



**ACADEMY OF THE SOCIAL
SCIENCES IN AUSTRALIA**

UNEMPLOYMENT IN AUSTRALIA

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Introduction

Unemployment is a scourge in countries at all levels of economic development. It brings poverty and despair and exclusion from the mainstream way of life. It stunts the development of children and generates conflict in the home. All market economies have some unemployment arising from the dynamic birth, growth, decline and death of firms and the changes in employment that follows. This frictional unemployment is tolerable. Unemployment does its greatest damage to the individual and her or his family when it persists for months or even years.

The Australian economy has experienced large changes in the structure of what it produces and how. These have been caused by technological change; by fuller integration into world markets, along with the rise of competition from lower wage countries in the production of manufactured goods (and increasingly, services); and by changes in the pattern of consumption as real incomes rise. The sustained loss of jobs in the production of goods has led to a major decline in job opportunities for men who have only modest levels of formal education. In part this shows up in unemployment statistics. But it is also evident in the withdrawal from the workforce altogether of such men. In contrast, the expanding areas of the economy have been particularly likely to employ women, whose share of paid work has been rising steadily (especially for married women and women with dependent children).

In the Australian experience, unemployment has been a nagging, and sometimes intense, problem for the past 30 years. But as I will show, a sustained expansion in the economy lasting, now, 13 years has reduced current unemployment to unusually low levels. The gains in reducing unemployment are evident even in the most problematic areas, such as youth unemployment, long-term unemployment and poor employment opportunities for older workers.

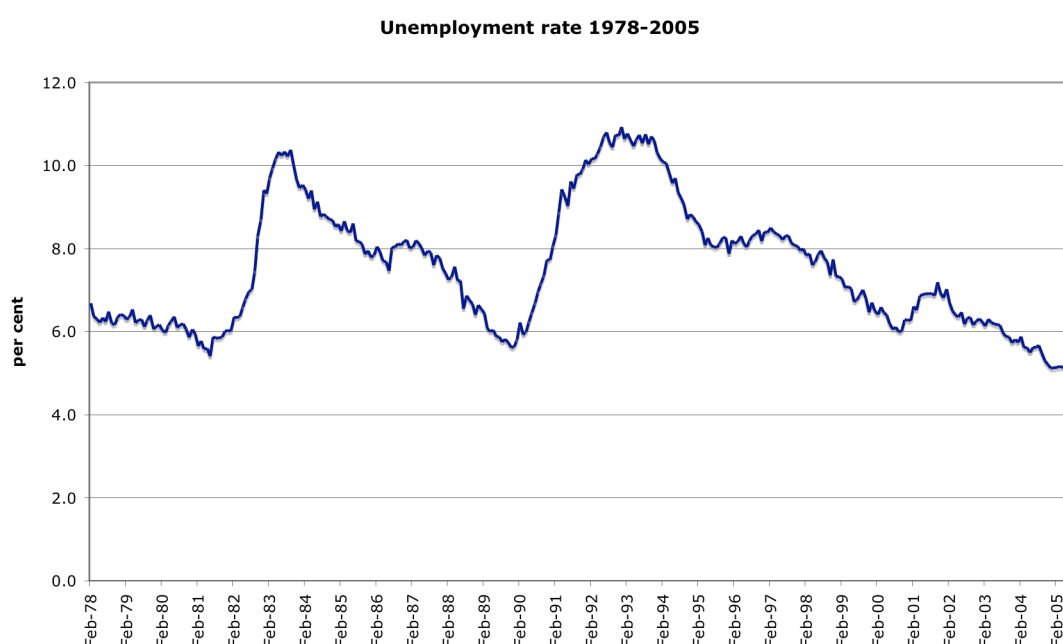
Unemployment is not a precise concept. This is true even in countries, such as Australia, where most production of goods and services is done through the formal economy, and most people work for wages. Australia adopts the standard international definition of unemployment: people are unemployed if they did not work for at least one (paid) hour in the previous week, were actively seeking work and were able to accept a job in the next week if it were available. The definition makes it clear where the imprecisions arise. People are asked in a telephone survey whether they worked for pay for at least one hour in the previous week. Those who worked in the 'black' economy are unlikely to respond truthfully to this question. People who really do want to work, but have given up actively looking for a job, are excluded from the measure of unemployment. This gives government the opportunity (and many have taken advantage of this) to reduce the measured level of unemployment by providing a small welfare payment that takes people out of the workforce. My last point is that a person is counted as being employed (hence not unemployed) if she or he has worked for an hour or more in the previous week. There is world of difference between working one hour or 40 hours per week, in terms of both effort and income. The Australian Bureau of Statistics (ABS) has responded to this last point by constructing measures of under-employment, as well as of unemployment.

In what follows I will describe the overall unemployment picture, including the situation of some groups at particularly high risk of unemployment, then look at underemployment, and long term unemployment. I will distinguish the experiences of men and of women, and of youth and older workers.

