

Employment, Unemployment and [Economic Dogma](#)

We constantly hear from economists, politicians and social commentators that the best way, or in some cases the only way, to increase employment is through economic growth. Remember the White Paper "Working Nation" introduced by Prime Minister Paul Keating in 1994. "Economic growth is the best way of generating new and worthwhile jobs....Economic growth and employment growth go together" 1.

The implication is that there is some causal relationship between economic growth and job creation. This paper challenges the validity of this economic dogma. This paper also challenges the related claim that Australia today is experiencing strong employment growth - a claim made repeatedly by senior government ministers supporting their economic and social policies, and taken up by economic and social commentators. For example, in an article in the May 2002 newsletter of the Social Policy Research Centre, reference is made to "eight years of job growth" and "economic success and consequent job growth". 2.

This paper will also support the view that the problem of continuing high unemployment is a social problem rather than an economic problem, and the solution is to be found in social policy, not economic policy. As I stated in *Unemployment Forever?* "We are looking for a solution to unemployment and the consequent social problems with almost total reliance on economic theory. Little wonder that we appear to be looking for a solution to what is a seemingly insoluble problem." 3.

Since the early 1970's Australia has maintained steady, positive economic growth, punctuated by some slowing down in the early 1980's and a short period of negative growth in the early 1990's. At the same time the unemployment rate has risen - reaching peaks of double-digit rates in those times of slower economic growth, and in recent years stabilising in the six to seven per cent range. This study will be based on the period from August 1970, when the unemployment rate was rising above the one per cent level and female employment was starting to grow significantly, to May 2002, the latest date that employment figures are available. 31 years is considered long enough to iron out fluctuations in economic and employment growth, and to avoid the pitfalls of selective shorter periods of time.

During this period of review the population of Australia grew by 81.5 per cent, and this rate is the benchmark against which employment growth will be measured. The labour force growth rate could also be considered as the benchmark - this rate was almost identical (81.4%), reflecting the growth in the female labour force being offset by young people staying at school longer and an increase in voluntary and involuntary early retirements, particularly noticeable in the male labour force. The growth rate of the population aged 15+ could also be considered, but over a period of 31 years there would be little change from total population.

[Table 1]

Relating the employment growth rate during the period with this benchmark figure of 81.5 per cent it is necessary to take into account changes in the unemployment rate and in the participation rate. Statistically changes in these rates will explain any difference between employment and population rates of growth. Economic growth rates have no bearing on the outcome. During the period of review total employment grew by only 72.5 per cent - effectively negative growth in real terms. This shortfall of nine per cent can be explained by reference to the growth in the unemployment rate (1.4% to 6.3%), and the increase in the participation rate (61.2% to 63.6%). No other factors need be considered. In simple terms changes in the unemployment rate, modified by changes in the participation rate, reflect changes in total employment. [Table 2]

This raises the question whether we, as a community, are happy to accept this statistical roundabout as sufficient evidence of change to support social policy decisions, or should we go one step further and seek to have a better understanding of the manner in which particular elements of employment growth contribute to this change.

Total employment comprises people in full time employment (working 35 hours plus per week) and people in part time employment (working less than 35 hours per week and including casual employment). The growth rates for these two groups varied significantly throughout the period. Full time employment increased by only 39.4 per cent, less than half the benchmark growth rate of the population. On the other hand part time employment grew rapidly by 353.6 per cent, over four times the benchmark growth rate. [Table 2]

The growth rate of full time employment was consistently below the population growth rate throughout the period,

with negative growth recorded in 1982-83, and again in 1991-94. It was not until 1995 that the number of full time jobs exceeded the 1990 level. To this extent it can perhaps be claimed that there is some form of relationship between full time employment and economic growth - a claim which certainly cannot be made for part time employment.

The huge growth in part time employment reflects a rapid growth in female employment starting from a small base. In August 1970 there were 569,700 part time jobs, representing only 10.6 per cent of all jobs. In May 2002 there were 2,584,400 part time jobs, representing 27.8 per cent of all jobs.

It is also significant that during the economic downturns in the 1980's and 1990's the number of part time jobs continued to grow, apart from a very small drop in 1983. It is difficult to claim any relationship between economic growth and part time employment in the period of review.

With these results, based on employment numbers alone, it is very difficult to support the claim that economic growth will create employment growth, or to support the claim that there is some causal relationship between economic growth and employment growth. This view is reinforced as consideration is given to one additional element, the actual volume of work.

The total volume of work for all employees can be estimated by relating the average hours per week worked by full time and part time employees to the number of employees in each category. In this study, the estimate of total volume of work per week is based on the assumption that full time workers averaged between 40 and 44 hours per week throughout the period of review, and part time workers averaged between 17 and 18 hours per week.

