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The Australian Labour Market and Unemployment in 2004

by

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Abstract

In this paper an overview of the Australian labour market is presented together with a brief summary of the factors which have brought about significant change in the dynamics of the labour market. Despite the increased flexibility of the labour market there has still been a failure of labour supply to adjust to changing demand resulting in unemployment. It is argued that attempts to reduce flexibility will reduce efficiency and increase unemployment.

Overview of the Labour Market

In order to understand unemployment it is first necessary to understand the major changes in supply and demand in the labour market. I identified these in my address to last year's conference but it is worth summarising and updating given recent threats to labour market flexibility and employment. Table 1 shows the annualised rate (not compounded) of growth in employment over different intervals of time.

Table 1: Employment Growth, annualised percentage change

	1981-2001	1993-2003	1998-2003
Full-time Males	0.8	1.5	0.9
Full-time Females	2.5	2.2	1.8
Full-time Persons	1.2	1.4	1.3
Part-time Males	11.3	6.2	7.8
Part-time Females	5.7	4.4	4.7
Part-time Persons	6.8	4.9	5.5

Source: *Labour Force*, ABS Cat. No. 6203.0

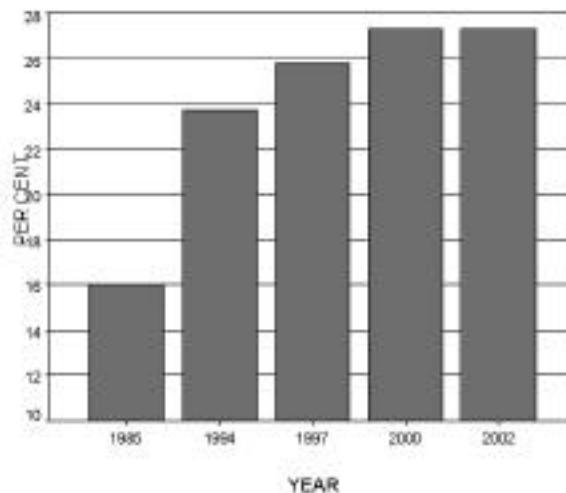
The first column shows the annualised growth rate over the relatively long term, twenty years. In order to examine whether these growth trends were 'one-off' or continuing the remaining columns show the respective growth rates over the last ten and five years. Interestingly, it appears that the trends of the last two decades are fairly persistent with most recent growth rates similar to the longer term trends. By way of comparison the corresponding rate of growth in the adult population, which is approximately the growth in labour supply, was about 1.5 per cent.

The major trend in the Australian labour market is that the demand for full-time workers, particularly males, has not kept pace with supply. There has been a substitution of females, particularly part time females, for full-time males. For particular groups, the changes in demand have been particularly noticeable. For instance, a full-time job for anyone 15-20 years old is now an exception rather than the rule and employment prospects are poor for many displaced older males.

Another major feature of the changing Australian labour market is growth in casual employment. There are a number of definitions of casual employment, however, one commonly used in the study of labour markets is that adopted by the Australian Bureau of Statistics (ABS). According to this definition casual employment is that employment which does not attract annual leave or sick leave. In practice there is substantial overlap between casual and part-time employment.

Approximately 70 per cent of casual jobs are on a part-time basis and 70 per cent of part-time jobs are casual. Figure 1 shows that the growth of casual work was an important phenomenon in the 1980s and 1990s, but since 2000, the proportion of the workforce that is casual has reached a plateau of about 27 per cent.

Figure 1: Casual Employment Australia 1985 – 2002, per cent



Source: ABS Cat. No. 6325.0 1994; ABS Cat. No. 6310.0 2000, 2002

Much of the changes in demand are due to the change in composition of output in the economy. In 1975 services accounted for just over 50 per cent of all jobs but today the service sector accounts for almost 70 per cent of all jobs. By contrast manufacturing's share of total employment almost halved over the same period to about 10 per cent in 2004. There were similar reductions in the relative shares of jobs in the other 'industrial' sectors such as gas, electricity and water. With respect to the distribution of jobs by occupation, the picture that emerges when combined with the industry distribution, is that a 'typical' Australian worker today is a 'white collar' employee in the service sector.

Changes in industry composition have combined with technological change to systematically change the demand for skills. It is convenient to decompose skills into three types: motor, cognitive and interactive (Kelly & Lewis, 2003). Moreover, most jobs would contain elements of one or more of these. "Motor skills" are essentially the ability to do physical tasks. "Cognitive skills" relate to the possession and ability to create knowledge. "Interactive skills" refer to the ability to relate between managers and employees, employees and employees, and employees and customers.

