

OUR REAL AND STUBBORN SOCIAL AND ECONOMIC CRISIS

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I *Introduction*

This is a very important and wide-ranging conference in which the information and policy suggestions will be so extensive and free flowing that it will be hard to assimilate everything. With this in mind I will make only four important points.

First, the full-time job performance of the Australian economy has been extremely bad over the last three decades or so and the wide range of tax, product and labour market reforms have made no obvious impact on the shortage of full-time jobs. The level of full-time employment, relative to the population 15 years and over, is much the same as in the depths of the 1992-1993 recession. In terms of the full-time employment-population ratio there has been no labour market recovery over the decade.

Second, the lack of full-time job growth has led to a rapid growth of those dependent on the Australian income support system. Among those of work force age, 15-64 years, only one person in thirty is measured as unemployed and seeking full-time work by the Australian Bureau of Statistics (ABS). The proportion of the population currently on a restricted range of income support programs - unemployment benefits and disability pensions- is about one in ten. Economic reforms have been ineffective in creating full-time jobs and reducing the numbers on income support.

Third, it seems to be clear that unemployment as measured by the Australian Bureau of Statistics (ABS) is not particularly useful as a measure of unutilized labour resources, as an indication of the depth of a recession or as an indicator of recovery from a recession. Indeed, the ABS full-time unemployment rate has recently proved to be quite misleading. Our major economic indicator of unemployment therefore has been generating a false sense of well being and optimism among our policy makers. We need to focus on other data.

Fourth, given a decade of failure and ineffectiveness of reforms with regard to employment and income support where to now? Any substantial reform package directed towards the full-time employment-income support nexus built on simple economics – reduced wages for the unskilled and reduced levels of income support - will involve an explicit recognition that life has changed in the lucky country. Of course, there is not much evidence that these simple reforms will work unless the changes are extremely large. It is understandable that there is a policy vacuum.

These four points suggest that this inter-related problem - lack of full-time job growth and increasing dependence on income support - is the most important of our economic and social problems faced by the Australian community. There is no clear strategy in place that is likely to bring about a significant change. There is no consensus as to what should be done, or even a consensus as to whether there is a great deal wrong with having so many of our people living on income support, given that alternative policies may be more socially divisive.

II

The ABS Unemployment Data

Full-time employment and the Australian Labour Market

The Misleading Good News

The ABS unemployment figures for August 2003 showed that Australia recorded the lowest unemployment rate for 13 years (Costello, 11 Sept. Press Release). Two months later the ABS unemployment rate improved further, which enabled the Minister for Employment and Workplace Relations to join the Treasurer and announce that the unemployment rate had never been lower for 22 years. Both Ministers were extremely pleased with these results.

On the surface, these are remarkably good unemployment figures, and widely welcomed, given our labour market history over the last three decades. Perhaps they indicate that there is a significant chance that unemployment, as measured by the ABS, will fall even further and that the gains from economic reform will be more widely spread throughout the labour market and not only focussed on real wage growth for those in employment.

The Bad News

The bad news, however, consists of the three important points made in the introduction and which are illustrated in Figures 1 to Figure 4. I have talked about these problems before but they are so important that the story is worth retelling (Gregory, 2000).

Line A of Figure 1 presents the history of full-time employment growth since 1978. To allow for population growth, the data is presented as full-time employment divided by the population 15 years and over. Thus, in 1978, 48 per cent of the population was employed full-time.¹ The history since then is clear. Each of the major recessions centered around 1982 and 1992 has led to very large job losses among full-time workers. On the basis of the full-time employment data there was a partial recovery in the 1980s but *no* recovery from the 1990s recession. Two months ago, the full-time employment population ratio was much the same as it was at the bottom of the 1992 trough, that is our worst experience since the 1930's.

How has ABS unemployment among those seeking full-time work managed to fall so substantially in the absence of full-time job growth? How has such bad news in terms of full-time employment been associated with such good news in terms of full-time unemployment? The answer is given in Line B, which adds ABS full-time employment to the ABS unemployed seeking full-time work and presents this as a ratio of the population. Line B can be thought of as a full-time labour force participation rate. By construction, the gap between line A and line B is the ABS unemployment rate, expressed as a ratio of the population rather than the labour force. This gap is now less than at any time over the last two and half decades. It is clear from line B that all the adjustment to unemployment has occurred on the labour supply side of the equation.

A closer look at this downward adjustment in ABS full-time labour supply suggests two downward steps. The first occurs between 1990 and 1992, followed by a pause and then a second step, which begins from 1995 to the end of the data period.

¹ The ABS unemployment measure is the same as that used in other OECD Countries.

