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## Unemployment Policy: Unemployment, Underemployment and Labour Market Insecurity

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Stephen Bell and John Quiggin

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A capitalist economy turns almost everything into a commodity. It forces people to try to compete in a 'labour market' in order to earn a living and hence the labour market is of central importance to the life chances of most of the population. Only the very young, the old or incapacitated are spared the usually grueling challenge of 'competing' in the labour market and it can feel like an inhumane place for those who cannot find a job or enough work.

In this chapter we argue that Australia's labour market features too much unemployment, underemployment or associated forms of labour market insecurity. The latter term implies a weak or tenuous connection to the labour force through underemployment or involuntary casual or part-time work and/or low wages or other manifestations of weakness vis-à-vis employers. The direct and indirect costs of such malfunctions in the labour market are reflected in a range of economic, social, health and other costs (Watts 2000; Saunders and Taylor 2002). Estimates of the costs of unemployment and underemployment range from \$20 to \$40bn per annum in Australia (Watts 2000). A good deal of social policy is directed to problems emanating from the labour market and its various malfunctions. Accordingly, a good way to minimize the need for expensive and often difficult social policy interventions is to try and organize the labour market so that it provides reasonable jobs for those that seek them.

Unfortunately, creating such a labour market is not easy. There are inevitable tensions and conflicts between employers and employees over shares of wages and profits. Also, capitalist economies have rarely created full employment. The so-called 'Golden Age' of capitalism in the post World War II era was a rare period of managed capitalism, full employment and rising living standards for most. But employers are wary of full employment because it strengthens the bargaining hand of labour, leads to upward pressure on wages and can generate high levels of (wage push) inflation. It was

this scenario that saw the collapse of the Golden Age in the 1970s in Australia and many other capitalist economies. The aftermath, from the 1970s to the early 1990s, was marked by high levels of unemployment and inflation as governments and the authorities used policy induced recessions on various occasions to ramp up unemployment in the fight against inflation. In this manner, ‘snapping the stick of inflation’ was finally achieved in the early 1990s recession amidst the Reserve Bank of Australia’s high interest rate strategy and souring unemployment (Bell 2004).

Subsequently, the long economic expansion (Bell and Quiggin 2008) that began with the end of the 1989-91 recession and ended with the emergence of a global financial crisis in 2008 yielded a reduction in unemployment from around 11 per cent to a little over 4 per cent. This rate, the lowest since the 1970s, was nonetheless high by the standards of the full employment economy of the Golden Age.

This chapter begins by looking at the dynamics of the Australian labour market. We argue that the official rate of 4.4 per cent represents a very conservative estimate of unemployment. The biggest problem in the labour market today is not official unemployment but underemployment, sometimes referred to as hidden unemployment. Based on the assumption that more work would reduce the need for expensive social policy interventions, we also examine the various positions in the employment policy debate.

### **Australia’s Labour Market Dynamics**

Typical of wider trends in the advanced economies, the Australian labour market has undergone dramatic changes in recent decades. The structure of employment has changed with a higher premium placed on skills and knowledge. At the lower end of the market, traditional unskilled ‘blue collar’ jobs have been rapidly disappearing, though simultaneously there has been a proliferation of part-time and/or casual jobs, especially in the lower paid end of the services sector. For these and other reasons, unemployment, but especially under-employment, insecure forms of work, low wages and rising levels of inequality have all become major problems in Australia’s labour market.

Movements in the official unemployment rate in recent decades are shown in Figure 1. Although still low by recent standards, the unemployment rate of 4.4 per cent as of late 2008 still reflected the presence of nearly half a million Australians officially designated as being unemployed. Indeed, the number of dependent children living in ‘no job’ households stands at around 16 per cent or almost 1 in 6 of all households (Argy 2005: 78).

#### **Figure 1**

A major driver of unemployment has been the size of the gap between labour force growth and employment levels, especially the large gaps opened up in each of the major recessions during the 1970s and in the early 1980s and early 1990s. These recessions - as periods of intense job destruction - have a devastating impact on employment growth and are a major factor in driving up unemployment and embedding high levels of long-term unemployment.