Kelly and Lewis (2004) have measured the change in different types of skills. The results of this study are summarised in Table 2 which shows the percentage change for each of these dimensions, plus education, between 1991 and 2001.

Table 2: Change in Average Skill Levels, Australia, 1991-2001, per cent

	Motor	Interactive	Cognitive	Education
All	-12.4	6.9	5.7	2.6
Part-time	-8.1	3.3	1.7	-0.8
Full-time	-10.8	9.9	9.2	6.4

Source: Kelly and Lewis (2004)

The mean skill levels for full-time workers for interactive, cognitive and education skills increased by about 9.9, 9.2 and 6.4 per cent, respectively, between 1991 and 2001. Motor skills per hour employed for full-time workers declined by 10.8 per cent. The decline in motor skills for part-time workers was 8.1 per cent. Mean education skills for part-time workers also showed a small decline. The increases for part-time workers in interactive and cognitive skills were quite modest. Overall the increase in

mean skills was highest for interactive and cognitive skills and relatively modest for education skills (or educational attainment). Demand for motor skills dropped significantly.

The change in mean skill levels has both between-industry and within industry dimensions. Between industry effects are due to the changing composition of industry shares of total employment in the economy. The between-industry effect captures the impact of changing product demands; trade and other structural change. The within-industry effects are due to technological change which includes changes in firm organisation and workplace practices. Table 3 shows the relative contributions of within- and between-industry effects for each of the skill dimensions for the period 1991 and 2001. It shows that of the decline in demand for motor skills about 40 per cent was due to changing industry structure, but 60 per cent of the decline was due to all industries' reduced demand for motor skills.

Table 3: Contribution to Change in Skills 1991 - 2001, per cent

	Motor	Interactive	Cognitive	Education
Total within industry	60.6	59.5	72.5	66.3
Total between industry	39.4	40.5	27.5	33.7
Total	100.0	100.0	100.0	100.0

Source: Kelly and Lewis (2004)

In summary, the within-industry effects were the main contributor to change for all skill dimensions over the 1991-2001 period. These were, in relative terms, most pronounced for cognitive skills. The conclusion to draw from these results is that technological change has been the dominant influence. It has allowed for, or driven, a restructuring of occupations within industries. Although greater emphasis on part-time employment has been deskilling (suggesting technology-skill substitution), this has been outweighed by the changing occupational contribution within full-time employment (suggesting that technology exhibits skill complementarity).

The full-time workforce (other than for motor skills) has become more skilled, but is less important in production. The increased share of part-time employment has not been as highly skilled as the full-time employment it displaced. The balance of the two effects has still seen increases in mean industry skill levels for the economy for

the non-manual skills, particularly for interactive skills. This is consistent with the nature of technological change that has taken place. This has been in the form of information systems and transactional processing technologies. It has been shown (see for example, Caroli 1999; Autor *et al.* 2000) that these enable better management technologies to be implemented, allowing tighter scheduling of labour, flatter management structures and smaller workforces for a given output.

The above changes to the Australian labour market have arisen from developments sometimes referred to as the 'New' or 'Global Knowledge' Economy, which has emerged out of two forces; namely the growth in technology and the subsequent knowledge intensity of economic activities including knowledge intensive goods and services, and the globalisation of economic activity. The major drivers are the rapid development and improvement of information technologies, increased pace of technological change, deregulation both within and across national boundaries, and the communications revolution.

A major development in the New Economy is the increase in the knowledge intensity of capital, labour, products and services, particularly knowledge based services. The growing incorporation of knowledge into the production process implies significant changes in the skill mix of workers. For instance, printing processes once consisted of heavy machinery operated by tradespersons in what was essentially a manufacturing industry. Now people in the printing industry are more likely to be behind a computer, making customised designs for clients. Most jobs in the printing industry can probably now best be regarded as providing services, rather than manufacturing.

New technology tends also to be complementary to highly skilled labour and it is a substitute for low skilled labour. Some jobs, such as the filing clerk, have virtually disappeared. However, the big expansion in employment is in personal and knowledge related services. These are in such areas as education, training, recreation, entertainment and personal services. There have been significant declines in employment in goods industries and particularly in the production of primary commodities.

Labour force skills and flexibility are the critical factor in determining the rate at which the potential of technologies can be realised. While competition and emulation urge organisations to pursue the potential reductions in transaction costs and other savings offered by the new technologies, these technologies are of little use without the right people with the right skills. Moreover, to realise the potential economies and other benefits firms, on an ongoing basis, have to restructure the entire internal and external organisation of their business. That is, the soft technologies (management and organisational) are critical to the successful adoption of hard technologies, such as the Internet. The requirements of change have far reaching implications for education, training and the labour market in general. Success in the new way of doing business means new skills, new outlooks and a new commitment to life-long learning.

