



PRIME MINISTER

STATEMENT BY THE PRIME MINISTER, THE HON P.J. KEATING MP
ECONOMIC PLANNING ADVISORY COMMITTEE

CANBERRA, 28 MAY 1993

INTRODUCTION

Unemployment is unacceptable for the hardship and anxiety it causes individuals and families who directly experience it. But the effects of unemployment of the kind and extent presently existing in Australia go well beyond the victims. Because it creates acute and long lasting social problems and involves economic costs which prevent Australia from fulfilling its potential as a prosperous and fair society, unemployment affects us all.

Unemployment is a phenomenon of our age. It is presently a significant problem in most if not all of the developed Western countries. But there is no comfort to be taken in knowing that we are not alone in this, nor any in spreading the blame. We cannot be complacent about high unemployment. I have said that reducing unemployment and assisting the long term unemployed is the Government's first priority. It must also be the nation's first priority. If we do not do all we can to mitigate the extent and the effects of unemployment, we betray large numbers of our fellow Australians, our children and our own ideals.

BACKGROUND TO THE PROBLEM OF UNEMPLOYMENT

The recession has been the most important recent cause of unemployment. In the course of it many companies learned to operate with a smaller workforce, and they are continuing to operate with fewer employees even as the economy recovers.

But while the recession has been substantially responsible for high unemployment, it is wrong to assume that the current problem is only a cyclical one. Australia experienced a sharp rise in unemployment in the mid 1970s, associated with the first oil price shock. Since then the unemployment rate has moved upward in a series of large steps.

Since the mid 1970s unemployment has increased sharply but fallen slowly. After the 1982-83 recession, Australia had seven years of very strong employment growth. However the unemployment rate in 1990 was still just above the rate in 1982. Between June 1983 and June 1990 well over one and a half million jobs were created, yet the number of unemployed fell by 150,000.

Associated with these developments has been the emergence of long term unemployment. Currently more than one-third of all unemployed persons (371,000) have been unemployed for more than 12 months. About half of this number have been out of a job for more than 24 months. Experience from the 1980s shows us that strong employment growth alone will not be sufficient to reduce long term unemployment. Special measures are needed to ensure that the long term unemployed are able to compete successfully for the jobs which will be generated during the recovery.

The Australian economy is currently growing faster than most other major economies and we expect the recovery to strengthen further through 1993 and 1994. However, the pace of economic recovery in the short term is receiving little assistance from world growth. But Australia is well placed to benefit from the higher growth rates expected in the Asia-Pacific region. In addition, recent history shows that we can achieve higher market shares in this part of the world. Hence, it is possible for Australia to grow faster than other industrialised countries, provided our policies further integrate Australia into the world economy.

Changes in employment patterns

In the same way as the level and nature of unemployment have been undergoing fundamental changes, employment patterns and labour force participation behaviour have also altered substantially over the last three decades. In particular, the distribution of employment between males and females, part time and full time jobs, permanent and casual jobs, as well as the distribution of jobs between industries, occupations and skill levels have all altered appreciably.

These factors undoubtedly help to explain why strong employment growth has not resulted in an equivalent fall in unemployment and we need to better understand them if we are to begin to solve the problem.

- . Since the 1960s the industrial structure of employment has changed markedly. The proportion of jobs generated by manufacturing industries has fallen from 25 per cent to 15 per cent. The absolute number of manufacturing jobs has also fallen. Employment growth has been strongest in the service industries. Their share of employment has increased from 54 per cent to 71 per cent. This long term trend has been accentuated by the recent recession as manufacturing employment has been among the hardest hit.
- . Employment growth has been concentrated in high and average skill level jobs. Conversely, the demand for low skill and unskilled jobs has fallen.
- . The nature of skills required has also changed. Problem solving, interpersonal skills and the ability to work within a team are becoming more important as a result of changes in technology and work organisation. As multiskilling becomes more prevalent, an individual is also expected to be able to perform a wider range of tasks than was the case in the past.
- . The nature of work has changed. Part time employment has grown much more strongly than full time, and now accounts for almost one-quarter of all jobs, compared to 17 per cent in 1978. Part time workers now account for one-tenth of all hours worked. While most part time work involves low skill and offers little in terms of job advancement, the skill level of part time work has increased over the 1980s, at least for females.
- . Married females, young people attending schools or universities and older workers account for nearly 80 per cent of all part time workers. Three-quarters are female. Most part time workers are employed on a casual basis.
- . Full time male employment as a percentage of the working age male population has been falling since 1970. Clearly some of this is due to early retirement and the longer periods which young people spend in education. However, even for males in the 25-54 year old age group there was still a 16 percentage point decline over the same period.
- . A number of commentators have noted that the distribution of earnings has become more polarised. Employment is growing most rapidly among high and low pay jobs and middle pay jobs are growing only slowly, if not falling. This phenomenon appears to be particularly evident among full time, male jobs.

