

Unemployment: Promises, Policies and Progress

John Burgess, William Mitchell, Duncan O'Brien & Martin Watts

Abstract

Unemployment remains anchored above eight percent while average unemployment duration is around 51 weeks and the youth unemployment rate is above 20 per cent. The Coalition's policy manifesto for the 1996 federal election emphasised the seriousness of the unemployment problem; indeed, it gave priority to reducing the unemployment rate, especially the relatively high youth rate, and to the generation of 'real' jobs. Over the past two and a half years the Coalition Government has put in place a series of supply-side reforms that are justified on the basis of their contribution towards reducing unemployment. Industrial relations reforms, fiscal consolidation, the privatisation of the Commonwealth Employment Service, the abolition and consolidation of labour market programs and the privatisation of public sector business enterprises are all part of the unemployment reduction program. To date, the success of this program has been limited, job creation remains low, and 'real' jobs remain scarce since net job growth is largely located in part-time and/or casual employment arrangements.

Introduction

Without question, the single greatest issue facing Australia is the persistence of mass unemployment (Liberal Party, 1996b).

Unemployment constitutes the most important macroeconomic issue confronting Australia. Over the past two and a half years the federal Coalition has adopted supply-side measures to alleviate unemployment. Through removing impediments to the operation of the market, reducing the scope of the public sector and offering a range of incentives, the Government hopes that the labour market will generate jobs at a sufficient rate to bring down the unemployment rate. Yet this microeconomic reform process has caused job losses through tariff cuts, privatisation programs and cuts in government expenditure. Since the Coalition parties came into office, over one hundred thousand federal public sector jobs have disappeared as a result of expenditure cuts and contracting-out policies (ABS Catalogue 6254.0). The policy credentials of the Howard Government should be assessed on its capacity to reduce the unemployment rate.

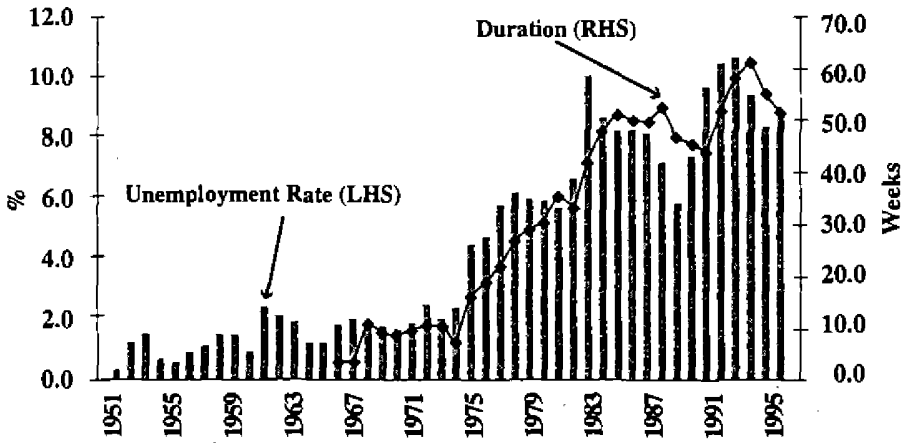
In this paper we attempt this task by examining Australia's unemployment experience of the last two decades with a particular focus on the impact and theoretical underpinnings of the first two and a half years of policies of the Howard Coalition Government. The broad conclusions reached are that the Coalition's policies have been relatively unsuccessful and that they will have difficulty in sustaining the credibility of its programs in the light of the promises made prior to the 1996 election.

The paper is organised as follows. The next section briefly outlines the history and dimensions of the unemployment problem in Australia over the past decades. A brief review of the policies and record of the Labor Government over the period 1983-1996 follows this, with particular reference to its Prices and Incomes Accord. The Coalition's pre-1996 election promises, their policy program to deal with unemployment and their record with respect to job creation and the incidence and duration of unemployment over this two year period is then reviewed. The following section critically assesses the theoretical foundations of the Coalition's program. The similarities between the Coalition's policy program and the so-called US model are briefly explored and the potential consequences of their policies for the Australian labour market are outlined in the penultimate section. Finally, concluding comments are presented.

Unemployment: An Overview

Australia has now experienced the longest period of high unemployment in its history. Since 1978, there has been a net increase of 2.4 million jobs of which over 50 per cent have been part-time. In that time, the labour force has grown by 2.7 million. Figure 1 captures the history of unemployment and the average duration of unemployment in Australia since 1950. Except for the boom over the late 1980s, when the Labor Government tightened policy too late, the unemployment rate has ratcheted upwards since mid-1975. The overall unemployment rate cloaks the uneven distribution of unemployment across the community. Unemployment rates are around double the national rate for youth (15-19 years), for those without high school accreditation, and for certain ethnic groups (for example, the Vietnamese). Certain locations, such as the outer suburbs of large cities and rural areas, also exhibit unemployment rates significantly higher than the national rate (Gregory and Hunter, 1995; Borland, 1997; Mitchell and Burgess, 1998).

The average duration of unemployment has increased from three weeks in 1966 (the first available data) to just over 50 weeks in February 1998. Long-term unemployment (one year or longer) is now entrenched. In the absence of programs to promote employment growth, the long-term unemployed have little chance of regaining employment.

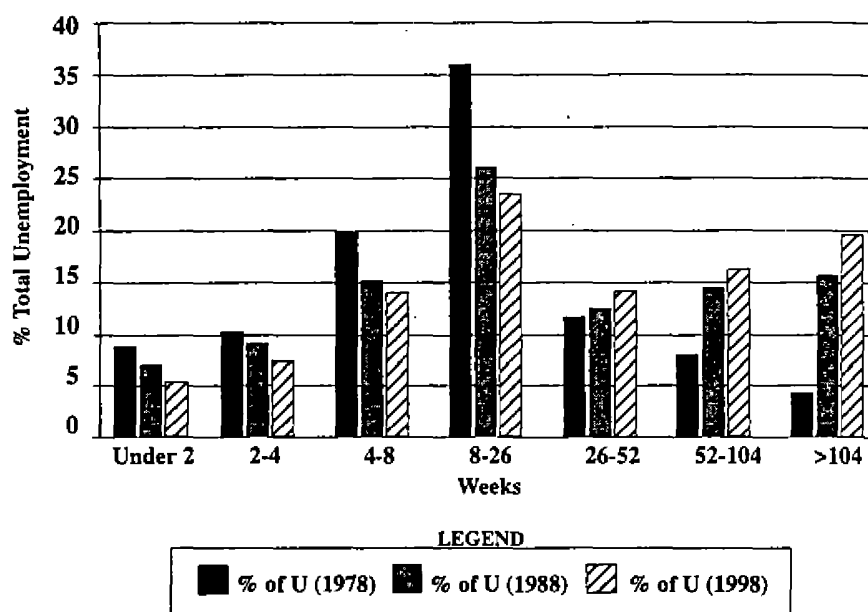
Figure 1: Unemployment rate and average duration of unemployment in Australia