One of the main effects of the emergence of the New Economy has been the impact on internal labour markets (ILMs). ILMs characterise jobs where workers will not face competition from outside the firm. Employees progress up job ladders by acquiring on-the-job skills and experience. ILMs provide a (limited) protection from the external labour market (with respect to both unemployment and wage flexibility), together with government regulations, union membership and the welfare state (all of which are closely related to ILMs).

As conceptualised by researchers such as Doeringer and Piore (1971) firms possessing internal labour markets had the following characteristics:

- a) they were generally larger firms;
- b) they possessed a hierarchical, pyramid organisational structure;
- c) external recruitment was focused on a large intake of more junior employees;
- d) promotion and advancement occurred according to internally developed policies and pay rates;
- e) generally, employees experienced gradual pay increases with the accrual of service;
- f) there was heavy investment in the development of firm specific skills;
- g) there was an emphasis on training and development of employees.

Typically a young worker would enter a firm on a subsidised (by the firm) wage knowing that they would “pay back” the employer during the middle years and contribute to their subsidised employment in later years. Thus, typically a worker would receive a higher than “market” wage when young and old while accepting a lower wage in middle years.

From the 1980s there have been signs worldwide of the destabilisation of ILMs (Gautié 2002). While technological change, mass production and ‘Fordism’, was crucial in the development of ILMs, technological change has also been of crucial importance in their demise. As Caroli (2000) explains, the new technologies create the need for “codified competencies” rather than the individual-based competencies of old technologies. This means that skills are more easily transferable between jobs and places of employment, which allows greater flexibility and interaction with the external labour market and diminishes the need for ILMs.

One of the generally recognised factors associated with ILMs is employer response to union pressure. In their original paper, Doeringer and Piore (1971) maintained that *“while to a certain extent, the development of internal labour markets may be understood as a free response of employers to the advantages which the internal market provides, they have in many cases been forced by union pressure to provide greater job security than is otherwise to their advantage”* (p. 173).

In Australia union density, the percentage of the workforce unionised, has fallen from over 50 per cent in the 1970s to 23 per cent in 2003 and 18 per cent in the private sector (Table 4). It would therefore be expected that union power has significantly diminished, particularly since employment has shifted from the public sector to the private sector through such developments as contracting out. Clearly, union membership is being seen as less relevant, for casual employees in particular, and for those in the service sector where the growth of part-time, female and youth employment has been greatest.

Table 4: Trends in Union Density, Australian 1976 - 2003

Employment Category	1976	1986	1998	2003
<i>Industry</i>				
Agriculture, Forestry and Fishing	20.0	19.6	7.9	5.2
Mining	63.0	64.0	33.4	29.1
Manufacturing	57.0	53.9	34.5	25.7
Electricity, gas and water supply	83.0	77.9	55.2	53.7
Construction	57.0	50.3	25.2	26.5
Wholesale and retail trade	27.0	27.6	18.6	15.2
Transport and storage	73.0	72.2	44.3	38.2
Communications services	88.0	84.6	53.8	31.2
Finance and property	42.0	42.1	16.5	10.1
Government administration and defence	72.0	63.5	45.4	38.4
Health and community services	56.0	54.3	32.7	29.8
Cultural and recreational services	41.0	36.1	21.5	13.3
<i>Sex</i>				
Males	56.0	53.4	30.0	24.1
Females	43.0	43.2	25.8	21.8
<i>Sector</i>				
Public	n.a.	72.9	52.9	46.9
Private	n.a.	38.6	21.4	17.6
<i>Leave Entitlements in main job</i>				
With leave entitlements	n.a.	52.4	34.2	28.5
Without leave entitlements	n.a.	33.4	11.6	8.6
<i>Full or Part-time in main job</i>				
Full-time employee	n.a.	47.3.	31.2	25.6
Part-time employee	n.a.	30.2.	20.2	16.9
Total	51.0	51.3	28.1	23.0

Source: ABS Cat. No. 6323, 6325 and 6310.0

Despite the potential for greater job mobility arising from the demise of internal labour markets due in part to the increased demand for generic skills, the evidence (ABS Cat. No. 6209.0) suggests that there has not been a reduction in the average job length. This can be interpreted as indicating that for *most* workers there has been no decline in job security.