Unemployment

In the 25 years that followed the end of World War II, unemployment in Australia varied between one and two per cent of the labour force. Most workers were men, and the norm was for women to seek paid work only until they married. The birth rate was high, and indeed this period is referred to as the 'baby boom' (followed later by a 'baby bust', that has produced a fertility rate in Australia that is below replacement, at 1.77 babies per woman). Figure 1 below traces the history of unemployment in Australia, following the very low post-war levels.

Figure 1: Unemployment rate, 1978-2005



Source: ABS, Labour Force: 6203.0

A key point to note from Figure 1 is that unemployment rises very sharply during a recession (as in the early 1980s and 1990s) and takes a long time to fall after the spike. Note also that, although there was a small peak in the early 2000's, it was only a fraction of the earlier spikes. This last point is the single most important fact in explaining the now relatively low level of unemployment (currently 5.0%). Why Australia has been so successful in avoiding the significant recession that is usually part of the business cycle is another story, that I will not pursue here. But it has enabled the unemployment rate to fall below the levels that were attained at the peak of the last two booms. This in turn has called into question previous understandings of how low unemployment can fall before irresistible pressures for rising inflation are

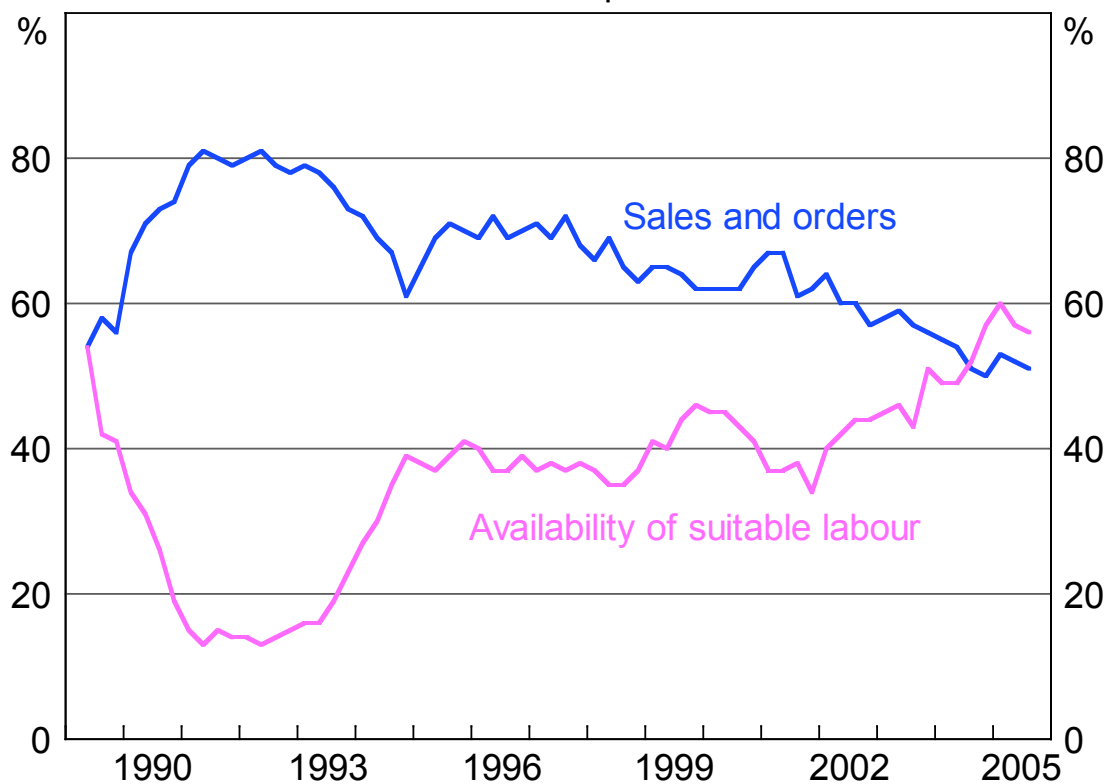
felt (referred to as the natural rate of unemployment). There are, however, signs of such inflationary pressure in the Australian economy at the end of 2005. The latest evaluation of the economy by the Reserve Bank of Australia projects average wages to rise faster than average labour productivity over 2006 (RBA, 2005). This is a signal that they are expecting inflationary pressures to arise from wage pressures (unless the profit share is to fall).

Today, the main business concern is a shortage of labour, especially of skilled labour. In late 2005, about 55 per cent of firms cited labour shortages as a major factor that is limiting their expansion, according to a regular business survey that is conducted by the National Australia Bank. Figure 2 shows how the main factor limiting expansion for firms has shifted from lack of sales to lack of suitable labour.

