Centre of Full Employment and Equity

Working Paper No. 26-02

The Sustainability of Full Employment under a Job Guarantee: A Critique

Martin Watts and William Mitchell

August 2026

Centre of Full Employment and Equity
The University of Newcastle, Callaghan NSW 2308, Australia
Home Page: http://www.fullemployment.net
Email: Bill.Mitchell@newcastle.edu.au

The Centre of Full Employment (CofFEE) is an official research centre at the University of Newcastle, NSW.

William Mitchell is Professor of Economics and Director of Centre of Full Employment and Equity at the University of Newcastle, Australia and Docent Professor of Global Political Economy, University of Helsinki, Finland. He is also an International Fellow at Kyoto University, Japan.

CofFEE Home Page: http://www.fullemployment.net

Email: Bill.Mitchell@newcastle.edu.au

1. Introduction

In a recent paper in this journal, Setterfield *et al.* (2023) examine the long-term sustainability of full employment following the introduction of a Job Guarantee (JG), also referred to as an employer of last resort, within a developed capitalist economy by adopting the framework developed by Kalecki (1943) in his well-known paper entitled The *Political Consequences of Full Employment.* Kalecki outlines the political constraints preventing the maintenance of full employment. The key question addressed in their paper is 'whether or not a JG/ELR scheme, in and of itself, represents the type of institutional change that Kalecki had in mind as being necessary for the maintenance of full employment' (Setterfield *et al.*, 2023: 1172).

The authors first outline Kalecki's reasons why capitalists would resist ongoing full employment, which are based on (i) hostility to the use of fiscal policy in general, (ii) its role in subsidising mass consumption and financing public investment and (iii) the absence of the threat of the sack in a fully employed economy.[1] An analytical model of the costs of job loss is developed and used to contrast the NAIRU model with a full employment Job Guarantee which has been superimposed on the NAIRU model (see also Kriesler and Halevi, 2001).

Setterfield *et al.* (2023) argue that, under the principle of equalising the costs of job loss across the two scenarios, the level of private sector employment would be lower under a Job Guarantee, under some conditions, which in their view would be an inferior macroeconomic outcome.

The authors claim that the necessary changes in capitalist institutions to address the political constraints outlined by Kalecki (1971) would not be adopted under a Job Guarantee which means that ongoing full employment is unsustainable.

In this response we acknowledge that full employment is a fundamental human right which has been recognised by numerous economists, including Nevile and Kriesler (2000), who also argued cogently that full employment could be achieved and maintained under capitalism (see also Burgess and Mitchell, 1998). However, now Setterfield *et al.* argue that in fact full employment is unsustainable under capitalism, in concert with a Job Guarantee. There is no explanation from the authors as to what motivated their diametric shift in conclusion.

The claim which Setterfield *et al.* make above is rather limited. A straw person argument is being used to assess the design of the JG in terms of whether its impact on capitalist institutions would be such as to enable the achievement of sustained full employment. The significant structural and institutional changes which have occurred in the last 60 to 70 years, since Kalecki opined on the topic, and their impact on the inflationary process in the 21st century are ignored. On the other hand, 'We also consider the precise form of the state and its implications for those in buffer stock employment', (Setterfield *et al.* 2023: 1173), which appears to imply that contemporary political institutions are subject to careful analysis in their paper. It is hard to find such an analysis in their discussion.

[1] Here we are interpreting full employment in terms of every worker seeks employment can secure a job, as opposed to a NAIRU definition of full employment which is associated with stable inflation.

The advent of the pandemic has led to the recognition in many countries that national governments have a major economic role to play in future-proofing their economies and society through targeted expenditure in areas, including health care and aged care and to promote manufacturing in areas including vaccine production to achieve greater national self-sufficiency. In addition, given the extreme urgency for action on climate change, major infrastructure outlays are necessary to enable these economies to move away from a reliance on fossil fuels and achieve net zero within a realistic time frame.[2]

Mazzucato (2021) argues that Government policy must now address a triple crisis associated with the pandemic, climate change and the macro economy,[3] which necessitates an enhanced role for the public sector in building infrastructure and promoting innovation. The claim that capitalists will resist a bigger role for government in these challenging times is patently false, given the significant reliance of that class on public procurement contracts (e.g. Aligica and Tarko, 2014). Likewise, the inference that organised labour can continue to achieve large money wage increases when the unemployment rate approaches its minimum value is highly questionable and not supported by recent empirical studies and the on-going facts (e.g. Mitchell *et al.*, 2013).

For example, since the pandemic, unemployment rates in Australia have been at their lowest levels in 50 years due to the restrictions imposed by government on border entry. At the same time, nominal wages growth has been at record lows and as inflation ensued, real wages have been significantly and systematically reduced, putting paid to any notion of real wage resistance, which dominated distributional struggles in the 1970s, when trade union coverage was much higher and industrial legislation was less punitive for workers (see, for example, Watts and Mitchell, 1990).

In light of these facts, the authors fail to offer a contemporary theory of inflation in developed economies and just rely on a microeconomic model of job loss and the dubious concept of the NAIRU, which when estimated in empirical studies typically exhibits such large standard errors that it is of no utility in the policy making process (see, for example, Mitchell and Muysken, 2008; Cusbert, 2017).