An important implication of these developments is that it is more efficient for firms to concentrate on those activities in which they have a comparative advantage and “contract out” those activities for which other firms have a comparative advantage. For instance, a school has a comparative advantage in organising skilled labour and capital to produce education services and a cinema has a comparative advantage in the

marketing of entertainment. These organisations do not have a comparative advantage in cleaning services which are more efficiently provided by contract cleaning firms.

Another major development is the growth of “contracting out” or “outsourcing”. A contractor has been defined by Wooden and Van den Heuval (1996) as,

“an individual or company contacted by an organisation for a predetermined fee to provide a defined service for a specified period.”

They estimated that in the mid 1990s contractors accounted for 10 per cent of total employment and 90 per cent of firms made use of contractors at some time in any year.

To summarise the above, a combination of structural and technological change has significantly changed the demand for labour with respect to part-time employment, gender and skills. Less skilled workers are more vulnerable, as are younger and older workers (Lewis 2002). More generic and general skills rather than firm-specific skills are required. There is also evidence of growing wage dispersion (Lewis et al 2003). The overall outcome is a more highly skilled workforce and a more efficient economy.

Fortunately, for most Australians the labour market and its education and training system has facilitated the adjustment of labour supply to meet those changes in demand. The increased participation of women and students in the workforce has been well documented (see for instance Norris and Wooden 1996 and Lewis and McLean 1998) and this has greatly facilitated the increased demand for part-time workers and those with interactive skills. In addition the education system has significantly increased the average cognitive and education levels. For instance, the overall Year 12 retention rate has reached about 75 per cent and appears to have reached its maximum given current education policy.

The conclusion one would have to draw is that for most Australians the labour market and the education system has performed very well. Labour supply has adjusted quite well to labour demand due to structural and technological change. Poor labour market outcomes are not experienced by the large majority of Australians but by particular

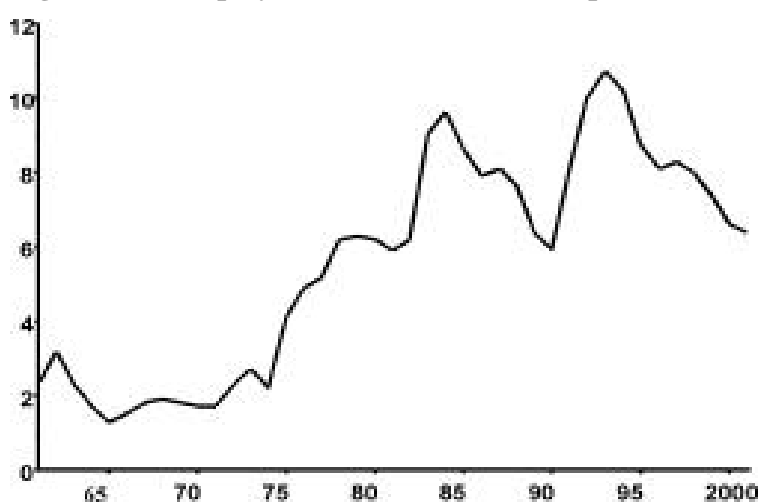
groups of people who are particularly disadvantaged and are fairly easily identifiable as pointed out by Dockery and Webster (2001).

Unemployment

The general health of the Australian labour market does not mean, however, that for some their labour market outcomes are poor. This is particularly so for the unemployed. It is not low wages or casual work but unemployment which is the biggest determinant of low household incomes. A large body of research (for a summary see Lewis et al, 2003) suggests that the best way to increase household incomes and reduce inequality is to increase employment.

The overall unemployment rate for the economy as a whole is shown in Figure 2. Clearly, the historical average until the mid 1970s was about 2 per cent but rose almost continuously until the early 1980s. Although there is not complete agreement among economists the most plausible explanation for this growth is that the rise in oil prices demanded considerable structural adjustment which was hindered by excessive regulation, including protection, plus lack of labour market flexibility, particularly downward wage rigidity, and, possibly inappropriate macroeconomic policy. The impact of the Accord in reducing real wages can be seen in the early 1980s and the impact of the huge rise in interest rates in the early 1990s is clearly evident. Over 12 years of extraordinary, by OECD standards, economic growth have been accompanied by a decline in the unemployment rate to about 6 per cent in 2004.