The method of measuring unemployment used by the Australian Bureau of Statistics (ABS) (and other statistical

agencies in many other countries) is highly restrictive and does not include many people who would generally be regarded as unemployed. One hour of paid employment in the relevant survey reference week, for example, is sufficient for a person to be classified as employed. In addition, people who are not actively looking for work, or are not ready to start work immediately, are classified as 'not in the labour force'. The implication, as Lee and Miller (2000: 76) suggest, is that 'the official unemployment rate is not reflective of the true state of the labour market'.

Langmore and Quiggin (1994) consider a range of forms of unemployment not included in the official headline measure of unemployment. First, there are 'discouraged workers', or persons who have given up trying to find work, either because of poor job readiness or because of disillusionment or other reasons related to not being able to find work. In September 2007, the ABS estimated that there were about 76,000 discouraged workers in Australia.

Second, there are 'underemployed workers' – those working part-time who would like more hours of work or who would perhaps like to work full time. In late 2007 about one in four part-time workers stated they would like to work longer hours (Campbell 2008: 165). The proportion of part-time workers in the workforce has grown from around 6 per cent in the 1960s to over 30 per cent today. Australia has one of the highest rates of part-time work in the advanced OECD economies. As the official unemployment rate has declined in recent years, the number of underemployed workers has continued to grow substantially. Campbell (2008: 157) points out that the underemployment rate has tripled in recent decades and now stands at over 6 per cent of the labour force, or almost 680,000 workers.

Third, there are people of working age who have left the labour force and gone on to disability benefits, or taken early access to the old age pension. Some recipients of disability benefits are completely incapacitated for work. However, many people with minor disabilities who would be employable in a properly functioning labour market have ended up on disability benefits. Given that the health status of the population has generally been improving, the large increase in the number of people receiving disability benefits can only be regarded as a form of disguised unemployment. Similarly, it is often difficult to distinguish between voluntary and involuntary early retirement. Nevertheless, a reduction in workforce participation for workers aged over 50 makes little economic sense in a context where the proportion of the population in this age group can be expected to increase steadily.

In a review of these forms of labour under-utilisation, Argy (2005: 77) estimated that around 900,000 people or about 9 per cent of the labour force were affected by these forms of underemployment or 'hidden unemployment'. Considering these issues, Wooden (1996) estimates that the official category of 'unemployment' captures only about half of the true level of labour under-utilisation (see also Mitchell 2001, Mitchell and Watts 1997, Mitchell and Carlson 2001).

Unemployment and under-employment thus remain major challenges in Australia. A series of reviews of the performance of the labour market (Bell 2002, Argy 2005, and Campbell 2008) also show that:

- After years of sustained economic growth in the long economic expansion (that now appears to have ended), cyclical forms of unemployment stemming from weak demand in the economy were substantially diminished. In 2005, Argy (2005: 80) calculated that about 1 per cent of the workforce was afflicted by cyclical sources of unemployment and underemployment. More serious are 'structural' sources of unemployment and under

employment, which Argy calculated as affecting at least 5 per cent of the labour force, with ‘frictional’ sources (unemployment between jobs) affecting a further two per cent of the labour force. Structural sources of unemployment stem from various kinds of labour market mismatches and rigidities, particularly mismatches between the skills workers may have and the skill requirements of the jobs on offer. Many unskilled or older displaced workers are in this category.