More generally, their critique lacks a robust macro-theoretic and empirical foundation. Unemployment is not the only component of labour underutilisation with underemployment being influential in the inflationary process (see, for example, Mitchell *et al.*, 2013) and a source of additional work hours in the macroeconomy. Also, a distinction can be made between short-term and long-term unemployment in terms of their respective impacts on the inflationary process. In addition, the principle of effective demand is ignored, as well as the evidence that the labour force participation rate is cyclically sensitive which means that their claim concerning the potential reduction in private sector employment following the introduction of a JG is flawed.

In Section 2 the 'costs of job loss' model by Setterfield *et al.* which is extended to analyse the adoption of a JG in addition to unemployment is outlined. We then provide contemporary evidence about the inflationary process in Australia which is followed by a brief analysis of the impact of the introduction of a Job Guarantee (Section 4). In Section 5, we outline and assess the contemporary relevance of Kalecki's justifications

[2] Over twenty years ago, Forstater (2003) explored the role of a Job Guarantee in addressing environmental issues.

[3] Christine Lagarde also defined a triple crisis in a speech in 2012 to refer to debt and financial chaos, poverty and income inequality, and environmental degradation.

for capitalists' resistance to persistent full employment. Concluding comments complete the paper.

2. Buffer stock employment and the costs of job loss

The main theoretical component of the paper by Setterfield *et al.* (2023) leads to the proposition that a level of unemployment, namely the NAIRU, which imposes a cost of job loss, continues to be the appropriate strategy to achieve worker compliance, in the sense that full employment is unsustainable, where full employment appears to mean that every worker can secure employment.[4]

Setterfield *et al.* (2023: 1178-1182) develop a simple model of job loss, building on the work of Shapiro and Stiglitz (1984) and Schor and Bowles (1987), and they also examine the consequences of a JG job being taken up after job loss.

The prospect of job loss arises from two sources. First, net job destruction can occur due to a firm/industry specific or macroeconomic shock with probability, $\boldsymbol{p_D}$. Second, an 'insider' may be periodically replaced by an outsider, independently of the productivity of the insider, which is designed to act as a disciplining device on insiders in general. This occurs with probability, $\boldsymbol{p_{R,U}}$ under the unemployment scenario. The prospect of job loss must also take account of the duration of unemployment (or tenure in a JG job) and the associated weekly loss of wage income. Then the cost of job loss $\boldsymbol{c_i}$ can be written as:

$$\boldsymbol{c_i = (p_D + p_{R,i})n_i(w - \sigma_i)} \quad \text{i=1,2}$$

where $\boldsymbol{\sigma_i}$ is replacement income after job loss, i.e. unemployment benefit or the JG wage; w denotes the wage being received prior to job loss which is associated with employment in the public or private sectors paying market determined wages.[5]

Now it is initially assumed that the duration of unemployment and the duration of JG employment, prior to securing a job paying market wages are the same and that, as per the arguments of JG advocates, the JG wage exceeds the level of unemployment benefit to avoid the accusation of workfare (Setterfield *et al.*, 2023: 1719).

Thus, if the costs of job loss are to be equalised between the so-called NAIRU and JG worlds, then the probability of job loss resulting from the disciplinary mechanism must be higher for workers earning market wages in the JG world, otherwise the NAIBER (non-accelerating inflation buffer employment ratio) (Mitchell, 1998) would have to be higher than the NAIRU. The latter is claimed to be unsatisfactory because this means that the level of non-JG employment, i.e. private (and public sector?) jobs paying market wages, would be lower in the JG world than in the NAIRU world, assuming the size of the labour force was fixed.

However, the NAIRU is an unemployment rate and thus expressed as unemployment divided by the labour force, whereas the NAIBER is the level of JG employment corresponding to stable inflation, which is expressed as a share of total employment

[4] The assumption made by the authors is that the introduction of a JG leads to all of the unemployed taking up JG jobs, since (1-e) denotes the share of the labour force in JG employment and e is the share of the labour force in private sector employment (Setterfield et al., 2023: 1720). JG advocates have never argued that such a scheme is designed to achieve a zero rate of unemployment, given the presence of frictional unemployment.

[5] Curiously, Setterfield et al. (2023) do not acknowledge the presence of public sector employment paying market wages.

(see, for example, Mitchell *et al.*, 2019: 305), so like is not being compared to like. For simplicity we will define NAIBER* as the non-accelerating inflation buffer employment *rate,* namely the level of JG employment corresponding to stable inflation divided by the labour force.

Setterfield *et al.* (2023: 1179) consider the potential impact of the introduction of a JG on the job loss parameter, $\boldsymbol{p_{R,i}}$, which is based on an 'insider' being replaced by an outsider. They acknowledge that JG workers could be considered more competitive in the labour market than the unemployed, because they do not acquire the negative credential of unemployment, they have a lower rate of HK depreciation and maintain informal contacts with the labour market. Thus $\boldsymbol{p_{R,JG} > p_{R,U}}$, but consideration must be given to whether there is an impact on the duration of unemployment, as opposed to JG employment, prior to securing private sector employment at market wages. The authors claim that with the retention of some work skills through maintaining employment, it is likely that $\boldsymbol{n_{JG} < n_U}$, so that the comparison of the respective costs of job loss associated with unemployment as opposed to JG employment is ambiguous, but possibly equal values of NAIBER and NAIRU are associated with $\boldsymbol{c_{JG} = c_U}$.

The authors then conclude, ostensibly on the basis of this problematic microeconomic theory of job loss, that the implementation of the JG scheme 'does not transform capitalism in a manner that necessarily reduces (much less eliminates) the need for there to be a credible threat of imposing costs on workers arising from the loss of private sector employment' (Setterfield, *et al.*, 2023: 1181).

