
REVIEWS

Solutions to Unemployment Crisis

Stephen Bell (ed.) The Unemployment Crisis in Australia: Which Way Out?, Cambridge University Press, Cambridge, 2000

Reviewed by Paul Miller

The unemployment crisis in Australia has generated numerous academic contributions. Many of these have proposed solutions based on cuts to real wages, microeconomic reform and supply-side interpretations of the problem. The edited volume by Stephen Bell takes exception to these: its main theme is that the government's focus on deregulation and free-market policies is inappropriate when the source of the unemployment problem appears to be demand deficiency. While representing the views of eleven authors, the book has a remarkable consistency, a clear logic, and clear views on the 'way out'. Whether readers will agree with the views expressed is another matter. But at the very least the book should stimulate further debate on the ways of reducing the level of unemployment in Australia.

A review should give readers a feel for what to expect in a book. With chapters written by different authors on different, though related topics, this is difficult. A chapter-by-chapter account, while making for a lengthy review, is probably best.

Martin Watts provides an excellent discussion of the distribution of the burden of unemployment, noting that it falls disproportionately on the least skilled members of society. He cautions against skill development as a primary focus in the fight against this unemployment, as this is more likely to simply reorder the queue than reduce the aggregate rate of unemployment. Regional inequalities are also reviewed, with attention to the work of Gregory and Hunter on the intensifying of regional disadvantages. An attempt is made to quantify the cost of the output loss associated with unemployment. Watts' estimates of this loss are, reflecting his assumptions, much greater than those provided by Kenyon (1998). Watts' chapter also reminds the reader that the official unemployment statistics understate the true unemployment picture, perhaps by a factor in excess of two. This is useful information.

William Mitchell provides a spirited attack on the neoclassical explanation of the current high rates of unemployment, an explanation that has at its centre excessive real wages, minimum rates of pay and social welfare payments. Excellent use is made of the writings of researchers sharing the view that the cause of the current unemployment problem is not to be found in supply-side explanations. Little attempt is made to take on the studies that purport to

demonstrate otherwise. There also seems to be an unwillingness to recognise that the unemployed may be a different group to the employed — that, for example, while some employed youth may be paid at over-award rates, the unemployed may not be competitive at the award rates of pay.

Mitchell focuses on the link between growth rates and unemployment using Okun's Law-type arithmetic. He concludes that growth rates have not been sufficient, and this is because of the focus of policy over the past several decades on fighting inflation. Some bivariate relationships, for example between capital expenditure and unemployment, are presented as evidence, and the reader is confronted with statements like 'Economists who wish to argue that the unemployment has been generated by supply-side rigidities have to first explain (these) relationships'. A number of popular arguments, such as the 'jobless growth' hypothesis, that unemployment is due to the export of jobs to third-world countries, and the growth in unemployment is due to compositional changes in the labour force, are also examined, and rejected. Mitchell does a good job of promoting his central theme, that aggregate demand deficiencies are the fundamental cause of Australia's current unemployment problem. However, the reader is left wondering just how supporters of the neoclassical view could have got it so wrong.

It was ironic that I finished reading this Chapter, which mentions the low benefit replacement ratio in Australia, and turned to my local newspaper to be greeted with the headline 'Dole pays almost as much as work' (*The Sunday Times*, 2000). A reader who accepted the storyline of the book under review would wonder whether the newspaper had made a major error! Closer attention in the book to the various taxes and benefits in the working and welfare states would have eliminated this potential source of confusion.

Raja Junankar provides a thoughtful review of neoclassical descriptions of the labour market, and questions the relevance of theories where the wage fails to clear the labour market only due to government/union interference. Efficiency wage theory and models of monopsony power are advanced in support of this questioning. Junankar asks a number of important questions: 'Can a government deliver cuts in the real wage?' 'Will lower minimum rates of pay lead to greater levels of employment and lower levels of unemployment?' He concludes that it is unlikely that the government could deliver a cut in the real wage. It is hard to disagree with this. He also argues that lower minimum rates of pay will not necessarily lead to greater levels of employment and lower levels of unemployment. Of course the Card and Krueger (1994) study is dragged out in support of this contention, without any reference to the criticisms of this study such as those of Welch (1995) and Hamermesh (1995) or the questioning of the relevance of the US evidence to the Australian labour market (Seltzer, 1997).

Junankar also reviews the literature that examines the links between labour market flexibility (decentralisation) and employment levels. He argues that even if real wage cuts were possible in Australia, they may not be a sensible policy as they are unlikely to result in greater employment or lower unemployment. What is more, evidence is advanced to the effect that firms do not want to cut wages!

Again, the reader is magically drawn to demand-side policies as the solution to the unemployment problem.

Bob Gregory compares the economic track record in New Zealand, United Kingdom, United States and Australia against the backdrop of the various labour market and economic reforms instigated in these countries. He provides pertinent words of caution in relation to what can be learned from such cross-country comparisons. The reforms in the UK, US, Australia and NZ are briefly reviewed. Data on GDP per capita, employment/population ratio and real wages are assembled for 1960-late 1990s. These are presented clearly, and what is shown at the aggregate level is that there are not clear links between the pace of reform and the growth rate of GDP per capita. Some evidence is reported, however, that the economic and labour market reforms can impact on labour market productivity and employment/population ratios. Gregory concludes 'common views and prescriptions do not accord well with the data'.