Growth rates of the total volume of work per week have been estimated on the basis that (a) the average hours of work per week have been consistent throughout the period, with estimates based on the higher hours of work (i.e. 44 and 18) and the lower hours of work (i.e. 40 and 17), and (b) that the hours of work varied during the period with full time hours of work rising (from 40 to 44) and part time hours falling (from 18 to 17). While it is believed that gradual deregulation of the labour market could have led to varying weekly hours of work, a ten per cent increase in the hours worked by full time employees is at the top end of the scale.

The estimated growth rates for consistent hours per week are 54.3 per cent for the higher hours of work and 53.7 per cent for the lower hours of work. The estimated growth rate for varying hours per week is 67.1 per cent. In each case the growth rate is far below the benchmark population growth rate of 81.5 per cent. [Table 3]

In the period of review economic growth failed to generate sufficient growth in the volume of work to match the growth in population. The growth in employment - in the total number of people employed - can be attributed largely to the growth in part time employment.

These estimates of growth in the weekly volume of work reinforce the view expressed earlier that it is difficult to support the claim that economic growth will create employment growth, or to support the claim that there is a causal relationship flowing from economic growth to employment growth.

These estimates demonstrate that economic growth alone will not provide the answer to the current problem of high unemployment. Economic growth will create work - this is an economic outcome. However, the way in which this volume of work is translated into jobs will determine the level of unemployment, and this is a social outcome. Hence the claim expressed earlier that the solution to the problem of high unemployment lies in social policy, not in economic policy.

On the other hand, this study does suggest a causal link between part time employment and economic growth, but this is a causal link operating in reverse to existing economic dogma. The flexibility in the labour market, which led to rapid growth in part time employment, was welcomed by employers as a means of increasing efficiency and profitability, and by employees as a means of accommodating other social responsibilities. Growth in part time employment helped employers achieve greater efficiency, and helped employees achieve greater job satisfaction. To the extent that these achievements helped create economic growth a causal link between part time employment and economic growth can be claimed. **Growth in part time employment will help create economic growth.**

Today we have reached the stage whereby further growth in part time employment, or even maintenance of the existing level of part time employment, may depend upon some form of income support which will help to ensure that part time workers, whatever their level of working hours, can maintain a reasonable standard of living.

"Establishing more flexible standard hours of work will be most effective as a means of tackling the problem of unemployment when the impetus for the introduction of shorter standard hours of work comes from employers in the pursuit of economic efficiency, with some satisfactory form of income support to protect the living standard of employees." 4

Acceptance of this relationship between part time employment and economic growth raises questions in regard to current policies developed under the influence of existing economic dogma. In particular, our income support policies, which create disincentives for people to accept part time work. And our occupational superannuation scheme, which favours the full time worker, which is of limited value to part time and casual workers, and which is of no value to those seeking work or working very low hours per week.

Some of these policies are now under scrutiny through consideration of the ageing population and its implications for the future. Perhaps the indicators arising from this study will help provide a new or more up-to-date perspective.

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References

1. *Working Nation*, Introduced by Paul Keating, Prime Minister, 1994, p.1.
2. *Report on Research Project*, SPRC Newsletter, May 2002, p.8.
3. A McDonald, *Unemployment Forever?*, A&D McDonald, 1995, p.2.
- 4 Ibid p.38.

Statistical Tables

Table 1 Population and Labour Force

Population

est. May 2002 20,400,000

est. August 1970 11,240,000

Change 9,160,000

%Change 81.5

Labour force Participation Rate %

May 2002 9,927,700 63.6

August 1970 5,473,800 61.2

Change 4,453,900

% Change 81.4

Source: ABS 4102, 6203

Table 2 Employment 000's

Full Time Part Time Total

May 2002 6,720.7 2,584.4 9,305.2

August 1970 4,825.9 569.7 5,395.6

Change 1,894.8 2,014.7 3,909.6

% Change 39.4 353.6 72.5

Source: ABS 6203

Table 3 Hours Worked Per Week 000's

Consistent hours per week

Full time 44 hrs Part time 18 hrs Total

May 2202 295,710.8 46,519 342,229.8

August 1970 212,339.6 10,254 222,593.6

Change 119,636.2

%Change 53.7

Full time 40 hrs Part time 17 hrs Total

May 2002 268,800 43,934.8 312,734.8

August 1970 193,036 9,684.9 202,720.9

Change 110,013.9

%Change 54.3

Varying hours per week.

Full time Part time Total

May 2002 (44) 295,710.8 (17) 43,934.8 330,645.6

August 1970 (40) 193,036 (18) 10,254 203,290

Change 136,355.6

% Change 67.1

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