This is a curious claim in that MMT advocates have never argued that workers do have not have the capacity to exercise some bargaining power but would argue that since the 1970s this capacity has been severely curtailed, whereas the authors appear to be just comparing a JG with a NAIRU world[6], with no account being taken of the changes in the political and institutional environment since Kalecki's 1943 work.

Also, of importance, is the failure to recognise that there are effective demand consequences of replacing some of the unemployed by JG workers earning higher incomes which we now examine in the next section.

3. Effective demand, the labour market and inflation

The question of whether full employment is sustainable relates to the operation of the macroeconomy, yet the analytical focus of Setterfield *et al.* (2023) is on a microeconomic model examining the behavioural consequences of the threat of job loss. They do not articulate a theory of inflation, other than making vague references to the NAIRU.

In an Australian study, Mitchell *et al.* (2013) found that, while firms shed full-time jobs during the 1991 recession, in the aftermath there was significant growth in part-time work which in many cases entailed sub-optimal hours of work. Thus underemployment rose significantly, rather than the growth of part-time employment being primarily the outcome of voluntary choices made by workers. Earlier work by Mitchell and Muysken (2008) had shown that within-firm slack (i.e. underemployment) had become 'an additional disciplinary force on inflation' through a change in the wage setting process leading to a revised specification of the Phillips curve relationship where labour market

[6] Stockhammer (2008) notes the unclear use of the concept of the NAIRU in theoretical work. There is a lack of clarity about the role of the NAIRU in Setterfield *et al.*'s 'model' of inflation.

slack was more broadly defined and measured. Thus, while the short term unemployed would be expected to have a greater disciplinary impact on wage determination than long term unemployment, the underemployed via their demonstrated capacity to engage productively in the workplace, would also be expected to contribute to downward pressure on the inflation rate (Mitchell *et al.*, 2013, 203-204).[7]

These insights underpin their empirical work in which they investigate the roles that these excess demand proxies play in influencing the inflationary process for the period 1978Q1-2013Q2. The authors construct time varying (TV) NAIRUs based on the application of a Hodrick-Prescott filter to both the overall unemployment rate and the short-term unemployment rate respectively and compute the respective gaps associated with the two unemployment rates and their respective TV NAIRUs. Their specifications also include 4 lags on both annualised domestic price inflation and import prices and a dummy variable to capture the introduction of the goods and services tax.

They find that short term unemployment constrains annual inflation more than the overall unemployment rate and is more statistically significant. The level of underemployment exhibits a separate and negative impact on the inflation rate. Their preferred specification incorporates underemployment and the short-term unemployment gap variable. The successful use of the short-term unemployment rate gap in the empirical work undermines the standard monetarist definition of the NAIRU being a product of structural, as opposed to cyclical, factors, and points to the importance of hysteresis (see Watts and Mitchell, 1990 for an early example of this approach, and a recent cross-country study by Ball and Onken, 2021).[8]

Stirati and Meloni incorporate an employment protection index, which is significant, in their inflation rate specification, which is estimated for a cross-country panel but they confine their excess demand proxies to the lagged unemployment rate. 'This interpretation of inflation fits well in a theoretical framework in which employment and output essentially depend on aggregate demand, not only in the short but also in the long run, and income distribution can be altered by bargaining, without direct consequences for the level of employment or the efficiency of the system – a framework largely shared by several strands in heterodox and post-Keynesian economics' (Stirati and Meloni, 2018: 501).

---

[7] During the 1991 recession, underemployment became a feature of the Australian labour market for the first time. The Australian Bureau of Statistics (ABS) did not publish a regular time series covering underemployment. As a result, the Centre of Full Employment were the first to develop a quarterly series on underemployment in Australia (Mitchell and Carlson, 2001). The Australian Bureau of Statistics (ABS) first reported quarterly underemployment data in 2015, based on the number of hours sought, actions to secure additional hours; availability to work more hours and personal characteristics, including sex, age, relationship in household and educational attainment). Since then the ABS has developed estimates of underemployment back to February 1978.

[8] Setterfield et al. (2023: 1178, fn.14) acknowledge that there is 'no unique supply-determined NAIRU (or NAIBER) in an economy subject to the principle of effective demand'. However, at a point in time there is a particular rate of unemployment associated with a particular target rate of inflation. This is an important concession and suggests that the authors recognise that a hysteretic process operates, but this footnote represents the sum total of their discussion of the inflationary process more generally. Mitchell (1987) was an earlier contributor to the development of the concept of hysteresis within a Phillips curve framework and his econometric work demonstrated the erroneous nature of deriving steady-state unemployment rates from wage and inflation equations.

Stirati and Meloni (2018: 503) discuss the elasticity of short term output in response to changes in the intensity of utilization of labour and capital which leads to increases in productivity. They also note the sensitivity of capital formation and hence the NAIRU to positive (and negative) demand shocks. Their empirical work suggests the restoration of the Phillips curve which takes the form of a downward-sloping relationship between 'average' values of unemployment and nominal wage changes but they acknowledge that the 'unemployment rate is an incomplete and highly imperfect description of the overall conditions affecting workers' bargaining power' (Stirati and Meloni, 2018: 511).

In other words, the traditional Phillips curve framework, within which the NAIRU concept is embedded and derived from its empirical form, has irrevocably changed since the 1990s and one must take into account underemployment as an additional and highly significant form of labour underutilisation that firms use to deal with the flux and uncertainty of capitalism.