Figure 2: Unemployment Rate, 1960 - 2000, per cent



Source: *The Labour Force*, ABS Cat. No. 6203.0

The high unemployment figures suggest that the supply of labour exceeds the demand for labour and leads inexorably to the policy ‘solution’ popular among many economists that it is necessary to increase demand. Although they may differ on the actual mechanics of how this can be done, for economists brought up on Keynesian economics their solutions usually contain some combination of greater growth, more government spending and even budget deficits. There are even moves to re-regulate the labour market to make jobs more ‘secure’ and to limit hours of work and casual labour.

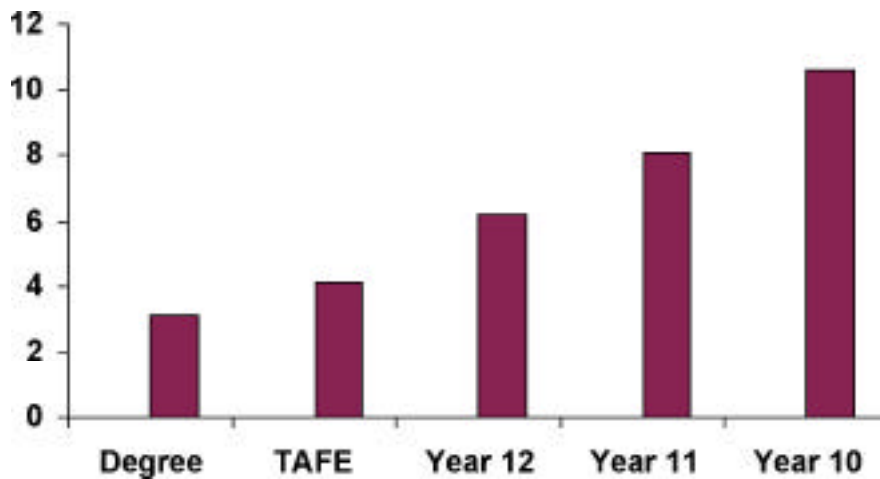
Looking first at the macroeconomic argument that governments can increase output and growth. One thing that seems clear is that although macroeconomic policy, particularly monetary policy, is very effective in reducing economic activity it is much less effective, and takes a long time, to boost the economy. Perhaps more important is a lack of understanding about the relationship between output and employment implicit in the view that somehow governments can raise output and this will increase employment. The point is that a firm’s decisions about how much output to produce and how much labour to hire are made *simultaneously*. Firms hire extra labour when the value of the extra output produced is greater than the wage. Firms will only increase output if activities which were not previously profitable are made profitable due to, say, a fall in wages or a rise in prices.

In my view the problem is not one of lack of effective demand but of lack of *effective supply*. The concept of “effective” supply refers to the situation whereby for certain people, at the current wage, their productivity is so low that they are effectively unemployable (see, for instance, Lewis 1994, Flatau, Lewis and Rushton, Lewis and Ross, 1996). Under this view the solution to unemployment relates to the supply side of the labour market as well as addressing impediments to firms’ hiring decisions. The changes in demand discussed earlier, including the shake out in full-time low skilled jobs, have been accompanied by a more efficient dynamic and prosperous economy. The problems of the disadvantaged are not solved by artificially manipulating demand since this can only reduce output and hence welfare. The solution is to make the supply of labour larger by equipping the disadvantaged to become part of the effective labour supply.

There is not space here for a detailed analysis of the unemployed but there is general agreement that the level of education is the single most important factor in determining who is at risk in the labour market. For instance, Figure 3 shows that for those whose highest level of education is Year 10 or less the unemployment rate is over 10 per cent. Clearly the unemployment rate is negatively related to level of education.

Another way of looking at this issue is to take the pool of unemployed. Of all the unemployed over 40 per cent have only attended school to year 10 or less.

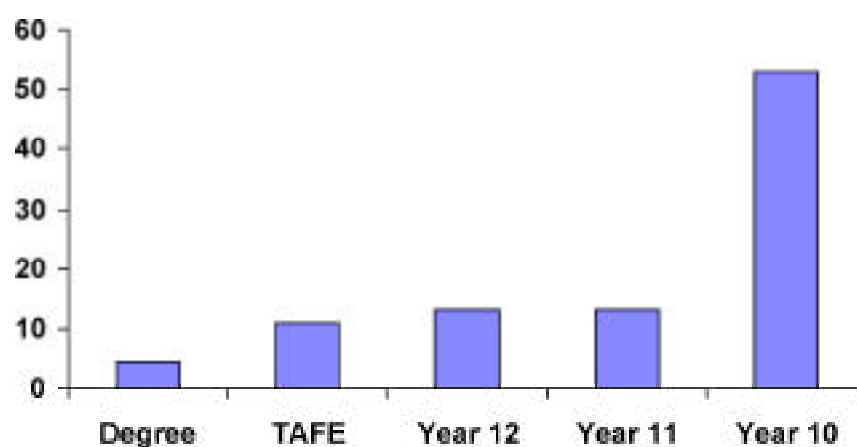
Figure 3: Unemployment Rates by Highest Level of Education, 2003, per cent



Source: *Education and Work*, Australia, ABS, Cat No 6227.0

Far more important than the number unemployed is the proportion who are long-term unemployed, that is for more than one year. People in this group are clearly not part of the effective labour supply. Figure 4 shows the percentage of all long-term unemployed by highest educational achievement.

