

“Restoring Full Employment”: Further Research Needs

Peter Dawkins*

Abstract

This paper outlines some of the deficiencies in the research evidence upon which we were able to draw in putting together the Western Australian Labour Market Research Centre's submission to the Committee on Employment Opportunities, and some further deficiencies that have become evident from reading the Green Paper. Consequently some suggestions are made about further research needs. Broadly speaking, there are four types of research that appear to be necessary. Firstly, there is research which seeks to monitor and evaluate the specific effects of specific policies, such as those that are expected to result from the proposed Job Compact. Secondly, there is the more general research agenda on the operation of labour markets in Australia, which help to shed light on issues of relevance to policy decisions. Thirdly, there is a broader research agenda on issues associated with productivity, competitiveness and economic growth, bearing in mind the importance of a substantial and sustained increase in the underlying rate of economic growth. Finally, there is research which would improve our ability to undertake valuable future orientated scenario modelling simulations.

1. Introduction

In the process of putting together the Western Australian Labour Market Research Centre's submission to the Committee on Employment Opportunities, (Norris et al. 1993) there was a certain body of research evidence

* Curtin University and the Western Australian Labour Market Research Centre.

upon which we could draw. Similarly, in putting together the Green Paper, the Committee on Employment Opportunities (1993) itself, had a certain body of research evidence to draw upon. This paper highlights some of the deficiencies in the research evidence that we had identified, in putting together our submission. It also adds some comments on other deficiencies that have become evident from reading the Green Paper, comments on the importance of research evaluating labour market programs that are implemented, and makes some general comments on employment research.

In section 2 we identify some of the key issues at the heart of the debate about employment opportunities and reducing long-term unemployment. In section 3 we present a brief discussion of the art of what might be called 'medium to long-term scenario modelling', which the Green Paper itself engages in. In section 4 the focus is microeconomic reform, competitiveness and employment. In section 5 we turn to research on labour market programs and the importance of evaluation research of the Job Compact, if and when it is implemented. In section 6 we discuss training wages, worksharing and social security issues. In section 7 we make some general comments about employment research. In section 8 we draw out some conclusions and briefly discuss the case for a Bureau of Employment Research.

2. The Key Issues

The two central and strongly related issues of concern relate to the magnitude of unemployment in general and to long-term unemployment in particular. Background questions relate to the causes of general rise in aggregate unemployment over the last twenty years and to the associated upward trend in long-term unemployment which is now generally considered to be unacceptably high. Of central concern for the Committee on Employment Opportunities was the extent to which the Commonwealth Government can implement policies to reduce both aggregate unemployment, and especially the share of this experienced by the long-term unemployed. Such policies could perhaps have a short-term focus, such as increasing expenditure on labour market programs, or a long-term focus, such as improving the efficiency of the labour market, or raising the underlying rate of economic growth.

Allied to this is the question of the how far rises in unemployment have resulted from depressed demand and cyclical forces and to what extent they represent rises in the underlying 'equilibrium' or perhaps 'natural rate' of unemployment. Further, in so far as it is the latter, is it possible to effect policies which will reduce this 'equilibrium' or 'natural rate'?

The policies to which governments have naturally turned over the last twenty years to seek to reduce the severity of unemployment as the result of recessions, are 'labour market programs', and include wage subsidy schemes and job creation programs. These are not expected to have a substantial effect on the long-term trends in unemployment, but to alleviate the unemployment problem especially for targeted groups, (where such programs are targeted). The expansion of such schemes is the central focus of the Green Paper.

There is a growing recognition, however, which is strongly reflected in the Green Paper, that if substantial inroads are to be made into the unemployment rate, and the long run upward trend reversed, then it is necessary for the Australian economy to enjoy much higher rates of economic growth than it has over the last twenty years. The Green Paper concludes that while the short to medium term outlook for demand growth is good, it is the continuation and perhaps acceleration of microeconomic reform that will enable economic growth to reach the desired level, hopefully on a sustained basis. The Green Paper therefore, pays some attention to microeconomic reform issues.