4. The Implementation of a Job Guarantee

A Job Guarantee concept represents an unconditional job offer to any worker at a socially-inclusive minimum wage, which is funded at the national level but administered locally so that JG jobs address unmet needs identified by the local authorities and communities (see Cook *et al.*, 2008). Once a decentralised administrative structure has been set up[9], the unemployed and underemployed in the area could be expected to seek local JG employment, given the differential between JG wage and unemployment benefit and the prospect of training and some long term career development. Consumption demand is likely to increase depending on how generous the initial income support payments are, which should lead to the employment of additional private sector workers, some of whom may be lured away from JG employment.

There is empirical evidence that the rate of labour force participation is procyclical, reflecting the associated decline in the numbers of discouraged workers who do not participate in the labour market (see, for example, the UK and Australian studies by Schweitzer and Tinsley, 2005 and Evans, Moore and Rees, 2018, respectively). For example, the latter argue, based on a careful econometric analysis that if employment rises by 10, then unemployment falls by 6 workers and higher labour force participation is the source of the remaining 4 employees.

Thus, the claim that, under some circumstances, the introduction of a JG must lead to private sector job loss to maintain an equal cost of job loss in the NAIRU and NAIBER worlds is questionable given the stimulatory impact of JG employment and the resulting increase in labour force participation and possibly the underemployed securing more hours of work.

Setterfield *et al.* (2023: 1184) claim that 'Rather than dealing with the underlying contradictions in capitalism by addressing aspects of class struggle, JG/ELR schemes really only provide an alternative route to the achievement of full employment, not the means for its long-term maintenance' (see also Setterfield et al, 2023: 1176). However,

[9] Given that most developed economies operate with a statutory body with local offices to 'administer' the unemployed, which in some countries has been privatised, the logistical challenges should not be too great, but local councils would need to establish their priorities with respect to the employment of JG workers and mobilise the appropriate equipment and other inputs.

they claim that full employment has been rarely achieved, ostensibly due to the realities of the class struggle. It is unquestionable that the introduction of a JG would generate full employment although given that some skills-based underemployment may remain, Mitchell (1998) termed this a 'loose' full employment state.

Setterfield *et al.* (2023) do not outline any other policy frameworks designed to increase employment. However, countries typically engage in pump priming so that a quantum of spending is undertaken, with newly employed workers earning market wages, but the spatial distribution of spending is typically not geared to address the spatial distribution of unemployment. As a consequence, tight labour markets in some areas co-exist with significant slack in other areas, which typically causes governments to exercise fiscal restraint, which means that some geographical areas experience persistently high levels of unemployment.

Under a Job Guarantee, job creation is in response to the unemployed seeking work within their respective local areas. Second, in contrast to pump priming, there is an in-built counter inflation sanction embedded in a JG program since contractionary fiscal policy will lead to reduced employment in jobs paying market wages and the option of unemployment or a JG job paying minimum for those displaced from employment. In short, a JG/ELR scheme is a full employment program, which necessarily addresses regional development issues. Mitchell and Juniper (2007) discuss this issue within a spatial Keynesian framework.

The inference that the introduction of a JG would worsen inflationary dynamics is implausible, even though there is an induced increase in some employment paying market wages. Setterfield *et al.* (2023: 1180, fn19) decline to discuss 'the slope of the Phillips curve', but once a JG is introduced the Phillips Curve trade off disappears, given sustained full employment and the rate of inflation would depend on the composition of employment between JG and non-JG workers. If the inflation rate is too high, higher taxes or reduced Government consumption expenditure, would increase the JG share of total employment thereby reducing the inflation rate. Given the contemporary studies of inflation dynamics discussed above, it is implausible to claim that the introduction of a full employment JG program would cause explosive inflation dynamics which could not be addressed by a cut in non-JG employment.

5. Capitalists' resistance to full employment

We now turn to the arguments put forward by Kalecki (1971) that full employment was achievable through government policy but was not sustainable.

1) There was a general hostility on the part of industrial leaders to government intervention, particularly employment creation. Since the 'state of confidence' was crucial in determining output and employment, excessive reliance on fiscal policy could lead to retaliation in the form of reduced private sector employment.

2) There was a dislike of the composition of government expenditure, in particular public investment and the 'subsidisation of mass consumption'.

3) There was a lack of enthusiasm for sustained full employment due to the social and political consequences because the sack would cease to operate as a disciplinary measure. However, Kalecki acknowledged that profits would be higher under full employment because wage increases would lead to price increases under imperfect competition and only rentier income would be the

victims of the wage price dynamics (Kalecki, 1943: 139-141; Setterfield *et al.*, 2023: 1175-1177).

Echoing Kalecki (1943: 356), Setterfield *et al.* (2023: 1176) conclude that '[W]hat is needed are more fundamental changes to the socio-economic and political structure of society in order to permanently eradicate mass unemployment.' [10]

The notion that industrial leaders would reduce private sector employment as an act of retaliation is implausible, since they would be reluctant to sacrifice profit by such a ploy. This is not to deny that the 'state of confidence' influences decision making, but the prospect of a level of effective demand, sales and profits consistent with ongoing full employment and stable inflation is likely to engender a positive 'state of confidence'.[11]

In reference to point 2, Mitchell (2001: 20-23) argues that JG jobs are located in areas which have been neglected or harmed by capitalist growth, so that Kalecki's claim that public spending may overlap with private spending so that the 'profitability of private investment might be impaired and the positive effect of public investment upon employment offset by the negative effect of the decline in private investment' (Kalecki, 1971: 140) is incorrect.