- Partly because of such structural factors there has been a steep rise in the level of long-term unemployment, with the duration of unemployment roughly doubling since the late 1970s. This is one of the key and apparently enduring ‘scarring’ effects of major recessions and periods of high unemployment. At present almost a third of the unemployed have been unemployed for more than a year and are officially classified as long term unemployed.
- Although declining somewhat in the 1990s, the employment/GDP ratios across the advanced economies (including Australia) have been relatively strong since the 1970s. Although there has been ‘jobless growth’ in a number of sectors (mining, agriculture and manufacturing), this has not been the case in aggregate terms. Nevertheless, the growth of employment and the relatively strong jobs intensity of output growth since the 1970s have not kept pace with the demand for jobs. Persistent unemployment reflects the failure of the labour market to create enough jobs to satisfy demand. Indeed, the unemployed persons/job vacancy ratio has averaged around 11:1 since the early 1970s (Mitchell 2001: 17). Whilst unemployment was once relatively evenly distributed, there is now a strong trend towards jobs rich and jobs poor households, neighborhoods and regions (Gregory and Hunter 1996).
- In the long expansion, many labour market ‘insiders’ did well in terms of growth in skilled employment and higher wages. However, there were also many labour market fringe dwellers in low paid and insecure forms of work, whilst many labour market ‘outsiders’ languish in unemployment or, as outlined above, in severe underemployment. It should also be noted that partly due to wage disciplining policies (such as earlier policy induced recessions), structural change in the labour market, and a strengthening in the hand of employers in wage bargaining, aggregate wages growth has slowed substantially. The result of these changes has meant that the recent long expansion did not see a return of rapid wages growth of the kind that had previously fuelled inflation. This is a major turn around. Over the fourteen years to the middle of 2005, labour costs increased only 27 per cent, compared to 144 per cent over the fourteen years prior to this (Edwards 2006: 72).
- The employment rate for women has increased substantially in recent decades, and the labour market status of women has in this respect improved relative to that of men. In the 1970s, males had about half the unemployment rate of females. Now males have higher unemployment rates than females. Indeed, male full-time employment in the age range 45-54 has fallen by 16 per cent since 1970 and by 32 per cent over the same period in the 55-64 age range (Keating 2004: 115). Youth and the less skilled also suffer relatively high levels of unemployment.
- The most systematic observation across the various trends is that unemployment is overwhelmingly a problem for *low skilled male workers* facing the effects of structural change in industries or regions that are shedding labour. A particular hotspot in this regard has been labour shedding in the manufacturing sector (Gregory and Hunter 1996). Unemployment levels for such male workers would have been even more acute had there not been a substantial

decline in male full-time labour market participation rates.

- Much of the employment created in the expansion consisted of part-time and/or casual jobs. It is also the case that a significant proportion of new jobs are relatively insecure and poorly paid, while a smaller number of high-income, high-status jobs have been created. This partly reflects structural change in the economy and employer strategy. Full-time employment losses in the manufacturing and public sectors have in many cases been replaced by employment in the low-end market services sector. Other contributors include rapid changes in the structure of demand, changing product cycles and heightened competitive pressures with a greater emphasis on bottom line returns leading employers to abandon assumptions about durable employment patterns in favour of downsizing and greater 'flexibility'. The net effect is far higher levels of labour 'churning' and an associated rise in frictional unemployment, in some cases blending into long term unemployment (Hancock 1999). Part-time employment has, at least initially, borne the brunt of the contraction in employment associated with the current downturn.
- There has been a major expansion of 'non-standard' forms of work in Australia, particularly, as noted above, casual and part-time work, typically with reduced levels of job security. Sheehan (1998: 241) argues that since 1973, 1 in 5 full-time jobs have been lost in the economy. Put another way, 'if the 1973 ratio of full-time employment to the population of working age had been maintained through to 1996, the number of full-time jobs available in the Australian economy would have been about 2.8 million higher than was actually the case'. Campbell (2000) shows that between 1990 and 1999, 71 per cent of the growth of employment was accounted for by the growth of casual employment. Over the same decade, the proportion of full-time, permanent employees in the labour force declined from 73.5 per cent to 63.4 per cent. As Campbell (2000: 70) argues, 'At the level of the workforce as a whole, casual employment appears to be slowly replacing full-time permanent employment'. Male full-time employment increased by only 5 per cent in the thirteen years between 1989 and 2002 (Keating 2004: 115).
- Income inequality is increasing (Borland 1999, Argy 2003). Significant areas of jobs growth in the services sector (including accommodation and cafes, retail and wholesale trade and personal and other services) pay at or below average weekly wages. This expansion of low wage services employment in Australia, combined with unemployment and less equal access to work, has produced a marked shift towards a more inegalitarian distribution of incomes. For example, the earnings of male full time workers in the lowest income decile fell from 76 per cent of median earnings in 1975 to 65 per cent in 2000, whilst the corresponding fall for females was from 80 to 71 per cent (Keating 2004: 114).

