



**Centre of Full Employment and Equity**

# Regional Unemployment and Poverty

Martin Watts

Centre of Full Employment and Equity  
University of Newcastle

<http://e1.newcastle.edu.au/coffee>

Opening address to the Hunter Council of Social Services Forum:

Poverty: A Regional Perspective, 18 October 2004

# Causes of Poverty



3

- Persistent unemployment is single most important cause of income insecurity and poverty.
- Victims include:
  - young children in jobless families;
  - young adults, deprived of full-time work if they don't undertake post school qualifications;
  - older workers;
  - the disabled; and
  - particular ethnic groups.

- Persistent unemployment is the source of many other social and economic problems:
- Significant output loss – CofFEE estimates.
- *‘The unemployed are liable to suffer psychological harm, social exclusion and family breakdown, and loss of skills, motivation and political voice’*. Sen (1997).
- Thus participation in community life can be limited.
- Considerable evidence that LTU associated with motivational decline and resignation (Sen, 1997).
- Thus intergenerational transmission of poverty and unemployment, particularly given increased incidence of no work families.

# Unemployment & inequality



5

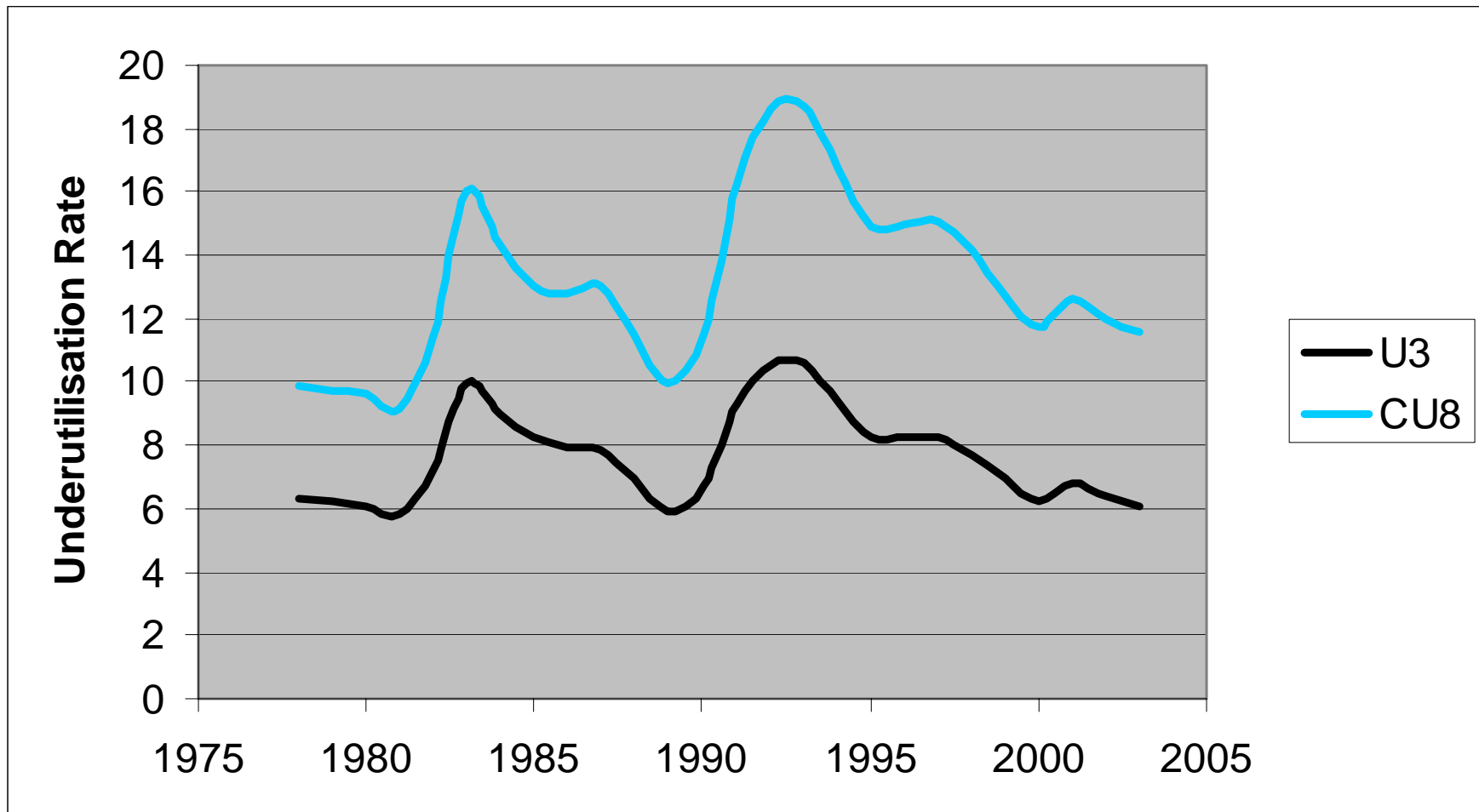
- Slack labour markets & weak regulation is major cause of growing wage inequality, and hence working poor.
- By 1995, proportion of children (0 to 15 years) living in families with taxable incomes of \$24,000 or less, had reached 41 percent, (20.1%, 1986) (Bessant, 2001)
- 800,000 children brought up in jobless families.
- 2.2 million people live in poverty.