Figure 2:

Factors Constraining Output

Per cent of respondents



Source: NAB

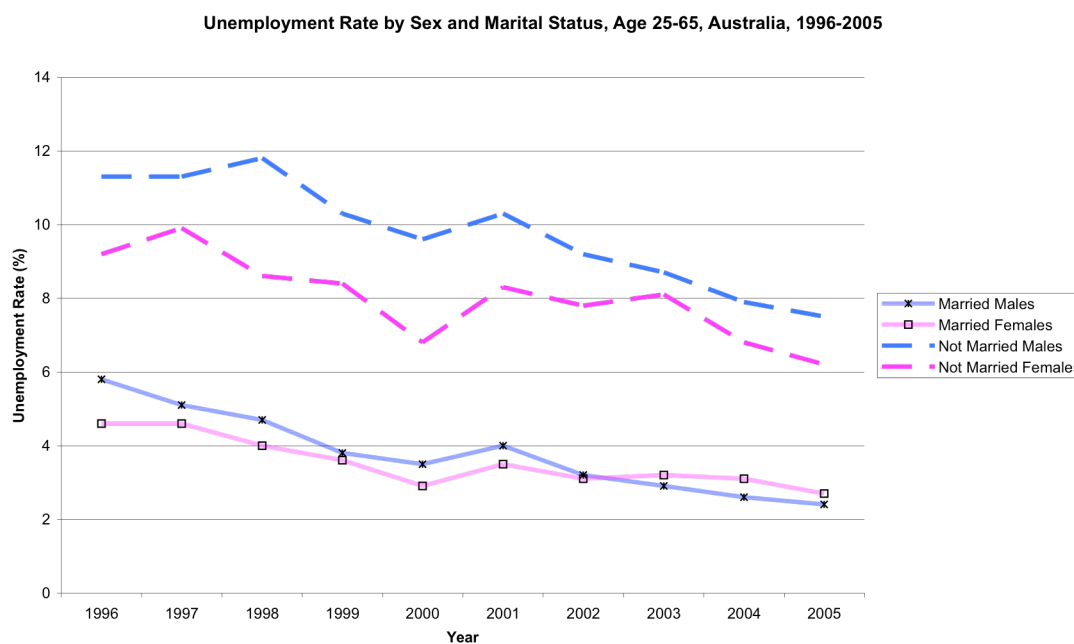
Source: Kindly provided by the Reserve Bank of Australia, based on data from the National Australia Bank.

Unemployment is not uniformly distributed across the labour force. Some groups are at higher risk of being unemployed than the average. I identify the experience of some of these more at-risk groups—specifically, single people, youth and immigrants.

Marital status and gender

Figure 3 shows the different unemployment experiences of men and women, and of married and single people. I focus on the age group 25-65. In this way I remove the complication that young people are both more likely to be unemployed and more likely to be single. While the level of unemployment is similar for both sexes, single people are much more likely to be unemployed than are married people (of both sexes). In 2005, fewer than three per cent of married workers were unemployed. Single people, in contrast, had rates of unemployment that were almost four times the married rate. The reasons for this persistent link between unemployment rate and marital status are complex, and the direction of causation may well go both ways. For example, people (especially men) who are at high risk of unemployment are less attractive as marriage prospects and hence more likely to be single. At the same time, people who are single do not have the same pressures to earn a wage in order to support their families, and hence may be more willing to tolerate spells of unemployment. Prolonged unemployment can also precipitate marriage breakdown.

Figure 3: Unemployment rate by sex and marital status, age 25-65: Australia 1996-2005.



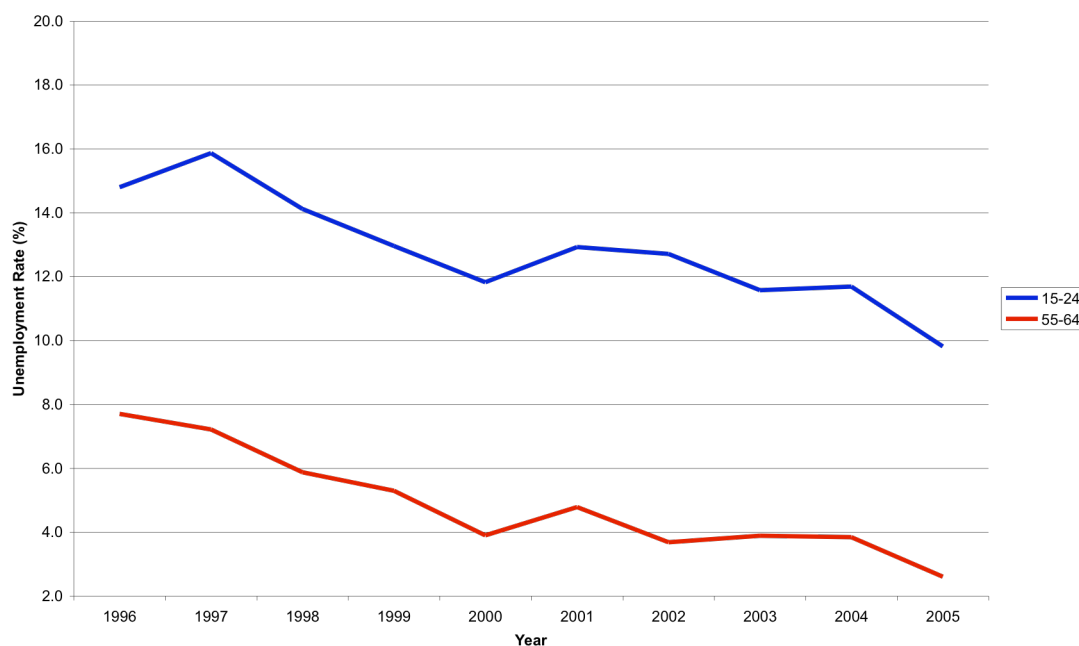
Source: ABS, Labour Force data cube, 2005.

