Did Labour Market Programs Reduce Unemployment in Australia's Regions?

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Abstract

Typically, it is argued that regional unemployment throughout Australia has increased since the 1970s due to structural adjustment. The data examined in this study suggests that, while labour markets in regional Australia deteriorated during the 1970s and 1980s, throughout the 1990s there was a turnaround. The turnaround occurred during a two-year period from 1993 to 1995, a period which corresponds with the deployment of labour market programs throughout regional Australia. These programs were comprehensive in both design and coverage. The possibility exists that the turnaround in regional labour market performance may be linked to these labour market programs.

Introduction

Despite common perceptions about poor economic performance in regional labour markets, some research has shown that unemployment rates in regional Australia have fallen in a way which is consistent with improvement in the way regional labour markets function (Buultjens, Howard & Moffat 2002). This paper is a further exploration of that theme. Indeed, the analysis conducted in this paper not only suggests that unemployment rates have fallen, but that there has been a transformation in the way regional labour markets are performing and that it is possible to identify a specific period in the 1990s when this improvement was launched. The paper offers an explanation as to why this transformation of regional labour markets may have taken place.

In this paper, regional Australia is defined as the 48 distinct regional districts which exist outside metropolitan Australia and are perceived as distinct economic identities. When the Australian Bureau of Statistics collects census data from these regions, they are described as 'statistical divisions' (Castles 1993), and were chosen for the purposes of this research because they provide a generally recognised set of regions and employment data is available (McKinsey & Co 1994, Task Force on Regional Development 1993).
Regional Unemployment

Labour market performance is commonly measured in terms of levels of unemployment. Traditionally, the types of unemployment based on their main causes, are defined as frictional, structural or cyclical (Kaufman & Hotchkiss 1999). Frictional unemployment is caused by the natural turnover as, for example, people tire of their existing conditions and seek alternative employment elsewhere. It will also occur when firms close or relocate, which may happen for a variety of reasons as when the owner retires or market conditions change. In some sense it may be seen as a sort of arbitrage process resulting from the mobility of labour and firms.

Structural unemployment, on the other hand, is caused by the mismatch between demand and supply of labour. Technically, structural unemployment derives from the problems of job-matching and job-rationing. Job-rationing has to do with wage rate settings above the market clearing rate that arises from institutional settings (eg, unions). Job-matching describes the unemployment caused by employer and employee search associated with matching skills, location and industry change. It is inevitable and natural, as industries and regions rise and fall, but unlike frictional, it need not be temporary. Indeed, change to industrial structures may take decades (Botkin 1988).

The precise boundary between frictional and structural can be difficult to define given that the main parametric difference is the length of time of unemployment; short-term and it is frictional, longer-term and it is structural. However, cyclical unemployment, in theory at least, is clearly distinguishable from the alternatives. Cyclical unemployment is attributable to the business cycle - contractions lead to cyclical unemployment and high growth rates generate over-employment, and averages zero.

There is also a link between periods of cyclical unemployment and change to structural unemployment. This is the notion of hysteresis - the persistence of unemployment even though the economic contraction that was the cause no longer exists. A number of reasons associated with job-matching may explain it:

- firms remain cautious creating vacancies being wary of redundancy costs
- firms come out of recession with low capital stock and full capacity is quickly reached
- employees develop a culture of working harder and longer during recession and this carries over into the better times
- job-searching is inhibited because the skills of cyclically unemployed decay and firms are unwilling to retrain them (Sloman & Norris, 1999).

Such factors are seen to turn cyclical unemployment into structural unemployment.

The evidence of hysterisis is seen in the persistent pattern of high levels of unemployment in Australia, a pattern common to OECD countries (Jackman, Pissarides & Savouri 1990). In the 1960s, the unemployment rate was 2 percent, but since the 1970s, unemployment has never remotely approached this figure. Indeed, after more than ten years of positive quarter by quarter GDP growth (bar one) to December 2002, the national unemployment rate never fell below 6 percent (ABS
2003). Unemployment rates in Australia's regions rose rapidly through the 1970s and 1980s, well beyond the national averages, with some regions ranging as high as 25 percent by the 1986 census, reflecting persistence of high unemployment following economic contractions. Indeed, the improvement through the 1990s and into 2001 has been gradual, as reflected in census data at least (ABS various).

Evidence for hysteresis is also seen in the increasing duration of unemployment. Figure 1 provides summary detail for 20 years of data, and it seems to show that when the economy slows (including a recession), the duration of unemployment rises and stabilises at a higher level.

![Figure 1: Trend line of increasing duration of unemployment](image)


A Brief Account of Labour Market Programs (LMPs) in Australia

In historical terms, unemployment was not a problem in post-war Australia through to the 1960s. The unemployment rate remained steady at about 2 percent. (Indeed, unemployment data was barely collected by the national census until 1966). When unemployment did start to rise disturbingly, the government simply increased spending to offset the decline in private consumption/investment expenditures. The unemployment that started to emerge with stagflation in the 1970s was, however, of a very different nature and additional government spending simply created more pressure for cost-push inflation. The new unemployment, although generated initially by economic slowdown, had become structural. Clearly, part of the policy solution lay in the supply side of the labour market.

