

THE AUSTRALIA INSTITUTE

Background Paper No. 5

# **The Path to Full Employment**

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*A paper presented to the ACOSS Congress,  
Canberra October 18 1996*

October 1996

## **Introduction**

Achieving full employment in Australia is a long-term goal, something to be achieved over 10-20 years. We can view the long term as a series of short terms of 2-3 years, which do not require us to rethink our assumptions about the world, or we can use the long-term problem to rethink our approach to the issue. Our whole society can change in 20 years, and that is what we need to solve mass unemployment. Both the previous Federal government and the present one thought of the long term as a series of short terms, and since the short-term solutions will not work in the short term they will not work in the long term either.

The Coalition appears to have a three-pronged answer to unemployment. In the first instance it argues that increasing the rate of growth through microeconomic reform and sound economic management will increase job growth. Secondly, it argues that labour market deregulation will not only increase productivity but wage flexibility will encourage employers to hire more workers. Thirdly, the Coalition argues that providing a sympathetic environment for small business will increase employment because small business provides the bulk of employment in Australia. Each of these is unlikely to have any major impact on the level of unemployment in the long or short term. Nor is their combined impact likely to bring about a large fall in the rate of unemployment. Let us examine each in turn. These are complex issues and it is not possible here to go into any depth, but I present the essential arguments below.

## **The conventional solutions**

### *Increasing the rate of economic growth*

The Government expects the GDP growth rate to rise to 3.75% in 1996-97 and to be maintained between 3% and 4% for the next few years. In a mature economy like Australia's it is very unlikely that a growth rate of GDP of more than 4% could be sustained. Indeed, if it crept above 4% it would be argued by Treasury, the Reserve Bank and the markets that the economy was overheating and that monetary and fiscal tightening are needed to prevent inflation.

Would a 4% growth rate permit a reduction in unemployment? The labour force grows at around 1.5% per annum and labour productivity grows at around 1.5% per annum. Thus we need 3% GDP growth each year to prevent increases in unemployment (see Quiggin 1996). If we could sustain 4% per annum then measured unemployment would fall by around 0.5% while the other 0.5% would be accounted for by a rise in the participation rate as discouraged workers return to the labour market.

An average growth rate of around 3.5% is much more likely, and a deep recession could see growth fall much lower and unemployment blow out once again, making the task of pegging the rate back to 4-5% impossible. Realistically, then, the most likely

outcome is an unemployment rate not much under 8% at the turn of the century, and perhaps higher if there is a serious recession.<sup>1</sup>

### *Labour market deregulation*

The Coalition places great store in the employment and productivity effects of labour market deregulation. Their hopes are greatly exaggerated. Labour market deregulation is unlikely to have any substantial effect on the rate of unemployment, as former Reserve Bank Governor Bernie Fraser recently acknowledged.

The USA is often referred to as a country where high wage flexibility has resulted in a low rate of unemployment, around 5-6%. Essentially, relatively low rates of unemployment require that the unemployed be so severely penalised for being jobless that almost any alternative is better. In the US, public support for unemployed men is very low. Unemployment benefits are paid for only 6 months, and most rely on food stamps or resort to crime. Thus 2% of the adult male population in the US is imprisoned, a fact that significantly reduces the measured rate of unemployment.

Thus to have a marked impact on the rate of unemployment, labour market deregulation in Australia would need to be accompanied by sharp cuts in social security benefits. We have to ask whether we want to see our society characterised by an increasingly desperate army of working poor.

Even so, it is not at all apparent that greater wage flexibility in Australia would result in a fall in unemployment. Analysis by Bob Gregory (1996) shows that, in the 15 years to 1991, Australia had as much downward wage flexibility as the US. This has been reflected in equally rapid growth in low-paid jobs compared to higher paying jobs. Thus higher aggregate employment growth in the US must be explained by factors other than greater wage flexibility (Gregory 1996, p. 92). Studies of labour markets in the USA, Canada and France confirm this. Card, Kramarz and Lemieux conclude:

Contrary to expectations ... we find little evidence that wage inflexibilities generated divergent patterns of relative employment growth across the three countries (quoted by Gregory 1996, p. 93).