- Official U understates labour underutilisation – in addition to tight ABS definition of unemployment.
- CofFEE has devised hours based measure of labour underutilisation which captures:
  - underemployment – people wanting more hours of work, (growing share of part-time); and
  - hidden unemployment – disillusioned with job prospects.
- Deterioration in relationship of official unemployment and labour underutilisation.
- Rule of thumb: double official rate – worse in depressed areas.

# Unemployment



7



# Unemployment & disadvantage



8

- CofFEE research on spatial aspects of the labour market.
- Little researcher on spatial economic mechanisms, below the state level – Mitchell & Carlson (2003)
- Research on classifying and clustering socio-economic advantage and disadvantage – Baum(2004), disadvantage & role of social cohesion (Vinson, 2004).
- If necessity of 5-6% U rate accepted, then its spatial incidence would be critical to economic/social welfare.
- High U areas often high social & economic dysfunction.
- While hidden in aggregate stats, local rates of U & other measures have profound influence on community life.

# Regional Unemployment



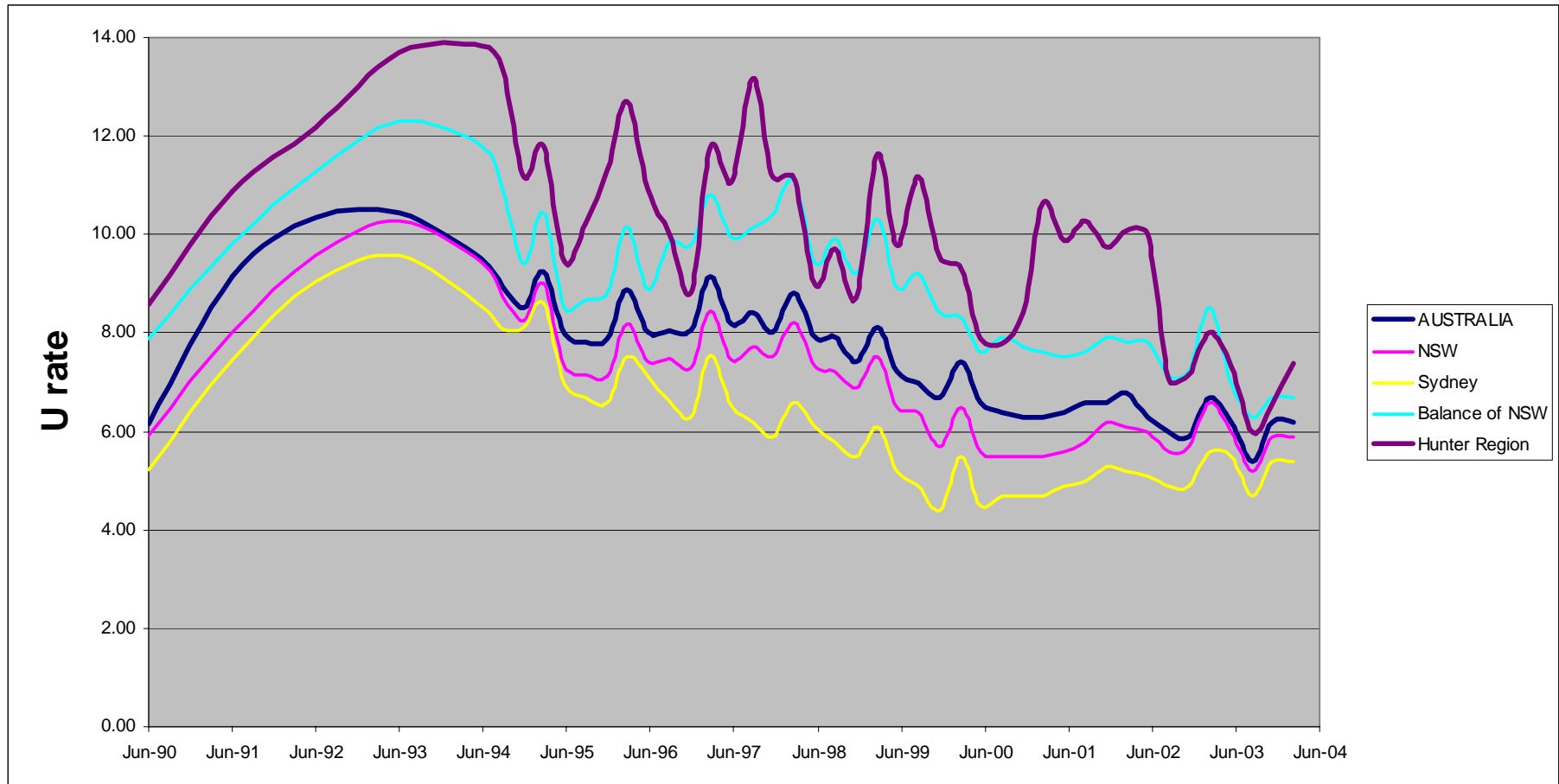
9

- What do we know about the Hunter Region?
- First the (~70) Statistical Regions, including HR, are the lowest level of spatial disaggregation for which monthly ABS Labour Force data are available.
- DEWR data draws on 5 year Census data to generate basic LM data at SLA level ~ Local Council areas
- Regional estimates have enormous standard errors.
- Information from these admin areas may be unhelpful in understanding how regional economies work.
- We need data which is based on functional economic areas, so we can interpret how the Local LM operates.