John Burgess and Roy Green examine the link between economic growth and unemployment. They argue that the growing numbers of unemployed can be traced to insufficient economic growth. They compute the unemployment stabilising growth rate for a number of periods, and argue that this has declined (as a feature of the economy in recent decades has been an increased employment intensity of growth), thereby presenting policy makers with a more achievable target. Economic growth of above 3.5 percent may be required to stabilise the unemployment situation. However, the authors note that the rate of economic growth required to reduce the unemployment rate will be high relative to our recent experience. They argue that the high growth policies that are needed should be developed alongside policies that will address the special issues of the long-term unemployed, regional unemployment disparities and the uneven access to jobs and income across the community. The government's emphasis on supply-side policies (industrial relations reform, privatised employment services market, unemployment benefit reform) is highlighted, as is the absence of active demand management policies. This is an interesting chapter that has as its main limitation its focus on growth in isolation of other factors (for example, wage rates). It also contains a discussion of the quality and distribution of jobs at the conclusion of the Chapter that simply blurs the main focus.

John Nevile reviews the policy reactions to recession in Australia. He argues that our experience suggests that Keynesian macroeconomic policies—both fiscal and monetary—are potent in boosting output and employment in an economy undergoing a recession. The effectiveness of Keynesian stabilisation policy has support from the cross-country comparisons that Nevile draws attention to. He proposes a package of policies, incorporating: (i) an incomes policy; (ii) labour market programs; (iii) greater government expenditure; (iv) greater tax revenue; (v) measures to increase private sector savings; and (vi) measures to increase net exports. In terms of government expenditure, the emphasis is on economic infrastructure, and it is noted that this has the potential to increase the productivity of private sector investment. Nevile recognises that his policies will have both winners and losers. He challenges readers 'The question is how much do

Australians wish to reduce unemployment substantially and relatively rapidly. How much are we prepared to pay in higher taxation to achieve this?’

Stephen Bell, Roy Green and John Burgess provide a close examination of Australia's economic structure, and link this to the current account deficit and the growth in unemployment in recent decades. They show that compared to most countries, Australia has an over-reliance on commodities in exports. They also argue that Australia has tended to shed high-tech manufacturing employment and gain low-tech manufacturing employment, which is the opposite of what the leading OECD economies have achieved. Hence they see the structure of the economy as a major problem for Australia, and one which policy makers continually overlook. Accordingly, the authors suggest that within an overall policy framework where aggregate demand is stimulated, there should be appropriate sector-based industry and regional development policies aimed at developing competitive advantage in high value-adding, knowledge-intensive products and processes. It is also suggested that labour market programs have a role to play. As in a number of other chapters, the focus of the chapter gets blurred when the authors drag old chestnuts out in closing remarks. Hence the reader is confronted with reference to work sharing, reductions in working time and issues associated with industrial relations reform. These dilute the authors' main arguments.

Anis Chowdhury reviews the reasons why a 'fight inflation first' approach has emerged in macroeconomic policy making. He argues that the fear of inflation that may prevent high growth policies being pursued can be overcome through the adoption of incomes policies. Such policies might enable unemployment to be reduced while maintaining a low inflation environment. He acknowledges that a Prices and Incomes Accord type of incomes policy is unlikely in today's economic and political environment. However, it is suggested there is scope for well-coordinated industry- and sectoral-based approaches (for example, in public and community services).

John Quiggin argues for a return to 'the only policy framework that has ever delivered full employment, that of Keynesian social democracy'. In this context he examines the public sector as a job engine. He outlines a package based on, but not limited to: (i) an expansion of labour market programs to provide 300,000 program places per year; and (ii) an expansion of the human services sector supported by higher taxes that would reduce private sector demand. As the human services sector is labour intensive, this switch in demand would be associated with employment growth. Quiggin attempts to provide some calculations to illustrate that this reform package is feasible. Although approximate, this quantification is a pleasing aspect of the study. Constraints to the package posed by resistance to higher levels of taxation, inflationary pressures from a tightening labour market and globalisation are reviewed. Ways of circumventing these are canvassed.

Elizabeth Webster's chapter looks at the role for labour market programs. Four main types of active programs are identified, job creation, wage-subsidy, training-subsidy and placement services. These are seen as supply-side programs that have little effect on aggregate demand. Webster provides a brief overview of

labour market programs in Australia, including an examination of the Jobs Network. A concise overview of recent studies that have evaluated labour market programs is also provided. It is reported that wage subsidy schemes are the most effective. However, the macroeconomic evaluation of labour market programs show they have little effect, suggesting that the gains recorded in the microeconomic evaluations of the employability of labour market program participants are at the expense of other job seekers and people already in employment. Webster sees labour market programs as a complement to demand expansion policies. This is an informative chapter. Some closer links to the work by Piggott and Chapman (1995) would have been useful.

Overall, this book does a useful job of promoting demand-side policies as a solution to the unemployment problem. A more in-depth appraisal of competing explanations, through a marshalling of the empirical evidence, would have been more beneficial than the almost casual dismissal of many such views that marks the book. The book also fails the Miller topic association test on a number of occasions — given a topic, such as measurement of unemployment, which author/article associated with that topic, for example, Wooden (1996), is not referenced in the book. This alerts me that I am being exposed to an alternative view of the unemployment problem. The authors can also be criticised for being too narrow, though I suspect this is part of the plot.

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