## **Policy Responses**

A number of major public policy issues are raised by the labour market dynamics outlined above. One issue is what to do about unemployment and underemployment? A second issue is how to address the problem of increasing inequality born of unemployment, underemployment and structural change in the labour market? A third related issue pertains to the role of social policy and the welfare state. Finally, there is the question of how to minimise unemployment arising from the

end of the long expansion.

In terms of unemployment and under-employment, these stem from the failure of the economy to create sufficient jobs, or the right kinds of jobs, to meet the demands for work. The policy debate on how best to create more jobs has traditionally been polarized between neoliberal 'supply-side' arguments and Keynesian-inspired 'demand-side' arguments.

That there are such different views on how to 'construct' the problem of unemployment points to the fact that social reality is always wide open to differing interpretations (Blyth 2004). In this case the differences hinge on competing paradigms (Keynesian vs. neoclassical) within the discipline of economics. The debate between these paradigms has been waged for decades. In the postwar Golden Age era, Keynesian interpretations were dominant. Since the 1970s, for a range of reasons (including shifts in the dominant political coalition) neoclassical cum neoliberal views have been ascendant. The technical debate on these issues is typically waged by labour market economists and other experts, but as always in politics, the arguments and messages are massaged and propagated by various players including interest groups, think tanks, political parties, trade unions, employers, bureaucrats, central bankers and governments. We will return to the dilemmas facing governments in a moment, but first we need to unpack this aspect of the policy debate.

Supply-siders see unemployment mainly as an individualized problem of *labour supply*. In other words, those who are unemployed are (market) 'deficient' in some way: including laziness, education or skill deficiencies, an unwillingness to move to where jobs are on offer, asking for 'excessive' wages etc. The cure for such problems, according to supply-siders, is a dose of 'microeconomic reform' of the labour market designed to reduce structural rigidities and increase labour skills and 'flexibility'. This might include efforts to force people off the dole to search harder for work, education and skills enhancement, labour market programs (eg. re-location subsidies, job placement services etc) and/or efforts to reduce wages, or the availability of dole payments.

Such approaches offer the prospect of reducing at least some of the labour market mismatches noted above and thus some of the structural sources of unemployment. However, education, skills enhancement and other labour market policies on the supply-side are no panacea. Education, job training, re-location subsidies, or job placement services may help some workers gain a job currently on offer. Indeed, such an approach may help alleviate some of the current areas of labour shortage. On the other hand, some of the structural mismatches can be entrenched, particularly at the bottom end of the labour market. In this respect, consideration also needs to be given to the little debated possibility that the level of commitment, intellect and knowledge required to *successfully* participate in today's labour market may be increasingly beyond the capacity of many. As the American writer, Larry Letich (1995) has argued: 'It is possible that over the last 100 years, and especially the last 40, we may have created a society that demands more brain power than many people are able to give'. If so, even an advanced 'training augmented' labour market will fail the key distributional tasks of providing jobs and adequate incomes for many of those at the bottom. In this situation, the only solution is to explicitly supply jobs with reasonable wages that match feasible capabilities and talents. This is an explicitly distributional or welfare issue which in an increasingly knowledge based economy the market is not solving.

Nor will supply-side measures by themselves create new jobs. In a study of the relationship between skills upgrading and unemployment, Chapman's (1999) 'major conclusion is that the answer to Australian job creation, at least in

the short to medium term, does not lie in increasing the skills of the unemployed'. Nor will supply-side upgrading necessarily create jobs that are suited to the needs or capacities of the unemployed or underemployed.