Of course, there is nothing wrong in the full-time unemployment rate falling, without full-time employment growth, if individuals do not want to work full-time. Perhaps they have retired on private income? Perhaps they prefer working part-time? It is important though to attempt to assess why individuals have withdrawn from the full-time labour market. The reasons for withdrawal may relate closely to our policy needs.

III ***The Centrelink Income Support Data***

To investigate why individuals have withdrawn from the ABS full-time labour force we turn to another data source. An alternative measure of unemployment might be those seeking full-time work and receiving unemployment benefits from Centrelink. This might be a better unemployment measure. Individuals are ineligible for benefits unless they are genuinely seeking full-time work, and there is a range of mutual obligations now designed to ensure this. Furthermore, the data are collected by intensive interviews in Centrelink offices and the data are directly related to payments. ABS data are collected by phone calls and no financial transactions are involved. Of course, Centrelink data will underestimate the numbers seeking full-time work. Income and asset tests ensure that not all unemployed people are entitled to income support.

To investigate the relationship between the two measures of unemployment we divide Centrelink unemployment benefit numbers by ABS unemployment numbers and present the data as a ratio in Figure 2. The ratios are set equal to one in 1981. Three important points emerge. First, in 1981, Centrelink unemployment exceeded ABS unemployment by 7 per cent. For all practical purposes the unemployment numbers were much the same, whichever measure was used. Second, this remained more or less true until the depths of the 1991 recession after which Centrelink unemployment began to increase quickly relative to ABS full-time unemployment. Within the space of four years Centrelink unemployment levels increased to be 40 per cent higher than ABS unemployment. ABS unemployment became a misleading indicator of the number of individuals receiving income support because they could not find a full-time job. The Centrelink data more closely mirrors the full-time job loss.

This marked shift in the relationship between the two unemployment series over a short space of four years means that the ABS measure suggests a marginally slower entry into the recession and a more rapid recovery – because ABS full-time labour supply fell relative to the Centrelink labour supply. The different Centrelink history is indicated by adding the Centrelink data for full-time unemployment to the employment data of Figure 1 and presenting the data as Figure 3. The sharp divergence in the two unemployment data series is clearly evident.

At this point I don't really know why these unemployment series so suddenly diverge in the early 1990s. One source of difference might be part-time employment among those seeking full-time work. Part-time work could exclude individuals from ABS unemployment, but not from Centrelink unemployment. Another source of divergence might arise from discouraged job seekers among the long-term unemployed. It is clear that the relationship between the two series does change as unemployment duration

lengthens.² For example, in 2001, ABS unemployment data indicate that there 84,00 full-time unemployed with a duration of more than two years (Table 1). The Centrelink data indicate 258,000 thousand. This is a very large difference indeed which, coincidentally, is just over half the fall in ABS unemployment since the depths of the recession in 1991.. .

Since 1995, ABS unemployment has fallen at much the same rate as Centrelink unemployment but neither has been associated with full-time job growth. What has been happening? The answer seems to be that there has been a large-scale movement from unemployment to disability pensions over this period. It seems obvious and straightforward to compare ABS and Centrelink unemployment and it is surprising how different a picture emerges, depending upon the series used. It is also seems clear that the Centrelink data are better for our purposes. But the reasons for including disability pensioners in the unemployment comparisons may not be so clear.

IV

The growth of disability and its association with unemployment

To receive a disability payment (DSP) an individual must have been an Australian resident for ten years and be judged to have a permanent physical or psychiatric impairment that prevents them from working or being re-skilled for work for 30 hours a week or more for the next two years. On the basis of this definition there does not seem to be a natural link to unemployment but observation of flows within the welfare system clearly suggests a close association.

First, fifty per cent of those who enter disability enter either from long periods of unemployment or after experiencing many spells of unemployment (Cai 2003).

Second, in the older age groups the growth of disability seems clearly related to the lack of full-time job growth in that when full-time jobs were available the disability rate was very much lower. To explain the rising levels of disability pensioners among older age groups it is necessary to believe either that disability has been growing rapidly in our society, that the labour market is now less tolerant of disability, or, in a period of full-time employment shortage it is the disabled that miss out. In the absence of any evidence that the incidence of disability is increasing we prefer to think that the lack of full-time job opportunities is crucial.

Third, the payment and income and asset test associated with disability, are more advantageous than those for the unemployed. Hence for individuals with disabilities it might be expected that a disability pension is to be preferred to unemployment.

In 1981 the number of DSP recipients was about twenty per cent less than ABS full-time unemployment. By 2002, disability pensioners are almost fifty per cent more. The history of this large increase is revealed in Figure 2 which divides DSP by the ABS unemployment rate and sets the ratio at one in 1981. Most of the increase in this ratio occurs since the 1992 recession.