Source: Foster (1996)

Figure 2 shows the distribution of the duration of unemployment for three observations: February 1978 (when the aggregate unemployment rate was 7.5 per cent), February 1988 (8.2 per cent) and February 1998 (9.1 per cent). There has been an increase in the incidence of unemployment of more than 6 months duration. Long-term unemployment (one year or longer) is now entrenched, with its share of total unemployment having increased from 12.3% to 36.2% over the twenty year period. The rise in the mean duration of unemployment has been accompanied by a more unequal distribution of unemployment by duration, as measured by the standard deviation. Older age groups, especially males, suffer from a disproportionate incidence of long-term unemployment (Mitchell and Burgess, 1998). Prime age males typically stay in the labour force, given their greater family responsibilities.

The unemployment-vacancy ratio clearly indicates that there has been a persistent demand constraint imposed on the labour market (see Table 1). The rise in importance of part-time work has often been interpreted as a reaction to the desire by workers for more flexible work arrangements (Lewis, 1990). The percentage of part-time workers who want to work more hours has nearly doubled over the last 20 years, which indicates that the demand constraint and structural changes towards casualisation and hence precarious employment have been forced upon the work force. Already Australia has one of the highest rates of workforce casualisation in the OECD (Campbell and Burgess, 1997). Over one quarter of employees work under casual conditions; that is, with no paid holidays or sickness benefits, no paid weekends of leisure, no notice of termination and very little control over working conditions, especially hours (Campbell and Burgess, 1997).

Figure 2: Unemployment Duration as Share of Total Unemployment, February 1978, 1988, 1998



Furthermore, the official unemployment rate understates the extent of labour under-utilisation in Australia (Borland, 1997). The current 8 per cent unemployment rate translates into a rate of labour under-utilisation of about 16 per cent when 548,000 under-employed part-time workers and 135,000 hidden unemployed are added to the official unemployment estimates (Mitchell and Burgess, 1998; Wooden, 1996). Many of the hidden unemployed are discouraged job seekers who have given up job search.

Table 1: Summary Labour Market Statistics

Labour market measures at February	1978	1983	1988	1993	1998
Unemployment-vacancy ratio	13.4	44.4	10.4	35.0	11.2
Part-time employment ratio (%)	14.8	17.0	19.0	22.6	25.0
Part-timers who want to work more hours (%)	13.5	19.9	19.9	30.3	26.0
Unemployed who want full-time work (%)	83.1	87.3	80.1	84.1	78.1

Source: ABS *The Labour Force*, Cat. No. 6203.0

For some groups and communities the high economy-wide rate of unemployment means almost total exclusion from paid employment. At a conservative estimate, unemployment directly or indirectly impacts upon at least one third of the workforce. This does not include the spouses and dependents who are also directly affected by unemployment because of its pressure on family income, lifestyle, and family relationships.

Table 2: Losses from High Unemployment

Year	Unemployment Rate (per cent)	Added Jobs at 2% Unemployment rate	Daily GDP Bonus \$m per day	Added GDP Per Capita \$ per annum
1972	2.7	37,768	4.0	108
1975	4.9	182,816	20.0	525
1983	9.9	554,836	68.7	1,627
1989	6.2	343,758	44.9	972
1990	7.0	424,642	55.3	1,180
1991	9.5	639,600	83.8	1,766
1992	10.8	751,916	101.3	2,111
1993	11.0	771,902	107.8	2,223
1994	9.7	677,282	97.1	1,983
1995	8.6	593,496	84.9	1,712
1996	8.6	598,900	86.9	1,730

Source: ABS AUSSTATS; Mitchell and Watts (1997).

In their 1991-92 Annual Report, the Industry Commission in Australia estimated that an upper limit of the costs of microeconomic inefficiencies was about \$22 billion or \$1,250 per capita per annum. The scale of these losses is small when compared with the macroeconomic inefficiency of unemployment that is shown in Table 2. The losses from persistently high unemployment are more than 30 per cent more than the suspect Industry Commission estimates (Quiggin, 1997). The unemployment cost calculations contained in Table 2 do not allow for any labour force responses to the additional jobs and thus ignore the scale of hidden unemployment. In that sense they understate the magnitude of the losses. The hidden unemployment estimates indicate that the daily losses from macroeconomic inefficiency are more likely to be in the range of \$156 million or \$3,100 per capita per annum, more than twice the alleged costs of microeconomic inefficiency (Mitchell and Watts, 1997; Watts, 1998).

Table 3 breaks down unemployment into age groups and also work preference (full-time or part-time). Youth unemployment rates are very high and have never

recovered from the large cuts in public sector apprenticeship schemes in the mid-1970s. 15-19 year olds face around a 19.6 per cent unemployment rate overall and they constitute about 7.8 per cent of the labour force. The problem has been somewhat attenuated by the large increases in school retention rates, the changing demographic distribution of the labour force and the decline in teenage labour force participation (Biddle and Burgess, 1998). Nevertheless, full-time youth employment has successively declined over the past 30 years (Wooden, 1996).

