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Organisation Advocating Support Income Studies in Australia

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## EMPLOYMENT and UNEMPLOYMENT and Proposed Industrial Relations Changes.

The taxpayer funded government advertisement which appeared in national and regional newspapers mid-July is at best misleading and deceptive. It is couched in terms which make it difficult, if not impossible to understand how it is planned to achieve the objectives of "More Jobs - Higher Wages - A Stronger Economy".

One can perhaps excuse some of the rhetoric flowing from the current debate - after all the government has not presented any proposed legislative changes and discussion is largely at the conceptual stage. Perhaps looking back to see how the industrial relations system has adapted to change in the past is likely to be more rewarding than trying to anticipate the detail of proposed future changes.

As illustrated in the previous newsletters, looking back to the early growth of a laissez faire capitalist society indicates the absurdity of attempting to return to a similar economic system today. In this newsletter, looking back just a few decades will help illustrate how the system adapted to changes brought about by an increase in the participation of females in the labour force, and by the move away from Keynesian economic theory associated with the globalisation of industry.

Specifically attention will be focussed on the two decades from August 1970 to August 1990 using as reference "Unemployment Forever, A McDonald, 1995, Ch.5", and to the period August 1970 to May 2002 using as reference the OASIS-Australia paper "Employment, Unemployment and Economic Dogma, A McDonald, June 2002".

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Looking first at the August 1970 - May 2002 figures. In August 1970 Australia had a population of 11.200.000, a labour force of 3.473.800, a participation rate of 61.2%. and an unemployment rate of 1.4% which was then considered high.

In May 2002 the population had increased to 20.400.000, a growth rate of 81.5%. The participation rate increased to 63.6%, reflecting in part the

increased participation of females in the labour force. The workforce grew by only 72.5% , and the unemployment rate increased to 6.3% Despite a long period of sustained economic growth, overall job growth was not sufficient to keep pace with population growth, even though there was a significant growth in the proportion of part time jobs.

A study of the growth rates for full time and part time jobs and for male and female employment as published in "Unemployment Forever", Ch.5, will give a clearer picture of how the labour market adjusted to the changing supply and demand for labour. Before doing so, a brief analysis of the labour force and workforce.

The labour force comprises two elements; people in paid work - i.e. the workforce, and those who wish to be in paid work - i.e. the statistical unemployed.

The first element, the workforce, is measurable. The workforce simply comprises all people who worked for one hour or more per week in the declared survey period. Within this workforce there is a distinction between full time workers - i.e. those who work for 35 hours or more per week, and part time workers - i.e. those who work for less than 35 hours per week, part time or casual.

With the current system of wage determination we can expect that full time workers will receive a living wage - i.e. a wage that will provide at least a basic standard of living for a family. Part time workers, on the other hand, may not be in receipt of a living wage, and many will be dependent upon some form of income support from family or the State. With the average hours of work in the vicinity of 17-18 hours per week a large proportion of these workers will be in receipt of wage income less than 50% of average ordinary time weekly earnings.

The second element, the statistical unemployed is not readily measurable. The number of statistical unemployed does not bear any relationship to the number who are classified as unemployed and entitled to receipt of unemployment benefits - a number which is measurable. The number of statistical unemployed is an estimate of the number of unemployed who are have expressed a desire to work and an intention to actively seek work.

The oft quoted unemployment rate (which more correctly should be called the statistical unemployment rate) is the number of statistical unemployed expressed as a percentage of the labour force. It seems unfortunate that this rate, which is such an important determinant of economic policy, is based on expressions of intent and opinion which can vary rapidly from time to time.

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Looking now at the employment growth rates in the two decades 1970-1990, these rates illustrate how the industrial relations system and the labour market responded to the two major changes - the increasing female participation in the labour force, and the effects of globalisation of industry with reduced employment growth in many industries affected by tariff reductions and increased international competition.

The period 1970-1990 was one of steady economic growth, but this was not sufficient for the growth in total employment to keep pace with population growth. The growth rate for all male employees was also far less than the population growth rate, reflecting the effect of reduced employment growth in industries, early retirements, etc. On the other hand the growth rate for all female employees was higher than population growth, reflecting the increased participation of females in the labour force.

The growth in full time employment for all employees followed a similar pattern, as did the growth of full time male employment. In both cases the growth rate was far less than for the population. And again the growth rate for full time female employment exceeded the population growth rate, but only slightly.

The growth rate for part time employment, on the other hand, increased significantly in relation to population growth. Both male and female part time employment increased in real terms - 171.62% for males and 136.94% for females. Male part time employment, which was only 3% of total male employment in 1970, rose to 8% in 1990. Female part time employment, on the other hand, increased from 26% to 40% of total female employment in the same period.

Despite sustained economic growth in the two decades 1970 - 1990, job growth was unable to keep pace with population growth. As a consequence, the unemployment rate (or statistical unemployment rate) increased from 1% to 7%.

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What can we learn from these 1970-1990 employment growth rates?

