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Where have all the workers gone?

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In recent times, the public has been made aware by our politicians of an impending skills shortage. Whether this claim is based in fact is yet to be seen. But what is based in fact is that there are approximately 1.8 million Australians without sufficient work. Some have no work at all while others are forced into working fewer hours than they desire at going wages.

Assuming for argument sake there is a skills shortage, what are we to make of this seeming paradox? Despite the denials of Government, the persistent unemployment and underemployment that has plagued Australia for the last 30 years and any existence of skill shortages represent two-sides of the same coin. They both reflect a lack of governance at the Federal level. At the top of the growth cycle, this lack of governance manifests as skill shortages with persistently high unemployment, whereas at other times it takes the form of very high labour underutilisation and rising long-term unemployment. Both manifestations are the result of erroneous Federal Government macroeconomic policy.

Mass unemployment of the type we have endured in Australia since the mid-1970s is the result of a lack of aggregate spending. The prime responsibility for ensuring there is enough spending rests with the Federal Government. When private spending is insufficient to provide work for all, as it always is, the spending gap has to be filled by the Federal Government via budget deficits. However, discretionary monetary and fiscal policy decisions by the Federal Government – characterised as an obsession with budget surpluses - have systematically prevented the Australian economy from creating enough jobs in recent decades to match the preferences of the labour force, and enough hours of work to match the preferences of those who are employed.

The imperative of full employment

Full employment should be a major macroeconomic goal of the Australian Government because it maximises output. A 'high pressure' economy also maximises labour force participation and provides strong incentives for employers to tailor training and paid-work opportunities to attract the scarce labour. When labour is in excess supply (high

unemployment) the employers lose this incentive and the dynamic skill-building process falters. In addition, high and persistent unemployment acts as a form of social exclusion and violates basic concepts of membership and citizenship. The costs of unemployment are significant and include not only income and output loss, but the deleterious effects on self confidence, competence, social integration and harmony, and the appreciation and use of individual freedom and responsibility.

However, the failure to maintain full employment by the Federal Government is also directly responsible for the under-investment in Australia's skills which we now see as the business cycle improves as a 'skill shortage'. The paring back of the public sector, driven by ideological zeal rather than any economic logic, has not only reduced the number of public sector jobs available on demand to the most disadvantaged workers, it also led to the decimation of the apprenticeship 'institution' which was one of the most effective ways to introduce our young people into the paid workforce. It was no surprise that when the first of the cut-backs occurred in the second half of the 1970s, youth unemployment, for the first time, became a problem. The failure of the public sector in Australia to lead the way in apprenticeship training since then has been directly responsible for the persistent youth unemployment.

The Federal Government's policy position on this duality – skill shortages and persistent unemployment - is confused and unacceptable. They articulate a vision of high skills and high participation but fail to provide the necessary macroeconomic policy conditions that will ensure both. While there has clearly been a shortage of jobs, the Government has persistently vilified the economically disadvantaged. Instead of recognising that it is their own macroeconomic policy stance (budget surplus obsession) that has caused the persistent unemployment, they established pernicious compliance regimes to ensure the 'victims' (the unemployed) were blamed. Recently, single-parents and the disabled have been shoe-horned into the same compliance regime. The Government has been able to maintain these departures from fairness because they have constructed the victims as bludgers, cruisers, job snobs and all manner of other vile nomenclature. In general, they attack through their welfare-to-work policies, the marginalised – the weak, the sick, the mentally incapable, the homeless, and the frightened.

What are the benefits of achieving and sustaining full employment? In the period spanning the immediate post-war years through to the mid 1970s, Australia, like most advanced western nations, maintained very low levels of unemployment. This era was marked by the willingness of governments to maintain levels of aggregate demand that would create enough jobs to meet the preferences of the labour force, given labour productivity growth. Governments used a range of fiscal and monetary measures to stabilise the economy in the face of fluctuations in private sector spending. Unemployment rates throughout this period were usually below 2 per cent.

While both private and public employment growth was relatively strong, the major reason that the economy was able to sustain full employment was that it maintained a 'buffer' of jobs that were always available, and which provided easy employment access to the least skilled workers in the labour force. Some of these jobs, such as process work in factories, were available in the private sector. However, the public sector also offered many 'buffer jobs' that sustained workers with a range of skills through hard times. In

some cases, these jobs provided permanent work for the low skilled and otherwise disadvantaged workers.

Importantly, the economies that avoided the plunge into high unemployment in the 1970s maintained this buffer stock capacity. These jobs are now eschewed because they are not considered to be 'real' activities and also violate the narrow neoclassical economic efficiency benchmarks. However, we fail to show concern when the private sector creates thousands of low skill, low pay jobs and low productivity jobs.

More importantly, in the 1970s, as unemployment rose in most OECD countries and Governments abandoned their commitment to full employment, it was societies that maintained a high degree of social cohesion that were willing to broaden their concept of 'costs' and 'benefits' of resource usage to ensure everyone had access to paid employment opportunities. These countries, such as Japan, Austria, Norway, and Switzerland were able to maintain full employment because they shared a collective will to ensure that their societies maintained policy structures that included even the most disadvantaged and least skilled citizens.

