introducing "market-type mechanisms into job-broking and related employment services" The OECD (2001: 14) concludes that in terms of labour market policies Australia "has been among the OECD countries complying best" with the OECD Jobs Strategy (see OECD, 1994).

Of relevance to this paper, is the fact that the regional institutions most likely to be central parts of the NR and SE "solution", the small entrepreneurs, community activists, and private welfare agencies, have in reality become the agencies that administer these neo-liberal labour market policies (Peck, 2001). In the UK, Jones and MacLeod (2002: 20) note

> … employer coalitions and locally based stakeholder partnerships have been formed to bring together a wide range of interests involved in the 'business' of unemployment. Through these new regimes, the unemployed are offered to employers, who receive a subsidy with minimum training requirements, in return for their assistance in resolving welfare state dependency and at the same time (supposedly) providing the basis for a skills-based lifelong learning revolution … While this might give some genuine appearance of 'training', some have gone so far as to suggest this is nothing more than large-scale bribery, a huge subsidy for capital, because the training requirements are ill-defined in the numerous agreements between the employer and the state.

In Australia, the implementation of the labour market programs via the Job Network exploits a host of private, community and public groups operating at the regional level. The reality of their operations is a far cry from being an environment of 'untraded interdependencies' and 'transfers of embodied knowledge' and a 'collective sharing of learning.' While NR places an emphasis on the new economy and life-long learning opportunities engendered by dynamic local structures, the policy reality is starkly different. These small scale regional bodies, in same cases the public-private business interfaces (like Area Consultative Committees), in other cases, the former Church-based charities, are now co-opted by the neo-liberal agenda and implement on its behalf, mutual obligation and breaching. These activities provide little long-term benefit and actual harm to the unemployed, arguably the most disadvantaged group in Australia.

The DEWR Post Program Monitoring Survey shows sharp regional differences in the proportion of Job Network clients who are in full-time employment 3 months after ceasing assistance and around 48 per cent return for multiple spells of assistance. Officers from DEWR admitted that Work for the Dole placements are not labour market programs but rather serve to enforce mutual obligation compliance (Senate Estimates, 2002). The recent Productivity Commission (2002) analysis of the operations of the Job Network presented a dismal picture with some Job Network providers "parking" the most disadvantaged long-term unemployed workers in intensive assistance to recoup the commencement fee from the Government but then providing little or no further assistance to the job seekers. The Productivity Commission (2002: S9.14, 212) concluded that:

> Parking is most acute for severely disadvantaged job seekers and raises some more important equity and efficiency issues. It undermines the expectations that IA helps the most disadvantaged job seekers, and sometimes damages their morale. For such clients, IA is a pretence of aid.

A fully employed economy provides life-long training and learning opportunities in the context of paid employment with firms becoming responsible for adjusting hiring standards and on-the-job training programs to match the available talents of the labour force. Under the doctrine of full employability, labour market programs merely function to subsidise the needs of private capital.

8. Conclusion

Most OECD economies have suffered from persistently high unemployment since the mid-1970s. The major explanation for this pathology has been a deficiency of demand promoted by inappropriate fiscal and monetary policy. Governments reacted to the onset of inflation with restrictive policy stances summarised by a fetish for budget surpluses. In doing so, they have failed to understand the opportunities that they have as the issuer of the currency.

In this paper, it has been shown that budget deficits are necessary to maintain full employment if the private sector is to pay taxes and has a positive desire to net save. In this regard, the orthodox treatment of the accounting relation termed the government budget constraint as an *ex ante* financial constraint is in error. Government spending is only constrained by what real goods and services are offered in return for it. There is no financing requirement. Debt issuance is seen as part of a reserve maintenance operation by the RBA consistent with their monetary policy cash rate targets. Accordingly, the alleged constraints on government action to restore full employment are based on false premises.

The two “solution packages” that have emerged as the costs of the neo-liberal failure have mounted can be shown to have been co-opted into the neo-liberal approach. In particular the disregard for the role of macroeconomic policy in restoring full employment and the individualisation of economic outcomes represent the major avenues through which the neo-liberal paradigm has absorbed the new so-called progressive agendas of Social Entrepreneurship and New Regionalism.

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Notes

1 Bill Mitchell is the Professor of Economics and Director of the Centre of Full Employment and Equity (CofFEE) at the University of Newcastle. He acknowledges the input of Beth Cook, Chris Dodds, Warren Mosler, Philip O'Neill and Martin Watts in the construction of this paper. All errors are his own.

2 The word "gangbusters" has not yet made it into the Australian Oxford dictionary. The Merriam-Webster dictionary however indicates that it is a noun dating back to 1940 meaning "one engaged in the aggressive breakup of organised criminal groups" The expression "like gangbusters" refers to "with great or excessive force or aggressiveness".

3 NAIRU is an acronym referring to the Non-Accelerating Inflation Rate of Unemployment.

4 What are the costs of inflation? Blinder (1987: 45-50) "More precisely, is the popular aversion to inflation based on fact and logic or on illusion and prejudice? … Too many trips to the bank? Can that be what all the fuss is about? … Can that be all there is to the costs of inflation? The inefficiencies caused by hyperinflation are, of course, monumental. But the costs of moderate inflation that I have just enumerated seem meager at best." Blinder (1987: 51) also reacts to critics who lay all manner of societal ills on inflation at 6 per cent, says "Promiscuity? Sloth? Perfidy? When will inflation be blamed for floods, famine, pestilence, and acne? … And the myth that the inflationary demon, unless exorcised, will inevitably grow is exactly that – a myth. There is neither theoretical nor statistical support for the popular notion that inflation has a built-in tendency to accelerate. As rational individuals, we do not volunteer for a lobotomy to cure a head cold. Yet, as a collectivity, we routinely prescribe the economic equivalent of lobotomy (high unemployment) as a cure for the inflationary cold. Why?"

5 This section draws on Mitchell and Mosler (2001).

6 Blinder (1987: 105) concludes, "Keynesians do insist that they see involuntary unemployment in the land, no matter how many idealized theoretical models say that no such thing can exist. To a Keynesian, seeing is believing. New classicists insist on seeing what they believe."

7 Following the chartalist perspective fiat currency (money) is a vehicle used by the state to transfer goods and services between the public and private sectors. It is demanded by the private sector because it is the unit of account that clears tax liabilities imposed by the state.

8 Like Lovering (1999) it is inappropriate to use the term paradigm to describe the SE movement or the NR. On NR, Lovering (1999: 384) says that we "are not dealing with the normal-science applications of a rigorously developed foundational theoretical insight but rather with a loose bundle of ideas, an accretion of notions gathered together because they seem to resonate and point to broadly similar policy implications somewhere on the horizon."

9 This section draws on Cook, Dodds and Mitchell (2002).