Table 3: Unemployed people by age & whether looking for full or part-time work Nov. 1997

Age	Looking for full-time work		Looking for part-time work		Total	
	Unemployed (000's)	UR (%)	Unemployed (000's)	UR (%)	Unemployed (000's)	UR (%)
15-19	77,800	27.4	65,200	14.7	143,000	19.6
20-24	110,700	13.5	23,100	8.1	133,800	12.1
25-34	146,600	7.7	20,600	4.9	167,200	7.2
35-44	120,400	6.8	22,400	4.1	142,700	6.1
45-54	85,500	5.7	23,000	3.5	99,200	5.2
55+	41,600	6.6				
55-59					36,300	7.2
60-64					11,600	4.8

Source: ABS, *The Labour Force Australia*, November 1997, Cat No. 6203.0, Table 24.

UR = Unemployment Rate

Labor and Unemployment, 1983-1996

The Prices and Income Accord between the Labor Government and the Australian Council of Trade Unions (ACTU) explicitly committed both parties to full employment and a program of increasing living standards for all (Stilwell, 1986). Under the early version of the Accord, centralised wage determination and centrally agreed wage growth targets (initially through wage indexation) led to non-inflationary growth and reduced unemployment. The initial goals of real wage growth through productivity gearing were sacrificed in the face of a collapse in the terms of trade and the current account in 1984/1985. Thereafter, through an elaborate set of trade-offs and inducements, the Accord wage criteria were reviewed every year largely to facilitate real wage cuts.

Trade-offs included income tax cuts and improvements to the social wage. From 1986 (Accord 3) onwards, the commitment to real wage maintenance ceased, and from 1987 (Accord 4) the centralised wage determination system began to decline in importance (Stilwell, 1991). Over the period 1983-1989 it was estimated that the real wage cuts of the order of 10 per cent (Argy, 1992: 208) associated with the Accord arrangements had delivered at least 300,000 additional jobs and had reduced unemployment by at least two per cent. The counterfactual estimates varied, but all estimates pointed to the same results (Chapman, 1990). The only negative aspect of the Accord was that, through depressing real wage growth, it contributed to a decline in labour productivity growth. This was manifested in an increasing labour intensity of production (Chapman, 1990).

The positive employment stimulus of the Accord during the 1980s was wiped out by the brutal monetary deflation of 1988-1989, with authorised rates increasing from 11.7 to 17 per cent over 12 months (Langmore and Quiggin, 1994: 72). The deflation was attributed to the excessive rise in asset prices fuelled by the generous and indiscriminate lending policies of the banks in the post-financial deregulation environment (Argy, 1992; Langmore and Quiggin, 1994). Subsequently, the labour market collapsed with employment declining in 1991 and 1992, and remaining only static in 1993. In 1994 employment returned to its 1990 levels (Foster, 1996). The numbers in unemployment doubled between 1989 and 1993. The unemployment rate topped 11 per cent in 1993 and the average duration of unemployment increased to 61 weeks, which was associated with a significant increase in long-term unemployment (Foster, 1996). Arguably, this was the greatest collapse of the labour market since the 1930s depression. It is clear that the employment consequences of the restrictive monetary policy had been grossly underestimated by the Treasury, the Reserve Bank and by the Labor Government (Gruen and Grattan, 1994: 109).

Against this backdrop, the Labor Government produced a Green (discussion) paper on unemployment together with a strategy for reducing the unemployment rate (Commonwealth of Australia, 1993). This subsequently was endorsed by the White (policy) paper that committed the Federal Government to reducing unemployment from 10 to 5 per cent over the period 1994 to 1999 (Commonwealth of Australia, 1994).

The key elements of that program were:

- Active case management of the unemployed;
- A full-time job guarantee for the long-term unemployed, linked to training and offering award payments;
- A youth training program for 15-17 year olds;
- The introduction of a national training wage;
- Greater targeting of labour market programs; and
- An increase in entry-level training placements (Crean, 1997: 293).

Central to Working Nation was the Job Compact that embodied the concept of reciprocal obligation between the long-term unemployed and the community. The obligation of the State extended beyond income support, to the provision of guaranteed jobs of at

least six months duration in the last resort for the long-term unemployed. In return for this guarantee, the unemployed had to agree to the placement offered or lose their benefit. In short, passive income support for the unemployed was replaced by the integration of the benefit system with active labour market programs (Langmore and Quiggin, 1994: 158). It is also significant in the context of more contemporary policy developments that the jobs provided were full-time jobs paying award wages. These unemployed workers were engaging in waged work, rather than working in return for unemployment benefits. The underlying theoretical assumption was that the constraint on reducing unemployment was largely structural, so that the first objective was to reduce the Non Accelerating Inflation Rate of Unemployment (NAIRU).

Despite a number of limitations and heroic assumptions (Burgess, 1994; Mitchell, 1994), the program did outline a path down which the unemployment rate would be halved over a five-year period. While the program only effectively operated for around 18 months, the available evidence suggests that the Job Compact program was successful in moving the long-term unemployed into employment (Junankar and Kapuscinski, 1998).

Overall, the Labor record on unemployment was patchy. Indeed, three distinct periods emerge from Figure 1. First, the reduction in unemployment from 1983-1990 associated with the real wage cuts achieved through the Accord. This was followed by the collapse of the labour market, from 1990-1993, associated with the large increases in interest rates over 1988-1989. Finally, the recovery of the labour market over the period 1994-96 resulted from easier monetary and fiscal policy in combination with a massive funding increase for direct labour market programs associated with the Working Nation policies (Crean, 1997). Research suggests that the labour market is very slow to recover from deflationary policies. Unemployment duration increases and the proportion of long-term unemployed increases. Any subsequent recovery has to be sustained over a very long period before the numbers in long-term unemployment are reduced (Burrell and Stutchbury, 1994).

Promises, Policies and Progress of the Coalition Government, 1996 – 1998

Election Promises

The reduction of unemployment, especially youth unemployment, was claimed to be a priority in the Coalition's pre-election policy program. At the policy launch, it was stated that:

- the great Australian dream of employment and home ownership, reward for hard work and risk taking, and realistic hope for self-advancement should be revived for all Australians;
- (it would) attack head on the continuing national unemployment crisis, especially among young Australians; and
- (it would) provide the sustainable growth necessary to attack unemployment and to boost incomes through higher productivity (Liberal Party, 1996a).