In addition to labour market programs and microeconomic reform issues, the Green Paper also addresses a number of other policy ideas aimed at reducing unemployment. These include, the possibility of training wages, worksharing and social security changes. Such ideas can, to some extent, be viewed as alternatives/additions to labour market programs, and to some extent in the context of microeconomic reform policies.

3. Medium to Long Term Scenario Modelling Simulations

The Committee on Employment Opportunities should be complimented for developing a document which incorporates a vision to the year 2001. Further, 5 per cent unemployment in 2001 is a laudable aim, as are further reductions thereafter. The choice of 5 per cent for 2001, however, does seem to be somewhat arbitrary. True, the simulations under the Committee's high growth scenario produce this result, but it is not hard to produce this outcome by making suitable assumptions about growth rates, participation rates, etc. What is more difficult is to present a convincing case for how this scenario might become possible.

There is a strong case for medium to long-term scenario modelling simulations of this kind. The interest in developing visions of the future, and developing a framework for analysing how such visions might be achieved, is a strong one. Hughes (1993) has argued convincingly, that one

of the lessons Australia has to learn from its East Asian neighbours is the value of building a long-term vision and basing policy on this vision. Argy (1993), in his study, *An Australia that Works, a Long Term Economic Strategy for Australia*, has given a stimulus to this idea. The Business Council of Australia, have also approached their policy advice in this way. Thus the scenario modelling of the Green Paper is part of a healthy trend. Nor should we criticise the weaknesses of the work in this area too heavily, as it was done in a short period of time, and was not in truth, a central part of the Committee's work, being used more for the rhetoric of the paper, than for its substance.

Nonetheless, as far as further research needs are concerned, some research should be addressed at improving this kind of analysis. There are two basic aspects to this. Firstly, there is research which can help to improve the modelling technology. In this area for example, Borland (1994) has made significant criticisms of the Green Paper's modelling of the relationship between economic growth and unemployment.

Secondly, there is the research involved in analysing the possible impacts of a range of possible policy developments, such as labour market reform and other forms of microeconomic reform, on medium to long-term outlooks. Examples of research of this kind include Dawkins, Norris and Stromback (1993) and an EPAC study, Filmer and Dao (1994). Research of this kind can be very difficult and can often be criticised for being unduly speculative, but informed speculation is likely to be superior to uninformed speculation or no speculation at all.

4. Microeconomic Reform, Competitiveness and Employment

As noted above, the Green Paper was not convincing about how the high growth scenario producing 5 per cent unemployment by 2001 and lower levels thereafter, was to be achieved. It talks about the importance of microeconomic reform to make the high growth scenario possible, but is very unspecific and unconvincing about the links. While applauding the call for accelerated microeconomic reform, it would have been helpful to have more analysis of the critical aspects of microeconomic reform as they relate to reducing unemployment. It appears that there is a need for further research here and EPAC has already made a contribution (Filmer and Dao 1994).

A more general point is that since so much emphasis is placed on the importance of economic growth, improved productivity and international

competitiveness, there is a great need for research on the determinants of growth, productivity and competitiveness and their relationship with employment and unemployment. It seems therefore that labour market researchers, should take an increased interest in the fields of industrial economics, development economics and international trade, if we are going to improve our understanding of unemployment. The contribution that labour market deregulation/reform can make to economic growth and employment, also remains an important research issue. This will include, amongst other things, a monitoring of the effects of various changes taking place at state and federal levels in Australia, and international developments.

5. Labour Market Programs and the Importance of Evaluation Research on the Proposed Job Compact

Since the abolition of the Bureau of Labour Market Research (BLMR), there has been a paucity of published research on the evaluation of labour market programs. We understand that there have been some internal government studies, but we believe that it would be valuable to place such research under public scrutiny and to expand the research of this kind. This could include, for example, basic cost benefit analysis of wage subsidies and job creation schemes. Another study that would be useful in the light of the article by Miller (1994) in an accompanying paper in this journal, is an analysis of the distribution of people across industries on the JOBSTART program to shed light on Pankhurst's (1981) suggestion that wage subsidies impede economic adjustment.

