

OASIS - Australia

Organisation Advocating Support Income Studies in Australia

Convenor - *Allan McDonald* 28 Prince St Urangan Qld. 4655. Ph/Fax 07 4128-9971

E-mail - allanmcd@satcom.net.au URL www.satcom.net.au/supportincome

UNEMPLOYMENT

A SEARCH FOR A SOLUTION

A Discussion Paper prepared by Allan McDonald, June 1999.

OASIS-Australia, originally established in 1989, is a small, loosely knit group of people within and outside Australia who are concerned about the continuing effects of high unemployment and seek a solution which lead to full employment or work for all.

Prepared by Allan McDonald, this paper reflects the contributions, opinions and comments expressed from time to time by the many people who have been associated with the group during the past ten years.

INTRODUCTION and SUMMARY

Unemployment is recognised world-wide as one of the greatest social problems facing all industrialised nations today, and Australia is no exception. Unemployment in Australia is not only a social problem of considerable magnitude in its own right, but it contributes directly and indirectly to a myriad of problems in our society.

Why is it that the problem of high unemployment - a problem that has been with us for almost three decades - receives such scant political attention?

During the last federal election campaign in 1998, when the unemployment rate was 8 per cent and there were almost 800,000 in the labour force who were "surplus to requirements", all major parties failed to claim any commitment to achieving a solution. The Coalition made it quite clear that the main topic was tax reform. In their view the major issue was that of economic competence, and any reduction in the unemployment rate could only be achieved through higher economic growth and/or labour market reform. This is apparently still their policy today.

The Opposition did attempt to highlight the problem by proposing a "target" of 5 per cent unemployment after two terms in government. This was a policy initiative which revealed more than intended. It revealed a basic lack of understanding by all political parties of how to go about seeking a solution to the problem, it revealed just how much all political parties and the community in general accepted the prevailing economic dogma relating employment to economic growth, and it revealed just how wide-spread acceptance of long term unemployment extended amongst the community.

Today, almost eight months on, there is confusion as economic growth fails to produce a lower rate of unemployment. As Alan Wood said in *The Australian* after release of the May employment statistics, "Despite quarter after quarter of strong economic growth, Australia has now had three successive months of weak employment. Why this is happening is a bit of a puzzle."

There is a real danger that continuing high levels of unemployment can lead to a breakdown in our social structure. Indeed, there are some who say this has already occurred. There is no doubt that the problem of unemployment has reached very high proportions - far greater than may appear from the month to month employment statistics. The employment rate alone does not portray the depth of the problem.

In the interest of a cohesive and prosperous society it is imperative that further progress should be made, and should be seen to be made, towards reducing the number of people adversely effected by continuing high levels of unemployment. It is also imperative that progress should be made towards helping establish a social structure which is more in line with this new technological age. Our society deserves this. In recent years our labour force has changed, our workforce has changed. How well have we adapted to these changes?

The ultimate objective must surely be a situation whereby some form of meaningful work is available for all who are willing and able to work, i.e. "work for all". In this way society as a whole will be able to enjoy and to participate in Australia's prosperity. All Australians will then have the opportunity to share in the economic and social benefits of this new technological age.

Summary of this report

This report is in three parts.

In Part 1 there is an analysis of the extent of the problem, looking beyond the statistical unemployment rate to the factors which help to determine this rate.

This unemployment rate has statistical value, but as a basis for further research or study, or even as a basis for a proper understanding of the size and complexity of the level of unemployment, the rate itself is of limited value. It is necessary to look further. It is necessary to take into account the factors determining the size and composition of the work force, the labour force, and the unemployed. p.6

For the purpose of calculating the rate of unemployment, the workforce includes all people age 15 and over who were defined as being employed for one hour or more during the statistical reference period. All employees are included, without regard for age, gender or quantity of work, and without regard for whether employment is full time or part time. This makes comparisons of unemployment rates, and estimates of future unemployment rates, of dubious statistical value. p.6

Of the 3,480,300 jobs created in the thirty years, [1968-1998], 1,676,400, or 48% of these jobs were part time. p.7

If we are to recognise merit in improving labour productivity, and at the same time seek to achieve a significant reduction in the rate of unemployment, then we should be endeavouring to encourage or facilitate further growth in part time employment. p.7

In a community with an ageing population the trend surely should be to raise rather than to lower the retiring age, and government has recognised this by offering incentives for people to defer age pension entitlement. The need to further encourage people to continue in the labour force beyond age 60 and even beyond age 65 becomes part of the problem of unemployment in Australia today. pp.8-9

Disincentives to work [through means tested income support] add a further complexity to the problem of unemployment. p.9

In Part 2 there is an examination of the paths which may be taken to achieve a solution.