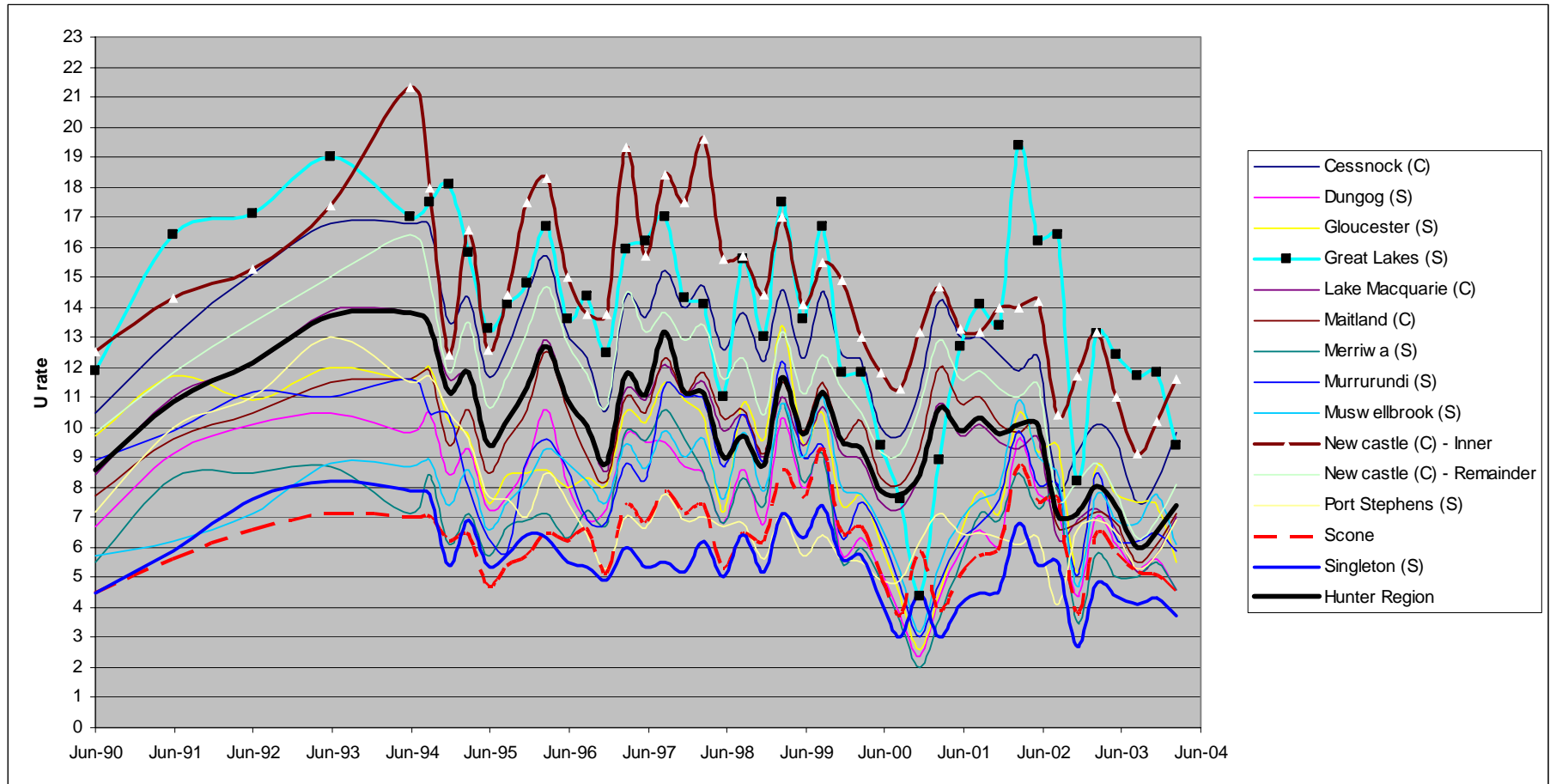
# Unemployment



10



# Unemployment



# Unemployment: What is the Solution?



12

- A bit of history:
- Early 1990s Working Nation policy of Labor Gov, politicians, academics & public opinion (?) began to redefine U from a collective to an individual problem.
- Sustained unemployment identified with personal deficiencies – lack of skill and motivation, failures to relocate to areas with jobs – are you job ready?
- Mutual obligation and reciprocal obligation.
- Coalition accentuated shift in thinking with introduction of WfD in the late 1990s.
- **Government is not responsible for unemployment!**

# Unemployment: What is the Solution?

13

- Now Coalition wants to extend its policies to the disabled by driving more onto unemployment benefit.
- Higher level of DSP has been a substitute for U benefit for many men (55+) with erratic work histories, but Gregory and Cai (2004) show that men did not relinquish DSP when labour market improved.
- DSP recipients not subject to job search requirements & financial penalties.
- Under rejected bills disabled people assessed as able to work for award wages for 15 hours ineligible for DSP.
- Current benchmark is 30 hours.