Given the severity of long-term unemployment, the case for targeting the long-term unemployed in the Job Compact is likely to receive the required community support. It has to be recognised, however, that by targeting the long-term unemployed, this is likely to be partly at the expense of the short-term unemployed, who will then become 'longer-term' unemployed than they would otherwise be. Further, it is not clear what the long-term effects will be on the targeted long-term unemployed, of labour market programs which move them out of the unemployed stock, at least for a certain period. Are they likely to return to the ranks of the unemployed, after a while, and if so for how long? When returning to unemployment they will not be counted as long-term unemployed, at least in the first instance. All this emphasises the need for good longitudinal studies of the labour market to improve our knowledge of long-term unemployment, short-term unemployment and the effects of labour market programs. If anything like

the amount recommended in the Green Paper is to be spent on labour market programs, it will be extremely valuable to spend a small fraction of this on good evaluation research.

6. Training Wages, Worksharing, Part-time Employment and Social Security Issues

The case for training wages is weakly argued by the Green Paper and more strongly argued by Lewis (1994) and Miller (1994) in accompanying articles in this journal. There is some literature concerning estimates of the elasticity of labour demand (see, for example, Lewis 1984), to help estimate the possible employment effects of such changes, although perhaps more work could be done in this area. Research on the cost and benefits of training, and the productivity of trainees, could also help in the setting of such training wages.

Worksharing, as a possible policy solution for unemployment is rejected by the Committee on the basis of a review of research evidence provided by Wooden et al. (1993). This is a good example of where existing research evidence made a useful contribution to the Green Paper, and where the Green Paper could be quite confident. There would not appear to be a great need, therefore, for further research on this topic. The case for worksharing as an important feature of policy is still frequently made however, and there are examples of worksharing policies being implemented in a number of European countries. We should therefore pay attention to the research coming out of those countries, to help make sure that the right judgements have been made in this area.

Wooden et al. (1993), while recommending against worksharing as a important area for policy development, did suggest that removing impediments to part-time employment should be encouraged. A good example of this is award restrictions on part-time employment. Research on the extent of such demand side restrictions and the effects of their removal, could be useful.

Similarly on the supply side at the Green Paper highlights, the rules governing the entitlement to unemployment benefits appear to discourage unemployed persons from seeking part-time employment. As Norris (1994) points out, there is some overseas evidence that the reintegration into full-time employment of the long-term unemployed is often achieved through part-time employment. One piece of research implied here is to examine the extent to which part-time employment does provide such a route in Australia. The Australian Longitudinal Survey (ALS) and the

Australian Youth Survey (AYS), and possibly the gross flows data from the Labour Force Survey might help here. The interpretation of the evidence should be cautious, however, bearing in mind the possibility that significant numbers of people may have been discouraged from seeking part-time employment because of the unemployment benefit eligibility rules. It should be added that the evidence on the effects of the level and duration of unemployment benefits on unemployment, reviewed by Norris (1993, 1994), come largely from the United States and Britain. The possibility of research of this kind, using Australian data, could be explored. Indeed, I am aware of one such study using the Australian Longitudinal Survey, that has some bearing on this issue, (Crockett 1994).

7. Some General Comments on Employment Research

There are a number of data bases that can be utilised to describe and analyse employment and unemployment in Australia. These include, for example, ABS Surveys – the Labour Force Survey, the Census, the Survey of Employment and Earnings and the Census of Manufacturing. DEET has also provided us with the Australian Longitudinal Survey (ALS) and the Australian Youth Survey (AYS).