At risk groups

In addition to single people, there are several groups that, for different reasons, systematically have higher rates of unemployment than the average. Two such groups are youth and older workers.

Any group of new entrants to the labour force takes time to settle into a steady pattern of employment. Many people will try a job then find that it does not suit their abilities or ambitions. They will therefore continue to search for something that is a better fit, probably experiencing spells of short-term unemployment along the way. For some (about 1 in 10), the search is unsuccessful, and they spend long periods moving between low paid, insecure jobs and unemployment (Richardson, 2006). Employers too take young people on on temporary terms while they establish their suitability for the job. If they are deemed unsuitable, the young person loses their job and has to search again, usually spending some time unemployed (or, possibly, out of the labour force) in the process. Unemployment associated with this search process is not particularly problematic, provided the new entrant is able to find adequate and adequately secure employment within a reasonable time frame. Most, but not all, do.

Figure 4: Rates of unemployment among youth (15-24) and older workers (55-64): 1995-2005



Source: ABS, Labour Force data cube, 2005.

Measures of youth unemployment are complicated by the fact that in Australia today there is no clear-cut pathway from full-time student to full-time worker. Young people combine education and employment in all sorts of ways. Many teenage school students and a majority of full-time tertiary education students also have part-time jobs. About 1 million adults who work full-time (1 in 7) are also studying. Young people “try on” different types of post-school education just as they “try on” different jobs (Wynn, 2005). Only a minority of teenagers looks for full-time employment. One reason is that such jobs are scarce, even in the tight labour market of 2005. About 20 per cent of teenagers who want full-time work are unemployed (Parliamentary Library, 2005). While this figure is high, it has fallen from a peak at the last recession (in 1992) of 32 per cent. The general strengthening of the labour market has benefited youth as well as other groups in the labour force, though the gains for youth have been more modest than the gains for the rest of the workforce. Figure 4 shows how the recent general gains in unemployment have flowed through to youth (and to older workers). While unemployment among youth remains substantially above that of the workforce in general, it has fallen by a relatively large 5 percentage points. The fall in unemployment for older workers has been particularly strong, so that in 2005 only 2

per cent of workers aged 55-65 were unemployed. This fall in older age unemployment is leading to a rise in the participation rate of this group.

A second group that has disproportionately high unemployment is recent migrants. As with youth, part of the reason is that they are new entrants to the labour market and take time to find a suitable job. But some migrants face additional difficulties caused by their lack of fluency in English, their lack of familiarity with the culture, and perhaps some difficulty in getting their skills properly accepted by employers. Very few migrants identify discrimination against foreigners as a major obstacle to their finding employment (Richardson et al, 2004).

Australia runs an active immigration program, with three main components. These are skilled migrants, selected for their likely rapid integration into the Australian labour market; family re-union, where a person is sponsored by a relative who is already a permanent resident; and humanitarian, where a person is accepted on grounds of compassion. In recent years the balance of the program has shifted towards skilled migrants. To be granted permanent residency under the skilled migration rules, an applicant must have a combination of attributes that have been shown to be important in finding work, especially work that uses their skills, once they arrive in Australia. These attributes include facility in English, post-school educational qualifications that are recognised in Australia (preferably an Australian qualification), experience in a job for which there is demand in Australia, and prime working age. Data for 2005 show that migrants with these characteristics quickly find employment. Six months after arrival, 83 per cent of skilled primary applicants had a job, while 12 per cent were still looking for work (5 % were not in the labour force).¹ The picture for migrants more generally (including family and humanitarian migrants) shows higher unemployment and non-participation in the labour force than for skilled primary applicants. But it is important to remember that these other groups have multiple motives for immigration, and employment is only one measure of successful settlement.

¹ These statistics are calculated by the author from survey data that has 3,600 skilled primary applicant respondents.