The objective of the strategy document was to boost job growth, opportunities and living standards through:

- restoration of small business as the dynamic generator of jobs through cuts in taxes, regulations;
- labour market reforms that encompassed workplace agreements, simplification of unfair dismissal procedures, choice for employees about trade union membership, reinstitution of secondary boycott provisions of the *Trade Practices Act* against trade unions; and
- job creation through increased private and public saving; reduced business costs as a result of microeconomic reforms and stable macroeconomic policy settings (Liberal Party, 1996a).

In the Coalition's youth policy a commitment was made to reducing youth unemployment and providing *real* jobs (Liberal Party, 1996b). The job creation process was to occur via the small business sector, whilst a number of measures targeted towards youth were to be introduced. These included the re-allocation of \$200million from labour market programs to apprenticeships and training, intensive case management programs for disadvantaged and homeless youth, specific regional youth employment strategies, and the maintenance of income support for unemployed youth. Furthermore, up to 2000 full-time jobs were to be provided through the Green Corps program.

The Coalition parties accepted the main planks of the Working Nation policy, namely sustained economic growth, special labour market programs and training/education, as the key components of any unemployment reduction strategy. Labor's approach was criticised, however, for not providing enough early assistance for the unemployed, for not being accompanied by sustainable jobs growth, for being too centralised and complex and not providing sufficient training opportunities. The Coalition promised to place greater emphasis on on-the-job training, earlier access to assistance programs, the development of specific regionally based programs, and the maintenance of support for key labour market programs (eg Skill Share and Job Skills). In summary, the policy was founded on more funding, more intensive case management, specific regional programs and more training places.

The Coalition believed that its macroeconomic program of fiscal consolidation and inflation-linked monetary policy would provide a stable basis for investment and economic growth. Finally, it saw supply-side measures, notably industrial relations reforms, further microeconomic reforms (eg privatisation) and assistance to small business as being conducive to job generation.

Policies

Table 4 provides a history of the implementation of the Coalition's policy initiatives. The table highlights three key components of the strategy to reduce unemployment:

- Industrial relations reforms through award simplification, individual contracts, non-union bargaining and further decentralisation of the system;
- Labour market program and delivery reform through the reduction in

expenditure, the 'one shop' merger between social security and DEETYA, the dismantling of the CES and the competitive tendering of employment counselling and placements, and the introduction of the Work for the Dole scheme;

- Continued fiscal consolidation, largely through expenditure cuts, especially in the key areas of education, training and social security.

Table 4: Coalition Policies to Reduce Unemployment 1996-1998

1996

23 May: *Workplace Relations and Other Legislation Bill 1996* introduced into Commonwealth Parliament. The legislation formalised the process of decentralisation and encouraged non-union enterprise bargaining.

20 August: 1996-97 Commonwealth Budget reflects "intention to achieve an underlying budget balance with a fiscal consolidation program over 1996-97 and 1997-98" (Commonwealth of Australia 1996: 11). Strategy impinged upon nearly all areas of activity including labour market assistance:

- Simplification & streamlining of labour market programs. Expenditure efforts concentrated on employer incentives, enterprise & adjustment programmes, training for employment & jobseeker preparation & support. Programme commencements projected to fall from around 731,000 in 1995-96 to 525,000 in 1996-97.
- Replacement of CES by corporatised Public Employment Placement Enterprise operating alongside contracted private & community employment agencies. Establishment of 'shopfront agency' for Department of Social Security Income Support Payments, DEETYA student assistance payments & 'registration, assessment & referral functions of the CES' (Commonwealth of Australia 1996: 25).
- Introduction of Modern Australian Apprenticeship and Traineeship System.

20 September: SkillShare funding for 1996-97 reduced by 30%.

11 November: Victorian & Commonwealth Governments agreed to transfer Victorian industrial relations jurisdiction to Commonwealth.

25 November: *Workplace Relations & Other Legislation Amendment Bill 1996* received Royal Assent.

1997

24 March: 'More Time for Business' statement signalled Government's intention to exempt small businesses from unfair dismissal provisions for new employees (Department of Workplace Relations & Small Business 1997: 3).

22 April: Minister for Industrial Relations approves of the AIRC decision to grant a \$10 safety net adjustment & reject ACTU's claim for 8.75% across-the-board increase in award rates.

13 May: 1997-98 Commonwealth Budget continued fiscal strategy begun in 1996-97 as 'precondition' for sustainable economic growth & enhanced long-term economic

prospects (Commonwealth of Australia 1997: 3). However, structural unemployment was preserve of microeconomic policies to "improve the supply potential of the economy, to improve the operation of markets, and to enhance worker skill levels" (Commonwealth of Australia 1997: 8-9). The Budget contained provisions for the following measures:

- Changes to employment placement services market as announced in 1996-97 budget were confirmed, albeit with some delay as the Senate had not yet considered the legislation. Also reaffirmed was commitment to establish what would be known as 'Centrelink' to administer income support, basic employment & student assistance services.
- Around \$180 million over 1997-98 & 1998-99 to be provided as capital injection to establish Public Employment Placement Enterprise as announced in 1996-97 Budget.
- 70 Work for the Dole projects with \$21.6 million in funding for up to 10,000 places, scheduled to commence in September 1997.
- Provision of \$265 million for 100,000 new apprenticeships & traineeships in 1997-98.
- \$45 million allocated over 4 years to assist 25000 disadvantaged jobseekers via Community Support Programme.

11 July: delays in Senate persuade Government to implement competitive employment services market without new legislation. Existing contracted case managers could compete with CES (to become PEPE) from December 1997 to May 1998. Providers of employment services after May 1998 chosen by a competitive tender.

24 September: Centrelink officially launched.

21 October: Legislation exempting small businesses from unfair dismissal claims was rejected by Senate.

26 November: Legislation exempting small businesses from unfair dismissal claims reintroduced into Parliament.

1 December: PEPE assumes management of CES network & about 300 private & community agencies began contract to place 65,000 people in work by 1 May 1998.

3 December: 300 unemployed people officially commence Work for the Dole projects across Australia.

1998

28 January: From 1 July 1998, 18 to 24 year olds in receipt of unemployment benefits for six months will undertake Mutual Obligation activities such as part-time or voluntary work, education & training, or relocation to enhance job prospects.