The economic path

For some reason there has been general community acceptance that unemployment is an economic problem, and therefore it requires an economic solution. Nothing could be further from the truth! p.10

The unemployment rate for May 1999 was 7.5%. To what degree was this rate attributable to economic growth and labour market reform, to what degree was it

attributable to the decrease over time in the male participation rate compensating for the increase in the female rate, and to what degree was it attributable to the growth in the supply of female labour to meet the increasing demand for part time workers? p.11

The social policy path

Social policy is primarily concerned with caring for the disadvantaged, and these will include the victims of inequality and economic reform. Social policy has developed a role, a professional expertise, determining how best to identify and treat the needs of people facing social problems. Rarely does this role, this expertise, extend to the prevention of social problems. p.12

Means tested income support is based on the principle of helping those in need - it does nothing to help prevent need. Means tested income support may provide help for the unemployed - it does nothing to help prevent people become unemployed. To the contrary, means tested income support can and will provide a disincentive for some people to accept employment. p.12

The third path.

If there is a third path then it must have a destination or objective that offers a solution to the problem. A destination or objective of full employment in terms of work for all. A destination or objective which can provide an unemployment rate in the vicinity of only 1% to cover the various moves that are always occurring within the labour market. p.13

Looking again at the position in August 1998, there was an unemployment rate of 7.9% and a labour force of 9,263,900. Achieving an unemployment rate of 1% will require the creation of approximately 639,000 jobs additional to the number of jobs required to meet the growing labour force. pp.13-14

There are also long term social needs to consider. There is a need to encourage an increase in the participation rate, especially for males, to better deal with the ageing population. The target for the male participation rate should be at least the level of 1968, for it has been demonstrated that this is an achievable target. It is also a significant increase, from 72.1% to 83.2%, and the additional jobs to be created will be approximately 808,000. p.14

The destination, or objective, of this third path is the creation of an additional 1,337,000 jobs over a period of time. This cannot be achieved through economic growth or through job creation. This also cannot be achieved with full time jobs. There must be recognition that if there is to be sufficient growth in employment to achieve work for all in an ageing society then there must be a greater acceptance of part time and casual employment.

There must not only be the creation of new part time and casual jobs, but there must be a conversion of existing full time jobs to a greater number of part time jobs. p.14

In Part 3 consideration is given to the options available to reach a solution.

Option One - Restrict income support

The underlying philosophy of this option is the coercion of the unemployed to accept whatever work is available or risk starvation. Income support for the unemployed is provided only for a limited period of time, or is provided only on the basis that it will be withdrawn if a job offer is not accepted, irrespective of the wages and conditions of the job. p.15

First, there is the requirement for complete deregulation of the labour market, including restricted powers for the trade unions to represent workers. In an environment of excess

labour supply this means the gradual depression of real wages and working conditions.
p.16

Second, this is a system which can only provide reasonable security and social cohesiveness in an environment in which there are prospects of full employment based on full time employment. This is not a system for an environment in which part time employment is a significant feature of the labour market. p.16

For those who see the unemployment rate as the key measurement of the size of the problem, the American system has appeal, and there are signs that government policy in Australia today is moving in this direction. However, this promotes a very simplistic view of the problem. For those who are concerned about the social consequences there is a growing appreciation that a healthy unemployment rate does not always mean a healthy society. p.16

If Australia is to have a target of full employment based on work for all, with proper concern for the ageing of the population, the proportion of jobs being part time will in time be far higher than the present 25 per cent. The need will be for the provision of income support in a form suited to the problem, not withdrawal of the present support.
p.17

Option Two - Shorter hours of work

The moves from 48 to 38 hours [in Australia] were primarily as a means of sharing economic growth. In each case industry was judged to be strong enough to provide an extra benefit for employees. Today the justification is not to provide an extra benefit for workers, but to provide extra jobs for people who wish to be workers. This raises the question - who is to meet the cost? Is it to be industry by maintaining weekly wage rates for a shorter working week, or is it to be the workers through a reduction in their weekly wage rate? pp.17-18

If the change is to be limited to the standard weekly hours of work, then a large percentage of the workforce will not be affected. Today over 25% of the workforce works on a part time or casual basis, and this seems the pattern for the future. There is also a section which works longer hours (on a paid or unpaid overtime basis) and will continue to work longer hours. Can a change to the working hours of the remainder of the workforce provide sufficient jobs to meet the estimated need for over one million?
p.18

Again this is an option which seems more suited to an objective of full employment based on full time work. In this technological age the emphasis is likely to be more and more on part time work to ensure greater labour productivity. It is difficult to see how the introduction of a shorter working week would help to encourage more people to work on a part time basis. p.18

Option Three - A Support Income System

If the objective is to encourage more and more people to accept a low wage income through working less than full time hours, then the first requirement should be to ensure that acceptance of part time or casual work will still enable them to enjoy a reasonable standard of living. The first requirement should be to introduce a system of income support which will provide this assurance. p.18

The income support system must not create or help to create any disincentive to work which would discourage the acceptance of part time work. The income support must therefore be absolutely free of means test. This means that the income support must

also be universal - it cannot be selective and target groups such as the unemployed.
p.18

A support income system is one system which is universal, is free of means test directly or indirectly, and which is financially viable and affordable. This system is based on the principle of replacement of income - the principle that the support income is to be a replacement for part or all of present income, both personal and transfer income, and not additional to existing personal income. p.19

This is a system which was originally designed to help achieve greater acceptance of part time and casual employment. It is an option to be considered. p.19

PART 1. DEFINING THE PROBLEM

a. The unemployment rate

The unemployment rate is simply the number of people classified as unemployed expressed as a percentage of the labour force. e.g. in August 1998, 728,000 people were classed as unemployed. This was 7.9 per cent of the labour force of 9,263,900, and the unemployment rate accordingly was 7.9 per cent.