It is also important to note that the neoliberal view that reducing wages will help price workers into jobs and thus help 'clear' the market is based on a simple demand and supply view of the world: if something is cheaper (in this case labour) more will be demanded. Because unemployment is currently most pronounced amongst low skill workers, the advocates of such wage cutting strategies often argue for wages cuts for low skilled jobs. This view has been endorsed by the former Governor of the Reserve Bank, Ian Macfarlane. In a speech in 1997, he cited the situation in the larger continental European economies, where labour markets have an institutional framework which promotes 'jobs security, imposes relatively strict minimum wages and conditions, provides easily accessible sickness benefits and unemployment benefits, and increases trade union involvement'. These, Macfarlane argues, 'work against the interests of job creation' (Macfarlane 1997: 6). The solution Macfarlane advocates is further movement towards US, UK and New Zealand style labour market deregulation. This, Macfarlane concedes, will reduce wages and conditions for some workers and lead to growing wage dispersion and inequality, but it is a price we must pay, he argues. On the question of fairness, he states that 'while income inequality may not seem very fair, unemployment is not very fair either' (Macfarlane 1997: 6). Some economists call this the 'diabolical trade-off'.

The problem with this approach is that it is not at all clear that wage cuts actually create much employment (Junankar 2000). If anything, labour markets have become more flexible in the last two decades yet unemployment and underemployment continue to be major problems (Standing 1997). Also, a wage moderation or wage cutting approach to unemployment is not likely to prove to be electorally popular, so governments have not been keen to openly advocate such a policy stance. Instead, governments have tended to adopt various kinds of labour market 'flexibility' approaches, including strengthening the hand of employers in wage bargaining under moves towards 'enterprise bargaining'. Such moves have not lead to a substantial widening of wage relativities (Keating 2004: 67-68), although flexibility has increased in terms of working hours and how work is organized. Governments have also worked to make the dole less attractive and various schemes involving skills training and other labour market programs have also been adopted. In Australia, however, these latter programs have tended to be rather poorly funded and ad hoc. The constant churning of people through such programs, often with limited results in terms of employment, has lead to much frustration on the part of those forced through such programs. As a former senior public servant has argued, unless there are more jobs and better training and skills enhancement: 'the present government's policy of requiring unemployed persons to pursue non-existent jobs will continue to be both impractical and morally bankrupt' (Keating 2004: 120).

Demand-siders, by contrast, recognize structural unemployment and supply-side problems, but place more emphasis in explaining unemployment on the *demand*-side of the economy. Demand-side analysts tend to draw on the Keynesian paradigm and are more skeptical than supply-siders regarding the ability of unfettered markets to generate full employment. As Mitchell (2002) argues, the main factors that have driven unemployment in the last two decades are weak aggregate demand and inadequate levels of growth, particularly during major recessions. Consequently, demand-side analysts argue that strong economic growth and above all the avoidance of recessions are central in dealing with unemployment and underemployment. Demand-siders often have a more positive view of government than supply-siders (cum neoliberals) and they argue that government can play a role in stimulating economic growth: for example, through the careful use of fiscal



policy (ie. taxing and spending powers) to help stimulate the economy when needed (Nevile 2000).

Since the last recession Australia has until recently experienced a sustained expansion, due in part to the judicious use of monetary policy and a greater willingness on the part of policy makers to avoid recessions (Bell and Quiggin 2008). The use of such stimulatory fiscal and monetary policy is certainly evident at present as governments around the world struggle to limit the current major downturn. However, such expansionary policy may eventually run into limits in terms of current account problems or especially higher inflation.