17 February: Commonwealth submissions on ACTU's 'living wage' claim asked AIRC to free up existing 'incapacity to pay principle' & argued for safety net increase of \$8 per week as opposed to ACTU's application for \$20.60 per week increase across all awards & a further \$38 increase next year.

1 July 1998: Mutual Obligation requirements come into effect.

Some political and economic developments after the 1996 election influenced the direction of policy. First, the Senate amended the *Workplace Relations Bill*. Second, the inherited budget deficit was estimated to be \$12 billion (Commonwealth of Australia, 1996). The latter provided a justification for an extensive fiscal consolidation program involving substantial cuts in expenditure.

Promises have been broken in a number of key areas. First, expenditure on labour market programs has been significantly reduced over the past two budgets (Biddle and Burgess, 1998). Secondly, such policy measures as the public sector cuts (regional tax offices, CES closures, Medicare office closures and social security office closures) have had a negative impact on regional employment. Thirdly, fiscal consolidation has assumed priority over job generation, with many of the expenditure cuts involving the loss of full-time jobs.

Progress: The Labour Market Record, 1996-1998

The Coalition inherited a growing economy, an extensive labour market program, falling interest rates, a low rate of inflation and a falling unemployment rate. Enterprise bargaining was in place, monetary policy had been eased and there was an ongoing program of microeconomic reforms (Gruen and Grattan, 1994). Moreover, the bureaucracy was conditioned to and supportive of the microeconomic reform agenda.

The summary in Table 5 of labour market measures for February 1994-1998 shows that, when compared to the 1994-1996 period under the Labor Government, the performance of the labour market under the Coalition has been unsatisfactory in three ways. Firstly, job creation has been insufficient to reduce the unemployment rate substantially because, over the years 1996 and 1997, real GDP growth averaged 3.1 per cent (Burgess and Green, 1997). For the unemployment rate to remain constant, real GDP growth must be equal to the sum of labour force and labour productivity growth. An even faster rate of growth is required to cut the unemployment rate.

Under the Coalition, employment expanded by 200,000 and the unemployment rate declined by 0.3 percentage points, but this performance was relatively poor, when compared to the 450,000 extra jobs and the one percentage point drop in unemployment over the period, 1994-1996. The labour force participation rate increased over the 1994 - 1996 period, but declined over the 1996-1998 period. This implies that the Coalition record is even less satisfactory, because, without the drop in the participation rate, it is likely that unemployment would have remained unchanged over the past two years.

Secondly, despite the marginal decline in the number of unemployed and the unemployment rate, the percentage of the unemployed in long-term unemployment has actually increased from 28.3% to 31.3%. The average duration of unemployment has increased from 48.4 to 50.5 weeks over the 1996-1998 period, which suggests that the job prospects of the long-term unemployed have deteriorated over the last two years.

Despite the Coalition's commitment to youth, the unemployment rates for 15-19 year olds remained above 20 per cent over this period, while the incidence of full-time employment has declined for the 20-24 years group (Biddle and Burgess, 1998).

Table 5: The Labour Market February 1994–1998

	1994	1995	1996	1997	1998
Employment ('000s)					
Full-time	5955	6159	6272	6227	6347
Part-time	1861	1930	1992	2072	2114
Total	7816	8090	8264	8349	8462
Unemployment					
Total ('000s)	912	886	856	906	842
Rate %	10.4	9.9	9.4	9.8	9.1
Labour force					
Participation rate %	62.9	63.9	64.0	63.9	63.5

Source: ABS Catalogue 6203.0, The Labour Force (original estimates)

Thirdly, in 1994–1996 over 60 per cent of the additional jobs were full-time, but in 1996–1998 over 60 per cent of the additional jobs were part-time. This explains why there has been an increase in the numbers of part-time workers who desire more hours of employment. In addition, over half of the new jobs are casual, especially for job seekers (Burgess and Campbell, 1998). The Coalition has done little to stem the tide of irregular and non-career path jobs. At the same time, job insecurity has increased. It remains to be demonstrated not only how the Coalition program will generate jobs, but how it will generate quality jobs. There is also the suspicion that the industrial relations reforms have resulted in work intensification and longer hours of employment (for full-timers), which signifies an increase in productivity per employee. Thus economic growth does not necessarily translate into additional full-time jobs (Burgess, 1997).

Table 6: GDP growth gaps for Australia (% per annum)

Period	Average Labour Force Growth	Average Productivity Growth	Average Real GDP growth	Average Growth Gap
1973-78	1.91	0.16	0.79	1.34
1978-83	1.57	-0.86	-2.69	3.4
1983-88	2.30	1.05	4.23	-0.88
1988-93	0.38	3.21	2.81	2.22
1993-97	1.02	1.57	2.24	-0.25

Source: Mitchell and Watts (1997: 437)

Deregulated Wage Determination, Fiscal Consolidation and Unemployment

The policy stance of the Coalition government is founded on orthodox economic theory in which competitive labour and products markets are alleged to achieve market-clearing equilibrium in the presence of wage and price flexibility. The role of government, according to this view, is to facilitate the creation of these economic conditions, by the removal of such institutional imperfections as minimum wages and price support schemes. In addition, the government should minimise its own spending and taxation programs (fiscal consolidation) to provide the private sector with maximum scope to exploit profitable opportunities. The Coalition Government has adopted these principles by engaging in supply side reform and eschewing active demand management in favour of balanced budgets and monetary policy designed to maintain low inflation.

Layard, Nickell and Jackman (1991) and the OECD (1994, 1996) share this theoretical perspective and argue that the persistently high unemployment experienced by OECD countries is sourced in the labour market institutions and government welfare arrangements. Specifically, the Non-Accelerating Inflation Rate of Unemployment (NAIRU) is claimed to be the product of structural factors. Thus, while unemployment has a cyclical component, it is claimed that countries need to increase their capacity for structural adjustment to overcome the supply side rigidities, despite the difficult trade-offs which are sometimes involved (OECD, 1994; 1996). The substantially deregulated US economy is claimed to be the model for other countries to follow.