Also, Mitchell emphasises that Kalecki's claim about a permanently fully employed economy being prone to inflation really relates to an economy which consists exclusively of private sector workers (being paid market wages). The JG world is associated with 'loose' full employment because a component of employment is subject to a fixed wage. Mitchell notes that the long-term unemployed, who would feature in a NAIRU economy, exert little downward pressure on wages, so that 'the competitive functioning of the labour market is eroded' (International Labour Organisation, 1996/97, quoted in Mitchell, 2001: 22), thereby reducing the negative impact of unemployment on real wages.

On the other hand, JG workers provide a credible threat given their skills and on the job experience, so that private businesses are likely to resist wage demands from incumbent employees in an inflationary environment.

---

[10] Setterfield et al. (2023: 1182) note that the Australian ACCORD succeeded in achieving low unemployment and inflation, but 'employers did not fully engage with the bargain, as a result of which investment in productive activity remained low despite a high profit share' (Kriesler and Halevi, 1997). An appropriately designed social bargain should enable the economy to function with a lower share of JG employment but its introduction is not crucial. On the other hand, Setterfield et al. claim that such a social bargain may achieve 'the institutional transformation necessary to avoid the political aspects of its operation identified in this paper'.

[11] Setterfield et al. (2023) discuss the simple distributional relationship between the real wage and rate of profit, which is not necessarily inverse if the associated model is consistent with underutilised capacity. The authors speculate as to whether capitalists would consider that, even though aggregate profit would be higher, as opposed to the rate of profit, 'full employment', was not appropriate, since they care about the distribution of income, as opposed to the respective aggregate levels of wages and profit (Setterfield et al., 2023: 1176). However the principle of shareholder primacy remains influential in the US business community, so this argument is implausible (Samuelson, 2022). Also, under the two strike rule in Australia, which was introduced in 2011, if dissatisfied shareholders vote down a company's executive remuneration package two years in a row, the board may be voted out of office. Hostile voting by shareholders is typically associated with poor company performance and shareholder returns.

The incompatibility between capitalism and full employment is due to the capitalist class being unable to impose the threat of unemployment on the working class (Setterfield *et al.*, 2023: 1176). They support this claim by noting that almost all economies have abandoned the commitment to full employment since the 1980s, which has been supported by most economists, who have argued that fiscal policy is impotent and that the pursuit of so-called 'sound finance' was essential.

For more than 30 years developed economies, including European countries, the UK, USA and Australia, labour markets have become increasingly segmented through changes in workplace regulation which has enabled bosses to embed atypical forms of work, including part time and casual employment in their organisations. Moreover, in recent years the so-called gig economy has grown. Also outsourcing through labour hire firms in countries, including Australia (see Hall, 2002) has meant that workers undertaking similar work within an organisation can be subject to different pay rates and conditions.

Structural changes in the labour market including the increased share of employment in the service sector which does not have a tradition of high rates of unionisation, as well as reduced unionisation rates and lower employment in traditional blue-collar industries, has led to a trend decline in the rate of unionisation across developed capitalist economies[12]. In addition, changes to labour law which has included workers' capacity to take industrial action have weakened the collective power of labour in several countries and affected the dynamics of wage and price inflation.

For example, in Australia, trade union members constituted 51.6 per cent of total employees in 1976. By 2022, this proportion had fallen to 12.5 (ABS, 2022). There have also been fundamental changes to industrial relations legislation in the last several decades that have severely limited the capacity of workers to engage in industrial action in pursuit of higher wages. For example, in March 1985, 333.1 thousand working days were lost in Australia through industrial disputation. By September 2023, this number had fallen to 37.1 thousand (ABS, 2023).

Setterfield *et al.* (2023: 1176-7) acknowledge that, in addition to maintaining less than full employment, worker passivity can be achieved by the imposition of punitive industrial relations legislation. Yet the authors then question whether JG schemes can 'transcend these issues and thus solve the problem of maintaining full employment in a capitalist economy'. Then it would appear that Setterfield *et al.* are relying mainly on capitalists' continuing hostility to sustained full employment *per se* to preclude its achievement.

The relevant policy question to ask is whether it is feasible to introduce a Job Guarantee under the current institutional arrangements in capitalist countries. The question of whether this would have been possible under the capitalist institutions which operated when Kalecki was writing his well-known paper is irrelevant.

Kalecki's second point referred to the dislike of the composition of government expenditure, in particular public investment and the 'subsidisation of mass consumption' on the part of capitalists.

For years, the neo-liberal position has been that policies should be designed to enable the unrestricted operation of the market, which would generate efficient outcomes.

---

[12] In Australia 'part–time and/or casual employees (or employees without access to leave entitlements) are less likely to become union members' (Gilfillan and McGann, 2018: 3).

‘[T]he state cannot possibly possess enough information to second-guess market signals [relative price movements] and because powerful interests will inevitably distort and bias state interventions (particularly in democracies) for their own benefit’ (Harvey, 2007: 23, cited in Sharpe and Watts, 2012). Hence State intervention should generally be avoided.

Integral to the neo-liberal agenda, has been privatisation and private public partnerships which has been undertaken on a significant scale in both Britain and Australia in key sectors of the economy, including energy, water and transport. Far from assuming risk, operating efficiently, and pricing competitively, the evidence over a number of years has been poor performance and price gouging by the private sector leading to supernormal profit.

