Submission to the Economic Development Committee, Queensland Parliament

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1. Introduction

I attended a public hearing organised by Queensland Parliament on 4 September 2009. During the hearing I informed the Economic Development Committee about the state of the Queensland labour market. This written submission is both a reflection and an extension of that discussion.

2. State of the labour market

Figure 1 shows the development in the official Queensland unemployment rate (blue line) in the last thirty years. We observe that unemployment in Queensland fell to its lowest levels in thirty years in 2008 at about 3.5%. However, that official unemployment rate only includes the unemployed who are willing and able to work but cannot find work and consequently neglects some other types of unemployment, like for example:

- the underemployed, *i.e.* workers who signal they want to work more hours, but cannot find more employment than they currently have;

- the discouraged workers, who signal they want to work if it would be available, but since it is not available they do not search.

If these broader forms of unemployment are included, the wider concept of underutilisation emerges, which is the red line in Figure 1. It appears that underutilisation bottomed in August 2008 at about 7%. Consequently, the Queensland economy has remained 7% away from real full employment in spite of one of the longest economic upturns in recent decades.

Figure 1 Unemployment versus underutilisation in Queensland
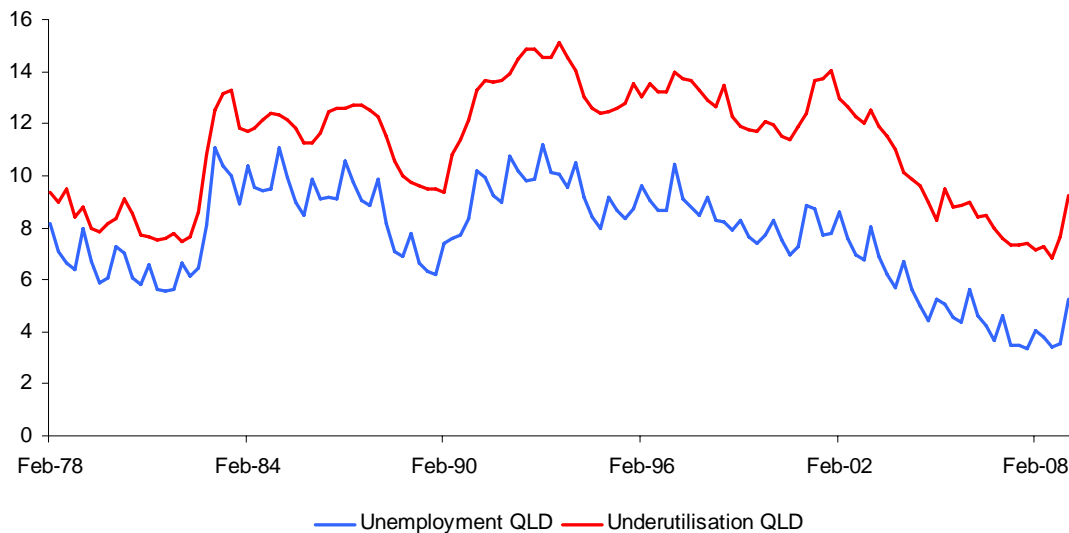
Conventional labour market policies in Australia, Queensland inclusive (but also in other industrialised countries) targeted at tackling unemployment, start from the assumption that there are sufficient employment opportunities available in the labour market, but mismatches on the labour market prevent job seekers from finding such job openings.

Labour market mismatches may arise from:

- Educational mismatch. Jobs require educational attainments that job seekers do not hold;

- Occupational mismatch. Job seekers may have adequate educational levels, but in professions where there is no or little labour demand;

- Spatial mismatch. Job seekers may have the right qualifications (both in terms of level and direction) to match vacancies, but the vacancies and the job seekers are spatially divided and both job seekers and employers are reluctant to move;

- The remainder of job seekers who do not face the above type of mismatches but who nonetheless do not find jobs. Commonly these jobseekers are classified to have attitude problems.

Contemporary Australian labour market policy attempts to address such mismatches to smooth the labour market's matching process and subsequently reduce unemployment. In practice, the unemployed have to apply for benefits at Centrelink, which subsequently directs the unemployed to a regional Job Network agency, which then assesses the type of mismatch and provides training courses to the unemployed to address the unemployed's labour market deficiencies, all this under a cloud of strict compliance, to address alleged attitude issues – see Cook *et al.* (2008) for a comprehensive overview of the functioning of Job Network agencies. Cook *et al.* (2008) provide overwhelming evidence that the Job Network has failed to deliver significant benefits to the economy especially when we consider the billions that the Federal government has injected into it.