- Significant changes have occurred in labour force participation behaviour. The proportion of the female population who are participating in the labour force has increased from 36 per cent in the mid 1960s to almost 52 per cent today. On the other hand, participation rates have fallen among young people and older males. In part, these changes are in response to the changing nature of employment demand. But they also reflect changing social attitudes and expectations.

It would be tempting to explain the stronger growth in part time and female employment and the loss in middle pay jobs in terms of the changes in the industrial structure of the economy. However, while this has undoubtedly been important, the story is much more complex. The incidence of part time employment has increased in all industries, not just in the service sector. Similarly, the notion that middle pay jobs are disappearing appears to be common to all industries.

Furthermore, because developments have occurred in many industrialised countries any explanation must be based on more than purely Australian factors.

Part of the explanation must lie in the changes in technology in recent decades. So radical and pervasive have these changes been, comparisons might be made with changes wrought by the industrial revolution. Occupations have disappeared, others have merged and new occupations have been created. In virtually all cases the skills required to perform a job have changed. The number of workers required to perform a task or produce a certain level of output has fallen, while the skills and flexibility required from workers have increased.

At the same time the shrinking global economy means that firms are better able to locate different parts of their production process in different countries. They are also changing their management structures and their corporate services are increasingly likely to be contracted out. All this has consequences for the amount and type of labour which employers wish to hire.

We do not yet fully understand all these changes. Nor can we do much to alter the trends. But we cannot turn our back on them. We have to respond to these challenges. Governments, like modern companies, modern economies -- and modern workers -- have to be flexible and adaptable. They have to be creative and pragmatic as well as compassionate.

THE GOVERNMENT'S RESPONSE

In order to respond effectively to both the cyclical and the structural nature of unemployment, we need;

- . high but sustainable economic growth. This will require appropriate macroeconomic policies as well as a continued push for microeconomic and industrial relations reform;
- . a skilled and adaptable workforce to respond positively to changing technology and industry demands and to be a source of competitive advantage;
- . effective measures to assist the unemployed, and particularly the long term unemployed, so that they can obtain jobs during the recovery; and
- . a better understanding of the long term developments in the labour market, their implications for unemployment and how best to respond.

The economic policy context

High economic growth and strong employment demand are essential to reducing unemployment. But high economic growth must be sustainable over the long term. High rates of growth cannot be sustained if they lead to a blow-out in our current account deficit and a resurgence in inflation.

To achieve high sustainable growth, national production has to grow strongly and faster than growth in consumption. Rigidities that constrain productivity and cause inflationary pressures must be reduced. The Government's policies therefore make up a coherent strategy to:

- . improve our international competitiveness through higher productivity and lower inflation;
- . improve our productive capacity through higher investment performance; and
- . increase national saving to finance investment domestically without excessive recourse to foreign borrowing.

The strategy comprises complementary monetary, fiscal and wages policies together with a continued push for microeconomic reform, including reform of the industrial relations system.

Wages policy and industrial relations reform under the Accord are now focussed on workplace bargaining that increasingly links wage increases to productivity improvements, and on achieving wage outcomes that maintain our inflation rate comparable to that of our major trading partners. This will help prospects for high employment growth, improve competitiveness and increase productive capacity.

In addition to these macroeconomic policies, the Government has introduced specific measures to encourage investment, and hence employment growth.

The company tax rate is being reduced to 33 per cent which, together with our policy of dividend imputation, makes returns to investors very attractive in Australia compared with many other countries and gives a highly competitive tax regime. A development allowance of 10 per cent has been introduced for major projects which meet certain conditions. And an investment allowance of 10 per cent will apply to investment in eligible plant and equipment ordered before July 1994 and installed before July 1995.

Continued microeconomic reform, including competition policy, will help to remove impediments to greater flexibility and productivity and lower costs. We are already seeing the results, in terms of a highly creditable export performance in recent years, often from small and medium-sized firms in industries which have not been traditional exporters. The success of small to medium sized business is crucial to economic recovery and employment.

A skilled and flexible workforce.

Education and training play an important role in the development of competitive industries and hence employment growth. A skilled and innovative workforce committed to producing high quality products and services can be an important source of competitive advantage. It also minimises the risk of bottlenecks to growth resulting from skill shortages.

A major task for governments is to improve the general education system, to improve the links between education and industry and to encourage industry's own efforts at training its workforce.