Figure 4: Long Term Unemployed by Highest Level of Education, persons, 2001, per cent

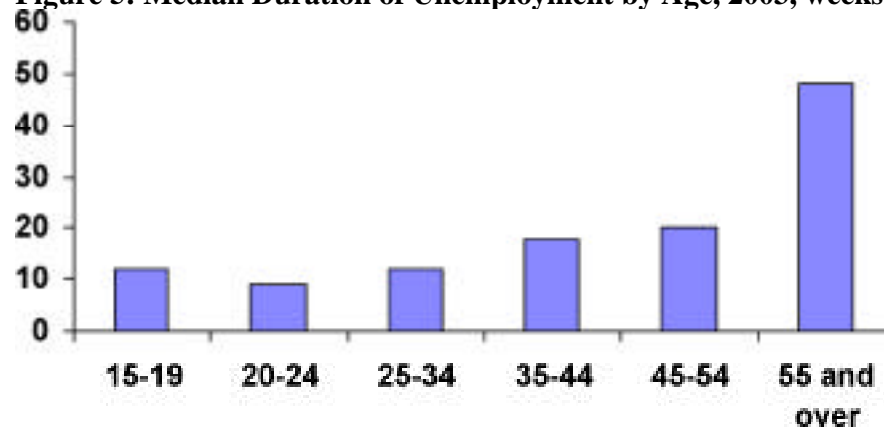


Source: *Job Search Experience of Unemployed People*, ABS, Cat. No. 6222.0

The effect of education on unemployment is even more marked for the most disadvantaged. About 55 per cent of the long-term unemployed have the lowest level of education.

Another important factor in determining those who are at risk in the labour market is age. Figure 5 below shows median duration of unemployment by age.

Figure 5: Median Duration of Unemployment by Age, 2003, weeks



Source: *Australian Labour Market Statistics*, ABS Cat. No. 6105.0

For those in the 20 to 34 years old age group, half of all unemployed, can expect to be out of unemployment within 10 weeks. For those 55 years old and older at least half

of the unemployed will be there for a year. It is important to note that it is not just age which is important. The older unemployed tend to be less well educated and more likely to be in jobs where skills demand is in decline.

Another aspect of the disadvantaged in the labour market is that there are considerable differences between neighbourhoods. For instance, youth unemployment is not a general problem, but concentrated in the most disadvantaged communities (Kelly and Lewis 2002). In 1991, when the economy was in recession, youth unemployment was fairly evenly dispersed. However, in 1996, when the economy was in a period of sustained growth, although the youth unemployment in the better-off neighbourhoods had fallen significantly, in the worse-off neighbourhoods there was much less improvement. In other words, youth unemployment is concentrated in poorer neighbourhoods and improvement in the macroeconomy alone, or general job creation, will not solve the problem. Neighbourhoods with high adult unemployment have generally higher youth unemployment. To a large extent unemployment, as well as other aspects of economic and social disadvantage, is intergenerational and, possibly, geographic in nature. The implications of this are that job creation is far more problematic than simply generating economic growth.

At the risk of presenting a caricature of the pre 1975 labour market, the choices facing individuals with little or no skills were about which job to choose rather than if a job were available. Staying on until Year 12 was an option chosen by a minority of youths and university by an even smaller minority. Today full time work for juniors is a rarity, part time work is taken up largely by students and married women, if you left school at year 10 then your chances of unemployment are much higher than the rest of the population and some high schools in our poorest suburbs have few going onto higher education.

Appropriate supply-side policies include social security reform, education and training; and rebuilding social capital in disadvantaged inner city areas and regions. However, there also needs to be greater labour flexibility including relaxing the downward rigidity of wages.

The decline in ILMs suggest several policy responses. These include:

- *more flexible wages*;
- *wage subsidies* (particularly for young workers, as in France and Japan - this replaces the implicit subsidies of ILMs with explicit subsidies from the government);
- *early retirement* (early access to government and private pensions);
- *investment in education and training*;
- *improved job search programmes* for displaced workers, such as JobNetwork.

