ECONOMICS

Analyse/ investigate the economic and social problems created by unemployment, the causes of unemployment and its effects on the Australian economy.

Unemployment refers to a situation in which an individual who falls within the participation rate between the ages of 15-65 is actively seeking work, yet is unable to acquire a job, and hence labour resources are not efficiently utilised within an economy. This is a relatively stable economic issue in the Australian economy, with a rate of just over 5% of the population being unemployed, much less than the average of 10% of other OECD nations. Unemployment may be influenced by a variety of factors, such as constraints on economic growth, structural changes, technological changes, productivity, inadequate levels of training and investment, increased labour costs and inflexibility in the labour market which have both positive and negative consequences on the economy. However, through the implementation of a variety of microeconomic and macroeconomic policies, the Australian government are able to minimise the adverse economic and social impacts it has on the economy, such as; opportunity costs, lower living standards, a decline in labour market skills for the long-term unemployed, costs to the government, lower wage growth and increased inequality, to minimise this prevalent global issue.

A major contributor to unemployment is the level of economic growth, as the demand for a labour is a derived demand and if an economy is experiencing low levels of economic growth, aggregate demand will fall, decreasing the demand for labour, and thus increasing unemployment. This decline in aggregate demand could be due to an economic downturn with lower domestic consumption and investment spending, government monetary or fiscal policies designed to dampen demand, and a decrease in the demand for Australia's exports due to a global recession, slower growth in the economies of major trading partners, or due to less competitive Australian goods and services in world markets. The correlation between unemployment and economic growth is evident within employment rates decreasing, when growth falls below 2.5%. Contrastingly, when growth is above 3%, the level of unemployment decreases. There is generally a 6 month period between a change in the level of economic growth and employment levels, mainly affecting cyclical unemployment, hindered by fluctuations in the business cycle, and more specifically a downturn in the level of economic activity and has been the major contributor to a rise in the economic issue of unemployment since 2011, with real GDP contracting by 4.2% during this period. This correlation is further exemplified with the rate of growth staying in the narrow range of 2.5-3% in 2016-17, with unemployment increasing 5-6%. Similarly, during periods of faster growth from 2003 to 2008, unemployment fell from 7 to 4% and during the economic slowdown in 2009 it rose from 4% to a peak of 5.9%.

A high level of unemployment has detrimental effects on the economy including the lack of full utilisation of the economy's resources, thus operating below its production possibility frontier, impeding opportunity cost and preventing it from achieving technical optimum in an economy of scale. Lower total output causes lower household incomes and expenditures, which may decrease sales and profits, and hence reduce business investment, production and economic growth. Individuals who are unemployed will consequently rely on welfare payments, and therefore lower living standards, preventing them from attaining an education to further develop skills, resulting in a high decline in labour market skills, confidence and experience, and hence resulting in hysteresis, a process in which cyclical or short-term unemployment eventually leads to long-term structural unemployment. This will also reduce the production of both consumer and capital goods, further reducing living standards. This could have a significant influence on the government's revenue and expenditure, and therefore on the Federal Budget, generating less tax revenue, whilst being burdened with increased transfer payments for unemployment benefits, as well as the cost of training and labour market programs. This will consequently decrease revenue and increase expenditure, causing a deterioration in the government's budget balance

The demand for labour is a derived demand, meaning that it is determined by the level of demand for goods and services in an economy. This means that if an economy is experiencing low levels of economic growth, aggregate demand will fall, thus decreasing the demand for labour, which will result in an increase in unemployment.

$$\text{Unemployment rate (\%)} = \frac{\text{number of persons unemployed}}{\text{total labour force}} \times \frac{100}{1}$$