Assistance to the unemployed has been around in Australia for many years, the two longest surviving components being unemployment benefits and a publicly funded employment service – the Commonwealth Employment Service. The Commonwealth Employment Service was established in 1946 (Burgess, Mitchell & O'Brien 2000) and its original function was matching unemployed people with job vacancies, the notion being that the government's fiscal policy could adjust the number of vacancies (the demand side) and its employment agency would facilitate the smooth operation of
labour markets (the supply side). This arrangement worked well in the context of low (frictional) unemployment, but the emergence of significant structural unemployment demanded a more sophisticated government response.

In other parts of the world, where discrimination, geography and education conspired to create disadvantaged groups and regions, the first labour market programs (LMPs) began to emerge in the 1960s (Harvey 1999), but it was not until 1973 that the first rudimentary targeted employment programs in Australia were introduced in response to perceived geographic disadvantage - the Regional Economic Development Scheme (REDS). REDS was based on establishing community development projects for short-term job creation (Piggott & Chapman 1995).

The emergence and development of LMPs in Australia was a case of growing sophistication in response to increasing unemployment rates as well as an increasing duration of unemployment (Foster 1996).

In 1976, the first targeted wage subsidy scheme was introduced. In 1984, the scale of LMPs began to change with job creation, wage subsidy and training programs being made available. In 1989, Jobstart was introduced along with a range of training initiatives pitched at regional and industrial needs. In 1991, unemployment benefits were linked to specific activities designed to promote the move out of long-term unemployment, including access to regionally targeted training programs. With the Working Nation strategy in 1994, LMPs in Australia were reaching a new level of sophistication, including elements such as the reciprocal obligation, case management, training programs, wage subsidies and job creation (via various mechanisms including the Regional Development Program [RDP]). These programs targeted impediments on both the demand and supply sides of the labour market.

In 1996, most of this policy development came to a halt. Indeed, with the election of the new Liberal-National Coalition government, Australia was subjected to the most radical transformation of labour market policy since the Second World War (Burgess, et al. 2000). In its first budget, the new Government cancelled both the LMPs and the RDP that constituted such a major part of Working Nation. The great mass of LMPs that had built up over twenty years were also summarily eliminated because, to paraphrase the new Government's approach, they did not create 'real' jobs (Kemp 1998). Minor components of the previous government's programs were retained, such as diarising job search activity by unemployment benefit recipients, but the major emphasis moved to a widely promoted but nonetheless limited Work for the Dole scheme (Grattan 1997).

To sum up then, the history of LMPs was one of increasing sophistication through to the early-mid 1990s until they were largely abandoned in 1996. The timeframe when they were at their most elaborate also corresponds with the start of a trend of improvement in labour market performance across regional Australia, as discussed below.
Findings on Labour Force and Employment Change

Two variables were selected for analysis, namely of job growth and labour force growth. Job growth is a useful indicator of changing economic opportunity (OECD 1990) and when correlated with labour force growth, has implications not only for unemployment rates, but also change to a region's economic performance overall. Relevant data was obtained for each region for the census years 1976, 1981, 1986, 1991, 1996 and 2001 and intercensal calculations were made as to the changes in labour force size and the number of people employed. That data was plotted in a series of graphs as per Figures 2 to 6. Each region is represented in the graphs with change to employment on the Y-axis and change to the labour force on the X-axis. The expectation was that the variables might well be cointegrated in the sense that job growth attracts migrants and labour market participants (Rex 1997) and labour force growth promotes job creation (eg, Wooden 2001). Accordingly, a parity line was employed to illustrate whether job growth exceeds labour force growth or vice versa.
The evidence in the graphs suggests an important change in performance in regional labour markets across Australia between 1976 and 2001. Between 1976 and 1991, the regions were almost always adding labour force numbers in excess of jobs – structural unemployment is growing. In the 1976-1981 and 1986-1991 periods, the gap between job growth and labour force growth was fairly consistent, and often small. In the 1981-1986 period however, the gap was much wider.

Between 1991 and 2001, the pattern changed substantially. Job growth almost always exceeded labour force growth. The decline in structural unemployment was ongoing and almost universal. An interesting feature is distinguishable in the earlier 1991-1996 period, when a significant number of regions were shrinking in terms of labour force size. In the 1996-2001 period, again, job growth almost always exceeded labour force growth, but there seems to have been more variation between regions, with fewer regions losing labour than in 1991-1996.

This evidence suggests a change to a pattern of improvement in job-matching in regional labour markets that starts in 1991 and continues to 2001. Analysis of a sample of regions from all States was undertaken to see if more precision could be applied to when unemployment rates changed. Analysis of unemployment rate data gathered in the ABS Labour Force Survey was undertaken for the sample regions across a timeframe which started in October 1987 and ended in December 2002 (except in Victoria where the ABS databases change) (ABS 2003). The data is presented in Figures 7 to 13.