A number of studies have shown that the assumed relationships between wage levels and the supply of and demand for labour are contradicted by the evidence. A thorough British study compared rates of unemployment and wage levels in a variety of regional labour markets. Contrary to the predictions of orthodox theory, it found that unemployment rates are *higher* in regions with low wages levels, even in the same industries (Blanchflower and Oswald 1995).

After reviewing the evidence, Gregory concludes that 'it seems unlikely that greater relative wage flexibility will significantly reduce Australia's unemployment problem' (Gregory 1996, p. 100).

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<sup>1</sup> Langmore and Quiggin (1994) argue for macroeconomic policies that would result in expenditure switching away from imported to domestically produced goods as part of a comprehensive package to tackle unemployment. They also endorse the work sharing schemes outlined below as a significant component of the package.

### *Stimulating small business*

It is hard to see why policies aimed particularly at small business will have any additional impact on unemployment. Several researchers have attempted to determine whether small businesses are more successful at job creation than large businesses. Even posing the question this way simplifies economic processes (such as the interrelationships between small and large firms) in a way that is unhelpful. Although the evidence for Australia is sparse, there is little support for the proposition that small businesses make a disproportionate contribution to job growth. The evidence is reviewed comprehensively by Burgess (1991). Burgess notes that while younger firms account for most new jobs, most new firms fail. Evidence suggest that 92% of new businesses fail to survive after 10 years. Burgess argues that even if small firms do make a disproportionate contribution to job growth, the cause-effect relationships remain unclear.

While supporters of small business stress its flexibility, dynamism and entrepreneurial drive ..., it could be claimed that small business is successful in generating jobs because of its relative technical inefficiency, its access to the secondary labour market and its profile of secondary jobs, and because of changes in the organisation of large enterprises, such as the contracting out of work (Burgess 1991, p. 154).

It is also true that small businesses are concentrated in the non-traded services sectors where they are mostly shielded from international competition. The Government's faith in small business may be good politics for a conservative party that believes in entrepreneurial individualism, but it does not make much economic sense.

### **Changes in the labour market**

The essential fact is that the world of full employment as we have previously understood it has gone, the victim of the new international division of labour. While there is scope for winning back from international financial markets some of the ability for Keynesian counter-cyclical macroeconomic management, managing the economy for full employment by traditional means is simply no longer feasible. Whilst the number of jobs will grow over the next decades, they will not grow fast enough to absorb new entrants to the labour market and the existing pool of unemployed.

Thus Australia, like most OECD countries, is faced with a very stark choice. If we continue on the current path we will have nation divided. In the labour market there will be insiders who have jobs and can move between them, and outsiders who cannot break in. The pool of long-term unemployed will grow and become increasingly disillusioned, alienated, and cut off from the mainstream. Society will be increasingly fractured between those who possess and those who do not. Will Hutton describes Britain after Thatcherism as the 'thirty, thirty, forty society' (Hutton 1996). The first 30% are the disadvantaged – the officially and unofficially unemployed and those dependent on them, The second 30% are the marginalised and insecure – people who are employed but whose jobs are part-time or casual, and others on short-term

contracts or forced to become self-employed contractors. The last 40% are the privileged, those whose market power, incomes and employment prospects have increased since 1979.

How is this to be avoided? The failure of jobs to grow fast enough to absorb all of those who want employment can be seen as an intractable and tragic problem or an opportunity to change the way we work and the way we consume. The opportunity lies in our ability as a society to spread the available work amongst those who need and want employment. This is the essential transition we must make. It will require some far-reaching changes not only in our attitudes to work, but in our attitudes to consumption, leisure and family life.

The redistribution of work needs to be discussed against the background of some critical changes in the labour market, for the nature of work in Australia has undergone some dramatic changes in recent years. The proportion of the employed workforce in permanent, full-time jobs has fallen substantially. In 1973, 12 per cent of all workers were part-time; by 1993 the figure was 24 per cent. The majority of part-time workers are women. In 1993, the incidence of part-time work was highest among married women at 47 per cent compared to 35 per cent for unmarried women. The incidence of part-time work among men in 1993 was 10 per cent. However, part-time employment among young men has been growing rapidly in recent years (DEET 1995).

Changes in patterns of employment have varied across the economy. In 1993, 79% of part-time workers were employed in four industry sectors and all of these were service industries: wholesale and retail trade (28%) community services (26%) recreation, personnel and other services (14%) and business services (10%) (DEET 1995).