This is a relatively straightforward assessment which is useful for comparison with other times or places. For example, it can be compared with the unemployment rate thirty years earlier in August 1968, when the unemployment rate was 1.7 per cent, with 81,200 unemployed. And it can be compared with the unemployment rate in other countries. This is a rate which, through continual usage, has some acceptance within the community as a measure of the level of unemployment.

This unemployment rate has statistical value, but as a basis for further research or study, or even as a basis for a proper understanding of the size and complexity of the level of unemployment, the rate itself is of limited value. It is necessary to look further. It is necessary to take into account the factors determining the size and composition of the work force, the labour force, and the unemployed.

For example, relating the labour force to total population will help illustrate the magnitude of the problem. The labour force today is close to 50 per cent of total population. (In June 1997 the population was 18,532,000 with a labour force of 9,170,600). On this basis a labour force of 728,000 (the number of unemployed in August 1998), would represent a population of 1,456,000 people.

In Australia in August 1998, the unemployment problem could be related to a city or region of almost 1.5 million people without one person being employed. Imagine a city like Perth, or bigger than Adelaide, or perhaps Brisbane with the Gold Coast thrown in, in which there is not one person gainfully employed!

b. The work force.

For the purpose of calculating the rate of unemployment, the workforce includes all people age 15 and over who were defined as being employed for one hour or more during the statistical reference period. All employees are included, without regard for age, gender or quantity of work, and without regard for whether employment is full time or part time. This makes comparisons of unemployment rates, and estimates of future unemployment rates, of dubious statistical value.

By way of illustration, in August 1968 the workforce was 5,055,600. Thirty years later, in August 1998, the workforce was 8,535,900, an overall increase of 54%. In this period the number of full time employees increased by only 39.95% whereas the number of

part time employees increased by 240.1%. In the same period the size of the population aged 15 and over increased by 73%.

In real terms there was negative growth in full time employment, and very high positive growth in part time employment. In August 1968 part time employment was 10.4% of the workforce. In 1998 it was 25.9%. Of the 3,480,300 jobs created in the thirty years, 1,676,400, or 48% of these jobs were part time.

Why this sudden growth in part time employment?

There are many contributing factors, but one major reason is the greater flexibility provided by part time employment. Hours of work can better match operating requirements and relief for planned and unplanned absences is easier to arrange. It is recognised that in recent years there has been an increase in labour productivity, and undoubtedly the increase in part time employment has been a significant contributing factor.

What would the position have been in 1998 if this increase in part time employment had not occurred, and the same ratio of part time to full time employment as existed in 1968 was maintained? There are two extreme positions.

Assuming the same total hours of work, the unemployment rate would be in the vicinity of 19%, but the existing level of productivity would be maintained.

Assuming the same number of workers, the unemployment rate would be the same, at 7.9%, but the total number of hours worked would be much higher with roughly 660,000 part time jobs becoming full time. Labour productivity would be appreciably lower.

If we are to recognise merit in improving labour productivity, and at the same time seek to achieve a significant reduction in the rate of unemployment, then we should be endeavouring to encourage or facilitate further growth in part time employment.

c. The labour force

The labour force comprises all people who are employed or classified as unemployed. The participation rate is the percentage of the population aged 15 and over who are in the labour force.

Assuming no change in the workforce, raising or lowering the participation rate (through changes in the size of the labour force) will result in a similar raising or lowering of the unemployment rate.

In August 1968 the participation rate was 60.2%, and this rate remained steady until the late 1980s when it rose to 63.4 per cent. In August 1998 the participation rate was 62.6%. If this rate had been the same as in 1968, i.e. 60.2%, the unemployment rate would have been 3.7 percentage points lower at 4.2%.

This raises questions regarding the social and political implications of achieving a lower unemployment rate through a lower participation rate. To what extent will changes in the participation rate influence the unemployment rate? How can a reduction in the participation rate be achieved? Should a reduction in the participation rate even be considered as an acceptable tool to help achieve a lower unemployment rate? What are the social implications of reducing the participation rate?

To help answer these and other questions it is useful to look at the changes in the composition of the labour force which have occurred in recent times.

During the period 1968 - 1998 the participation rate for males decreased from 83.2% to 72.1%, with negative real growth in male employment. (actual growth 39.9%) In contrast

the participation rate for females rose from 37.7% to 53.5%, with positive real growth. (actual growth 240.1%)

If the participation rate for males had remained steady at the 1968 level, and assuming no other change in the workforce, the overall unemployment rate in 1998 would have been 15.2% rather than 7.9%.