To analyse unemployment duration, recall and/or longitudinal data are required and these have been provided by the Labour Force Survey, the ALS and the AYS. As noted above, we see some scope for further analysis of the ALS and the AYS. In relation to the Labour Force Survey, given the size of the sample of the long-term unemployed and the fact that there is sample rotation, there are some difficulties in analysing long-term unemployment. While the survey does provide sound estimates of the level and incidence of long-term unemployment at a point in time, the analysis of month to month, quarter on quarter changes and even year on year changes, is difficult with these data. This issue needs to be looked at closely. Is there a case for somehow over-sampling the long-term unemployed if we are particularly keen to get a better understanding of this phenomenon?

There has been a significant amount of high quality research on employment and unemployment in general by Australian researchers in the last ten to fifteen years. An example in research associated with the former Bureau of Labour Market Research, the Western Australian Labour Market Research Centre, the National Institute of Labour Studies, the Centre for Economic Policy Research and the Institute of Applied Economic and Social Research. Examples of significant and interesting studies include for example, Miller and Volker (1987), Flatau, Lewis and Rushton (1991),

Hemmings (1991), Chapman, Junankar and Kapuscinski (1992). Our judgement is, however, that there is considerable scope for expansion of this research program to analyse existing data, collect and analyse new data, and replication of some overseas micro and macroeconomic research by authors such as Layard and Nickell in Britain, (see for example, Layard, Nickell and Jackman 1991). Further, there is a strong case for further research on where and how employment growth takes place, developing the research initiated by the Western Australian Labour Market Research Centre, (see Hemmings 1991), and interesting data analysis by the Institute for Applied Economic and Social Research (Baker, Blandy, Richard and Ha 1993). This would be in addition to some of the specific policy based research recommended above and the call for an expanded research program on economic growth, productivity and competitiveness, bearing in mind the importance of raising the underlying rate of economic growth, and the associated need for increased productivity and competitiveness, if we are going to make a substantial and sustained impact on unemployment.

8. Conclusions

There is a substantial body of research evidence on employment and unemployment in Australia as well as from overseas, which can help to guide policy makers, and on which the Committee on Employment Opportunities has drawn. There are, nonetheless, some specific gaps in our knowledge which were highlighted when the Western Australian Labour Market Research Centre prepared its submission to the Committee. Further other research needs become clear when reading the Green Paper. As a more general comment, given the importance of employment and unemployment issues, to the Australian society and government, a continuing major research effort in this area is surely warranted.

Broadly speaking, there are four types of research that appear to be necessary. Firstly, there is research which seeks to monitor and evaluate the specific effects of specific policies. If and when the Job Compact is implemented, there is a very strong case for ensuring that high quality longitudinal evaluation research is conducted into its effects. Secondly, there is the more general research agenda on the operation of labour markets in Australia, which help to shed light on issues of relevance to policy decisions. One example would be research on the extent to which part-time employment represents an important route for unemployed persons into the full-time employment. Thirdly, there is a broader research agenda on issues associated with productivity, competitiveness and economic growth, bear-

ing in mind the importance of a substantial and sustained increase in the underlying rate of economic growth, if desired unemployment targets are to be reached. This leads on to the fourth type of research which would aim to improve our ability to undertake valuable future oriented scenario modelling simulations to guide policy makers about the way to seek to achieve the targets that are part of their vision of the future.

Since the abolition of the Bureau of Labour Market Research, it is probably true to say that resources devoted to research on employment and unemployment has been reduced and labour market researchers around Australia have been somewhat under-utilised with respect to important research in the face of high unemployment and the particularly acute problem of high long-term unemployment. Perhaps there is a case for a Bureau of Employment Research? If so we would recommend the Bureau of Immigration and Population Research (BIPR) as a possible model as it has been very successful in utilising the skills of relevant researchers in Australia.