Were there shortages of workers in this period? Between September 1966 and December 1974 the average number of unemployed for each registered vacancy was 0.96. That is, there were more vacancies over this period than there were unemployed ready to fill them. The unemployed-vacancy ratio in December 2004 was 3.9 (3 unemployed for every vacancy). Since December 1974 it has averaged 10.3. Since March 1996 it has averaged 6.9.

However, another benefit from the sustained full employment was that employers were forced to compete for workers as they sought to expand market share. The upshot was that for every job that was offered a corresponding training opportunity was also created.

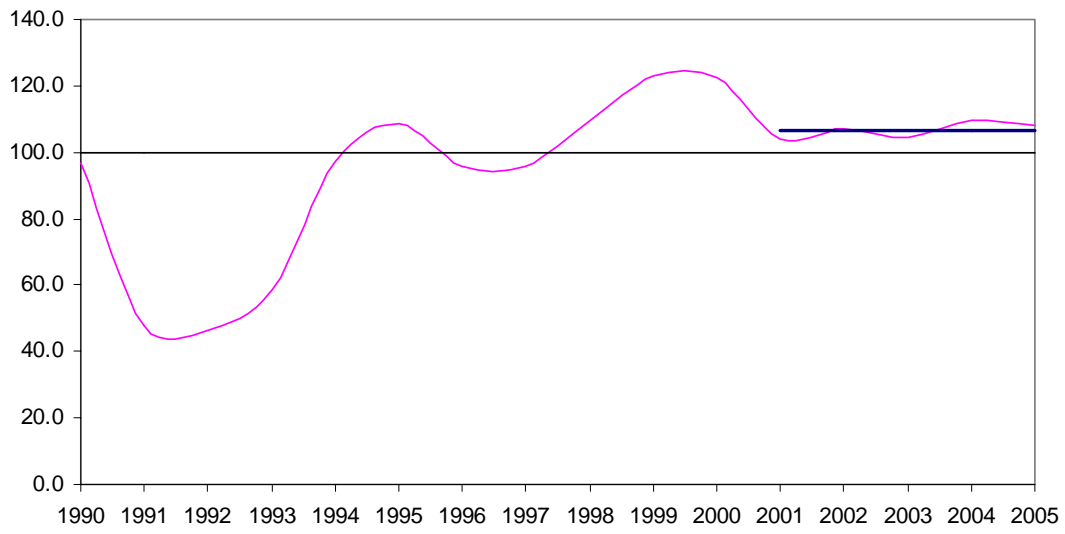
Moreover, the Federal and State Labour Departments invested heavily in apprenticeships and maintained 'manpower planning' capacities to forecast likely new skill requirements so that policies could be forward-looking. These capacities were abandoned as unemployment rose and the Government's absolved themselves of the responsibility to ensure there were enough jobs and training opportunities.

Is there a skill shortage?

Although the labour market has tightened in recent years, there is still only anecdotal evidence that a 'skills shortage' is becoming a growth bottleneck. Some data is available from the Skilled Vacancy Index (SVI) published monthly by the Department of Employment and Workplace Relations (DEWR) which would suggest a more modest claim with respect to skill bottlenecks is supportable. In Figure 1, we show the SVI since January 1990. The thick near-horizontal line is the average value of the SVI over the last 5 years. This chart provides no aggregate level indication that there is a sharp rise in the demand for skills in the last several years.

More detailed examination of the SVI is available because DEWR break it down into States/Territories and also by professions, associated professions and trades. The picture gets a bit more interesting at this level.

Figure 1 DEWR Skilled Vacancy Index 1990-2005



Source: DEWR Skilled Vacancy Survey.

Table 1 Skilled Vacancy Index by Trades, Professions and Associate Professions.

Area of skill	Index	2004-05 Gap on Average 2003-04
<i>Trades:</i>		
Chefs	220.0	8.5
Metal Trades	155.1	19.2
Automotive Trades	132.9	1.5
Electrical and Electronics Trades	128.0	23.0
Construction Trades	193.7	-9.1
Food Trades	68.8	9.5
Printing Trades	83.5	4.6
Wood and Textile Trades	149.5	-0.8
Hairdressers	123.6	-2.2
<i>Professionals:</i>		
Science	69.2	0.9
Building & Engineering	86.2	2.6
Accountants and Auditors	72.1	7.1
Marketing and Advertising	25.3	2.2
Organisation and Information	58.0	3.1
Health	106.8	4.8
Social	86.0	-15.8
<i>Associate Professionals:</i>		
Medical & Science	96.7	-1.2
Building & Engineering	80.7	-17.4
Total Trades	143.5	6.3
Total Profs	83.9	1.4
Total Associate Profs	79.9	-14.5

Source: DEWR Skilled Vacancy Survey.

