A Full Employment Program for Hong Kong

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In the year 2000 Policy Address, the Hong Kong SAR Government proposed to implement a number of policy measures and infrastructure projects to help create short-term and long-term job opportunities. The measures included a stepped-up anti-smoking campaign, increased employment for urban cleansing and greening, additional staff for environmental improvement and community building at the district level, increased staff in personal care and outreach services, and additional service providers for women, new arrivals, single-parent families, the elderly and the disabled. Together, it was anticipated that these measures would create about 15,000 new jobs, in addition to new jobs to be created by government infrastructure projects.

Unfortunately, the reversal of the USA economy has slowed economic growth worldwide. In addition, the terrorist attacks in the USA have reduced tourism with direct adverse impacts on Hong Kong unemployment. As a result, Hong Kong's unemployment rate continues to climb, rising to 5.3 per cent in the July-September period, the highest jobless level since the November 1998 - January 1999 period when unemployment reached 6.4 per cent. The number of unemployed people rose from 172,200 in June-August to 186,000 (provisional) in July-September. Increases in unemployment occurred mainly in the construction, manufacturing, restaurant, trade and retail sectors, although the tourism sector is now suffering.

Last week, Chief Executive Tung Chee-hwa in his 2001 policy address announced that the Government planned to create 30,000 additional jobs to help alleviate the problem. While certainly beneficial, even this latest proposal is not likely to resolve Hong Kong's unemployment problem in the face of discouraging global forecasts. Not only do the unemployed incur social and economic costs, they represent a waste of resources that could be put to use constructively in the economy.

This proposal will help the Hong Kong SAR government to eliminate this waste by adopting a comprehensive full employment program while at the same time preserving the government's commitment to the principles of a free market economy. The basic idea of a full employment program is that the government would offer a job to anyone ready and willing to work at a basic (fixed) wage. When private demand is slack, workers shed by the private sector flow into the government's employment program. When private demand is robust, private employers hire workers away from the government's employment pool. Government spending on wages of workers in this pool would fluctuate counter-cyclically, adding a powerful component to help stabilize the economy. Private employers would find it more efficient to hire workers from this pool rather than to recruit from among the ranks of the unemployed, scarred by socio-economic pathologies associated with long-term unemployment. Further, because the wage level would be fixed in the government employment pool, it would contribute to a stabilization of private sector wages-moderating inflation in boom times and deflation in recession.

Full Employment with Price and Currency Stability: A Public Service Employment Program (PSE)

1. Full employment with price and currency stability can be achieved with a Public Service Employment program (PSE) in which the SAR Government funds a job offer for any legal resident who is ready, willing and able to work, regardless of education, work experience, or the performance of the economy. At a minimum, the SAR government must provide the wages and benefits for the program, although this does not actually mean that PSE must be a government-run program.

2. PSE should hire off the bottom of the labor market. It works as an employment safety net. It should not compete with private sector employment or even with non-PSE employment in the public sector. It is not a program that operates solely by "priming the pump", that is, by raising aggregate demand, though it may have some pump-priming benefits. Trying to achieve full employment simply by "priming the pump" could generate inflation if it hires off the top of the labor pool. But by definition, as PSE hires off the bottom, it is a bufferstock policy that must stabilize the price of the bufferstock-in this case, wages at the bottom. Therefore, it will not generate wage-push inflation even in boom times. In slumps, the fixed wage will help to moderate deflation.

3. The goal is full employment, but with flexible labor markets. This is virtually guaranteed if PSE hires off the bottom. With PSE, labor markets are flexible because there is always a pool of labor available to be hired out of PSE and into private firms. Without PSE, flexible labor markets can only be maintained by keeping people out of work as a reserve pool of labor.

4. The PSE compensation package should provide a decent standard of living even as it helps to maintain wage and price stability. For Hong Kong, an appropriate annual wage can be readily determined. A package of benefits could include healthcare and other benefits deemed appropriate.

5. PSE experience should prepare workers for post-PSE work-whether in the private or public sectors. Thus, PSE workers should learn marketable skills, develop work ethics and job discipline. Training and retraining will be an important component of every PSE job.

6. Finally, PSE workers should do work that is economically productive, focusing on provision of public services, public construction, health and social services, crime prevention and education. PSE workers should do useful work,

but they should not duplicate work already being done by ongoing programs, and especially should not compete with the private sector.

These six features generally determine what a PSE program ought to look like. This still leaves a lot of issues to be examined to fit Hong Kong conditions. Who should administer the program? Who should do the hiring and supervision of workers? Who should decide exactly what workers will do? There are different models consistent with this general framework, and different communities might take different approaches. Elsewhere (Wray 1998, 1999) we have discussed the outlines of a program designed specifically for the USA. The only essential feature is that funding must come from the government, that is, from the issuer of the currency.

People wonder about the cost-can society afford full employment? To answer this, we must distinguish between real costs and financial expenditures. Unemployment has real costs-the economic output that is lost when some of the labor force is involuntarily unemployed, the burdens placed on employed workers part of whose output is consumed by the unemployed, the personal suffering and social ills generated by unemployment and resultant poverty. Providing jobs for the unemployed will reduce real costs and generate net real benefits for society in excess of the cost of full employment. Indeed, it is best to argue that society cannot afford unemployment, rather than to suppose that it cannot afford employment. With PSE in place, there is no economic reason to have unemployment as it achieves the benefits of loose labor markets, but without all the costs of unemployment.

Some may be concerned with the financial cost of government-supported full employment, or, more specifically, with the impact on the government's budget. If a PSE program were to employ 200,000 under the current conditions existing in Hong Kong, and if the wage were HK$6000 per month, the annual cost would total around HK$14billion. But full employment has a positive impact on government revenue and can reduce budgetary outlays on unemployment programs. As the economy revives, employment in PSE would decline, and so would government spending, while government revenue would increase. Hence, longer-run net budgetary impacts are smaller than HK$14 billion.

Economists often fear that providing jobs to people who want to work will cause inflation. Thus, it is necessary to explain in more detail how a PSE program will actually contribute to wage stability and promote price stability. The key is that a PSE program is designed to operate like a "buffer stock" program, in which the buffer stock commodity is sold when there is upward pressure on its price, or bought when there are deflationary pressures. A PSE program treats labor as the buffer stock commodity, and as is the case with any buffer stock commodity, the program's buffer stock feature will stabilize the commodity's price. The government's spending on the program is based on a "fixed price/floating quantity" model, hence, cannot contribute to inflation.

Note that the government's spending on the full employment program will fluctuate counter-cyclically. When the private sector reduces spending, it lays-off workers who then flow into the bufferstock pool, working in the full employment program. This automatically increases total government spending, but not wages and prices because the wage paid is fixed. As the quantity of workers hired at the fixed wage rises, this results in a budget deficit. On the other hand, when the private sector expands, it pulls workers out of the bufferstock pool, shrinking government spending and budget deficits, and may even produce a surplus. This is a powerful automatic stabilizer that operates to ensure the government's spending is at just the right level to maintain full employment without generating inflation. ◆

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