The practical difficulties of pursuing a strong dose of either a supply or demand side approach to unemployment and underemployment has meant that governments have often adopted limited versions of each approach and have tended to muddle along on a middle path. Economic growth helped reduce unemployment and such a trend was accompanied by the kinds of supply-side and labour market 'flexibility' policies noted above. Even during the expansion, unemployment was slow in coming down and a range of other adverse labour market trends noted above were apparent. However, the realization by governments that adverse labour market trends did not seem to be biting politically, saw the unemployment issue shelved during the long expansion

A significant slowdown or recession, which now (late 2008) seems likely, will bring labour market issues and unemployment into stark relief. The most plausible response is a targeted approach to job creation, mainly through publicly funded public and community sector jobs creation aimed at matching jobs to available skill and worker mobility capacities (Langmore and Quiggin 1994, Bell 2000; Quiggin 2000). Direct jobs creation might also aim to supply low skilled jobs for those that require them. Ultimately, a much more substantial policy response in terms of education and training (in order to better match skills to available jobs) and to promote targeted public sector job creation are required.

By contrast, Australian governments have taken the issue of rising market inequality more seriously. Traditional tax and spend social policy and welfare state interventions have had a major effect in treating at least the symptoms of many of the labour market trends outlined above, especially in ameliorating wages inequality. Indeed, thus far, the effects of the labour market dynamics outlined above in driving inequality have largely been offset by governments using taxation, cash payments and the provision of services. In other words, although private market income inequality has increased, the total disposable and final incomes available to households have not shown a marked trend towards greater inequality, largely because of various measures taken by government. For example, twenty five years ago low income households in Australia received little in the way of direct income transfers. Today, low income families with dependent children and living in rental accommodation might receive almost half of their disposable income from government transfers (Keating 2004: 116). These days almost one third of all Australian adult residents now receive some form government income support.

## **Prospects and Future Directions?**

Beyond the problems and responses outlined above, another large medium-term labour market issue confronting Australia stems from demographic dynamics. In the period, 1978-1998, annual labour force growth averaged 1.9 per cent, but from 1998-2016, the ABS estimates that this growth rate will average only half the former rate, with labour force growth of only 0.8 per cent annually. Indeed, both labour force growth and the labour force participation rate are expected to decline

substantially, due to a slower rate of population growth and an ageing population. Independent of any other shift, these changes should help bring down unemployment and could well lead to future widespread labour shortages. No doubt, targeted immigration programs will continue to play a role in partly dealing with Australia's labour requirements, but labour shortages across many of the advanced economies (or at least those with slow labour force growth) will intensify international competition for skilled, mobile labour. In a context in which many of the best paid and most rewarding jobs require high skills, and where economic growth is increasingly related to the skills and talents of the workforce, Australia will need to try and lift the education and skills of the labour force.

## **Conclusion**

If we agree that good jobs and reasonable pay are absolutely central to people's life chances in a capitalist economy, then the labour market challenges outlined above pose some serious problems. At present labour market disadvantage, unemployment, under employment and market inequality loom large. Many Australians (particularly those without skills or those suffering other forms of labour market disadvantage) will remain unemployed, under employed or on low incomes.

These challenges will confront employment, labour market and social policy makers with major conceptual and administrative problems. In recent years there have been calls that older forms of statist and top down policy making in these areas should be devolved down into more participatory forms of decision making in neighbourhoods, communities and regions. In short, the view here is that the state should 'enable' rather than direct (Botsman and Latham 2001; Smyth and Wearing 2002). Similarly, some argue that the welfare state was never designed for long term support for the unemployed or disadvantaged and that older welfare state models now foster passive welfare dependency. The new emphasis is now on welfare to work programs and 'mutual obligation' (Considine 2002). Whilst laudable in some respects, many of the agendas and programs say too little about the actual creation of jobs. At their worst they descend into born-again forms of communitarianism, or mercilessly prod the unemployed and disadvantaged through workfare programs with insufficient jobs in sight at the end.

A further issue that needs to be confronted is that effectively dealing with unemployment, underemployment, inequality and education and skills upgrading will be expensive. The net costs of the required programs and initiatives (given the various returns and spin offs) are likely to be much lower than the gross costs. However, the next several decades contain a fiscal time bomb stemming from the likely costs of an ageing population, more expensive health care, education and skill enhancement, public infrastructure investment, protection of the environment and other non-insignificant new expenditures. Keating (2004: 148) estimates that new public expenditure requirements will amount to an additional 10 per cent of GDP. If we add new and continuing costs of dealing with labour market disadvantage and social and economic inequality, this amounts to a huge increase in public expenditure and raises questions about the fiscal capacity of the state.