Successive governments have from time to time taken steps which, directly or indirectly, have been designed to achieve a reduction in the participation rate, and hence the unemployment rate. One such step has been to encourage young people to stay at school longer - an objective which in this age of rapid technological change can only be described as socially desirable.

One other step which with our ageing population can hardly be described as socially desirable is to encourage more and more people to retire early. For male employees, however, it appears this step may already have been taken.

In December 1998 the overall participation rate for males was in the order of 72%.

However, for those in the age group 60-64 the rate was only 45.8%, and only 9.7% for those 65 and over. In the age group 45-54 there were 1,106,700 males in the labour force with a participation rate of 87.8%. In the age group 55-64 there was less than half the number - 504,900, with a participation rate of 60.6%.

The move towards early retirement started with, or was strongly influenced by the commitment to ex-servicemen from World War II to be entitled to the equivalent of the age pension as from age 60. This enabled employers, both public and private, who were under pressure in the 1970s and 1980s to reduce employment numbers, to do so without retrenchment by encouraging ex-service workers to accept early retirement.

This practice extended to other employees as the restructuring pressure continued, with superannuation and/or redundancy payments to provide income support. For those who could afford it age 60 rather than age 65 became the desired retiring age.

In a community with an ageing population the trend surely should be to raise rather than to lower the retiring age, and government has recognised this by offering incentives for people to defer age pension entitlement. The need to further encourage people to continue in the labour force beyond age 60 and even beyond age 65 becomes part of the problem of unemployment in Australia today.

A third step, one which applies to all age groups and covers a wide variety of situations, is the creation of disincentives to work. This will continue to be significant while our income support system is based on targeting and means testing.

There is no doubt the means testing of social welfare benefits creates disincentives to work.

"With a residual welfare system and means tested benefits, the beneficiary has a choice; to maintain the benefit or to relinquish it for wage income. Despite efforts to restrict this choice by work tests and agreements, the basic situation is still one of choice. It is this choice which can provide a disincentive to work. The size of the benefit and/or the rate of withdrawal of the benefit determine the degree of disincentive." Allan McDonald, Unemployment Forever?, p,73

In a paper entitled *"Is it Worth Working? The financial impact of increased hours of work by married mothers with young children"*, presented to the Annual Conference of Economists in 1997, Gillian Beer cited examples of government assistance creating disincentives. In this paper she states: *"In some cases, a woman may increase her*

hours of paid work and the family's disposable income will fall. This begs the question, does the means tested assistance provided to working couple families today provide a financial incentive or disincentive for women to increase their participation in the paid work force?"

Disincentives to work add a further complexity to the problem of unemployment.

Part 2 WHICH WAY TO A SOLUTION?

One would expect that after so many years of experience with cyclical unemployment, and after more than three decades of continuing high unemployment, there would be a clearly defined and recognisable path towards a solution to the problem. Perhaps with Keynesian economics there was at one time the promise of a definable path towards a solution to cyclical unemployment. However, cyclical unemployment has been replaced by continuing high unemployment with less defined cycles, and today there is no clear view of where to go, let alone which path to take. There is no ultimate destination. There is no long term objective.

In theory there is a choice between two paths - the economic path, guided by economic principles and practice, and the social path, guided by social work principles and practice. In practice there is no choice, for neither path has a realistic destination or objective.

The principles and practice of economics are based on the objective of growth. There is no ultimate destination or objective other than continuing economic growth.

The principles and practice of social work and social policy, on the other hand, are based on providing relief for those in need - not on preventing need. Income support based on targeting and means testing is at the heart of the unemployment problem.

What is to be the long term objective? Is the objective to be a solution to the problem of high unemployment, or is it to be merely a reduction in the size of the problem? If it is to be the latter then one of the two paths may be sufficient. If, however, the objective is to be full employment based on the principle of "work for all" - the objective proposed in this paper - then neither path will provide the answer. Both fall short of this objective, and a third path must be constructed to bring full employment or work for all within reach.

The economic path.

For some reason there has been general community acceptance that unemployment is an economic problem, and therefore it requires an economic solution. Nothing could be further from the truth!

a. In economic theory unemployment is seen not as a problem, but as an economic phenomenon, as part of economic equations, and as a means of economic control. In economic terms there must always be some unemployment. Or as Professor Richard Layard describes it in his book "How to Beat Unemployment", p.34, 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.

b. Economists claim that there is a "natural" rate of unemployment, the non-accelerating inflation rate of unemployment (NAIRU) - the rate where there is just "enough" unemployment. This is also a very imprecise measurement. It was given prominence in

the report 'Restoring Full Employment' presented by the Committee on Employment Opportunities to the Keating Government in 1993. (Box 2.1 p.50)

The linkages between NAIRU and inflation are not well understood and there is considerable uncertainty about its precise level.....What is clear is that the level of the NAIRU can change and is influenced by such factors as rigidities in the labour market including the level of long term unemployment.

Acceptance of this concept leads readily to a redefining of full employment as the natural rate of unemployment. In theory this can mean there is no target - no objective - but merely the challenge to do better. There have been political moves to establish target rates of unemployment - a practice which is avoided by the more adept and experienced politicians.