Some Labour Market Issues

Although there are a whole raft of issues worthy of debate I shall look here at only one overarching issue which has been prominent in the run up to the Federal election, namely, the notion of ‘security’ in the labour market. Many critics of the current state of the labour market point to wage inequality, increased casualisation, use of contractors and reduced award coverage as indicative of reduced ‘security.’ It follows that there is a need for government to increase the powers of institutions, such as the AIC and tribunals, to impose pay and conditions on employers, increase power of unions and restrict the use of casuals and contractors.

There is overwhelming evidence that employment is negatively related to wages (Lewis and MacDonald 2002). This would appear fairly obvious even without the statistical evidence. People are unemployed because, given the minimum wage, firms cannot find profitable activities for them to be employed to do. Lower wages make activities which were previously unprofitable now profitable. For some the wage at which they can carry out profitable work might be very low which may well require government subsidies or training. Nevertheless, the experience in the US has been that:

“...jobless workers with few qualifications can apply to temporary employment agencies for short-term work. Although the employment is uncertain and irregular, workers who are persistent can usually obtain temporary work assignments, and many eventually find permanent jobs if their work performance impresses a manager who has provided a short-term job assignment. Other job opportunities for less qualified workers can be found in low-wage retailing, cleaning and landscape services, agriculture, manual labour, and informal child care. With relatively little training, less educated job seekers can find work as home health aides for the elderly and disabled...” Burtless (2002)

Burtless (2002) also points out that the US experience is different to that of most of the OECD and attributes this to regulations in both the product and labour markets.

The debate on the minimum wage appears to be a lost battle given the regular increases in the ‘safety net.’ One of the problems, in my opinion, with the arguments put by such organizations as employers’ groups against rises in awards, is that they concentrate on the impacts on total wage costs, which are generally small, whereas the big impacts are on employment of marginal workers who are the most disadvantaged. It is fair enough that employer’s groups should try to reduce costs to firms- it is not their role to represent the unemployed. The problem is that there is no lobby group for the unemployed with most welfare groups arguing for higher wages.

The focus of policy should be to raise the incomes of *low income households* rather than of *low wage workers*. There is substantial evidence that many low wage workers are in relatively high income households and that poor households are usually poor because members of the households are out of work. Thus, facilitating jobs growth should take preference over raising wages of those in work.

Unfortunately, the inflexibility resulting from awards is compounded by the social security system. Table 5 presents some interesting comparisons between the maximum social security benefits entitlements and the minimum wage.

Table 5: Social Security Payments, March 2004, \$ per week

	Dollars per week
Singles	
Adults	239.70
Adult with one child	386.14
Pensioner	273.60
Couples	
No children	391.90
With two children	533.22
Pensioner	422.60
Minimum Wage	448.40

Source: *Poverty Lines: Australia*, Melbourne Institute of Applied Economics and Social Research

While these social security entitlements are only just above the poverty line they certainly compare favourably with the minimum wage. When income tax on wages and the other benefits and discounts available are included, the incentives to work are low or negative. Even with work tests and other disciplinary measures (mutual obligation) it is difficult to see the government depriving families with children by removing benefits from those unwilling to work. It is time to seriously consider further reform of the social security system including a negative income tax.

There is currently a widespread campaign against casual employment on the grounds that casual jobs are 'insecure and are destroying the regulatory environment in the labour market. Fortunately there is increasing evidence to dispel many of the myths about casual employment (see, for instance, Dawkins and Norris 1995, Wooden and Warren, 2003).

Among the reasons for the increase in part-time and casual employment in the Australian work force are that it has improved the flexibility of work arrangements for employers. This has accommodated the improved scheduling of labour to suit the demands of deregulated shopping hours and the periods of peak demand experienced in some industries. It is also important to recognise that there is a large proportion of people who are willing to supply labour on a part-time and casual basis as it facilitates lifestyle and career choices, for example, students and women looking to match study or family obligations with work. Thus, firms, workers, consumers and the economy as a whole has benefited from more labour market flexibility.

There has also been an increasing share of employment taken by small firms, workplaces and work groups. This has had a positive effect on part-time employment. In general, the smaller the firm, the higher the casual and part-time employment as a proportion of the workforce.

Employment status of casuals is not the source of job instability; their relative lack of skills is of greater importance. Conversion to permanent status will not change their overwhelming concentration in the least skilled jobs and occupations, where operational needs are characterised by varying and flexible hours and workloads.