Overall, migrants to Australia, including those from non-English speaking backgrounds, *have about the same levels of unemployment as the native born*, once they have been in Australia for 5 or so years. This demonstrates a high level of success in the integration of migrants into the Australian labour market. Immigrants from North Africa, the Middle East and Vietnam, however, have higher rates of unemployment than migrants from other sources. One reason is a concentration of humanitarian migrants from these countries, who tend to have relatively low levels of English language competence and of education.

The employment outcomes of recent migrants to Australia have improved steadily over the past decade. The two main reasons for this are a) the general strengthening of the labour market as shown by falls in the unemployment rate, and b) the increasing focus on careful selection of migrants on the basis of attributes that lead to good employment outcomes (Richardson et al, 2004).

Under-employment

Australia's recent record on unemployment, as conventionally measured, is unequivocally good. But recall that, in order to be recorded as employed (hence not unemployed), a person need only work for one hour in the week preceding the survey. Furthermore, a person can only be unemployed if they are in the workforce—that is, engaged in paid work or actively looking for work. It is thus possible to have low unemployment, yet also have large numbers of people wanting more work than they have.

Participation

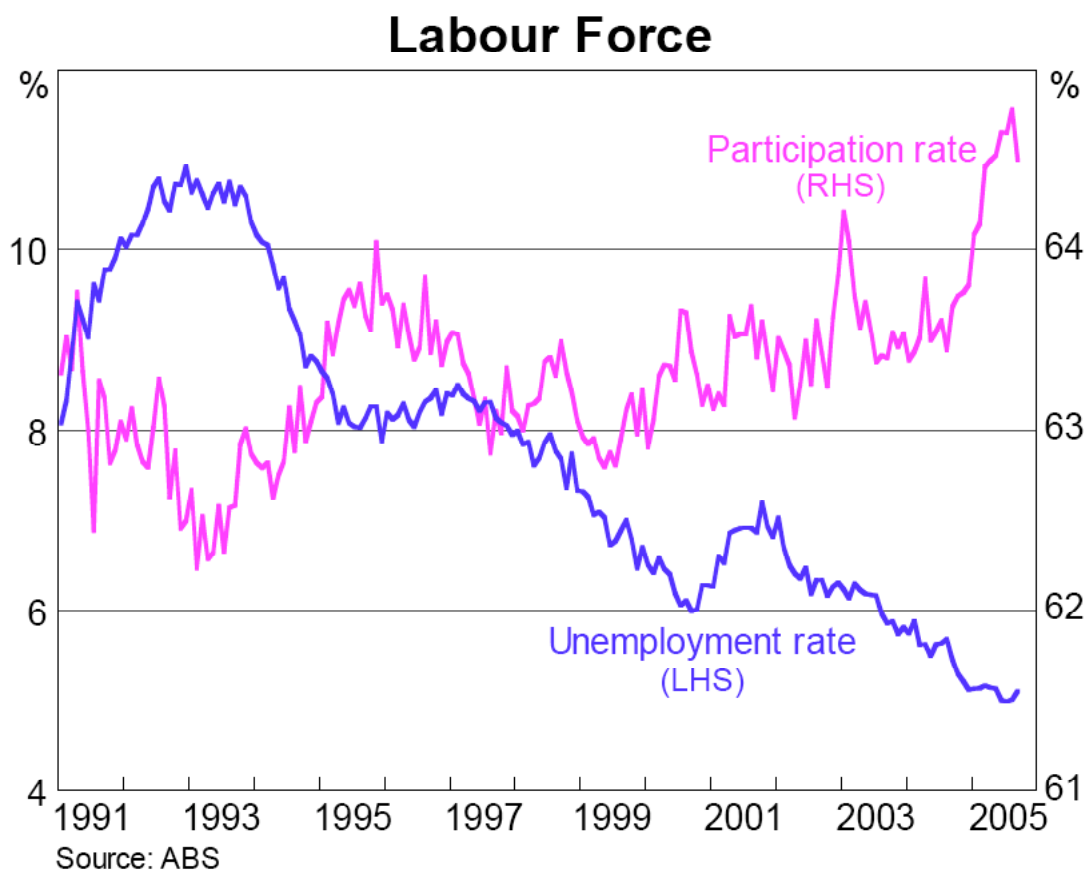
One perspective on whether Australia has been experiencing growing under-employment is the participation rate—the proportion of the population that is aged over 15, and is either employed or actively looking for work. There have been large changes in the participation rate in Australia in recent decades. While the total rate has not changed greatly, the rate for men fell from 75 per cent to 68 per cent between 1978 and 2003, while the rate for women rose from 40 per cent to 52 per cent—these two movements largely cancelling each other out. The fall in the participation for men

was particularly pronounced for those over the age of 55 and for those with relatively low levels of education. (ABS, 2003)

Figure 5 shows how the participation rate has changed since 1991. One point stands out. The participation rate varies positively with the overall demand for labour. When the demand for labour is expanding and unemployment is falling, the participation rate rises, and vice-versa. This is an important point, because it shows that when new jobs are created, they are filled only in part by people who previously were unemployed: they are also filled in part by people who previously were not in the labour force. At the same time, the rate of exit from the labour force is slowed when demand for labour is high. The figure also shows that measured unemployment, while it moves inversely with employment, has the magnitude of its rises and falls damped by the movement of people in and out of the workforce.