The conclusion to be drawn is that there is some (modest) tension developing in some trades (particularly in Electrical and Electronic Trades and the Food Trades). There is only the slightest rise in skilled vacancies for professionals (with Accountants and Auditors the exception) and associate professional vacancies have fallen in the last 12 months.

In terms of the regional distribution, data is only available from this source at the level of States/Territories. Table 2 shows that skilled vacancies have been declining in all states/territories bar Western Australia, Tasmania and the Northern Territory. The figures for Australia as a whole show the most modest rise.

Table 2 Skilled Vacancy Index by State and Territory

State/Territory	Index Average 2003-04	2004-05 Gap on Average 2003-04
NSW	76.1	-5.4
VIC	85.1	-2.1
QLD	142.0	-3.3
SA	157.8	-10.5
WA	172.1	34.1
TAS	152.0	46.2
NT	183.2	58.2
Australia	111.1	2.6

Source: DEWR Skilled Vacancy Survey.

Wasteful supply side initiatives

The skills shortage issue also seriously challenges Federal Government policy in another way. The overwhelming emphasis of policy has been to shunt people into the a series of active labour market programs within the privatised Job Network structure, which aim to improve the ‘employability’ of young and long-term unemployed people. There is substantial evidence now available to show that this strategy has been largely ineffective. The poor employment outcomes for participants in programs like Work for the Dole and Intensive Assistance point to the futility of preparing the unemployed for jobs that are not there.

What has not been answered by the Government is the following: if there is indeed a skills shortage now, what has the billions of dollars that has been pumped into the Job Network been about. The recognition of the former amounts to a substantial failure of the latter.

All the evidence suggests that the supply-side strategy lauded by the OECD has not been effective in increasing the employability of disadvantaged workers. The poor results are to be expected in the absence of policy measures designed to increase the quantum of job.

In isolation, supply-side measures merely re-shuffle the jobless queue. The clear danger of this kind of zero-sum redistribution is that policies achieve tentative or short-term reattachments to the labour force at the expense of deepening employment insecurity. Labour market instability, poverty, and welfare dependency are not solved by such measures; they are simply redistributed amongst the same at risk groups.

The way ahead

It is true that most of the underutilised workers in Australia have relatively low education and skill levels. Several points need to be made in this regard. First, maintaining a buffer stock of public sector jobs provides work for all irrespective of their skill levels and also allows paid-work opportunities to be structured into training and career development paths. In this way, while the person may initially have low skill levels, over time, under some circumstances, they can advance.

But at any rate, they always have work and are freed from welfare dependence.

Therefore an essential component of restoring full employment is to introduce a Job Guarantee along the lines advocated by the Centre of Full Employment and Equity. This requires the Federal Government to maintain an unconditional offer of work to anyone who cannot find employment elsewhere at the safety net living wage. This underpins the fully employed economy and maintains the dynamic pressures noted above. It also allows two chronic problems to be solved. On the one hand, Australia is wasting our experienced (skilled) aged workers who have been driven out of the labour market by the lack of employment possibilities. Many lost their jobs in the last major recession and have been idle since, some outside of the labour market on disability support pensions. On the other hand, we have an immoral youth unemployment problem. This group desperately need paid work pathways and supervision. The two cohorts could be embraced by public job creation programs to mutual benefit.

Second, the Federal and State Governments must renew its commitment to adequately fund our public schools and universities. The recent press covering the parlous plight of our public universities and the uncertain future of 'export' education highlights the need for a solid public spending response. A renewed commitment to trades education is also required. The public cutbacks in this area are indefensible and we have seriously underprovided in this area over the last thirty years.

Public policy must also set in place safety-net structures for the youth who leave school early as a matter of top priority. Every person under 20 years of age should be in education, training or a paid job. The Government has claimed success for its 'New Apprenticeship' scheme but the evidence in recent months has indicated that few 'real' trade skills are being developed within this policy framework. A strong public commitment to providing employment and integrated apprenticeship opportunities with a revitalised TAFE sector is necessary.

Ultimately, investments in human skills and capacity are the only durable strategy and if you don't spend now on education and job creation the lack of investment will reduce our opportunities (and wealth) in the future.

Third, by maintaining full employment, the private employers are forced by competition to take a major responsibility for training and skill development of our workforce.

Overall, the major failing of macroeconomic policy has been the Federal Government's pursuit of a growth path which is unsustainable. By running surpluses the only way that growth in spending could underpin economic growth was by the increasing private deficits. The private sector, particularly the household sector is now negatively saving overall and the debt burden has hit record levels. Ultimately a correction will come as the private sector tries to restore their balance sheets by saving. At that point, the folly of running public surpluses and the fiscal drag they introduce will become apparent to all in the form of sharp rises in unemployment.

What is needed is a rejection of this strategy and a realisation that persistent labour underutilisation not only generates massive losses to the society and to specific individuals but it also undermines our future capacity. The Federal Government has to take responsibility in this regard and ensure that its net spending meets the demands of the workforce for jobs now and the requirements in the future for an on-going supply of high skilled and productive workers.