This Bureau could coordinate the necessary evaluation research into the effects of the proposed Job Compact, and sponsor research of the various kinds suggested in this paper. It would be important for such a Bureau to take a broad perspective, and not to concentrate just on a narrow research agenda on the operation of the labour markets. As suggested in this paper it is increasingly important for labour market researchers to take an interest in such areas as industrial economics, development economics and international trade, bearing in mind the importance of productivity, competitiveness and growth, as argued in the Green Paper on Employment Opportunities. It would also be in the strategic interest of government to draw together the expertise of such a Bureau and its associated researchers, with that of other Research Bureaus to help provide an integrated body of research evidence to inform the government's strategy in general to achieve suitable medium to long run targets.

References

- Argy, F. (1993) *An Australia That Works: A Vision for the Future - A Long Term Economic Strategy for Australia*, Committee for Economic Development of Australia.
- Baker, D., Blandy, R.J., and Ha, V. (1993) 'Where the Jobs Are', Institute for Applied Economic and Social Research, University of Melbourne.
- Borland, J. (1994) 'An Assessment of the Green Paper: Restoring Full Employment' *Australian Economic Review*.
- Chapman, B., Janankar, R. and Kapuscinski, C. (1991) 'Projections of Long-Term Unemployment', *Australian Bulletin of Labour*, 18, 3, pp. 195-207.

- Committee on Employment Opportunities (1993) *Restoring Full Employment*, AGPS, Canberra.
- Crockett, G. (1994) 'Search Intensity Amongst the Young Unemployed' *School of Economic & Finance, Discussion Paper, and W.A. Labour Market Research Centre Discussion Paper*, Curtin University.
- Dawkins, P., Norris, K. and Stromback, T. (1993) 'The Efficiency and Equity Implications of Labour Market Deregulation in Australia' Chapter 3 in F. Argy (ed.) *A Long Term Economic Strategy for Australia*, Volume Three, Committee for Economic Development of Australia.
- Filmer, R. and Dao, D. (1994) 'Economic Effects of Microeconomic Reform' *Economic Planning and Advisory Council (EPAC) Background Paper No. 38*.
- Flatau, P., Lewis, P. and Rushton, A. (1991) 'The Macroeconomic consequences of long-term unemployment', *Australian Economic Review*, 4th Quarter pp. 48-56.
- Hemmings, P. (1991) 'Firm Size and Employment Dynamics', *Labour Economics and Productivity*, 3, 2 pp. 153-162.
- Hughes, H. (1994) 'Is Australia Internationally Competitive' *Institute for Research into International Competitiveness (IRIC) Discussion Paper 94:01*, Curtin University.
- Layard, R., Nickell, S. and Jackman, R. (1991) *Unemployment: Macroeconomic Performance and the Labour Market*, Oxford University Press, Oxford.
- Lewis, P. (1985) 'Substitution between Young and Adult Workers in Australia', *Australian Economic Papers*, 24, 44, 115-126.
- Lewis, P. (1994) 'Changes to Industrial Awards', *Economic and Labour Relations Review*, 5.1.
- Miller, P. (1994) 'Wage Subsidies', *Economic and Labour Relations Review*, 5.1.
- Miller, P. and Volker, P. (1987) 'Youth Unemployment in Australia', Centre for Economic Policy Research, Australian National University.
- Norris, K. (1994) 'Changes to the Structure of Unemployment Benefits', *Economic and Labour Relations Review*, 5.1.
- Norris, K., Miller, P., Lewis, P., Plowman, D., Mulvey, C., Stromback, T. and Dawkins, P. (1993) 'Options to Reduce Long Term Unemployment' *Western Australian Labour Market Research Centre Discussion Paper 93/11*, and submission to the Committee on Employment Opportunities.
- Pankhurst, R.V. (1981) 'Training Schemes, Job Creation Schemes and Employment Subsidies for Youth, the (Non-American) OECD Experience'.
- Wooden M., Sloan, J., Kennedy, S., Dawkins, P. and Simpson, M. (1993) *Work Sharing and Unemployment*, Report to the Taskforce on Employment Opportunities, Department of the Prime Minister and Cabinet.