A crucial assumption underlying these 'employability' or 'job readiness' induced labour market policies is that there is no shortage of jobs in the labour market; unemployment is a matter of mismatch or unwillingness to accept jobs on the part of the unemployed.

However, as Figure 2 shows, the Australian labour force (labour supply) has outstripped total employment (labour demand) by a significant margin throughout the last 30 years (484,000 in the last quarter of 2008) – Queensland is no different to this statistic. That margin is arguably too big to be explained by labour market mismatch. The Australian economy (like all labour markets in developed countries) does not produce enough jobs to absorb labour supply, which is a clear violation of the main assumption underlying labour market policies focusing on 'job readiness'.

Figure 2 Labour force and employment levels from 1978 to 2008, Australia

Source: ABS Labour Force Survey

Consequently, assuming that full employment was achieved in 2008 and hence targeting labour market policies at making the unemployed 'job ready' is not sufficient. The only result such a suit of policies will achieve is job queue shuffling, *i.e.* the unemployed that do training might improve their job find probabilities, but if so, only at the expense of other job seekers. The macro economic picture will remain unchanged, simply because the policies do not address the real problem: the shortfall of available jobs.

Most evaluation studies on active labour market policies look at the micro-level effects, *i.e.* do participants in training projects improve their job find chances? Though the answer might sometimes be yes (participants jump the job seeker queue), that does not mean that such policies are effective at the macro level, *i.e.* the overall level of unemployment.

While such policies may work in very tight labour markets, the current economic conditions do not favour the adequacy of such policies. As we can see in Figure 1, underutilisation jumped to above 9% in the first quarter of 2009, which clearly indicates that there is a shortage of jobs to accommodate for willing labour supply.

3. Spatial aspects of the Queensland labour market

With that backdrop in mind we can analyse the Queensland labour market to some more detail, more specifically spatial detail. Figure 3 presents the spatial distribution of unemployment in Queensland at the statistical district level, based on the Census 2006 which was conducted in the midst of the last economic upturn.

Figure 3 Spatial distribution of the official unemployment rate in Queensland, 2006
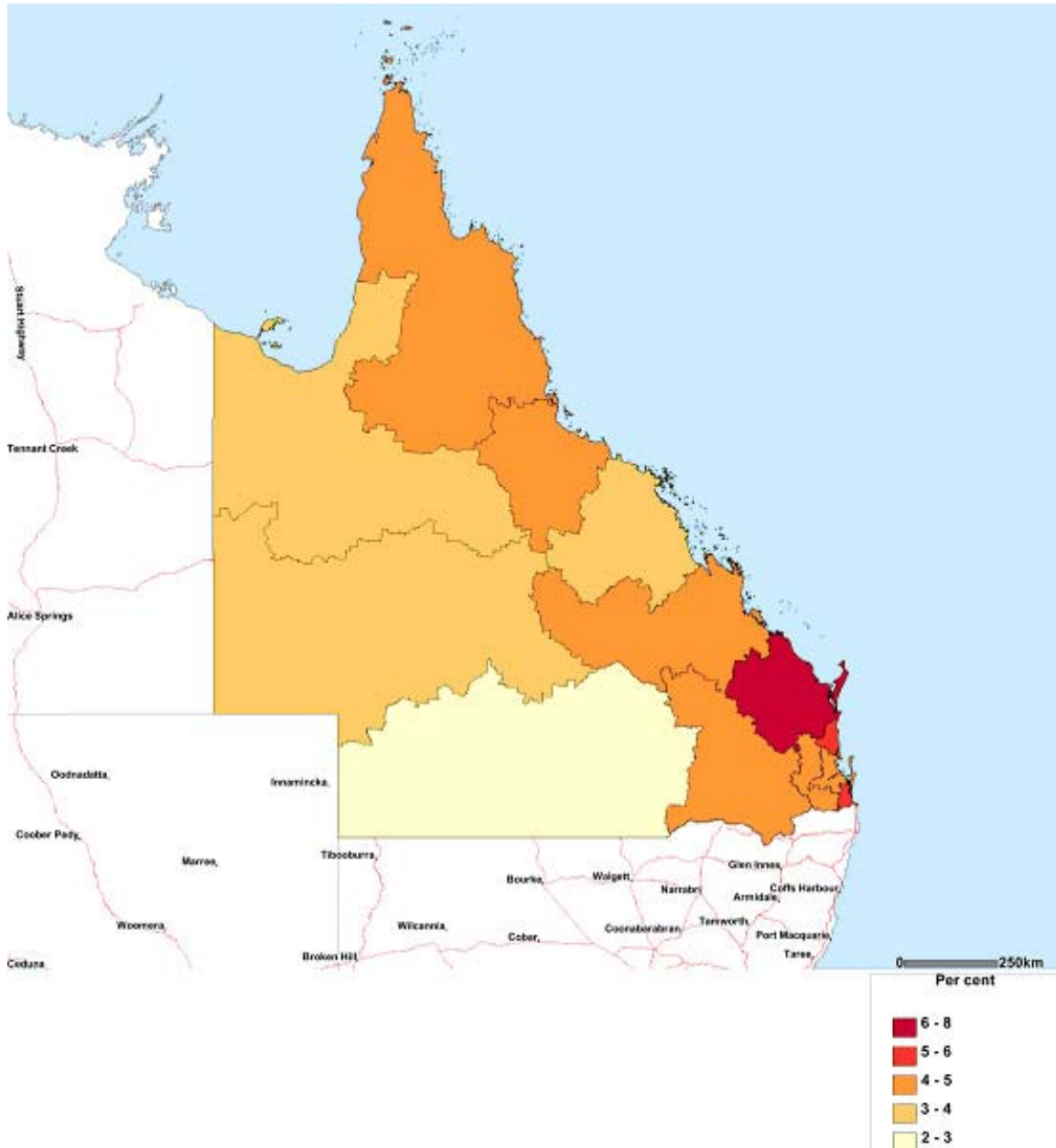
Source: ABS Census