The graphs show interesting patterns. There was an apparent trend - a rise in regional unemployment in all regions through the 1980s and into the early 1990s, which almost invariably peaked around September 1993, whereupon rates stabilised until, around 2 years later, a longer term decline commenced1. The most pronounced change is in North-east NSW, when the unemployment rate spiked downward over a two-year period. For the first and only time, unemployment rates were lower in North-east NSW than the national average. Although not as strong, the same sort of effect was apparent in Mersey-Lyell, Tasmania, another traditionally difficult labour market, where unemployment rates started to move toward the national averages. Overall, there is a clear pattern of improvement in labour market performance that starts around late 1993 and was in full swing by September 1995. Only in South-East South Australia did the unemployment rate ever return to the levels of 1993, and then only briefly. From 1995, unemployment rates in regional Australia declined.

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1 In fitting the trend line to the data, significance tests of the coefficients revealed that the Rsquare was not significantly enhanced by a second turning point.
Figure 7: Unemployment in South-East South Australia

Figure 8: Unemployment in Lower-West Western Australia

Figure 9: Unemployment in Mersey-Lyell, Tasmania

Figure 10: Unemployment in Darling Downs, Queensland

Figure 11: Unemployment in Goulburn-Ovens Murray, Victoria

Figure 12: Unemployment in Wimmera, Victoria
Explaining the Change

The question remains as to what was the cause of this improvement. Nationally, after the 1991 recession, there was a rapid return to strong GDP growth through 1992-93 at around 3.5 to 4 percent per annum which persists through to 2000-01 but for a brief contraction in 1996. This is not all that different to the circumstances in the 1980s – a rapid return to high growth after the recession of 1983, a minor slowdown through 1987 and high growth rates until 1991. While the macroeconomic settings may have been similar across the decades, there is nonetheless a completely different response in regional labour markets as the graphs illustrate.

Improved regional labour market performance will, of course, derive from new industry which is creating new vacancies if, for example, regional industries were setting up new export activities or the government was increasing spending on infrastructure. An alternate source for labour market improvement would be a change in the capacity of regional labour markets to meet labour needs of existing industry, that is, better matching of employers with employees.

If it were the former, there might be an expectation of change in the industrial mix of the region given that change to regional industries was causing job growth (Bureau of Industry Economics 1994). If that is the case, Buultjens, et al. (2002) found little supportive evidence in a more detailed analysis of the North-east region of NSW where there seemed little significant change to industry mix. Indeed, in the Buultjens, et al. study (2002), significant change to industrial structure seemed to emerge after the reduction in unemployment rates in 1995. Another issue is the universality of the change in unemployment rates for the regions in the sample. If industrial change was indeed the driving force, then its effects were consistent across time and geographic space.

Alternatively, if new industry and new jobs were not being created, then improved labour market performance came about by better matching the needs of existing industry. It is also true that the 1995-96 period corresponds with a period of the most comprehensive labour LMPs yet established in regional Australia - programs designed to facilitate the matching of vacancies and job opportunities to unemployed people, as the following brief account summarises.

Concluding Comments

The association between comprehensive LMPs and the start of the decline in regional unemployment may be a mere coincidence, although there is evidence for effective outcomes from LMPs in other contexts. There are two potentially different levels of outcome for LMPs. The first is the effect on the labour market participant. The second is on the labour market as a whole. Generally speaking, a successful outcome for the LMP participant is either a job or a worthy alternative (full-time education). For the labour market as a whole, a positive outcome would be a lowering of the unemployment rate. However, a successful outcome at the participant level does not necessarily mean a positive outcome for the labour market as a whole. Labour markets are noted for their reverse 'queuing' effects the 'last on first off' principle (Harvey 1999). In other words, LMP graduates may simply take the existing jobs of people of similar disadvantage, so a redistribution of joblessness is the net result (Howard & Hine 1997).

Certainly, in terms of the direct effects, and contrary to some overseas evidence (Robinson 2000), significant positive outcomes have been measured for participants of Australian LMPs (Department of Employment Education and Training 1997, Stromback, Dockery and Ying 1999). There has also been evidence, including that by Webster (1999) that LMPs have reduced the level of structural unemployment at the macro level.

However, this does not explain why unemployment rates continued to decline in regional Australia through to 2002, given that the LMPs were removed in 1996. Perhaps the LMPs, initially effective, had run their course, although the pace of decline in unemployment rates seems to have slowed in the most recent data. Either way, the association of LMPs and the change in direction of regional unemployment seems convincing, and should unemployment rates begin to climb in regional Australia in the future, then a useful strategy seems apparent. Case studies of regions using multivariate autoregressive modelling may well provide more precision in clarifying the role of LMPs. This could be important given that the decline in unemployment may have stalled in recent times. This assumes of course, that the infrastructure underpinning those LMPs can be resuscitated.

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