The variation of the size of the workforce with the business cycle is not trivial. The participation rate has risen from a low of 62.2 at the height of the recession in 1992, to 64.5 at the end of the long expansion since that date. Once the effects of the changing unemployment rate are removed, there is no obvious trend in the participation rate. But during this period, the participation rate of men fell by 3 percentage points while it rose for women by 4 percentage points. The withdrawal of people from the labour force during recessions can be understood as a form of hidden unemployment.

Figure 5: Changes in unemployment and participation rates, Australia 1991-2005.

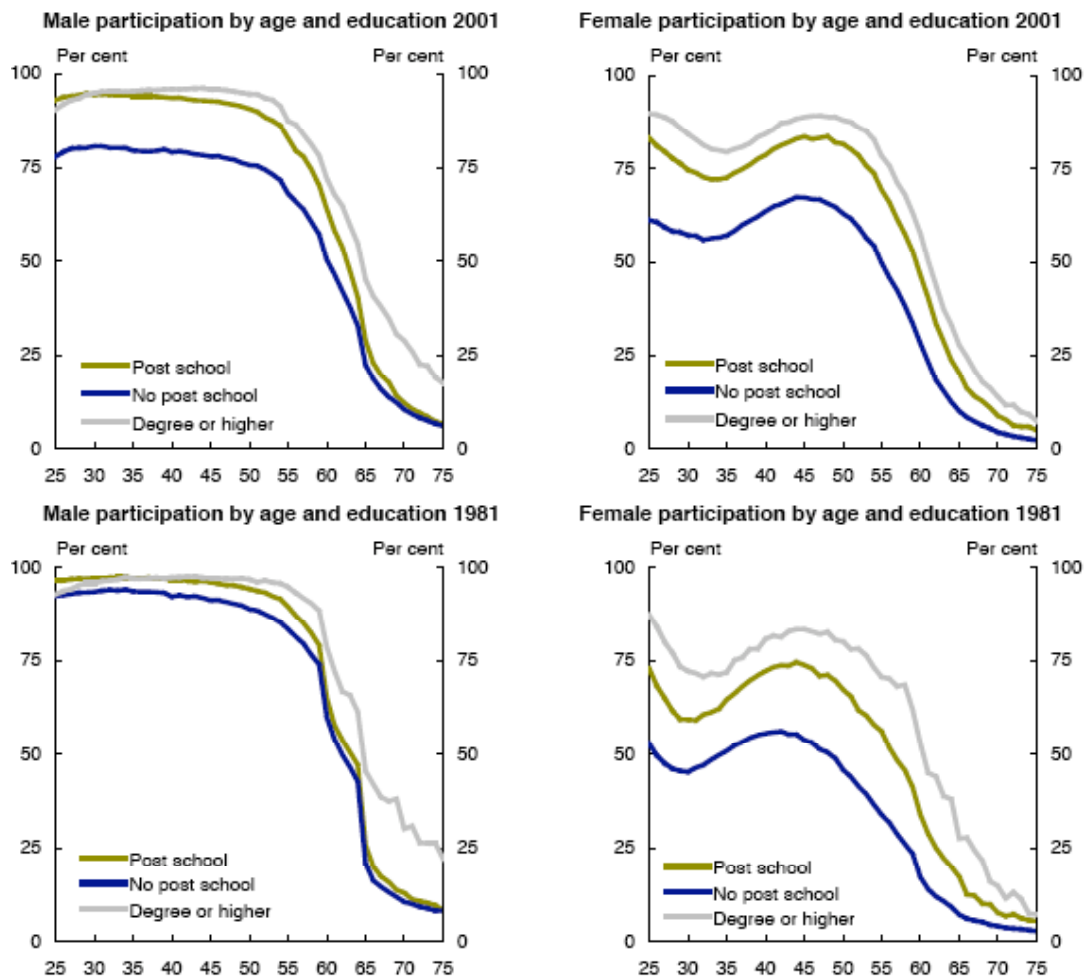


A second form of hidden unemployment is indicated by the falling participation in the labour force of men with no post-school education. The ABS estimates that the chances of non-employment for such men has (standardising for age) been rising steadily for men born in each decade following 1937-1947 (ABS, 2003). The labour market has been developing in ways that are particularly harsh on men with relatively low levels of formal education.

A different way of illustrating this point is shown in Figure 6, constructed by the Australian Treasury. This figure uses census data (the latest of which are for 2001) to calculate the rate of participation in the labour force of men and women, by their education level and their age. This is done for both the latest census, and for the census two decades earlier. It tells a striking story. In 1981, men of all educational

levels were overwhelmingly employed or actively seeking work, between the ages of 25 and 60. There was only a small tendency for less educated men to be out of the labour force.