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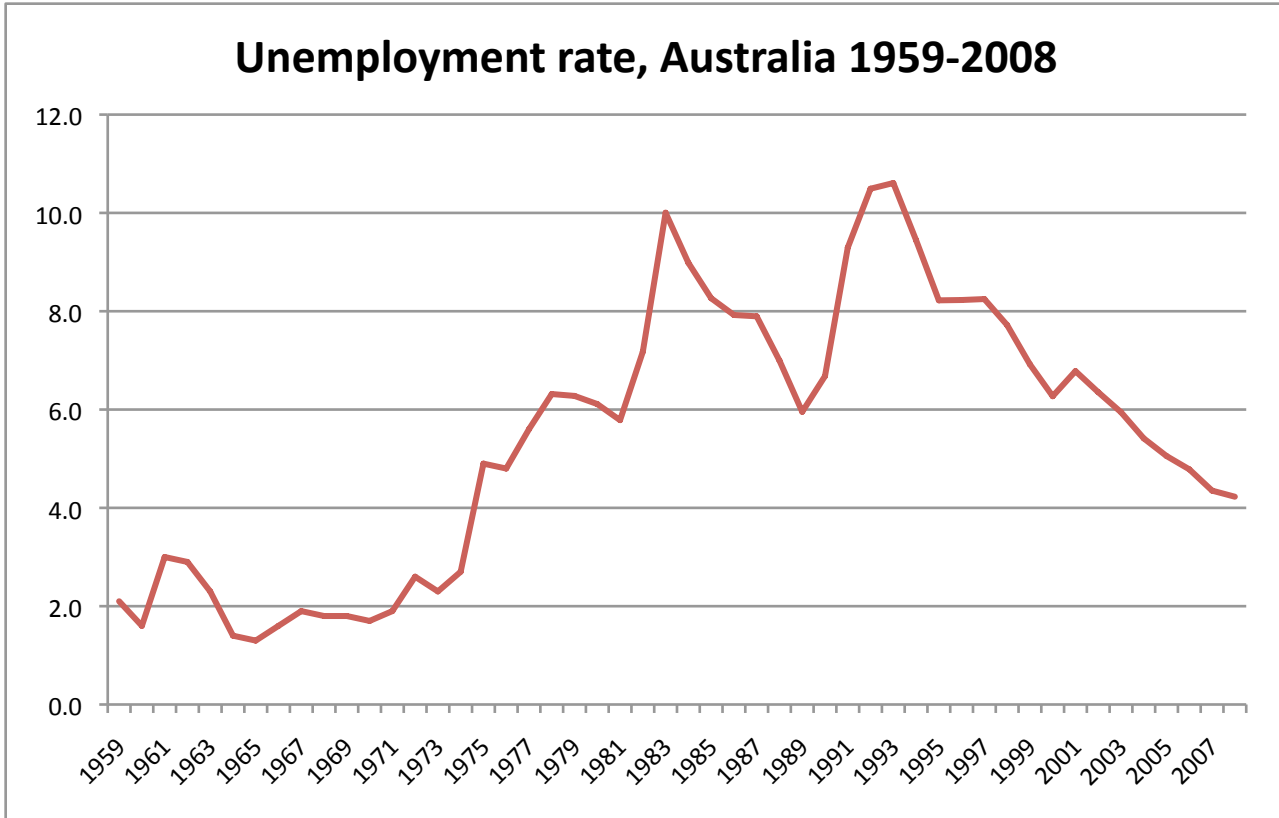
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Figure 1