To make clear the combined effect of the shifting relationship between ABS unemployment and Centrelink unemployment and disability payments we present Figure 4. The rapid increase in unemployment and disability income support in response to the 1992 recession is clear as is the failure of income support to fall during the 1990s.

² The story told does not change if the denominator is changed to the population 15-64 years.

V *How Many Full-time Jobs are needed?*

This paper suggests that the degree of unutilised resources is not adequately measured by the ABS unemployment rate nor does the ABS unemployment rate adequately document the evolution of unemployment in the labour market. What might we use as an alternative measure. I think the Centrelink unemployment data are much better for our purposes than the ABS data and some adjustment ought to be made for disability. We certainly need to become much better at putting all the labor data together. It does not seem sensible, for example, to focus on ABS unemployment, the lowest for 22 years, at the same time that the proportion of the population on income support is very close to the highest in the last 22 years.

Consider the following exercise to illustrate the importance of having a wider unemployment definition. Suppose we assume that the degree of disability prevalent in the labour market is much the same as in 1981. Furthermore, assume that Centrelink unemployment is the best measure of unemployment. How much full-time job growth would it take to put our broader measure of unemployment back to 1981 levels.

An indication of the job requirements is given in Table 2. The first column presents the levels of ABS unemployment, Centrelink unemployment, disability pensioners and full-time employment and population 15-64 years at 1981 levels. Column two presents the 2002 data. Column three lists the differences. Once we apply 1981 ratios to the 2002 population data it suggests that we would need to create a further 692,000 full-time jobs at the current population level to move the labour market ratios back to 1981 levels. Of course, any population growth will produce a greater need.

How does this conservative estimate of job needs compare with the job growth over the last 11 years? The annual rate of full-time job growth over this period has been 33,000 jobs per year, a remarkably low rate of job growth. At this rate it would take 23 years, with no population growth, to put Centrelink unemployment and disability pension levels back to 1981 levels. Of course, once population growth is accounted for it appears as though the task is insurmountable without some large supply side adjustments or major changes in the labour market from part-time to full-time jobs.

VI *Concluding Comments*

It is disappointing that the full-time job market has continued to deteriorate despite widespread economic reforms. Indeed, the proponents of reform who have seen faster productivity growth and faster increases in real wages must be surprised that despite lower relative wages for the unskilled, and despite falling levels of unemployment benefits, the growth of income support has only moderated marginally. What does this tell us about policy and agendas for future reform?

First, it suggests that what ever has been done in the past has had minimal impact. Indeed the full-time job growth record and the growth of income support recipients suggests a poorer performance over the 1990s than over the 1980s. Any suggestions that

we need more of the same types of reform would seem to be misplaced unless the suggestion is for reforms that are very substantial relative to the past. Marginal adjustments will be unlikely to be effective. We have seen 20 to 30 per cent falls in the wages of low wage earners, *relative* to high wage earners. We have also seen falls in unemployment benefits relative to average wages as unemployment benefits are now indexed on the CPI rather than average weekly earnings.

Second, whatever reforms are adopted we must expect slow adjustments in the labour market. The two-decade history of poor full time job growth will take a long time to offset. We should not expect miracles especially as the performance of the 1990s has been worse than the 1980s.

Third, although disability pensions are more financially attractive than unemployment benefits and are likely to affect the allocation of unutilized resources within the income support system, this is unlikely to affect the rate of full time job growth or the aggregate level of unutilized resources. Moving more of the disabled onto unemployment, and subjecting them to work tests, is unlikely to make any substantial difference to income support numbers of the growth of full-time employment. Most of the disabled have already been on unemployment for substantial periods of time before moving to disability and moving them back again to unemployment, especially for older age groups where job finding will be difficult is not likely to make much difference.

Fourth, there are no magic policy bullets in this area, and, as a result, it is clear that the best policy will involve working on as many fronts as possible, although it can be argued that is what we have been doing and the returns so far are very low.

Fifth, once we focus on unutilized labour resources more widely than the ABS unemployment rate it is clear that Australia is still in the major recession of the early 1990s as far as full-time employment and the numbers on income support is concerned. And yet we are in the process of increasing interest rates, presumably to respond to the investment and spending behavior of those Australian that have been benefited from the reforms. Perhaps a wider range of taxes and policy instruments might be better than subjecting all the economy to interest rate increases.

References

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**Figure 1 Ratio of Persons Employed Full-Time or Seeking Full-time Work to Population 15+
ABS Data**