The growth in casual employment has been closely related to the spread of part-time employment. Between 1984 and 1994, casual employment as a percentage of total employment of wage and salary earners rose from 15.8% to 23.7%. Among casual workers, 72% work part-time. The growth in contract work, especially in the public sector, has probably been a major contributor to the casualisation of the workforce.

The increase in casual employment is a source of great insecurity for many employees. In addition, with an increasing number of workers in low-paid, insecure and intermittent employment, the boundary between work and welfare is becoming blurred. The flexible working time schemes proposed in this paper could, if introduced in appropriate ways, make a substantial contribution to increasing the security of employment.

While unemployment has been growing, those in employment have been working longer hours. Since the mid-1980s the proportion of full-time workers who work beyond 40 hours has grown from 30% to 40%. The proportion of employees working 49 hours or more per week rose from 9% in 1978 to 17% in 1995 (Dawkins 1996). Early evidence suggests that the spread of individual contracts is resulting in an *increase* in hours worked (*AFR* May 31, 1996).

The trend to increasing hours is contrary to the desire of many workers to reduce their hours of work, even if it means less pay. In America, for the first time since surveys

have been systematically conducted, a report has found that the majority of workers are willing to relinquish income to gain more family and personal time. Almost two thirds of those surveyed would give up an average of 13% of their salary, and fewer than a quarter were unwilling to give up any money at all (Senate Committee 1995).

In Australia, a recent survey indicates that 33% of full-time workers would prefer to work fewer hours (compared to 10% of part-timers) (ACIRRT 1996). A higher proportion of professional and managerial workers and those on higher incomes want to work fewer hours. Other surveys suggest that perhaps up to half of adult men would accept less pay for less work (Tracey and Lever-Tracey 1991).

The Committee for Economic Development of Australia (CEDA) in its report *The CEDA road back to full employment* also agreed that as well as reducing structural mismatch, labour market interventions should strive to influence supply in a way that will spread the burden of unemployment more equitably, while at the same time allowing a better mix of work and leisure (Argy 1994). It recommended that governments should explore ways of facilitating work sharing, permanent part-time work, flexible working hours and voluntary early retirement. The focus should be on removing factors that constrain people from working shorter hours if they prefer to or which distort the choice between working and staying at home. These factors might include the award, taxation and social security systems.

## **Some new solutions**

Work sharing arrangements have been introduced in a number of workplaces and industries in Europe, notably in Germany, France and Denmark (ACIRRT 1996, Jamieson House 1996). There are also some examples in Australia, although they are mostly confined to the public sector.

In some agencies of the Australian Public Service, industrial agreements have included a work time arrangement known as the 48/52 scheme. This is a variation on leave without pay in which employees may reduce their salaries over a year by about 7% and thereby 'purchase' an additional one month's leave. This can be seen as a form of family leave that gives greater flexibility to, for example, workers with school-age children. In some agencies, patterns such as job redesign, rostering, job-share and greater use of permanent part-time employment are being explored in efforts to balance conflicting demands of work and family.

The Tasmanian Government is introducing a proposal whereby Tasmanian teachers are given the option of taking a full year off after four years of service in return for a 20% pay cut over the five-year period. Part of the motivation is to provide employment opportunities for unemployed teachers and to allow teachers to periodically refresh and motivate themselves away from the class-room. The teachers and their union have strongly endorsed the scheme.

The Jamieson House Employment Group (1996) has recently called for a radical extension of these new time arrangements. The schemes proposed include the following.

### *A national reduction in standard hours of work*

In Australia, real award wages generally increase at about the rate of productivity growth. At present this occurs as the result of changes in national minimum rates, and through industry and enterprise agreements. It would be quite possible for the benefit of productivity growth to be taken by employees in whole or in part through reductions in hours worked rather than increases in pay.

If labour productivity were growing by 1.5% a year (the typical rate in Australia) and all the benefit were taken as reduction of hours rather than increases in wages, then standard hours could be reduced by about an hour per week over two years. This gradual change would occur without any need for a reduction in real income for those in employment. Both employer organisations and unions have canvassed this possibility. For example, the 1993 ACTU Congress resolved to explore

the possibility of a government campaign to spread work around, for example, allowing full-time employees to opt to shorten their working week. As part of this, affiliates should investigate the value of including shorter hours in enterprise bargaining negotiations so that unionists may choose to take some of their share of the fruits of increased productivity coming from technological or organisational change or improved work practices in the form of increased leisure.