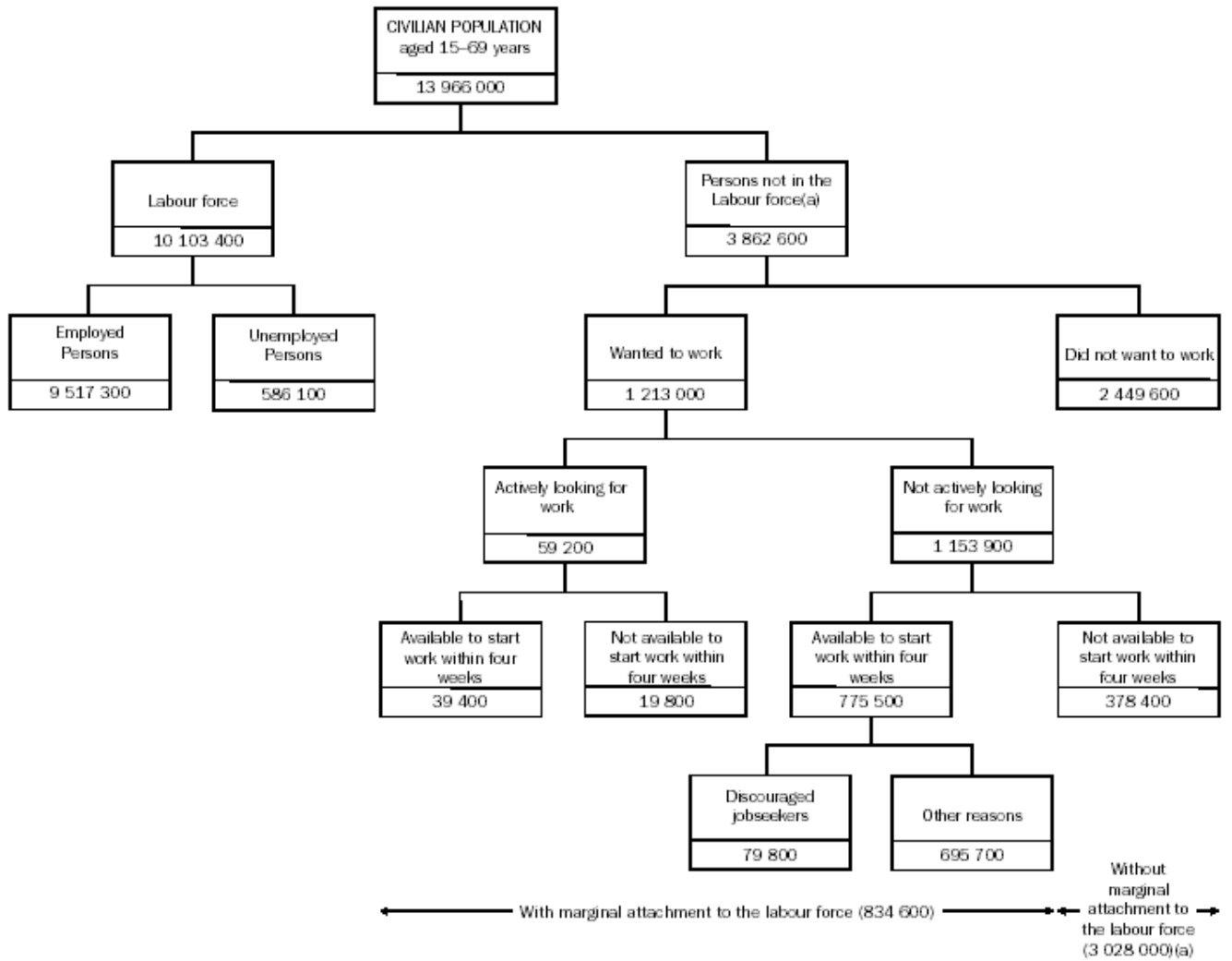
Unemployment in Australia, 1960-2004

Source ABS Cat. Nos. 6202.0; 6203.0, 6204.0



**Table 1**  
**Persons in and not in the Labour Force**

Source: ABS 6220.0



(a) Includes 200,000 persons who were permanently unable to work.