

Unemployment, inequality and public responsibility

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Australia's long period of full employment that followed World War 2 came to an end in 1975 when the federal government abandoned its responsibility for maintaining demand at levels sufficient to ensure that employment growth absorbed the growing labour force.

Subsequent discretionary monetary and fiscal policy decisions have meant that the Australian economy, like most others, has been prevented from generating enough jobs to employ the available labour.

The same policy decisions have also not allowed the economy to generate enough hours of work to match the preferences of the employed. The result has been persistently high unemployment and rising levels of underemployment. In 1972 there were more job vacancies than unemployed. Now there are around 8 unemployed for every job vacancy. The unemployed cannot search for jobs that are not there!

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 low point 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.

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 broadens the measure of labour wastage.

In May 2002, the official unemployment rate was 6.3 per cent. The labour market indicators developed by the Centre of Full Employment and Equity (CofFEE) at the University of Newcastle show that if estimated hidden unemployment (workers who want work but are not actively looking) is included the rate of labour underutilisation jumps to 8.6 per cent. Including the underemployed (part-time employees who desire more hours of work but cannot find them) pushes the wastage rate to 12.5 per cent.

The cumulative costs in terms of foregone output and the social malaise related to unemployment are huge and dwarf the costs of alleged microeconomic inefficiency.

Accompanying the persistently high unemployment in most countries has been increasing levels of economic inequality. This has manifested in terms of declining employment opportunities for the least skilled and a wider dispersion of earnings.

While unemployment remains the major cause of poverty the new problem is that growth no longer seems to be associated with improved equity. The combination of strong growth, persistent labour underutilisation and rising economic inequality in the 1990s has overturned the received wisdom. Economic growth had until the mid-1970s provided

upgrading bonuses which reduced income inequality (and poverty rates). These bonuses were in the form of productivity improvements, increased working time and labour force participation rates, occupational upgrading, and rising average earnings for the most disadvantaged in the labour market.

The considerable labour market deregulation and microeconomic reform since the late 1980s has not only created job losses overall but has also exacerbated inequality. More fractional employment opportunities with less earnings security are now being forced onto the employees.

The indicators of poverty in Australia have shifted as a result. In the 1970s, the main group at risk was the aged without home ownership. Now the youth, the unemployed, the underemployed and the low-paid service sector workers are the groups at risk. Increasing numbers of older workers are also induced into premature retirement by disability and other pensions as a consequence of the lack of available work.

Economists offer several explanations to link joblessness to the rising inequality. First, technological change has been biased towards higher skilled workers. There is some truth in this but it does not explain the large shifts away from unskilled job opportunities. Second, increased competition through trade from low wage countries in Asia has led to declines in manufacturing in the older industrialised nations. While valid, the shift against the unskilled has also occurred in the non-traded services sector. Third, significant changes have occurred in the industrial relations and wage determination machinery that have disadvantaged the lower paid workers. The growth in individual agreements in Australia has disadvantaged full-time employees who can earn higher mean and median wages with correspondingly less inequality under collective agreements. Further, employees receiving awards only are subject to relatively low wages, as compared to other employees in the same occupation or industry. Finally, labour market changes referred to as 'bumping down' whereby as job opportunities for lower skilled workers shrink and more skilled workers enter the labour force the less qualified are driven out of traditional employment areas by the more skilled employees.

The overriding problem has been the overall lack of jobs and the structural changes that have occurred have merely exacerbated this situation.

The mainstream response calls for even more labour market flexibility and is epitomised by the 1994 OECD Jobs Study. But the Federal government's market-type systems of employment services and training recently praised by the OECD do not create paid-work opportunities. Full employment has been replaced with full employability as the legitimate goal of government. Research from a number of countries suggests that training programs do not reduce unemployment but rather reshuffles the queue.

The orthodoxy argues that, with the unemployed now more work ready as a result of the Intensive Assistance offered through the Job Network, further reductions in award pay conditions and a push towards more common law settlements of industrial disputes will help generate new jobs. The current push in Australia towards substantially relaxing unfair dismissal legislation is in this vein.

The proposal to reduce the relative wage of the unemployed (less skilled) is really just the traditional wage cutting argument that was discredited during the Great Depression.

Research fails to substantiate the hypothesis that wage inflexibility accounts for the joblessness of the least-skilled. Research also fails to find “wage elasticities” large enough for relative wage cuts to represent a cure.

The accompanying welfare attacks on the unemployed merely reinforce the underclass status that joblessness has brought.

What can be done about it? A renewed commitment to full employment requires the Federal government to abandon its obsession with budget surpluses, which really just squeeze the wealth of the private sector. Only net government spending can fill the expenditure gap left by the private sector.

Further, the whole thrust of active labour market policy is predicated on the belief that the long-term unemployed represent a structural bottleneck that can only be addressed by supply initiatives like training and welfare reform. But the long-term unemployed benefit from long periods of demand expansion because firms will lower their hiring standards and pay the training costs rather than leave positions vacant. Several studies have found that long-term unemployment is not a separate problem from unemployment in general.

Further, the government must increase its own employment. What is not often noted is the impact of the decline in public sector employment growth in Australia. In 1973, the public employment share was around 3 per cent higher than it is now. That amounts to more than 600 thousand jobs being lost today. In both Australia and the USA, labour force growth and private employment growth have averaged around 1.9 per cent per annum since 1970. The major difference between the countries is that public employment growth in the USA has been proportional to labour force growth whereas in Australia public employment growth has averaged a paltry 0.6 per cent per annum. This difference translates into our higher unemployment rate.

While a vibrant private sector is essential for a healthy economy it will never provide enough work for those who want it. Public sector job creation is the only way we will return to full employment and reduce economic inequality. The countries that avoided the high unemployment in the 1970s (like Japan, Switzerland, Austria, Norway) all maintained a sector that acted as an employer of the last resort.

During the 1950s and 1960s, the public sector played this role in Australia with many labour intensive opportunities being always available to absorb the low skill workers when private sector demand was slack. The abandonment of that capacity is largely why we have had persistently high unemployment and the rising inequality.

A positive step would be for the Federal Government to replace Work for the Dole, which the Department of Employment and Workplace Relations admits is a welfare compliance program, with a Job Guarantee instead. The extra cost of paying the unemployed the safety-net wage is not high and the wasted labour could be given jobs in community and environmental development areas. The gains in self-esteem and independence would alone be worth the change.