Since the Labor Government came to office in 1983, there has been significant expansion and improvement in the area of post-compulsory schooling and higher education.

In 1980 only 34 per cent of young people continued in school to the equivalent of Year 12. By 1992, this proportion had risen to 77 per cent. Similarly, there were 58-per-cent more Australian students enrolled in universities in 1992 than in 1982. Over the decade to 1992, the proportion of high school entrants who proceed directly to university increased from 15 per cent to 25 per cent.

Modern competitive economies demand high levels of technical skills right across their workforce. Both State and Commonwealth Governments have recognised the need for a national approach in this area and the recently established Australian National Training Authority (ANTA), chaired by Mr Brian Finn OA, will have an important role in advising governments on planning and policy for vocational education and training. ANTA will have substantial industry representation, to ensure the system is more responsive to the needs of industry.

The Government remains committed to major reforms to entry level training and is currently funding pilot projects to test the introduction of the Australian Vocational Certificate, which will provide more flexible routes for young people to acquire skills and training necessary for successful transition into their chosen vocations. The system will cover a broader range of occupations and industries, and competency-based training will mean that study programs can be tailored towards individual needs and take account of prior learning.

Measures to assist the unemployed back into a job

Our experience of the 1980s shows that strong employment growth, of itself, will not be sufficient to reduce quickly unemployment and particularly long term unemployment.

Specific measures are also needed which ensure that many of the new jobs created are filled by the long term unemployed. The Government has a range of labour market programs which provide this assistance. Evidence from the last few years also shows that labour market programs can be successful in getting the long term unemployed into jobs.

Between 1990-91 and 1992-93 there has been almost a four-fold increase in expenditure on labour market programs from around \$300 million to over \$1200 million. Over the same period the number of program commencements has increased from 227,500 to an estimated 490,000.

The Government has also altered the mix of programs to give a greater emphasis to work experience and to linking training more directly to employment. The number of people assisted under the wage subsidy program, JOBSTART, has increased from around 60,000 in 1991-92 to 150,000 this year. Wage subsidies reduce the initial cost of hiring workers and help to overcome the reluctance of employers to take on the long term unemployed.

New work experience programs have also been introduced. The Landcare and Environment Action Program (LEAP), which was introduced following the Youth Summit last year, has been very successful. It provides young people with work experience in an area in which they are interested and combines this with structured training. The number of places in the program has been increased to respond to the great interest of young people to participate.

On the Jobskills program, participants receive work experience and training over a six month period. While the program is relatively expensive, it assists the most disadvantaged of the unemployed to regain self confidence, acquire new skills and broaden their work experience.

The Government has also more closely targeted assistance to the long term unemployed. This year, 62 per cent of program places went to the long term unemployed, compared to 51 per cent last year.

The effectiveness of the change in program mix and the increased expenditure per place is shown by the improved program outcomes that have been achieved over the last year. This improvement is all the more noteworthy given that employment demand was still weak and an increasing proportion of those assisted were long term unemployed. The assistance which labour market programs can provide to the long term unemployed is also shown by the fact that nearly 80 per cent of all Newstart Allowance recipients who obtained a job did so through a labour market program. Evaluations of programs have shown that participation in vocational training programs, SkillShare or JOBSTART increased a participant's chance of obtaining a job by around 50 per cent.

Even when labour market programs are not successful in getting an unemployed person into a job, they can still help to maintain their attachment to the labour market. Overseas experience suggests that this is an important element in the long term unemployed gaining jobs.

Labour market programs can also improve the efficiency of the labour market by alleviating skill shortages that may arise later in the recovery, and by ensuring that the long term unemployed remain active and competitive in job search.

The Government is determined to closely monitor its labour market measures to ensure that the mix of programs, the targeting of programs and the program parameters continue to provide cost effective assistance to the unemployed as the recovery gains strength.

The delivery of labour market programs is closely linked to the provision of income support to the unemployed through the Newstart strategy. The implementation of the Newstart strategy is currently being evaluated by the Government and we will be taking this opportunity to seek improvements in the way in which labour market programs and income support are delivered.

A Government White Paper on Employment and Unemployment

While the Government currently spends considerable sums on labour market programs and our efforts compare well with other countries experiencing high unemployment, we recognise we need to do better. We need to understand the long term developments in the labour market and their implications for reducing unemployment and regaining full employment. We also need to examine whether existing measures could be re-arranged or new measures conceived.

To this end the Government has decided to appoint a high level committee to prepare a Government Discussion Paper to assess current policies on unemployment.

I am also keen to see the committee examine alternative approaches, including policies adopted in other OECD countries.