In the report by the Committee on Employment Opportunities, the idea of redefining full employment to conform with what was seen to be achievable was advocated, linking it to the NAIRU. A target of a 5% rate of unemployment by the year 2000 was suggested. The White Paper "Working Nation" presented by the Prime Minister in 1994, also placed emphasis on reducing the NAIRU (Box 2.2 p.21) and indicated that 5% unemployment could be achievable, but did not set a target rate of unemployment.

c. Economists believe that economic growth will lead to more employment, to a lower natural rate of unemployment, and hence to a lower unemployment rate. Economic growth is, or has been, the cornerstone of economic policy to reduce unemployment. Today there is reason to question the validity of this premise.

"There is now a realisation that economic growth alone will not provide a solution to the problem, and there is doubt whether it will even reduce the size of the problem. The relationship between economic growth and employment growth is being questioned." A McDonald 1996

The 1999 Budget estimates, which provide for continuing high levels of unemployment despite forecast strong economic growth, and comments by economists and economic commentators following publication of the ABS employment statistics for the month of May, appear to confirm this view. Three months of solid economic growth with no reduction in the unemployment rate.

The unemployment rate for May 1999 was 7.5%. To what degree was this rate attributable to economic growth and labour market reform, to what degree was it attributable to the decrease over time in the male participation rate compensating for the increase in the female rate, and to what degree was it attributable to the growth in the supply of female labour to meet the increasing demand for part time workers?

d. Following the economic path also means commitment to economic reform, even if this means there are victims of change. Economic policy dictates that reform must go on, and assistance be granted to those who are disadvantaged; a policy which is currently creating concern in regional Australia. In principle this means that assistance to victims of economic policy (and in many cases the unemployed are victims of economic policy) should be granted on the basis of assessment of disadvantage, i.e. means tested income support, with all its inherent weaknesses.

Much has been said about the need to integrate economic and social policy, but it seems that in practice economic policy will prevail, with the introduction of some social policy to pick up the pieces.

The social policy path.

Once again there is a path with no specific destination or defined objective. In relation to the problem of unemployment, for example, the aim is merely to reduce the size of the problem, not to eliminate it. Social policy does not extend to the prevention of unemployment.

a. As a broad generalisation the social policy sector accepts the domination of the economic sector. Social policy is primarily concerned with caring for the disadvantaged, and these will include the victims of inequality and economic reform. Social policy has developed a role, a professional expertise, determining how best to identify and treat the needs of people facing social problems. Rarely does this role, this expertise, extend to the prevention of social problems.

In regard to the problem of unemployment there is an apparent acceptance that economic growth and job creation alone will help reduce the problem. These are both outside the scope of social policy. As a consequence, social policy is largely concerned with how to meet the needs of those who are unemployed, while still taking into account the attitudes and feelings of the community as a whole.

b. In the area of income support, for example, social policy is based on identifying those who are "in need", and then assessing the degree of need and thus the degree of support. Hence the development of an income support system based on targeting and means testing. Social policy supports the principle of income support being subject to means test, and this applies to all in need, including the unemployed.

Means tested income support is based on the principle of helping those in need - it does nothing to help prevent need. Means tested income support may provide help for the unemployed - it does nothing to help prevent people become unemployed. To the contrary, means tested income support can and will provide a disincentive for some people to accept employment.

c. Means tested income support has the inherent and undisputed disadvantage of creating a disincentive to work. This led to the consideration and eventual promotion of measures to counter this disincentive, including the introduction of conditional unemployment benefits. In 1988 a proposal for the introduction of conditional benefits was introduced by Professor Bettina Cass and subsequently endorsed by the social policy sector.

As part of the Social Security Review established by the Minister for Social Security in 1986, the Issues Paper No.4 by Professor Bettina Cass and published in 1988 was entitled: "Income Support for the Unemployed: Towards a More Active System."

This support for conditional income support paved the way for support, even if passive support, for the current "work for the dole" scheme. This scheme embraces conditional income support and job creation, two basic elements of social policy.

d. Social policy also accepts further extension of the principle of conditional income support for the unemployed to include the concept of mutual obligation and the variations of this theme being promoted by all political parties.

The third path

Is there a third path?

In recent years achieving a solution to the unemployment problem has not been an objective, and governments have tended to utilise both the economic and social paths in search of some reduction in the size of the problem, or in search of some better way to administer the problem. They have attempted to follow the economic path by relying on

economic growth and labour market reform to achieve employment growth, promoting it as the best way, or even the only way to achieve a lower unemployment rate. The emphasis has been on the welfare of the economy rather than society.

Governments have also attempted to follow the social path by introducing measures designed to service better the perceived needs of the unemployed. Following the White paper "Working Nation" in 1994 there was an emphasis on labour market programmes to provide training and work experience for the unemployed. These have now been restructured, with emphasis on working for the dole and the concept of mutual obligation. There has also been a restructuring of the employment services for the unemployed, including privatisation of the selection procedures. This move reinforces the impression that government does not envisage any significant reduction in the unemployment rate in the long term, and creates private employment agencies which have a vested interest in maintaining high unemployment.