On the supply side demographics play an important role in explaining the increases experienced in the part-time labour supply (CLMR 2002). Age and gender in particular help explain the changes occurring in part-time and casual labour supply. More than 40 per cent of male part-time workers are aged less than 25 years. The majority of female part-time and casual employment are aged between 25 and 54. 75 per cent of part-time workers in Australia are women while the majority of 25-54 year old female part-time workers are married.

The socioeconomic data (Wooden and Warren, 2003) on households in which casuals live do not show inability to obtain finance or problems with home ownership. Many casuals are working women and students contributing to reducing mortgage and household debt.

The Sustainability of Outcomes, a recent report by the Department of Employment and Workplace Relations has shed light onto the experience of new entrants into the employment market. The central, relevant, finding is that casual employment can lead to higher paying permanent employment (DEWR 2004). This study confirms findings by the ABS, *Employment and Work Place Patterns* (Carino-Abello, Pederson & King, 2001; Dunlop, 2000) and research by FaCS in their *Department of Family and Community Services Longitudinal Data Set* (Flatau & Dockery, 2001). This includes:

- a substantial number of low paid job seekers do move to higher paying jobs over time;
- movement from low pay to higher pay is often associated with transitions from part-time to full- time work; and,
- a substantial number of job seekers in low skilled jobs move to higher skilled jobs over time: (DEWR 2004).

This phenomenon, of moving away from low skilled, low paid employment to higher paid, higher skills, better wages and hours of employment, is called the “Stepping Stone” hypothesis.

Recently there has been much discussion on the impacts on the labour market of an ageing population. One of the major implications of demographic change is the likely increase in the need for more part-time and casual employment. This is likely to

increase further the proportion of casual employment beyond the current 27 per cent. A comprehensive report by the Commonwealth Treasury (2004) suggests:

“...[L]ooking forward even more flexibility will be required. Rising incomes and an ageing workforce will result in more and more people choosing to work part time. We will need to accommodate these preferences. We will also need to ensure that younger Australians, including those currently reliant on income support, are able to find a job. It is important that our system is flexible enough to address these diverse needs and generate jobs for all those who want them.” (p. 13)

Clearly if casual job opportunities are lost then this will significantly reduce the ability of older people to balance work and leisure which will be required if the economy is to adjust to changing demographics.

Most people who seek out casual employment do so because of the flexibility it allows as well as the increased loading for loss of sickness and holiday pay. Developments in the New Economy, particularly in retailing, have made casual workers a particularly attractive option for employers. There is no evidence that casual jobs are any more precarious than permanent ones. Introducing permanency for casuals would be expected to result in employers terminating casual employment before the qualifying period for termination payments. This would lead to a significant turnover in jobs, but significantly reduce the duration of employment for many people, particularly younger workers for whom unemployment is particularly high.

Conclusion

The Australian labour market and its education and training institutions have served most Australians rather well. No doubt deregulation of product, labour and capital markets have been a major reason for this. However, there is a chronic problem of lack of employment opportunities for the most disadvantaged. In the short run the potential exists for these people to find employment with a range of supply-side and wage policies. These will not be jobs that would be long term and skilled. Improving the position of the disadvantaged in the long term is clearly not an easy task will involve improving educational outcomes and changing family and community cultures.

The ability of firms to adjust the quantity of labour employed is an important adjustment mechanism in ensuring an efficient economy. Thus any impediments to hiring flexibilities, would be expected to reduce the ability of firms to restructure, reduce the efficiency of the economy and, therefore, reduce employment and increase unemployment. Much of the changing structure of jobs have been due to a transition from an “old” to a “new” economy, the pace of which is likely to have now slowed. It is likely that there will be further significant growth in the proportion of jobs which are casual, part-time or contactors, due to an ageing population. The costs arising through non-transferability of firm-specific skills would be expected to decrease. Thus there has been a decline in occupational specialisation.

The competitiveness of the Australian economy will be affected if restrictions on employment are imposed. Reduced labour market flexibility will increase firms’ costs making firms uncompetitive. To the extent that firms can pass their costs increases on to firms they supply or directly to consumers then consumers will face higher prices and lower standards of living. Australia will have a less efficient economy, lower employment, there will be higher prices and consumers will be worse off.

The Australian economy has proved very resilient in recent years to global trends and intermittent shocks (such as the Asian financial crisis). It has an enviable record of economic achievement and its ability to adjust to shocks has been partly due to the flexibility of the labour market. Any reduction of this flexibility, by restricting the use of casual and contract labour, would affect firms’ and the economy’s ability to adjust to change and withstand the inevitable unpredictable shocks in the future.

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