Our search for solutions should not be confined to our shores, or to our experience. Most industrialised countries, like Australia, have begun a profound examination of unemployment and its effect on societies.

No country has produced a single, simple answer. Nor will they. The complexities and magnitude of the problem defy it.

But in seeing what has been tried elsewhere, and in taking what is best and most suitable for Australia and combining it with our own ingenuity, perhaps this committee may begin to fashion an effective response to the problem.

As an indication of the importance that I attach to this exercise, I have asked Dr Michael Keating, Secretary of the Department of Prime Minister and Cabinet, to chair the committee. I am grateful that Professors Bob Gregory, Barry Hughes and Jan Carter have agreed to bring their expertise in labour market and social policy analysis to the task. The committee will also include Mr Derek Volker, Secretary of the Department of Employment, Education and Training, Mr Tony Blunn, Secretary of the Department of Social Security and Ms Mary Ann O'Loughlin, my Senior Adviser on social policy matters.

Dr Bruce Chapman, who has already begun work for the Government on the effectiveness of labour market programs, will also consult closely with the expert committee.

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The committee will be serviced by a high level Task Force established within the Department of Prime Minister and Cabinet and drawing in expertise from other departments. The Task Force will be headed by Dr Meredith Edwards, First Assistant Secretary, the Department of Employment, Education and Training.

The terms of reference which the Government has given to the expert committee are attached.

I have asked that the Discussion Paper be prepared by December. This would be followed by extensive consultations. The Government would respond to the ideas and options raised in the Discussion Paper and the consultations in a White Paper on Employment and Unemployment to be prepared in the first half of next year.

I would expect the special Caucus Employment Task Force to facilitate the work of the expert committee, particularly in the public consultations. I have also asked EPAC to assist, both by acting as a sounding board for ideas and by the Office preparing background papers as required.

I expect the committee to ask some fundamental questions about the future of work in Australia. These questions, while not new, go to the heart of the way our society functions.

Questions such as: are we committed to the idea that everyone who wants to work should have a job? How should we respond to the rapid changes in technology and the greater uncertainty in our working lives? How can we best combine work with our family lives? Should Australian businesses continue to observe the maxim that leaner is always meaner, or are there more effective strategies for ensuring competitiveness?

And if it is reasonable to ask this question of business and industry, it is also reasonable to ask other organisations, including trade unions, to examine their priorities and perceived self-interest to help find the answers.

In short, the committee is being formed to ask - if unemployment is a national responsibility, how best do we all share in solving it?

My hope is that out of this process, we will better understand the choices and trade-offs which need to be made if we are to regain full employment, how long this might take, and what more can be done to alleviate the problems presently facing unemployed Australians and their families.

And of course if in looking at the problems facing Australians going through hard times a certain fellow feeling is aroused, and the sentiments of fairness and equity are re-kindled, and the bonds between us all are strengthened, then the process will have served not only the unemployed but all Australians and the nation.

TERMS OF REFERENCE FOR A DISCUSSION PAPER ON THE LABOUR MARKET

Having regard to:

- (a) the Government's economic and social objectives, particularly to
 - increase employment opportunities;
 - reduce unemployment and particularly long term unemployment;
 - improve the skills base in Australia; and
 - promote equity in the labour market; and
- (b) the Government's commitment to reduce the budget deficit by 1996-97;

the Committee is asked to assess and report on the state of the labour market and options for addressing unemployment and improving labour market programs and income and other support for the unemployed. Special attention should be given to the problem of long-term unemployment.

2. The Review in particular should consider:

- (a) the economic outlook and the implications for the labour market;
- (b) developments in the Australian labour market since the 1960s, including:
 - demographic changes;
 - changes in the labour force participation, employment and education experiences of males and females; Aboriginal and Torres Strait Islanders; migrants; sole parents; people from non-English speaking backgrounds; people with disabilities; and different age groups;
 - changes in employment levels and patterns, including an examination of the strong growth in part-time employment and regional differences;
 - changes in the types and location of jobs being created and lost;
 - characteristics and location of unemployed, discouraged and underemployed workers;
 - the emergence of long-term unemployment; and
 - the effect on income distribution and living standards of the changing patterns of employment and unemployment;
- (c) the medium term outlook for the Australian labour market;
- (d) the trends in the labour market in other OECD countries and an examination of policy responses;
- (e) the efficiency and effectiveness of:
 - existing measures to assist the unemployed, including labour market, education and training programs; income support; and other forms of support; and
 - the delivery of programs and services of assistance for the unemployed;
- (f) policy options to respond to the implications of labour market changes, taking into account programs and services provided by other sectors; and
- (g) options for financing labour market and other support programs for the unemployed.