The OECD called for action in nine areas, which included: setting macroeconomic policy for stable growth; promoting technology, innovation, and entrepreneurship; making wages and working time more flexible; improving labour force skills; and reforming job security provisions and jobless benefit systems to avoid discouraging work.

The following theoretical discussion considers two key aspects of their policy program, namely fiscal orthodoxy and industrial relations reform. It is suggested that even if full employment is achieved, despite fiscal consolidation, the quality of new jobs is likely to be low with respect to pay and conditions, including hours of work.

Macroeconomic Policy

Fiscal policy under the Coalition Government has been underpinned by the objective of increasing national saving, rather than demand management. This objective of fiscal consolidation is founded on a number of theoretical and ideological arguments. First, through the operation of twin deficits, it is claimed that reducing the budget deficit will at the same time lead to an improvement in net exports and hence the current account, thereby slowing down the growth of foreign debt. Foreign debt in turn feeds into the current account through the payment of net income to foreign owners of Australian assets in the form of interest payments and dividends. Secondly, an improvement in the budget deficit is alleged to lead to a cut in interest rates, thereby facilitating investment and promoting productivity growth and increased international

competitiveness. The twin deficits hypothesis, however, has largely been discounted because the budget and net exports do not move in a systematic manner together. The impact of a budget deficit on interest rates is also problematic in a world of endogenous money in which the financial system has been largely deregulated.

Furthermore, some ideological, social and political considerations have imposed constraints on how a balanced budget can be achieved. The trend to lower tax rates in Australia and other Western countries in the 1980s is alleged to impose constraints on the capacity of the authorities to raise income tax rates in Australia. In addition, the tax/wage trade-offs that were negotiated during the Accord certainly limited the capacity of the Labor Government to raise income taxes in its last years in office. The Coalition Government would tend to be less constrained by these considerations, but for ideological reasons would be opposed to higher rates of tax on the grounds that consumers have reduced freedom to spend their incomes in the manner which they choose. Neither the Coalition Government nor its Labor predecessor has been averse to raising effective tax rates by stealth, however, through the means testing of various types of benefits, including the child allowance. Now the Coalition Government proposes to reform the tax system, through the introduction of a GST.

The constraints on revenue-raising described above mean that the Coalition has had to prune government expenditures as a means of reining in the budget deficit. Employment in the public sector has been cut and there has been a considerable reduction in outlays on labour market programs and a tightening of eligibility criteria for receiving welfare and reform of the provision of employment services. Cuts in public sector employment are readily rationalised as being desirable, because the public sector is considered unproductive. No account is taken of the reduced access to public services, which is now faced by many Australians.

Ideological considerations also implied that the scale of government activity should be decreased, thereby releasing areas of profitable activity for the private sector. Accordingly, the cutting of government outlays by the Coalition Government has been accompanied by the continuation of the extensive program of privatisation that was begun by the Labor Government in 1990/1991 (Reserve Bank of Australia, 1997). Most of the revenue from privatisation has been used to retire debt, thereby reducing the flow of interest payments. The Federal Government now plans to sell off the rest of Telstra and use some of the revenue to fund recurrent expenditure. The household analogy would be to sell the family silver to pay the weekly food bill, rather than acquire income-earning assets.

In the deregulated financial environment, monetary policy is now identified with interest rate policy. Monetary policy does not underpin demand management, but rather is used as an anti-inflation tool. Monetary policy has long and uncertain effects, as then-treasurer Keating discovered in the late 1980s. It is a crude tool for managing inflation, because it is predicated on influencing the behaviour of price and wage setters, through the threat of higher interest rates ultimately causing higher unemployment. The high rates of interest during the 1980s had the dual impact of both deterring private sector investment and causing the Australian dollar to be overvalued.

Mitchell (1996) argues that the two decades of high unemployment are due to excessively restrictive fiscal and monetary policy stances by OECD governments. This has resulted in GDP growth in these countries generally being below that required to accommodate the rates of labour force growth and labour productivity growth. The battle against unemployment has been largely abandoned in order to keep inflation at low levels. He also substantiates the link between movements in the unemployment rate and capital expenditure. The Reserve Bank pushed real interest rates to high levels for extended periods that resulted in lower than otherwise private capital expenditure. Also, public capital expenditure cuts exacerbated the situation. As growth declined and unemployment rose, the resulting high cyclical budget deficits led to further cuts in public capital spending. Thus there has been no activist, stimulatory policy to reduce unemployment, especially the long-term unemployed.

These observations on current economic policy in Australia highlight the point made at the beginning of this section that the high, sustained level of unemployment is deemed to be the outcome of structural imperfections on the supply side. Accordingly the persistence of high unemployment is claimed to provide evidence that the reform agenda needs to be pursued with greater vigour. But the apparently high level of structural unemployment must be interpreted in the context of an economy that has functioned at a high level of unemployment for over two decades. Demand deficient unemployment can manifest itself as structural unemployment when high unemployment is sustained over the long period. This is due to the reduced level of productive investment and the loss of skills suffered by the unemployed.

Industrial Relations Reform

In Australia, both political parties appear to believe that enterprise bargaining leads to dynamic increases in productivity and efficiency, and hence international competitiveness, via improvements in work practices. Under unconstrained enterprise bargaining each firm tries to tailor the wages and conditions of its employees to its specific economic environment. This is likely to promote increased inter-firm and intra-occupational wage dispersion, as compared to a centralised system, if wage bargains can be quarantined and the impact of labour mobility on wage differentials is limited by demand deficient unemployment.

Wage adjustment at the enterprise level is also likely to promote chaotic flow-on and leapfrogging, and hence wage/price spirals if the unemployment rate does fall. These wage/price spirals were absent during the centralised era of the Accord. Under unfettered enterprise bargaining, the sanction of the Reserve Bank in the event of overly high wage settlements for some groups with bargaining power is higher interest rates, and hence the likelihood of higher unemployment.

Furthermore, decentralised wage determination constitutes a subsidy to inefficient firms when they are able to pay comparatively lower wages and thereby offset the impact of outdated production techniques upon the costs of production. In this way, they may avoid the competitive struggle (see Hancock, 1987; Rowthorn, 1992: 512). Thus unconstrained bargaining promotes static allocative inefficiency by inhibiting structural change (see Watts, 1997).