If there is a third path then it must have a destination or objective that offers a solution to the problem. A destination or objective of full employment in terms of work for all. A destination or objective which can provide an unemployment rate in the vicinity of only 1% to cover the various moves that are always occurring within the labour market.

Looking again at the position in August 1998, there was an unemployment rate of 7.9% and a labour force of 9,263,900. Achieving an unemployment rate of 1% will require the creation of approximately 639,000 jobs additional to the number of jobs required to meet the growing labour force.

There are also long term social needs to consider. There is a need to encourage an increase in the participation rate, especially for males, to better deal with the ageing population. The target for the male participation rate should be at least the level of 1968, for it has been demonstrated that this is an achievable target. It is also a significant increase, from 72.1% to 83.2%, and the additional jobs to be created will be approximately 808,000. Because of the large increase in the female participation rate in the past three decades, any further increase is difficult to justify at this stage. However, with an ageing population an additional increase in the longer term cannot be discounted.

Taking into account a revised number of unemployed for 1% of the increased labour force, the additional jobs to be created long term to achieve the lower unemployment rate and the higher male participation rate is approximately 1,337,000 - over 15% of the present workforce. Despite the magnitude of this task, it must be regarded as a long term achievable target. The figures help to illustrate just how far our employment has receded in the past three decades.

The destination, or objective, of this third path is the creation of an additional 1,337,000 jobs over a period of time. This cannot be achieved through economic growth or through job creation. This also cannot be achieved with full time jobs. There must be recognition that if there is to be sufficient growth in employment to achieve work for all in an ageing society then there must be a greater acceptance of part time and casual employment.

There must not only be the creation of new part time and casual jobs, but there must be a conversion of existing full time jobs to a greater number of part time jobs.

If Australia as a nation is to embrace new technology and globalisation of industry then it must face up to the reality that without some revised employment policy these factors will lead to continuing high levels of unemployment together with increasing levels of

part time employment. The revised employment policy must be based on work sharing rather than on job creation, and this will be the structure of the proposed third path. Can work sharing achieve full employment in the long term? History says yes. *A glance at the long-term evolution of working time and pay shows, firstly, that it has been possible both to reduce working time considerably and to increase pay significantly as well. In 1870, workers in most of the present-day industrialised countries had to work on average between 2,900 and 3,000 hours per year (Maddison 1995). Since then, average working time has declined by up to 50% (Table 2). It is true that these figures include the effects of part-time work, which do not begin to make a significant impact until the 1960s. Nevertheless, it can be argued that, from the standpoint of the last century, most full-time workers in the Western industrialised countries today work part time. Gross domestic product (GDP) per capita which, in the absence of any other data, we shall take as a very rough indicator of the evolution of material well-being, has risen five to ten-fold over the same period.*

[G Bosch, The reduction of working time, pay and employment, DESA United Nations, 1998]

Part 3. THE OPTIONS FOR WORK SHARING

Can work sharing offer a solution to the problem of unemployment, the magnitude of which precludes reliance solely on economic growth and job creation?

Work sharing can succeed if the process encourages or facilitates a continuing growth in part time and casual employment. The key to success is an ability to provide income security.

Recent growth in part time employment points to the way of the future. Part time employment provides the flexibility, and the ability to utilise the skills of the workforce efficiently, to ensure continuing growth in labour productivity. Part time employment also provides the labour force with the leisure times, and the challenges of developing and improving work-related skills, to help ensure better participation in the benefits of new technology.

Part time work, and especially permanent part time work, is now accepted as being able to provide career opportunities and job respect in line with full time work. The next step is to advance the career opportunities and job respect of casual work.

This is the challenge facing industry and the workforce, for without this job respect and the incentives to progress through improving job skills, the labour market will be a divided market. The market for lower skilled part time and casual work will take on the characteristics of a commodity market, and this will be reflected throughout society.

The persistent growth of part time employment indicates there is still scope for growth. It is even possible that this growth has been restricted by a lack of supply. There has obviously been a reluctance on the part of male employees to accept part time work.

This proposal looks at the supply side. How can more people be encouraged to accept part time work? What are the options available?

Three options will be considered.

Option One - Restrict income support.

The underlying philosophy of this option is the coercion of the unemployed to accept whatever work is available or risk starvation. Income support for the unemployed is provided only for a limited period of time, or is provided only on the basis that it will be

withdrawn if a job offer is not accepted, irrespective of the wages and conditions of the job. If the job offered is part time and with low pay the choice is not pleasant.

This is not a new or untried option. It dates back to the early 19th century. This was the policy following the Poor Law Act of 1834, which declared that the only relief for the able-bodied was to be provided in the work houses. In practice the conditions in the workhouses were such to discourage the able-bodied to seek relief.

This option is also operating to some extent in the USA today. It operates in conjunction with a lower unemployment rate than in most industrialised countries in the world, including Australia.