The Institute for Energy Economics and Financial Analysis (IEEFA) examined power price setting in Australia. In 2022 the electricity networks made profits which were ‘2.5 times the levels necessary to compensate shareholders for risk’ which represents supernormal profits of $2 billion. This profits gouge was attributed to Government regulatory failure in that there were no performance or reliability benefits attached to the price increases (Orme, 2023).

The cosiness of the relationship between the private and public sectors has been enhanced by the phenomenon of derisking. An apposite example is the current provision of housing in Australia at a time of extreme shortages in the rental market. The principle which is often applied to public infrastructure more generally is ‘the process by which governments give handouts or guarantees or other inducements to reduce or eliminate the risk of private corporations investing in large-scale infrastructure projects’ (Mitchell, 2023). The ostensible reason for derisking is that the Government does not have sufficient funds to fully fund large infrastructure projects. Thus, the notion that capitalists would be hostile to the Government’s fiscal role in the macroeconomy is patently false.

Following the Global Financial Crisis (GFC), International Governmental Organisations, notably the International Monetary Fund and the OECD, supported the selective use of fiscal stimulus measures during 2008-2009 when the GFC deepened and monetary policy became constrained. The IMF and the OECD remained adamant, however, that medium term fiscal consolidation strategies were essential for those countries facing rising budget deficit and debt ratios. Following sluggish growth in many advanced economies in 2011, both the OECD and IMF then acknowledged the potentially detrimental impact of ongoing fiscal consolidation on economic activity and employment. Their policy advice was heavily qualified, however, so that its practical value for policymakers was minimal (Sharpe and Watts, 2012).

However, this orthodox justification for limited state intervention ‘downplays visionary fiscal policy, writes off the significance of government-led innovation in terms of transformative dynamics, and does not account for uncertainty common in the innovation process’ (Mazzucato, 2014). Her central argument is that innovation policies require the traditional *market/system failure* justification for policy intervention to be complemented with a more active *market creating* framework which requires a *mission-oriented* approach entailing the cooperation between the public and private sectors working together to create new technologies and sectors (Mowery *et al.* 2010; Ruttan 2006, cited in Mazucatto, 2014).

Examples of mission-based achievements included putting humans on the moon and the development of 'new general-purpose technologies ranging from the Internet to biotechnology and nanotechnology' (Foray *et al.* 2012, cited in in Mazucatto, 2014: 1). The risk takers here with respect to choosing the directions of change, were a decentralized group of public agencies, rather than the private sector.[13]

OECD (2015) moderated its views about the benefits of public investment in research and development, arguing that R&D funding cuts by governments in many advanced economies since 2010 had threatened to 'destabilise science and research systems in many advanced economies' (see also Mitchell, 2015). 'Further, public funding had underpinned many of the technologies driving growth, from the digital economy to genomics. We must continue to lay the technological foundations for new inventions and solutions to global challenges like climate change and ageing and must not let investment in long-term research wane' (OECD, 2015).

Also the IMF published their *Fiscal Monitor April 2016* with a chapter entitled Fiscal Policies for Innovation and Growth. The IMF argued that long-term GDP in advanced economies could be increased by 5 per cent 'through well-designed policies that include fiscal R&D incentives and complimentary public investments in basic research'. These incentives to promote R&D investment could be undertaken particularly in recessions (see Mitchell, 2016).

There is a major irony here since the IMF had long been advocating structural adjustment programs for developing economies and, as noted, was advocating fiscal consolidation, when fiscal deficit and debt ratios were rising in the aftermath of the GFC

In the light of the pandemic and climate change and the ongoing economic crisis, Mazzucato (2021) argues that these major policy challenges must be handled together in the development of a model of sustainable capitalism. Given the complexity of the crisis, Mazzucato has a broad ranging reform agenda, which is not the direct focus of this paper. However, she does outline issues which are germane to Kalecki's claims about the unsustainability of full employment capitalism.

As noted, a predominant theme in her work has been the key role of public investment, which now the OECD and IMF also appear to embrace. The question is then whether modern day capitalists would be hostile to public expenditure on research and development.

The key point is that public investment is not competing with private sector investment but complementing it. Further, public assistance to business can be conditional on the latter changing its *modus operandi*. Mazzucato (2021) gives the examples of improving working conditions, lowering carbon emissions, and paying their fair share of tax. Thus, Kalecki's second argument about capitalist hostility to public investment can be challenged.

Mazzucato (2021) argues that 'To make sure we are not merely going from one crisis to another, we must repair the deep-seated flaws in our economic structures and understand the interrelationships that they bolster. These include the way finance is organized, the short-term time horizon of many businesses driven by quarterly returns,

[13] There is a clear distinction here between public sector assuming the risks with respect to areas of research and development and derisking new house construction by the private sector in the light of an acute shortage of housing.

and the increasing precarity of work, owing to the rise of the gig economy and a decades-long deterioration of workers' bargaining power.'

The role of public sector investment of course is not confined to mission-oriented finance. A report by the Grattan Institute reveals that roads in regional Australia have become a "dangerous disgrace", being riddled with potholes and other hazards because inadequate federal and state government funding has left local councils under-resourced and without sufficient information to maintain the roads appropriately (Visontay, 2023). Road users, including truck drivers, were quick to support additional funding from the Central Government, given the efficiency gains from a modern transport system.

Thus, capitalists have been a major beneficiaries of the largesse of governments, particularly in the UK, USA and Australia for many years through privatisation and public private partnerships. Furthermore, far-sighted industry leaders recognise the key role that governments must play to address the triple crisis which has been outlined by Mazzucato.