If we want employment growth to keep pace with population growth then we cannot rely solely on a growth in full time employment. Even in times of high economic growth there needs to be acceptance of a continuing need for growth in part time work (including casual work). There needs to be acceptance of a continuing need for growth in work which will not provide a basic standard of living, and more and more workers will require some form

of income support. To talk of more jobs and higher wages in the same breath is deceptive and misleading.

The 1970 - 2002 growth rates indicate that this need for growth in part time work is continuing, and will continue. Globalisation of industry ensures there will always be competitive pressure to reduce labour costs and increase productivity, there is steady pressure through the social welfare system for more and more unemployed to become statistical unemployed, and there is political pressure for people to stay in the workforce longer. The industrial relations and labour market pressures of the 20th century will remain in the 21st century.

Wider acceptance of part time employment in recent decades is one example of the way in which the existing industrial relations system adapted to change. The flexibility of part time and casual working hours suited the lifestyle needs of many employees, and allowed employers to better match working hours to business needs. The award system adjusted to accommodate more flexible working hours.

Greater sharing of work through increasing part time employment will put pressure on our social welfare system. Increasing the number of part time workers means increasing the number of workers with wage income less than sufficient to provide a basic standard of living - i.e. the working poor. The major criticism of our present system of targeted and means tested income support is that it creates a disincentive to work, a term which is often taken out of context, and in some ways typifies the "economic" approach to social problems. Yes, the present means tested system does provide a disincentive to work, but in many cases this is properly a disincentive to work for the wages on offer - a very relevant approach when the offer will most likely be for casual or part time employment.

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There is one other rate change which warrants more study. Why has the unemployment rate risen from 1% in 1970 to 7% in 1990, and now at 5% is praised as a 30 year low?

The greatest change in our political and social attitude to the problem of unemployment is the acceptance of a level of unemployment today which would have been considered outrageous four decades ago. This is directly attributable to the change from Keynesian economic theory to monetarist theory. In very simple terms, Keynesians defined full employment in social terms as a level of unemployment where all who were able and willing could find employment. Today, following the acceptance of monetarist economic theory, full employment is defined in market terms, based on the concept of a "natural rate of unemployment" - an undefined and undefinable level of

unemployment.

In simple terms economists want some unemployment. Economists want sufficient unemployment to ensure that there is an over-supply of labour in the market to "restrain inflationary pressures". In economic terms there must always be some unemployment. Or as Professor Richard Layard describes it in his book "How to Beat Unemployment" there must be enough unemployment.

"The answer is that there must be enough unemployment. Just enough unemployment will ensure that the "target" real wage equals the "feasible" real wage. If there is "not enough" unemployment, wages will be pushed too high and wage inflation will increase. Alternatively, if there is "excess" unemployment, wage and price inflation will fall." (p34)

How much is "enough unemployment" - 5%, 6%, 7%? Doesn't sound much in percentage terms, but what about in actual terms. Today, with a labour force in excess of 10M, 1% unemployment represents 100,000 workers. Is enough unemployment 500,000, 600,000, 700,000? Bearing in mind that the labour force is roughly half the total population, 500,000 unemployed represents a total population of 1M. Consider a city with a population of one million people and not one of these people in employment! How complacent are we that we can accept unemployment levels of this magnitude? How lacking in social concern are our economists who advocate unemployment of this magnitude, and our conservative political leaders who promote economic policies supporting this level of unemployment?

In practice, unemployment is not spread evenly throughout the labour market. The labour market is not a single market, but a conglomeration of individual markets, and they all have individual unemployment pressures - theoretically they all have individual unemployment rates. Inevitably those jobs with low skills and training requirement have the highest unemployment rate as failed applicants in the higher skilled jobs compete for jobs requiring lower skills. Workers applying for these jobs have the greatest competition, and without collective bargaining they have the lowest bargaining power.

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Economists are quick to defend the principles of a free market system, but where are these principles when economic theory also supports the distortion of the labour market through acceptable high unemployment?

Economists are also quick to defend the concept of enterprise bargaining, but where is the bargaining when an unemployed person is faced with the choice of accepting or not accepting an offer of employment?

Economists claim that fairness is not a consideration in a market situation.

Do economists also support the view that fairness should not be a consideration when terminating an employment contract, bearing in mind the inequalities that arise because of the distortion of the labour market?

In principle the system of arbitrated agreements based on collective bargaining between employers and employees is an orderly free market system. To reduce the scope of such agreements, and to reduce the ability of one party to bargain collectively, is to move away from an open market system - to move away from arbitrated awards to employers' awards.

Here we are perhaps getting to the heart of why the government is proposing these industrial relations changes. Here we are perhaps getting to the point where it is becoming apparent that monetarist and rationalist economic policy allegedly driving these proposed changes has a significant lack of social concern.

Do economists support the principles upon which the government is proposing to amend industrial relations legislation? Or has economics been hijacked by economic fundamentalists and by conservative political ideology?

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