We observe some notable differences in the unemployment rate, which suggests that there is no uniform Queensland labour market. In fact, Queensland has regions which are characterised by a dominant industry (most notably the minerals industries in the western

parts) and more diversified labour markets in the major capitals in the coastal areas. The former regions showed lower unemployment levels than the latter in 2006, but their dominance on one industry makes such regions vulnerable to shocks that may hit that dominant industry. The minerals sector is well known for its cyclicality. The major capitals (more specifically Brisbane) will suffer much less from cyclical movements in one sector, but experience higher unemployment rates than elsewhere.

Now that the economic boom is over, it is interesting to predict who is most vulnerable to job loss in Queensland. To that end the Centre of Full Employment and Equity (University of Newcastle) / Urban Research Program (Griffith university) developed a so-called Employment Vulnerability Index (EVI) – full report attached. The EVI is "*an indicator that identifies those suburbs that have higher proportions of the types of jobs thought to be most at risk in the current economic climate*". Vulnerability increases if there is a high proportion of:

- people employed in construction, mining, manufacturing, retail accommodation and tourism, financial services and real estate (which are cyclical sectors);
- employed people without post school qualifications, and;
- people working part-time.

Obviously, that does not necessarily mean that any person in a suburb deemed highly vulnerable is at risk of job loss, but people with similar characteristics typically cluster together in suburbs, which is caused by characteristics of that region (think for example of housing affordability).