### *Extension of the 48/52 scheme*

Variable annualised leave schemes, commonly known as 48/52, refers to proposals to modify leave and salary regulations in order to allow employees to take a period of leave without pay in addition to their standard leave entitlements. Normally, the standard period of applicable leave without pay is 4 weeks per year (hence the name 48/52).

The 48/52 scheme has been in operation in a number of workplaces, including the Victorian Department of Education, the Australian Tax Office and Melbourne University. It is currently part of enterprise bargaining negotiations in a number of Commonwealth Government Departments. Where it has been adopted, it has been welcomed enthusiastically by staff. It has been actively pursued by the Community and Public Sector Union as part of its negotiations with public sector employers.

The 48/52 scheme is expected to be of particular benefit to parents needing extended leave during school holidays, allowing them to balance employment commitments with family responsibilities. Other groups of workers expected to embrace the scheme include students and scholars requiring longer periods of leave to allow for study and academic commitments.

### *Four-day week and leave without pay*

Several other means of reducing hours of work are possible if employees are prepared to accept reduced income in return for more leisure. The four-day week is one possibility. If daily hours worked remained the same, the fifth days could be combined to generate new full-time positions. This would result in five people

working four-day weeks rather than four people working five day weeks with one being unemployed.

Another possibility is to provide for the opportunity of longer and more regular periods of leave without pay, or leave at reduced pay for long service, for study, retraining or leisure, such as the Tasmanian teachers' 4/5 scheme.

These arrangements could be supported by the community by payment of the equivalent of the job search allowance under specified conditions, in the way that Denmark does through their *orlov* scheme.

## **Likely impacts of work-sharing schemes**

Whilst many people agree that these work time reforms are desirable in themselves, there is scepticism about whether they would have much impact on the rate of unemployment.

After reviewing the prospects for working time reforms, ACIRRT (1996) is pessimistic about the likely reductions in unemployment. The ACIRRT evaluation provides a very valuable number of cautions arising from the widely differing employment circumstances across the workforce. However, the assessment that working time arrangements would have only a small impact on unemployment are based on the assumption that incomes do not fall with the reduction in hours, which clearly makes these proposals much less attractive to employers. Most of the European examples referred to involved no wage cuts. It also does not take account of the broader macroeconomic implications of reduced working time, including the fiscal impacts of changes in tax revenue and spending on benefits, the productivity effects and the effects on profits. Finally, the ACIRRT analysis takes a traditional industrial relations perspective which, while appropriate perhaps in the short term, excludes the far-reaching attitudinal changes which are an essential aspect of the proposed working time reforms. The work-sharing proposals are not aimed only at the labour market but at some fundamental social changes as well.

A major inquiry commissioned by the Canadian Government assessed the broader macroeconomic implications of new worktime arrangements and allowed for wage cuts to match reductions in hours. It commissioned an econometric modelling study of the potential impact of a relatively large-scale reduction in working time on the economy and job creation over the period 1995-2004 (Canada 1994). The model assumed a 10% fall in average working time for all employees, offset by a 5% rise in productivity over a five-year period. Clearly, the assumed reduction in hours presupposes some attitudinal shifts across society. The report concluded that the reduction in working time would reduce unemployment substantially without reducing economic output significantly.

Once all of the adjustments to the introduction of reduced work time are taken into account, the unemployment rate declines by about four percentage points from where it would otherwise have been, and there is a substantial increase in the amount of leisure time for those working. The total government budgetary

picture improves because fewer people require social assistance or unemployment insurance and, as well, real corporate profits are slightly higher. (Canada 1994, p. 4)

A similar study needs to be undertaken for Australia.

Some of the obstacles to the introduction of such schemes are discussed by the Jamieson House Group (1996). The principal obstacles appear to be the variability of employment circumstances across industries and jobs, and fear of the unknown. The success of these schemes will require a sea-change of attitudes to employment, leisure and income, but they are changes which, if managed properly, could only be to the benefit of both those with jobs and those without.

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