However, there are some unfortunate and rather depressing social consequences to be taken into account - consequences which are attributable to the fundamental basis of this option.

First, there is the requirement for complete deregulation of the labour market, including restricted powers for the trade unions to represent workers. In an environment of excess labour supply this means the gradual depression of real wages and working conditions.

Second, this is a system which can only provide reasonable security and social cohesiveness in an environment in which there are prospects of full employment based on full time employment. This is not a system for an environment in which part time employment is a significant feature of the labour market.

In a deregulated labour market with significant part time employment and an over-supply of labour, the inevitable result for many workers will be lower wage income from both lower wage rates and shorter working hours.

For those who see the unemployment rate as the key measurement of the size of the problem, the American system has appeal, and there are signs that government policy in Australia today is moving in this direction. However, this promotes a very simplistic view of the problem. For those who are concerned about the social consequences there is a growing appreciation that a healthy unemployment rate does not always mean a healthy society.

The book "The State of Working America, published by the Economic Policy Institute in 1999, presents a graphic picture of the social effects of the USA employment policies.

As stated in their press release: *the economic realities facing the typical American family over the 1990s include, increased hours of work, stagnant or falling income, and less than secure jobs offering fewer benefits.*

On Wages - Americans work longer for less

Wages for the bottom 80 per cent of men were lower in 1997 than in 1989, with the median male worker's real wage having fallen 6.7 per cent.

On Jobs - Growth down, insecurity up

The average unemployment rate during the current business cycle has been lower than during any such cycle since 1967-73, with joblessness falling to about 4.5 per cent in mid-1998. But even this historic low has not fully restored workers' sense of job security or reduced the share of workers in contingent and other nonstandard jobs.

There is also evidence the American experience demonstrates this option is unable to adequately cope with an increasing number of part time jobs.

Given that unemployment is relatively low, we should probably look elsewhere for the source of workers' insecurity. One of the prime suspects is the increasingly contingent nature of much of the work available in the 1990s. Almost 30% of workers in 1997 were

employed in situations that were not regular full-time jobs. (this includes contractors and other self-employed workers).

This is not an option for a society in which part time employment is the key to continuing labour productivity. The social consequences are such that further divisions within society will be inevitable.

Poverty - Rates remain high despite economic expansion

The slow growth, heightened inequality of income distribution, and falling wage rates that mark the 1990s and '80s have contributed to poverty rates that are both high and unresponsive to economic growth. The most recent poverty rate - 13.7 per cent in 1996 - is 0.9 percentage points above the 1989 rate of 12.8 per cent.

If Australia is to have a target of full employment based on work for all, with proper concern for the ageing of the population, the proportion of jobs being part time will in time be far higher than the present 25 per cent. The need will be for the provision of income support in a form suited to the problem, not withdrawal of the present support.

Option Two - Shorter hours of work

Reducing the standard hours of work has been successful in achieving greater sharing of work, but is it an option for today?

In Australia there was support for a move from a 48 hour week to a 44 hour week in the 1920s which occurred on a piecemeal basis as and when it could be established that industry could afford the change. It was not until the late 1930s that it could be claimed the 44 hour week was a national standard.

In 1947 the Arbitration Court granted a reduction from 44 to 40 hours per week after being satisfied that industry and the economy could afford the cost of this reduction. Hours of work were reduced without reduction of weekly wage rates.

In 1983 the Arbitration Commission established principles for a reduction from 40 to 38 hours per week on an industry basis provided there were savings to offset the cost of implementation. The 38 hour week did not become a recognised national standard, and there is pressure to revert to the 40 hour week in some areas through negotiation of workplace agreements.

The moves from 48 to 38 hours were primarily as a means of sharing economic growth. In each case industry was judged to be strong enough to provide an extra benefit for employees. Today the justification is not to provide an extra benefit for workers, but to provide extra jobs for people who wish to be workers. This raises the question - who is to meet the cost? Is it to be industry by maintaining weekly wage rates for a shorter working week, or is it to be the workers through a reduction in their weekly wage rate? The more important question, however, is whether a reduction in standard weekly working hours is an appropriate method to meet the employment needs of the community. Would this method be sufficient bearing in mind the size of the problem and the changes that have occurred within the workforce in recent years.

If the change is to be limited to the standard weekly hours of work, then a large percentage of the workforce will not be affected. Today over 25% of the workforce works on a part time or casual basis, and this seems the pattern for the future. There is also a section which works longer hours (on a paid or unpaid overtime basis) and will continue to work longer hours. Can a change to the working hours of the remainder of the workforce provide sufficient jobs to meet the estimated need for over one million?

The alternative to the traditional pattern of change in Australia is to follow the lead of some European countries and legislate for a maximum working week - or to legislate for change to a two shift working week. [as proposed by Bruce O'Hara] This would mean quite a large shift in our industrial relations processes, based as they have been on a system of conciliation and arbitration. There has been a change of emphasis in recent times, but for the purpose of deregulation, not more regulation.