Figure 6: Labour force participation by age, education and sex: Australia 1981 and 2001.



Source : Australian Treasury, 2003.

By 2001, *at every age*, at least 20 per cent of men with no post-school education were *not in the labour force*. These men have not withdrawn from the workforce because they have handsome alternatives that mean they do not have to work (although an increasing number say that they perform “home duties”). Overwhelmingly, the reason they are not in the labour force is because they cannot find work, and have given up looking. They are thus hidden unemployed. It will be of great interest to see (in the 2006 Census) whether the improvement in the labour market since 2001 has drawn these men back into the labour force, and into work.

The story for women is quite different. Lower educated women have always been less likely than their more educated sisters to stay out of the labour force. This was true in 1981 and remained true in 2001. The only change between the two decades is that women of all education levels and ages increased their participation levels by modest amounts. The really big change for women has been the rise in their educational levels, so that many more women are now found in the “high participation” education groups.

The differences in labour force participation between low-education men and women mirror the changes that have been happening in employment. During the 1990s, there was almost no growth in aggregate hours worked by low education workers. But there was a substantial shift away from the employment of men full-time in such jobs, and towards women employed part-time. In turn, this reflects the decline in employment in manufacturing and the growth in employment in personal and other services.

Hours worked

A second perspective on under-employment is whether people are working as many hours as they would like. A striking feature of the Australian economy has been the rapid growth of part-time employment, and the low rate of growth of full-time jobs. This trend has been evident for several decades. Indeed, the proportion of women who work full-time today is scarcely higher than it was in the 1970s: most of the growth in women’s employment has been in part-time jobs, and this is becoming increasingly true for men also.

In the late 1970’s, there were 18 part-time jobs for every 100 full-time jobs. Since then, the growth in the number of part-time jobs has almost equalled the growth in the number of full-time jobs, so that in August 2005 there were 40 part-time jobs for every 100 full-time jobs (RBA, 2005). An increasing proportion of the part-time jobs is being taken by men, and a rising proportion (currently, about one quarter) of people who work part-time are saying that they want more hours of work. Part-time work suits people such as full-time students, and the many mothers who use this sort of employment to balance the demands of work with the demands of caring for their

families. Increasingly, we see also that older workers, rather than retire completely from work, are extending their years of working life but are doing so part-time. But part-time work does not suit people who need to earn an income that is adequate to support themselves and their families. On average, people who work part-time work 16 hours per week, in contrast with the 42 hours per week typically worked by full-time workers (ABS, 2003). For most people, the earnings obtained from 16 hours work per week is not enough to provide financial independence.

The Australian Bureau of Statistics publishes two measures of under-employment. One, the head count measure, records the number of people who want more hours of work (and who are in the labour force). The other measure, the volume measure, records the extra number of *hours* that underemployed people want to work. The headcount measure gives higher figures than the volume measure, and typically shows the level of under-employment as being twice the level of formally-recorded unemployment (eg, in 2005, it is 11% of the workforce when the unemployment level is 5%). Under-employment has fallen more slowly than has unemployment.

The volume measure of unemployment adds all the hours that unemployed people say they want to work (not all are looking for full-time jobs), with the extra hours that people already employed say they wish to work. The latter group are mainly people who work part-time, but include also some people with full-time jobs who in the survey week were not offered a full week's work by their employer. The volume measure shows that the Australian workforce would have liked to work about 8 per cent more hours than they actually did (in 2003). (ABS, 2003). This does not take account of the (mainly full-time) workers who say they would like to work *fewer* hours.

The perspectives on under-employment that have been presented above suggest that Australia still has a nagging unemployment problem, even though officially measured unemployment is at historically low levels. The main evidence for this view is a) the falling labour force participation of men at all ages, especially men with relatively low levels of formal education; and b) the growth in part-time employment at the expense of full-time employment, that is producing substantial under-employment.