Harrison and Bluestone (1990) further note that workplace arrangements that sanction low wages encourage the adoption by firms of low productivity, labour intensive techniques and do not promote investment in employees through training. A vicious cycle ensues because workers become less technically competent, so that in an increasingly competitive product market environment, firms can only compete on the basis of low labour costs, rather than new investment, technical sophistication and increased labour productivity (see also Burgess, Mitchell and Watts, 1998). In addition, low real wages are typically associated with low levels of aggregate demand, which in turn do not generally provide the incentives to sustained capital accumulation and product innovation. On the other hand, rising real wages are the stick to firms to continuously raise labour productivity through investment and training. Hence, under a deregulated wages system, there is both static allocative inefficiency, but also dynamic inefficiency manifested in stagnant productivity growth (Buchanan and Callus, 1993: 528-29).

Down the American Path?

Based as it is on these theoretical foundations, the Coalition's current program to reduce unemployment bears an uncanny resemblance to the American model. Supporters of this model, such as the OECD Jobs Study (1994) and OECD (1996), point to the alleged benefits of the greater wage flexibility in the form of stronger growth and increased employment opportunities for *low-skilled* workers. This is claimed to lead to larger income gains for the economy as a whole, which offset the social implications of wider wage differentials and the associated growth of low-wage jobs. The model similarly promotes workforce de-unionisation and individual contracts, it emphasises incentives, especially for the unemployed, and it is founded on a winding back of the public sector in the economy (Mishell and Schmitt, 1995).

The social and economic outcomes in the USA that have already been observed in Australia include:

- **Low pay and working poverty.**

The deregulated labour market places downward pressure on wages, which will increase the number of low paid jobs. Full-time paid employment will not always be sufficient to sustain minimum living standards, so that the numbers of working poor are likely to increase (Brosnan, 1996). Evidence to the 1998 Living Wage Case gave an insight into the numbers of working poor in Australia (ACIRRT, 1996).

- **Reduced access to unemployment benefits.**

Already there are suggestions for time limits on the receipt of benefits (Moore, 1997). Work for the Dole programs have been introduced, while the tightening of eligibility tests is designed to place pressure on those on welfare. If the wage floor disappears, there is more pressure on the welfare system for income supplementation. Given the Coalition Government's preoccupation with fiscal consolidation, it is unlikely that the tax system and social welfare system could redress the resulting income inequality.

- **Increase in earnings polarisation.**

The US has the most polarised earnings distribution (OECD, 1996). Polarisation in Australia has been rising since the 1970s (King, Rimmer and Rimmer, 1992; Watts, 1997). If wage floors are removed, awards abolished and individual work contracts extended there will be further pressure on wages and conditions of workers at the lower end of the earnings distribution.

- **The decline of labour productivity growth.**

Wage competition and work intensification will increase the labour intensity of production. Low-paid jobs generate low productivity growth (Harrison and Bluestone, 1990)

- **An increase in the contingent workforce.**

Part-time employment, casual employment, sub-contracting, self-employment and multiple job holding will increase (Mishell and Schmitt, 1995). Already, non-standard work accounts for around 50 per cent of the Australian workforce, and it is expanding. The tightening of welfare eligibility plus low wage incomes will force people into involuntary employment arrangements in order to survive.

The particular features of economic and social institutions in Australia may limit the tendencies described above, but their influence is declining. For example, the system of compulsory arbitration is diminishing, but continues to influence the setting of awards. The unfair dismissal legislation has been weakened but still provides some protection to workers. Despite the long-term decline in trade union density and secondary boycott legislation, unions still have a significant role to play, as evidenced by the Maritime dispute. Despite receiving a declining share of total funding, Medicare still provides a comprehensive system of healthcare.

Concluding Comments

The brief period of Coalition Government provides insufficient time to draw definitive conclusions about the impact on unemployment of fiscal consolidation and labour market policy, particularly as deregulation and decentralisation had already commenced under the Labor Government. Certainly the theoretical arguments do not link a decentralised system of wage determination with high rates of investment, productivity growth and real wage growth.

The first two years of the Coalition Government have not been auspicious in terms of reducing unemployment via job generation, which was the top priority of the Coalition's 1996 policy program. The labour market has been flat, but with an increasing incidence of part-time and casual employment. However, far from re-evaluating its agenda, the Coalition Government is likely to perceive this failure of policy as evidence of the need for further structural and labour market reforms. Clearly the message is that more of the same can be expected if the Coalition is elected to a second term of office.