Finally, the existence of a broad based, albeit somewhat miserly, welfare systems in most developed economies means that any notion that the minimum wage should be adequate to support the breadwinner, partner and dependent children can be rejected.[14] Thus the provision of welfare payments to families, with one or more breadwinners can be interpreted as a subsidy to capitalists.

Kalecki implies that capitalists consider the unemployed to be workshy, so that 'The fundamentals of capitalist ethics require that 'you earn your bread in sweat – unless you happen to have private means'' (Kalecki, 1971: 140). However, it is fanciful and inconsistent with the principle of effective demand to argue that a rise in unemployment, just represents an increased desire for leisure on the part of some workers who were previously employed.

6. Conclusion

In his original *Political Quarterly* article, Kalecki (1943: 356) stated that 'Full employment capitalism will, of course, have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped'.

The inference in Setterfield *et al.* (2023) is that social and political institutions have remained largely unchanged over the last 90 years. This paper has shown that not only have there been changes in political institutions which have impacted on the bargaining powers of workers in countries including Britain and Australia, but there have been profound structural changes with respect to the operation of the macroeconomy, that include changes in the industrial and occupational composition of employment and a significant increase in non-standard employment which impact on the inflationary process. Monetarist NAIRU models now attract little support in the academic literature,

[14] In Australia, the famous Harvester Decision of 1907 defined the Basic Wage as a social minimum living wage for a family, which was equated with the male wage, since men then almost always performed the breadwinner role. On appeal, the High Court found that the Decision was constitutionally invalid. This principle has never been formally accepted in Australia (see Watts, 2012).

whereas hysteretic models of inflation demonstrate that so-called market imperfections do not determine the 'full employment' rate of unemployment.

Setterfield *et al.* (2023) have also failed to acknowledge the major challenges facing all economies and the fact that there are major labour shortages in key sectors of capitalist economies.

The introduction of a JG would give the disadvantaged meaningful choices about the type of work they wish to take up. Also casual employment will only be taken up by those for whom this type of employment is compatible with their lifestyle. Notwithstanding the availability of choice and not wishing to condone the evolution of these forms of work, regulation is clearly needed.

6. References

Aligica, P.D. and Tarko, V. (2014) 'Crony Capitalism: Rent Seeking, Institutions and Ideology', *Kyklos*, 67(2), 156-176.

Australian Bureau of Statistics (ABS) (2022) *Trade Union Membership*, Australian Bureau of Statistics, released December 14, 2022.

Australian Bureau of Statistics (ABS) (2023) *Industrial Disputes*, Australian Bureau of Statistics, released December 14, 2023.

Ball, L. and Onken, J. (2021) 'Hysteresis in unemployment: evidence from OECD estimates of the natural rate', *ECB Working Paper Series No 2*625, December.

Burgess, J. and Mitchell, W.F. (1998) 'Unemployment, Human Rights and a Full Employment Policy in Australia', *Australian Journal of Human Rights*, 4(2), 76-94.

Beth Cook, B., Mitchell, W.F., Quirk, V. and Watts, M.J. (2008) *Creating effective local labour markets: a new framework for regional employment policy*, Centre of Full Employment and Equity, University of Newcastle, Australia.

Cusbert, T. (2017) 'Estimating the NAIRU and the Unemployment Gap', *RBA Bulletin*, 13-22.

Carnevali, E. and Deleidi, M. (2023) 'The trade-off between inflation and unemployment in an 'MMT world': an open-economy perspective', *Economics and Economic Policies: Interventio*n, 20(1), 90–124.

Evans, R., Moore, A. and Rees, D. (2018) 'The Cyclical Behaviour of Labour Force Participation', *RBA Bulletin*, September, 1-21.

Foray, D., D. Mowery, and R. R. Nelson (2012) 'Public R&D and social challenges: What lessons from mission R&D programs?', *Research Policy*, 41(10), 1697–1902.

Gilfillan, G. and McGann (2018) 'Trends in union membership in Australia', *Parliamentary Library (Australia)*, October, Commonwealth of Australia

Hall, R. (2002) 'Labour Hire in Australia: Motivation, Dynamics and Prospects', *Working Paper No. 76*, ACCIRT, University of Sydney.

Harvey, D. (2007) 'Neoliberalism as Creative Destruction', *Annals of the American Academy of Political and Social Science*, 610, 22-44.

International Labor Organisation (1996/97) *World employment 1996/97: national policies in a global context,* Geneva, ILO.

IMF (2015) 'Now is the Time: Fiscal Policies for Sustainable Growth, World Economic and Financial Surveys', *Fiscal Monitor*, Washington, April.

Kalecki M. (1943) 'Political aspects of full employment', pp. 348–356 in Osiatynski, J. (1990) (ed.), *Collected Works of Michal Kalecki, 1. Capitalism: Business Cycles and Full Employment*, Oxford, Clarendon Press.

Kalecki, M. (1971) 'Political aspects of full employment in Selected Essays on the dynamics of the Capitalist economy', pp.138-145, Cambridge, Cambridge University Press.

Kriesler, P. and Halevi, J. (1997) 'Australia deconstructed', *Journal of Australian Political Economy*, 39, June, 106–21.

Kriesler, P. and Halevi, J. (2001) 'Political aspects of 'buffer stock' employment', in Carlson, E. and Mitchell, W.F. (eds.) Achieving Full Employment, *Economic and Labour Relations Review*, 12(S), 72–82.

Lagarde, C. (2012) 'Back To Rio—The Road to a Sustainable Economic Future, speech by the Managing Director, International Monetary Fund, June 12, Washington D.C.