The report presents EVIs for all major cities in Australia. In this submission I will focus on Brisbane, which – as we saw in Figure 3 – has the highest unemployment in Queensland. Figure 4 shows the EVI for Brisbane. A typical pattern emerges: the inner city is safe, but the further you move away from the city centre to higher the risk of job loss in a suburb becomes. Lower (and hence affordable) house prices / rent trap the unemployed in such suburbs. Moving to suburbs with better employment prospects is therefore no likely option and the costs of transportation may limit commuting behaviour. Moreover, employers who select their location strategically will prefer to base their firm in areas where the labour force is of high quality and subsequently avoid the poorer suburbs, which then results in the pattern that we see in Figure 4.
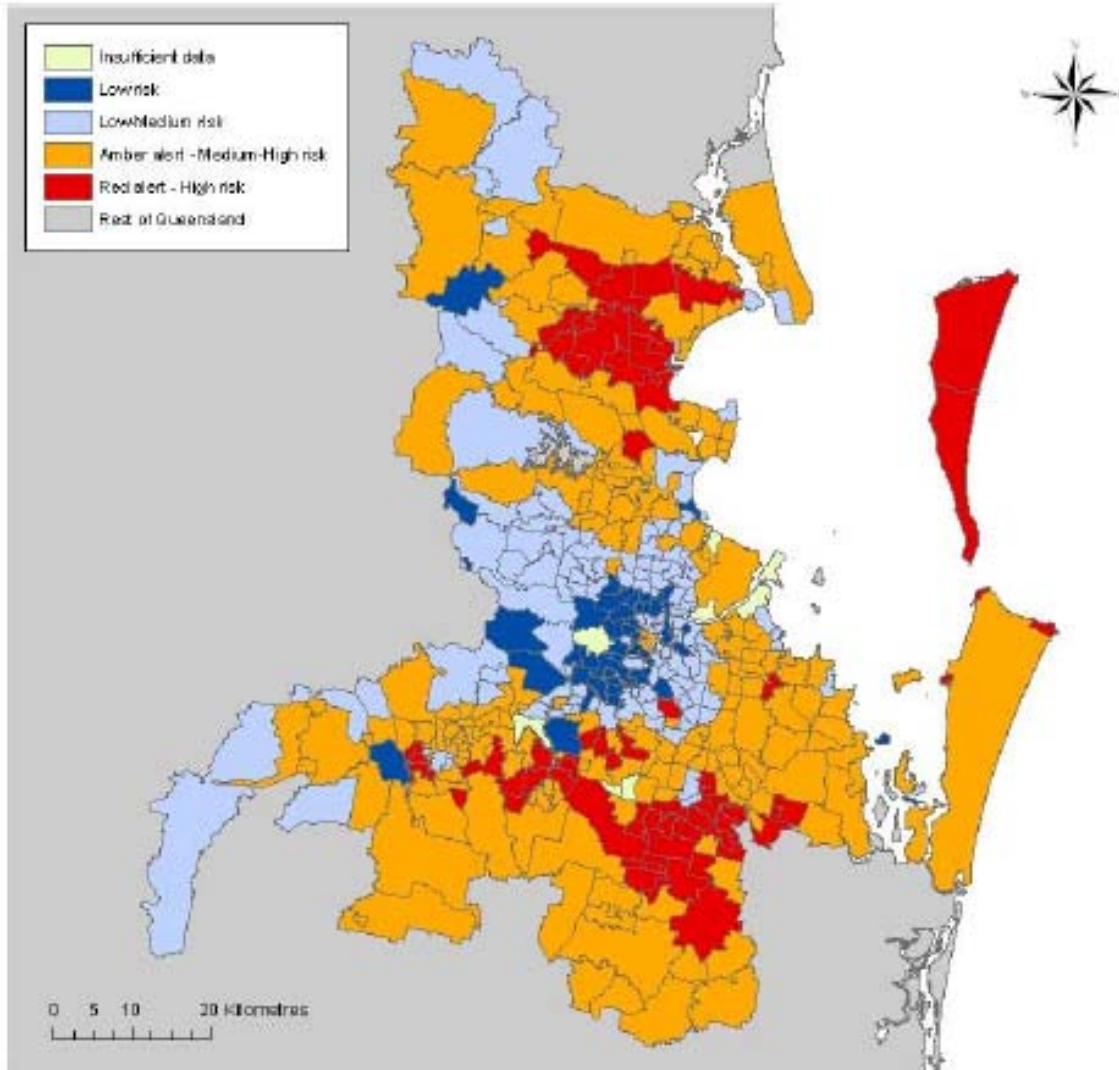
4. Policy options to tackle unemployment

We have seen that there were not enough jobs to accommodate for labour supply at the top of the economic boom. That situation has only deteriorated in recent months with increases in unemployment (be it so far moderate ones). Contemporary labour market policy focused on activating the unemployed will not help addressing the labour market situation.

Attracting industries to Queensland that provide high quality employment will also not be the answer to the rising unemployment rate. Obviously, it will not harm the Queensland economy, but such industries are unlikely to provide jobs to the existing unemployed. Educational/occupational en spatial mismatch will prevent that.

The solution to the unemployment problem will have to meet various criteria. It will have to be jobs that require low educational levels and it will have to be employment created in suburbs that face high unemployment. A private sector in recession will not take the lead in this respect. Consequently the government will have to take the lead. The Centre of Full Employment and Equity proposes to introduce a so called Job Guarantee, where the government offers unconditionally a job at the minimum wage to everyone who is without work – for more details on how such a Job Guarantee program would look like see Cook *et al.* (2008).

Figure 4 Employment Vulnerability Index Brisbane

Source: CofFEE / URP