References

- Argy, V. (1992) *Australian Macroeconomic Policy in a Changing World Environment*, Sydney, Allen & Unwin.
- Australian Centre for Industrial Relations Research and Teaching (1996) *A Profile of Low Wage Employees*. Living Wage Case Submission.
- Biddle, D. and Burgess, J. (1998) "Youth Unemployment and Contemporary Labour Market Policy in Australia", paper presented at AIRAANZ Conference, Victoria University of Wellington, February 1998.
- Borland, J. (1997) "Unemployment in Australia: Prospects and Policies" *Australian Economic Review*, 30 (4): 391-404.
- Brosnan, P. (1996) "Labour Markets and Social Deprivation" *Labour and Industry*, 7 (2), 3-34.
- Buchanan, J. and Callus, R. (1993) "Efficiency and Equity at Work: The Need for Labour Market Regulation" *Journal of Industrial Relations*, 35 (4): 515-527.
- Burgess, J. (1994) "Restructuring the Australian Labour Force: From Full Employment to Where?" *Journal of Australian Political Economy* 34: 103-127.
- Burgess, J. (1997) "Working Time Deregulation and Unemployment in Australia" paper presented to IIRA European Congress, Dublin, Ireland.
- Burgess, J. and Campbell, I. (1998) "Casual Employment: Growth, Characteristics, and Bridge or Trap?" mimeo, Department of Economics, University of Newcastle, NSW 2318.
- Burgess, J. and Green, R.H. (1997) "Economic Growth and Employment Reduction in Australia: the Changing Equation" *Journal of Economic and Social Policy*, 2(1): 96-110.
- Burgess, J. Mitchell, W.F., and Watts, M.J. (1998) "The Labour Market since Howard" forthcoming in P.Kriesler (ed) *The Australian Economy 3*, Melbourne, Macmillan.
- Burrell, S. and Stutchbury, M. (1994) "Dealing With Long-term Unemployed" in S. Burrell and M. Stutchbury *Australia Rebuilds: The Recovery We Had to Have*, Sydney, Financial Review: 87-99.
- Campbell, I. and Burgess, J. (1997) "Casual Employment Across the OECD: The Extreme Case of Australia" paper presented to Conference of the International Working Party on Labour Market Segmentation, Porto, Portugal.
- Chapman, B. (1990) "The Labour Market" in Grenville, S. (ed.), *The Australian Macro-Economy in the 1980s*, Research Department, Sydney, Reserve Bank of Australia: 7-78.
- Commonwealth of Australia (1993) *Restoring Full Employment: A Discussion Paper*, Canberra, AGPS.
- Commonwealth of Australia (1994) *Working Nation: Policies and Programs*, Canberra, AGPS.
- Commonwealth of Australia (1996) *Budget Statements 1996-97*, Canberra, AGPS.
- Commonwealth of Australia (1997) *Budget Strategy and Outlook, 1997-98*, Canberra, AGPS.
- Crean, S. (1997) "Working Nation and the Future of Work in Australia" in P. James, W. Veit and S. Wright (eds) *Work of the Future: Global Perspectives*, Sydney, Allen & Unwin: 291-302.
- Department of Workplace Relations and Small Business (1997) *What's Happening with the Act* <http://www.dir.gov.au/wrac/other/chron.htm>
- EPAC (1996) *Future Labour Market Issues for Australia*, Canberra, AGPS.
- Foster, R. (1996) *Australian Economic Statistics*, Sydney, Reserve Bank of Australia.
- Gregory, R. and Hunter, B. (1995) "The Macro Economy and the Growth of Ghettos and Urban Poverty in Australia" Discussion Paper 325, Centre of Economic Policy Research, ANU.
- Gruen, F. and Grattan, M. (1994) *Managing Government: Labor's Achievements and Failures*, Melbourne, Longman Cheshire.
- Hancock, K. (1987) "Regulation and Deregulation in the Australian Labour Market" *Australian Bulletin of Labour*, 13(2): 94-107.
- Harrison, B., & Bluestone, B. (1990) "Wage Polarisation in the US and the 'Flexibility' Debate" *Cambridge Journal of Economics*, 14(3): 351-373.
- Junankar, P. and C. Kapuscinski (1998) "Was Working Nation Working?" *Journal of Industrial Relations*, 40(1): 25-41.
- King, J.E., Rimmer, R.J., & Rimmer, S.M. (1992) "The Law of the Shrinking Middle: Inequality of Earnings in Australia 1975-89" *Scottish Journal of Political Economy*, 39 (4): 391-412.
- Langmore, J. and Quiggin, J. (1994) *Work for All: Full Employment in the Nineties*, Carlton, Victoria, Melbourne University Press.

- Layard, R.S., Nickell, S. and Jackman, R. (1991) *Unemployment, Macroeconomic Performance and the Labour Market*, Oxford, Oxford University Press.
- Lewis, H. (1990) *Part-time Work: Trends and Issues* DEET, Canberra, AGPS.
- Liberal Party of Australia (1996a) *Policy Launch Statement*. <http://www.liberal.org.au/archives/launch/launch.htm#what>
- Liberal Party of Australia (1996b) *Pathways to Real Jobs: The Federal Coalition's Employment and Training Policy*.
- Mishell, L. and Schmitt, J. (1995) *Beware the US Model: Jobs and Wages in a Deregulated Economy*. Washington, Economic Policy Institute.
- Mitchell, W. (1994) "Restoring Full Employment: A Problem of Policy Balance" *Australian Economic Review*, First Quarter: 24-31.
- Mitchell, W. (1996) "Unemployment and Inflation: A Demand Story" presented to *The European Unemployment Conference*, European University Institute, Florence, Italy, November 21-23.
- Mitchell, W. and Burgess, J. (1998) "Eight Propositions About Unemployment: An Australian Perspective" IIRA World Congress, Bologna, Italy.
- Mitchell, W. and Watts, M. (1997) "The Path to Full Employment" *Australian Economic Review*, 30 (4): 436-44.
- Moore, D. (1997) "The Effects of the Social Welfare System on Unemployment" *Australian Bulletin of Labour* 23 (4): 275-294.
- OECD 1994) *The Jobs Study - Facts, Analysis Strategies* Paris, O.E.C.D.
- OECD (1996) *The OECD Jobs Strategy: Pushing Ahead with the Strategy* Paris, O.E.C.D.
- Quiggin, J. (1997) "Estimating the Benefits of Hilmer and Related Reforms" *Australian Economic Review*, 30 (3): 256-272.
- Reserve Bank of Australia (1997) "Privatisation in Australia" *Reserve Bank of Australia Bulletin*, December: 7-16.
- Rowthorn, R.E. (1992) "Centralisation, Employment and Wage Dispersion" *Economic Journal*, 102: 506-23.
- Stilwell F. (1986) *The Accord and Beyond: The Political Economy of the Labor Government*, Sydney, Pluto Press.
- Stilwell, F. (1991) "Wages policy and the Accord" *Journal of Australian Political Economy*, 28: 27-53.
- Watts, M. (1997) "The Accord and Wage Polarisation in Australia: Some Evidence and Tentative Explanations" in Wilson, K. (ed) *The End of the Accord*, Melbourne, VUW Press.
- Watts, M. (1998) "The Dimensions and Costs of Unemployment in Australia" *mimeo*, Department of Economics, University of Newcastle, NSW 2318.
- Wooden, M. (1996) "The Youth Labour Market: Characteristics and Trends" *Australian Bulletin of Labour*, 22 (2): 137-160.

JOHN BURGESS — Department of Economics, University of Newcastle
WILLIAM MITCHELL — Department of Economics, University of Newcastle
DUNCAN O'BRIEN — Department of Economics, University of Newcastle
MARTIN WATTS — Department of Economics, University of Newcastle
