

ECONOMICS

Describe the government's management of unemployment in the Australian economy

Unemployment according to the Australian Bureau of Statistics is all persons aged 15+ who are not working but are actively seeking work. The labour force is all those persons aged 15+ who are either working or actively seeking work, i.e. The employed plus the unemployed. The labour force participation rate measures the percentage of the total working age population participating in the workforce. An interesting relationship exists between the participation rate and the unemployment rate. During economic growth those out of work who are not actively seeking employment as they have given up (hidden un) become optimistic about finding a job and thus are counted as unemployed. This will increase the unemployment rate even though the economy has gained strength and more individuals are gaining work.

Unemployment is currently at 5.3%. In 2009 the unemployment level peaked at 5.8% despite the predicted 8.5% level in the 2009-10 budget. This less than expected peak in unemployment and the falls recently are due to the stronger than expected economic recovery since the GFC from both the Australian and global economy.

There are several types of unemployment. Frictional occurs when persons are between jobs for a short period of time, structural is due to a mismatch of either skills or geographic location between the unemployed and the job vacancies, long term unemployment is classified when an individual has been out of work for longer than 12 months usually for structural or motivational reasons. Seasonal unemployment occurs due to the seasonal nature of some occupations such as a ski instructor as well as seasonal factors such as school leavers. Cyclical is unemployment caused by a lack of AD as occurs during an economic downturn. Hidden unemployment is when persons become discouraged from looking for work because of the high level of unemployment.

Within society particular groups are more affected by unemployment. Youth or school leavers tend to lack skills or experience necessary to gain work. Indigenous Australians may also lack skills suffer geographical isolation, lower rates of labour force participating and can be subject to discrimination. Older workers may also be discriminated against due to their age as they may be perceived as being less flexible in terms of work practices and more difficult to train. Migrants often suffer unemployment due to language barriers, non recognition of qualifications and also discrimination based on race or religion.

Unemployment has economic and social costs and benefits. Economically unemployment creates an opportunity cost to society that is the opportunity forgone in terms of the output that could have been produced by the unemployed individual. Due to this reduction in economic output, living standards will be lower. The long term unemployed will suffer a decline in labour market skills as time progresses and unemployment is also costly to the Government as there is reduced taxation revenue and increased transfer payments are required. However, unemployment benefits the economy by reducing cost push inflation by providing a surplus pool of labour and for this reason the RBA may increase interest rates if unemployment is approaching the NAIRU. Socially unemployment creates many issues.

Increased inequality, social isolation, crime, increased financial hardship and poverty as well as homelessness and housing problems often result. Family tensions and breakdowns are common whilst individuals suffer an erosion of self confidence, poor health and even suicide.

The government has exercised microeconomic and macroeconomic policies in response to Australia's unemployment rate. In 2008 the RBA dropped interest rates from a high of 7.25% to 3% during late 2008/9 due to the GFC. This reduction was aimed at stimulating AD through the transmission mechanism. This would then flow on to increased demand for labour and thus an

increase in employment levels. The stronger than expected recovery has seen unemployment levels fall and the RBA has raised rates to avoid excess inflationary pressures to the current level of 4.5% however inflation is currently exceeding the target range set by the RBA partly due to emerging cost-push inflation associated with the unemployment rate approaching the NAIRU, approx 5%.

During the GFC fiscal policy was partly aimed at avoiding excessive unemployment. The 2009-10 budget was designed to combat the slowdown in Australia's growth rate and thus help reduce the rate of unemployment. Budget deficits are regarded as stimulatory to AD as injections exceed leakages. A \$57.6b deficit was announced in 2009 to stimulate AD and cushion the severity of the expected recession. In addition, \$10.4b Christmas and \$42b early 2009 stimulus packages were announced to soften the economic slowdown in Australia and help fight unemployment. The current 2010-11 budget also assists in helping avoid excessive unemployment. The deficit of \$40.8b although significantly less than last year still provides a substantial fiscal stimulus to the economy which is important given that non mining section of the economy is still recovering from the GFC. Further, the 2010-11 budget also aims to set up Australia for long term economic and employment growth. Prior to the GFC the nation experienced supply capacity constraints due to insufficient infrastructure in key areas and a shortage of skilled labour. This major economic issue tended to reduce Australia's capacity to achieve sustainable economic growth. Therefore this year's budget has allocated \$1b to rail projects and \$1b for roads and water. In addition, 39,000 training places will be provided in critical skills areas ensuring future employment.

Microeconomic reforms were mainly implemented in the late 1980's and early 90s and include, reducing protection, financial dereg, floating of the \$, privatisation, corporatisation, taxation reform, the national competition policy and a move to enterprise bargaining. These reforms all aimed to increase the productivity and efficiency of business and thus raise the overall level of AS. As the demand for labour is derived from the goods and services it produces (Derived demand) an increase in AS should thus lower the level of unemployment in the future. However, in the short term microeconomic policies have been criticised for increasing unemployment as many workers are made redundant as businesses restructure to remain competitive or go out of business.

The Government may also exercise other policies to reduce the unemployment rate. The Newstart Alliance is the Government's unemployment benefits scheme and is designed to minimise the length of time an individual spends unemployed. The main component of the scheme is the "activity agreement" which is negotiated between the unemployed person and a Centrelink customer service advisor. Such activities include the need for the unemployed individual to regularly search for work appropriate to the local labour market, undertake vocational training or education, engage in paid work experience, participate in the "work for the dole" scheme or accept medical treatment or rehabilitation. Individuals are also subject to a relocation restriction, that is they are unable to relocate to an area where there is already significant unemployment. The agreement is regularly reviewed by Centrelink in the form of an "activity test". Failure to pass this test can result in unemployment benefits being cut, increasing an individual's motivation to comply or seek work. Other policies that have been linked to a reduction in unemployment include funding of vocational courses in Schools and TAFE, expansion of vocational related course places and Universities and the Skilled Migration scheme. By raising the school leaving age to 17 unless the student has secured employment they are more likely to gain work having reached higher academic qualification. Major advertising campaigns have helped encourage employers to hire disabled or older workers whilst Abstudy and Austudy encourage students from an Aboriginal or low socioeconomic background to attend university, increasing their likelihood of gaining employment.