Mitchell W.F. (1987) 'The NAIRU, Structural Imbalance and the Macroeconomic Equilibrium Unemployment Rate', *Australian Economic Papers*, 26(48), 101-118.

Mitchell, W.F. (1998) 'The Buffer Stock Employment Model - Full Employment without a NAIRU', *Journal of Economic Issues*, 32(2), 547-55.

Mitchell, W.F. (2001) 'The Job Guarantee and Inflation Control', in Carlson, E. and Mitchell, W.F. (eds.) *The Path to Full Employment and Equity*, Employment and Labour Relations Review, 12(S), 10-25.

Mitchell W.F. (2015). *Public R&D austerity spending cuts undermine our grandchildren's future,* October 21. https://billmitchell.org/blog/?p=32157

Mitchell W.F. (2016) *We starve the state and public infrastructure development at our peril,* June 30. https://billmitchell.org/blog/?p=33911

Mitchell W.F. (2023) *The de-risking narrative – another in the long line of neoliberal ruses*, October, https://billmitchell.org/blog/?p=61223

Mitchell, W.F. & Carlson, E. (2001) 'Labour underutilisation in Australia and the USA', in Mitchell, W.F. & Carlson, E. (eds.) Unemployment: the tip of the iceberg, CAER-UNSW Press, Sydney, 47-68.

W.F. Mitchell and J. Juniper (200) 'Towards a Spatial Keynesian economics', in: Arestis, P. and G. Zezza (eds.) *Advances in Monetary Policy and Macroeconomics*, London: Palgrave Macmillan, 192-211.

Mitchell, W.F. and Muysken, J. (2008) *Full employment abandoned: shifting sands and policy failure*s, AIdershot, Edward Elgar.

Mitchell, W.F., Muysken, J. and Welters R. (2013) 'The changing nature of inflation control in Australia', in Wrightson, G. (ed.) *Reconstructing the Full Employment Narrative*, Callaghan, NSW: Centre for Full Employment and Equity

Mitchell, W.R., Wray, L. R., and Watts, M.J. (2019) *Macroeconomics*, Bloomberg Press: London.

Mazzucato, M. (2016) 'From market fixing to market-creating: a new framework for innovation policy', *Industry and Innovation*, 23 (2), 140-156.

Mazzucato, M. (2021) 'Saving the Climate in a Triple Crisis', *New Republic* https://newrepublic.com/article/161579/moonshot-mariana-mazzucato-climate-capitalism-crisis

Mowery, D. C., R. R. Nelson, and B. R. Martin (2010) 'Technology policy and global warming: Why new policy models are needed (or why putting new wine in old bottles won't work).', *Research Policy*, 39 (8): 1011–1023.

Nevile, J. and Kriesler, P. (2000) 'Full employment, a Neglected, but Indispensable and Feasible Human Right', *Economic and Labour Relations Review*, 11(S), 117-136.

OECD (2015) OECD *Science, Technology and Innovation Scoreboard*, https://www.oecd.org/sti/scoreboard.htm

Orme, S. (2023) *Power prices can be fairer and more affordable*, The Institute for Energy Economics and Financial Analysis, November.

Ruttan, V. W. (2006) ‘Is war necessary for economic growth? Military procurement and technology development’, *mimeo*, University of Minnesota: Department of Applied Economics.

Samuelson, J. (2022) ‘The Impact of Shareholder Primacy: What it Means to put the Stock Price First’, *Submission to hearing of Joint Economic Committee US Congress*, March 16. https://www.aspeninstitute.org/of-interest/the-impact-of-shareholder-primacy-what-it-means-to-put-the-stock-price-first-2/

Schor, J. B. and Bowles, S. (1987) ‘Employment rents and the incidence of strikes’, *Review of Economic Studies*, 69(4), 584–92.

Shapiro, C. and Stiglitz, J. (1984) ‘Equilibrium Unemployment as a Worker Discipline Device’, *American Economic Review*, 74(3), 433–44.

Sharpe, T. and Watts, M.J. (2012) ‘Policy Advice in Crisis: How Inter-Governmental Organisations have responded to the GFC’, *Journal of Australian Political Economy*, 69, Winter, 103 – 133.

Schweitzer, M. and Tinsley, D. (2005) ‘The UK labour force participation rate: business cycle and trend influences’, *Bank of England Working Paper no. 228.*

Stirati, A. and Meloni, W. (2018) ‘A short story of the Phillips curve: from Phillips to Friedman and back?’, *Review of Keynesian Economics*, 6 (4), 493–516.

Stockhammer, E. (2008) ‘Is the NAIRU a Monetarist, New Keynesian, Post Keynesian or Marxist Concept’, *Meteroeconomica*, 59(3), 479-510.

Terrill, M., Bradshaw, N. and Jones, D. (2023) ‘Potholes and Pitfalls: How to fix local roads,’ *Grattan Institute Report No. 2023-11*, November 12.

Visontay, E. (2023) ‘Regional roads in dire state as Australian councils made to waste money on grants tribute signs: report’, *The Guardian*, November 13.

Watts, M.J. and W.F. Mitchell (1990) ‘Australian Wage Inflation, Real Wage Resistance, Hysteresis and Incomes Policy 1968(3)-1988(3)’, *The Manchester School*, June, 142-164.

Watts, M.J. (2012) ‘How Should Minimum Wages be Set in Australia?’, *Journal of Industrial Relations*, 52(2), 131-149.