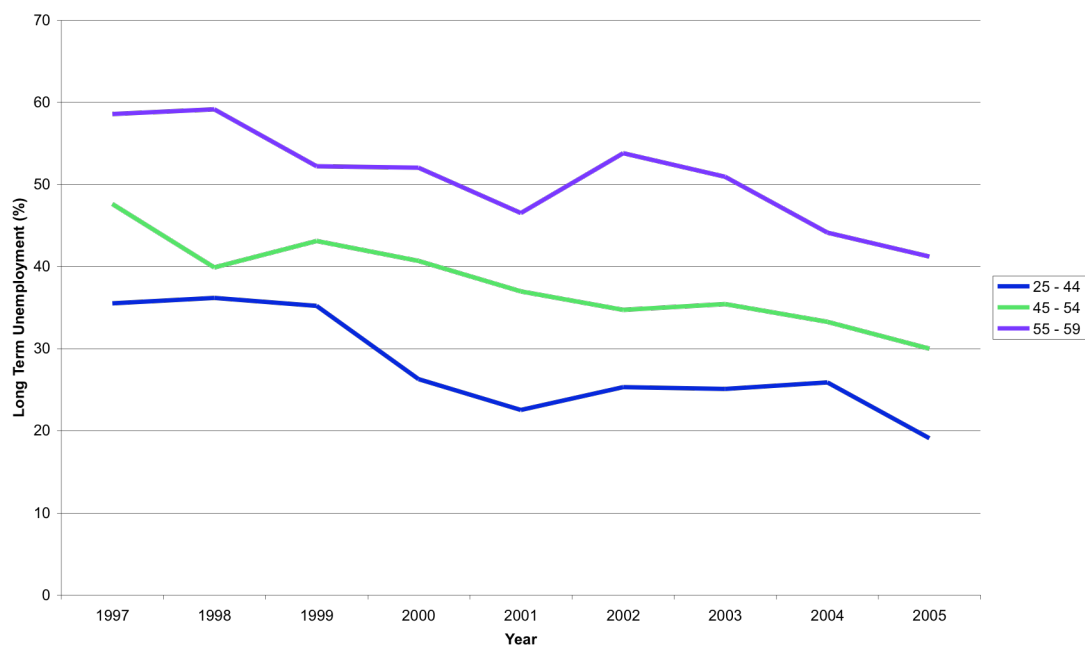
Long term unemployment

The aspect of unemployment that is most troubling is long-term unemployment (defined in Australia as being continuously unemployed for 12 months or more).

Most people can manage a spell of unemployment if it only last for a short period. The real financial, psychological and economic damage is caused by being unemployed for prolonged periods. Then, savings and lines of credit are exhausted; assets, including the family home, might have to be sold; people become depressed by repeated failures in their job applications; skills atrophy and there is a build up in stress within the family, that can lead to violence and family breakdown. There is strong evidence that the longer a person is unemployed, the lower the chance they have of finding a job in the next period. It is an important question, then, to see if long-term unemployment has fallen commensurate with the falls in the overall rates of unemployment.

Figure 7 shows the behaviour of long-term unemployment over the past decade.

Figure 7: Long term unemployment rate for specific age groups: 1997-2005



Source: ABS Labour Force data cube, 2005.

The figure shows the proportion of the unemployed in each age group that has been actively looking for full-time work for at least 12 months. The rate is highest for those aged 55-59, and lowest for those aged 25-44. For each age group, the share of the long term unemployed has fallen over the last 8 years, as the labour market has continued to strengthen. The falls have been substantial—by between 15 and 20 percentage points. These gains in a reduction in long-term unemployment reinforce the conclusion that the overall falls in unemployment have widespread benefits—extending to the most problematic groups in the labour force.

There is a strong cyclical component to long-term unemployment. If we go back to the peak of the last business cycle (1990), we see that the long-term unemployment rate for the whole of the unemployed, at 20 per cent, was the same as it is today—late 2005 (Healy, 2004). Dixon and Lim (2004) explore the question of whether, once cyclical factors are removed, there is any sustained trend in the long-term unemployment rate. In brief, they find no such trend for men, but a rise in trend levels of long-term unemployment for women. They suggest that the latter is caused by an increasing commitment of women to paid work—such that they are increasingly likely to stay in the labour force, even when unemployed for lengthy periods. These conclusions imply that the fall in long-term unemployment that is observed in Figure 7 is largely a result of the sustained fall in overall unemployment that Australia has experienced since 1992. It confirms that the gains in unemployment have been wide-reaching, benefiting even the long-term unemployed.

Conclusion

Unemployment has been a scourge of Western economies, including that of Australia, since the end of the post-war boom in the early 1970s. The business cycle of boom and recession in market economies was for decades a cause of high and seemingly intractable unemployment. Unemployment shot up in recessions, as businesses closed or shrank and restructured. It took many years to recover from the shock of recession—by which time another recession was on the horizon. In the past 13 years, Australia has, through a combination of luck and good macro-economic management—avoided a substantial recession. An enormous gain from this policy success is a steadily falling overall rate of unemployment. This fall in unemployment

has benefited every substantial group in the labour force, including youth, older workers, and the long-term unemployed.

The resounding recent successes on the unemployment front are tempered only by some confounding developments that are making it hard for some groups to obtain adequate hours and continuity of employment. The two main problems are the challenging falls in job opportunities for men who have relatively low levels of formal education; and the substitution of part-time for full-time employment. The former has led to the substantial withdrawal of prime working age men from the labour force. The latter has resulted in a substantial under-employment, where many workers want more hours of work (and the associated higher earnings).

If it is possible to keep the economy running at its current high level of capacity utilization, without stirring the inflation dragon from its slumber, then even low education men, youth and part-time workers can expect to find reasons for optimism in the future.

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