

ECONOMICS

*You will be expected to be able to address the issues of employment and unemployment in Australia especially the **effects and policy options in addressing unemployment in Australia in recent times.***

Over the past three decades, unemployment has remained one of the Australian economy's major structural problems. Unemployment is a situation where there is an underutilisation of labour resources within an economy, leading to total production levels being below their maximum potential. Despite Australia's continued decrease in the unemployment rate (5.3% as of January 2010), caused by 16 years of sustainable economic growth, unemployment still remains an issue because of its numerous social and economic effects, of which the Australian economy has implemented several policies to counter these negatives, bringing mixed success.

A major economic effect of unemployment is the opportunity cost of lost output, human capital and income. High unemployment creates a pool of unused labour, resulting in the economy operating below its productive capacity, thus the lower total output that results from this causes a reduction in household income and expenditure, and hence a lower rate of economic growth. To curb this problem, an economy can use **Monetary** and **Fiscal policy** to increase the level of aggregate demand in the economy, thus increasing the demand for labour and reducing the cyclical unemployment that accompanies slower periods in economic activity. However, experience in the Australian economy has shown that monetary and fiscal policies are relatively ineffective in reducing structural unemployment – caused by a mismatch between the skills of the unemployed and the skills demanded by employers. More emphasis has been placed on other policies such as labour market reforms to manage unemployment. The Howard government's '**WorkChoices**' **industrial relations reforms** intended to increase workplace flexibility by simplifying awards and reducing the power of unions, thereby extending the reforms achieved under the '**Workplace Relations Act 1996**' – a direct intervention in labour markets, thus resulting in the continued decrease in unemployment.

High levels of unemployment heavily influence the government's revenue and expenditure. Decreased incomes associated with unemployment generate less tax revenue, but at the same time, the government is forced to fund unemployment benefits, training and labour market programs. Further, unemployment causes an increased tax burden on the employed, who are shouldering higher costs as a result of unemployed people continuing to consume resources but not contributing to the production process, leading to a reduction in the economy's living standards in the long run. Thus, successive Australian governments have spent large amounts of money on **Education and Training** to effectively combat unemployment caused by a lack of education, training and skills demanded by employers, especially within the 15-19 year old age bracket. The Rudd government established the '**Education Investment Fund**' which encompassed spending on higher education, vocational education and training facilities. Other education policies include reforms to streamline universities and making education more responsive to the needs of industry, thereby bringing continued effectiveness in the reduction of unemployment.

Another negative effect of unemployment is that the longer workers remain unemployed, the more likely they are to lose their job-related skills, and the more difficult it will be for them to secure a job, as they are less preferred to new workers, thereby turning cyclical unemployment into structural unemployment – known as hysteresis. The unemployed are likely to experience a loss of self-esteem and motivation, which reduces their likelihood of searching for jobs or undergoing re-training to increase their skills. This lack of motivation can lead to higher rates of long term unemployment and dependency on welfare payments for income support. Therefore, the Howard government used **fiscal policy** in a more targeted way in 1997, implementing the '**Work for the Dole**' welfare/labour market reform where long term unemployed people worked on community projects in order to

receive their welfare payments, develop job skills and work ethic; making future access into the workforce an easier task. However, the reform has brought mixed success. The **Australian Youth Policy and Action Coalition** stated that *the “Work for the dole programs do not provide a solution to the central problem - youth unemployment, rather it forces young people to perform work no one else wants to do,”* revealing that the program is not as effective in reducing unemployment as it planned to be.

Innumerable social costs are associated with unemployment, including the tendency for unemployment to be higher among certain groups in society – such as young people, sole parents, older workers, migrants and indigenous Australians. This worsens the inequality in the distribution of income in the economy and increases the extent of relative poverty. Other social costs of people suffering from unemployment include severe financial hardship, increasing crime rates, family tension and breakdown and higher rates of suicide. The government implemented the **‘Australians working together’** welfare reform in 2001, targeting parents, indigenous Australians, mature aged people and those with disabilities to seek paid work or undertake training. Another reform designed to help the unemployed back into the workforce is the **‘Job Network’** which was considered among the most radical policies implemented by the Howard government. The ‘Job Network’ is a collection of private, community and government organisations contracted by the government to assist the unemployed to find jobs, thereby successfully targeting the long-term and frictionally unemployed.

Unemployment is not the only concern to the government. Full employment poses its own effects – the name in itself is deceiving as there will still be a degree of unemployment – known as the **Natural rate of unemployment** – the unemployment rate at full employment, comprising of all the structural, frictional and hard-core unemployed persons. Further, even at ‘full employment,’ there will always be a skills shortage in certain occupations and industries, due to a mismatch of skills demanded and skills possessed by employees. The government implements microeconomic reforms to reduce the NRU by targeting the structural problems in Australia’s labour market.