

The hidden truth about unemployment

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The official unemployment rate is the number most of us look at to see how well the economy is utilising its willing labour resources. The ABS releases its June figures today. Unemployment is wasteful so a lower number is good, right? Well, not necessarily! The unemployment rate is just the tip of the iceberg.

The Centre of Full Employment and Equity (CofFEE) at the University of Newcastle has developed a set of indicators, which measure all forms of labour wastage. By moving beyond a narrow focus on 'official' unemployment, we provide a much clearer picture of how things are going. The picture is not pretty.

The labour force comprises all those over 15 years who are either employed or unemployed. A person is employed if they work at least 1 hour in the survey week. So a person working part-time who would like to work more hours is counted as 'employed' even though they want to work and produce more. This 'underemployment' is an additional form of labour wastage.

And people who really want to work but have given up looking because there are so few jobs are classified as "not in the labour force" and not counted in the unemployment data. Economists call these people the 'hidden unemployed' because, again, their willing labour is being wasted.

Why does it matter how we measure the amount of labour wasted? The message from the CofFEE indicators is simple. In May 2002, the official unemployment rate was 6.3 per cent. If we add an estimate of hidden unemployment the rate of labour underutilisation jumps to 8.6 per cent. Once we add the underemployed the wastage rate soars to 12.5 per cent.

So what is the cost to the economy of squandering 12.5 per cent of available labour? A conservative estimate is that we are giving up \$39 billion per year in lost potential output. This is around 6 per cent of GDP or \$147 week for every Australian family.

The story of the 1990s is that as the official unemployment rate has fallen slowly, the level of underemployment has risen sharply. Yet just this week, the Canberra-based Access Economics were telling us that things were looking good.

Access has claimed that Australia will hit "generational low" unemployment rates of less than 5.8 per cent within the next year. But even the most cursory glance at the data exposes this claim as nonsense. A generation is around thirty years. So let's take the time machine back to 1973 for a reality check.

In 1973, the unemployment rate was 2.3 per cent. Underemployment and hidden unemployment barely existed. Young people had the prospects of secure, full-time employment leading to secure and rewarding careers. There were apprenticeships for

those with technical skills and plenty of unskilled work for those without qualifications or a ticket.

In 1973 there were more job vacancies than there were unemployed. Today, eight unemployed people compete for every job going.

A generation back we lived in a prosperous society in which prosperity was more equally shared. A number of our elderly lived in poverty but poverty did not afflict the young, the unemployed and the underemployed as it does today.

In the decade to 1973, real wages grew at an annual rate of 3.5 per cent. For the last 10 years real wages have grown at less than half that rate and an increasing share of our productivity growth has been siphoned off to profits.

So far from applauding politicians or consultants who say that an unemployment rate of 5.8 per cent is a good thing, we should be ashamed that current policies are depriving our children of the opportunities that many of us enjoyed in our formative years.

For the Hunter, this shame is magnified because our unemployment is around twice the national rate. A conservative estimate of the total labour underutilisation rate for the region runs around 20 per cent!

We might have a great league team but our labour market performance is abysmal. My colleague, Phil O'Neill recently argued a similar line in this paper. We are not reporting our research to talk the local economy down. We are reporting data that demands a drastic and different policy response.

While a vibrant private sector is essential for a healthy Hunter economy it will never, repeat, never provide enough work for those who want it. Public sector job creation is the only way we will return to full employment and that means budget deficits.

In 1973, the public employment share was around 3 per cent higher. That amounts to around 500 thousand jobs being lost today.

The bottom line is clear. Don't believe politicians or economists who tell you that the labour market is in good shape or that we cannot afford the public jobs. They are lying and the time has come for action. The cost of doing nothing is just too high.