Again this is an option which seems more suited to an objective of full employment based on full time work. With the emphasis likely to be more and more on part time work to ensure greater labour productivity, it is difficult to see how the introduction of a shorter working week will help to encourage more people to work on a part time basis.

Option Three - A Support Income System

If the objective is to encourage more and more people to accept a low wage income through working less than full time hours, then the first requirement should be to ensure that acceptance of part time or casual work will still enable them to enjoy a reasonable standard of living. The first requirement should be to introduce a system of income support which will provide this assurance.

The income support system must not create or help to create any disincentive to work which would discourage the acceptance of part time work. The income support must therefore be absolutely free of means test. This means that the income support must also be universal - it cannot be selective and target groups such as the unemployed. Universal income support in various guises has been under consideration for a number of years. It was suggested by the Henry George League in the 1920's, and by Cole and Mead in Oxford in the 1930's. The concept was given a push along by Milton Friedman, with his principle of Negative Income Tax, and Lady Rhys-Williams, with her proposal for a Social Dividend, in the 1940's. In Australia the most notable proposal was the Henderson proposal for a Guaranteed Minimum Income (GMI). This was a major recommendation from the Royal Commission into Poverty, established in 1972 under the chairmanship of Professor Ronald Henderson.

In all these proposals the "universal" nature of the income support was qualified by being directly or indirectly subject to means test. Negative income tax, for example, is directly subject to means test. i.e. the level of income support (negative income tax) is determined after assessment of personal income. The social dividend proposal, on the other hand, envisages payment to all, but the income support is "clawed back" from those not in need through the taxation system. The income support is indirectly subject to means test through the income tax system, and requires very high rates of income tax. The Henderson proposal for a GMI embraced aspects of both negative income tax and a social dividend.

These systems do not meet the basic criteria of being free of means test.

The task is to develop a system which is universal and free of means test, and which is affordable and financially viable. For example, a system which merely provides a realistic level of income support additional to private income, offset only by savings on social welfare transfer payments, will be financially and politically unacceptable. Also, a system which is financed by high levels of income tax will be indirectly subject to means test.

A Support Income System is one system which is universal, is free of means test directly or indirectly, and which is financially viable and affordable. This system is based

on the principle of replacement of income - the principle that the support income is to be a replacement for part or all of present income, both personal and transfer income, and not additional to existing personal income.

Incorporation of this principle may lead to greater administrative complexity, but it has three quite distinct features which are relevant to today's economic and social environment.

First, it retains to a large extent the existing relationships between the levels of personal and transfer incomes. e.g. the current relationship between the single social security pension rate and average weekly earnings.

Second, it enables savings in labour costs, including on-costs, which accrue from the reductions in earned incomes to help offset the overall costs of the support incomes.

Third, it enables the support income to be seen as a replacement for income foregone. All people in receipt of income, both personal and transfer income, will have a reduction of income in exchange for receipt of the support income, thus creating a right to receive the income. The existing attitude that one person's welfare benefit is another person's income tax should disappear. People may also elect not to seek additional income from employment without creating any additional cost to the community. The concept of the "dole bludger" should disappear.

This is a system which was originally designed to help achieve greater acceptance of part time and casual employment. It is an option to be considered.

It is not intended that this report should study the support income proposal in detail, for this is provided in *Unemployment Forever? Or a support income system and work for all*, A McDonald 1996. However, it may be useful to describe some of the special features of the support income.

It is to be an individual entitlement for every citizen, irrespective of family or marital status.

For adults the level of support income will be related to the basic needs of an individual. For younger people it will be related to their basic needs within a family environment.

It will be free of means test and free of income tax.

It will be indexed. The initial rate will be decided by reference to the social security single pension rate. Thereafter it will be indexed, the preferred method being to index it to GDP per Capita, thus enabling all citizens to share in changes in national productivity.

Although this system was originally designed to help achieve greater acceptance of part time and casual employment, it has far-reaching implications which go beyond the limits of a means tested system of income support. A Support Income System will provide a level of financial security which is not achievable with a residual social welfare system, creating an environment in which people can plan to develop their special skills and abilities and to undertake vocational training and retraining, enter into self-employment and co-operative employment activities, select their own retiring age, seek and accept greater flexibility and quality in employment conditions. Employers likewise will benefit from a more flexible, higher skilled workforce. All citizens will be provided with the financial security of a basic income guaranteed for life. People will be free to add to this income as their abilities and desires permit.

This option meets most requirements necessary to provide significant inroads into the problem of unemployment. It is the only option that can provide social as well as industrial acceptance of part time and casual employment.

There is a need for further research and analysis to update the initial proposal, and also to take into account the wider implications of a labour market moving from primarily full time to primarily part time work. One area to be considered is occupational superannuation. This is a significant on-cost of wages and hence important in financing a proposal. More importantly, however, the growth of part time employment and the introduction of a support income for life should call for a rethink of the responsibility of the state.

We recommend support for further research, accompanied by widespread community debate, into the social, economic and financial viability of a Support Income System for Australia.

Allan McDonald

Convenor, OASIS-Australia

June 1999