# Unemployment: What is the Solution?



14

- Will the harassment of unemployed and disabled solve the problem of persistent U? No!
- Ratio of official U to vacancies is now 5.8 to 1, ignoring hidden U & underemp (11.4 to 1 on average since 1974).
- Policy to improve skills & motivation of unemployed can at best reorder queue of job seekers.
- Private sector never employed everyone, despite efforts of successive Gs to create these ideal conditions- tax breaks, massive corporate subsidies, privatization, public private partnerships....

# Unemployment: What is the Solution?



15

- In post war period private sector has employed 'constant' fraction of the labour force, but total public sector employment has fallen significantly over the last 20 years.
- Thus persistent U attributable to inadequate government spending and hence public sector employment.
- We must examine macro policy.
- CofFEE's basic premise is that persistent U, and its uneven spread across regions, is a consequence of the systemic failure of macroeconomic policy.

# Unemployment: What is the Solution?

16

- Dictates of low inflation has lead to tight monetary policy in Australia.
- RBA now targets inflation within the 2-3% band.
- Fiscal policy has become passive except at election time.
- The need for budget surpluses accepted by all parties.
- Household analogy used to justify budget surplus & alleged creation of strong economic fundamentals
- Budget deficits argued to cause higher interest rates, because of increased demand for finance.
- Sustained budget surpluses damage the economy

# The Job Guarantee



17

- CofFEE supports the Job Guarantee.
- Endorsed by councils (Newcastle) & NSW Greens.
- Public sector operates buffer stock of jobs to absorb unemployed workers. Pool expands (declines) when private sector activity declines (expands). There is an open-ended offer by government to purchase labor.
- JG Wage set at the minimum wage level to avoid disturbing the private wage structure.
- Social Wage supplements JG earnings with wide range of expenditures, including adequate levels of public education, health, child care & access to legal aid.

# The Job Guarantee



18

- Also, JG policy does not replace conventional use of fiscal policy to achieve social and economic outcomes. Generally, we prefer a higher public sector spending.
- Family Income Supplements: The JG is not based on family-units. Anyone above the legal working age is entitled to receive the benefits. The JG wage supplemented with benefits reflecting family structure. In contrast to workfare there will not be pressure applied to single parents to seek employment.
- How the disabled would be integrated within JG framework is being researched – one paper already.

- JG workers employed in socially useful activities including urban renewal projects, other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control, and the like), personal assistance to pensioners, and other community schemes, including caring.
- Extensive literature on this (see Cowling, Mitchell and Watts, 2003).

# The Job Guarantee



20

- Central funding, local administration.
- How would it operate in practice?
- Implementation requires understanding of regional labour markets (mobility, commuting patterns); the identification of unmet social needs (local councils), and capacities of the unemployed, so that appropriate jobs can be located in local areas.
- We know little about these mechanisms, but the functioning of spatial labour markets is a major component of CofFEE's current research.

- The government is monopoly provider of fiat currency. Taxes require that fiat currency is held by public.
- JG workers paid by cheques drawn on the RBA. Far from pushing up interest rates, cheque deposits by newly employed increase liquidity in the banking system. The prevailing interest rate is only sustained by the RBA selling CGS at the desired interest rate.
- The financial constraint is a myth.
- Putting aside short term admin difficulties, (remember WW2), government could employ all workers tomorrow.

- Inflation control: The JG maintains full employment with inflation control. When the level of private sector activity leads to wage-price pressures, the government manipulates fiscal and monetary policy settings (preferably fiscal policy) to reduce the level of private sector demand.
- Resulting rise in JG employment resolves the distributional struggle over current real income.
- Incomes policy may be complementary to reduce the JG employment level consistent, at any point in time, with inflation control if desired.

**End of Talk**