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Unemployment, Labour Market Insecurity and Policy Options

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Unemployment, Labour Market Insecurity and Policy Options

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(Social Policy in Australia: Understanding for Action, McClelland and Smyth (eds), Oxford University Press, 2005)

A capitalist economy turns almost everything into a commodity. Certainly, it forces people to try and sell their labour in a ‘labour market’ in order to earn a living. Hence the labour market is of central importance to the life chances of the vast bulk of the population. Only the very young, the old and incapacitated are spared the usually grueling challenge of ‘competing’ in the labour market. Obviously, the most humane way of running such a system is to give those who need or want to work a good job on reasonable wages. The labour market quickly becomes inhumane for those who cannot find a good job or any or enough work.

This chapter argues that Australia’s labour market – indeed most capitalist labour markets – feature too much unemployment and underemployment and associated forms of labour market insecurity or disadvantage. 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 all sorts of economic, social and health costs (Watts 2000; Saunders and Taylor 2002). A good deal of social policy is directed to problems emanating from the labour market and its various malfunctions – especially unemployment, underemployment and inequality. Accordingly, a good way to minimize the need for expensive and often difficult social policy interventions is to organize the labour market so that it provides reasonable jobs and wages 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, in the 1970s and 1980s, was marked by relatively high levels of unemployment and inflation. It is only since the deep recession of the early 1990s that western economies have been broadly stabilized on a path of low inflation, economic expansion (especially in Australia) and falling unemployment.

According to the official estimates, after over a decade of reasonably strong economic growth, Australian now has an unemployment rate of 5.2 per cent. That sounds reasonably low. However, this chapter argues that a more accurate measure of unemployment would see this number almost double. Also, structural change in the economy is producing a labour market that tends to create casual, insecure and low paid jobs. It is this combination of unemployment and labour market insecurity which has played an important role in moderating (wage push) inflation in recent decades.

This chapter begins by looking at the dynamics of the Australian labour market. We also look at how the economy is producing increasing levels of labour market insecurity and also how this and unemployment are increasing economic inequality in Australia.

Based on the assumption that more work and better pay would reduce the need for expensive social policy interventions, we examine the various positions in the employment policy debate. We then examine employment policy in Australia and briefly examine the costs and dilemmas of returning to a full employment economy. We argue that Australia has a half baked ‘full employability’ policy aimed at getting people ready for employment, but not a ‘full employment’ policy that – at least in a direct sense - actually helps create jobs.

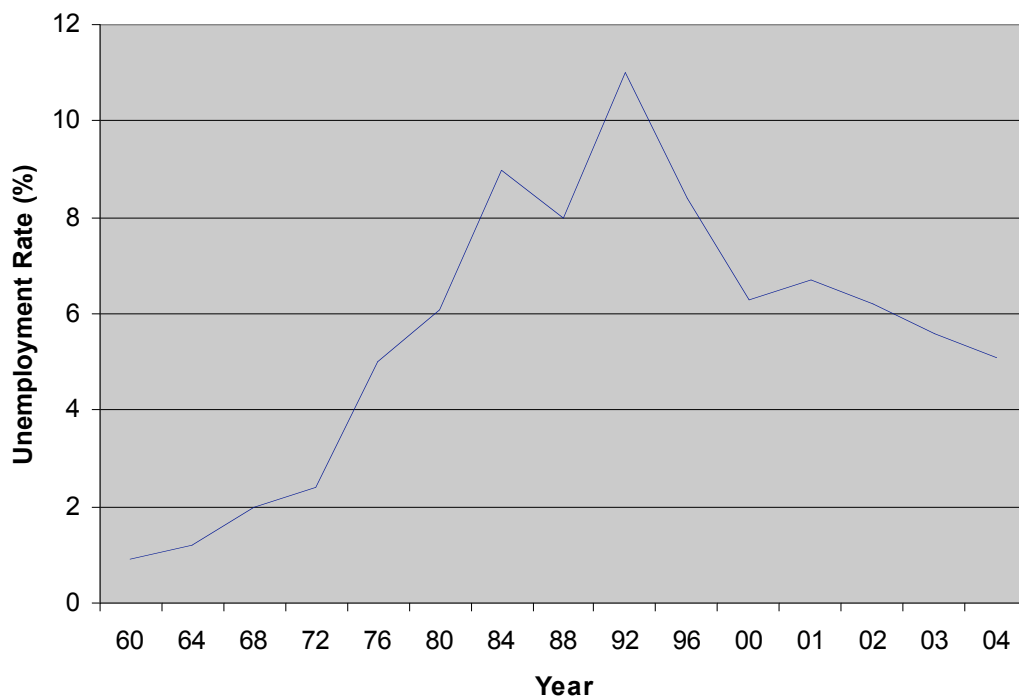
Australia’s Labour Market Dynamics

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 in the low end services sector. For these and other reasons, unemployment, under-employment, insecure forms of work, low wages and rising levels of inequality have all become major problems in Australia’s labour market.

The increase and subsequent decline in the official unemployment rate in recent decades is shown graphically in 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. The main story of the last three

decades is that major 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 structural and long term unemployment.

Figure 1
Unemployment in Australia, 1960-2004
Source ABS Cat. Nos. 6202.0; 6203.0, 6204.0



Although, the official measure of unemployment currently stands at just over 5 per cent of the labour force, it is important to remember that the method of measuring unemployment used by the Australian Bureau of Statistics (ABS) is highly selective and grossly understates the true level of the problem. One hour of paid employment in the relevant survey reference week (or an hour of unpaid employment in a family business) can remove one from the unemployment statistics. There are also large numbers of people who (for various reasons) 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 measure. First, there are persons who have given up trying to find work and who were officially counted as 'discouraged job seekers'. These are part of a larger group who would like work if it were available, but are not looking for a job at present. Mitchell and Watts (1997) estimate that if the

hidden unemployment and underemployment of those with a designated marginal attachment to the labour force were properly taken into account, about 5 percentage points could be added to the official rate of unemployment. Similarly, 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, and Mitchell and Carlson 2001).

Second, there are underemployed workers – those working part-time who would like to work full time (note: During the 1990s, a new and opposite category emerged – those working more than a standard fulltime workweek who would like to work less).

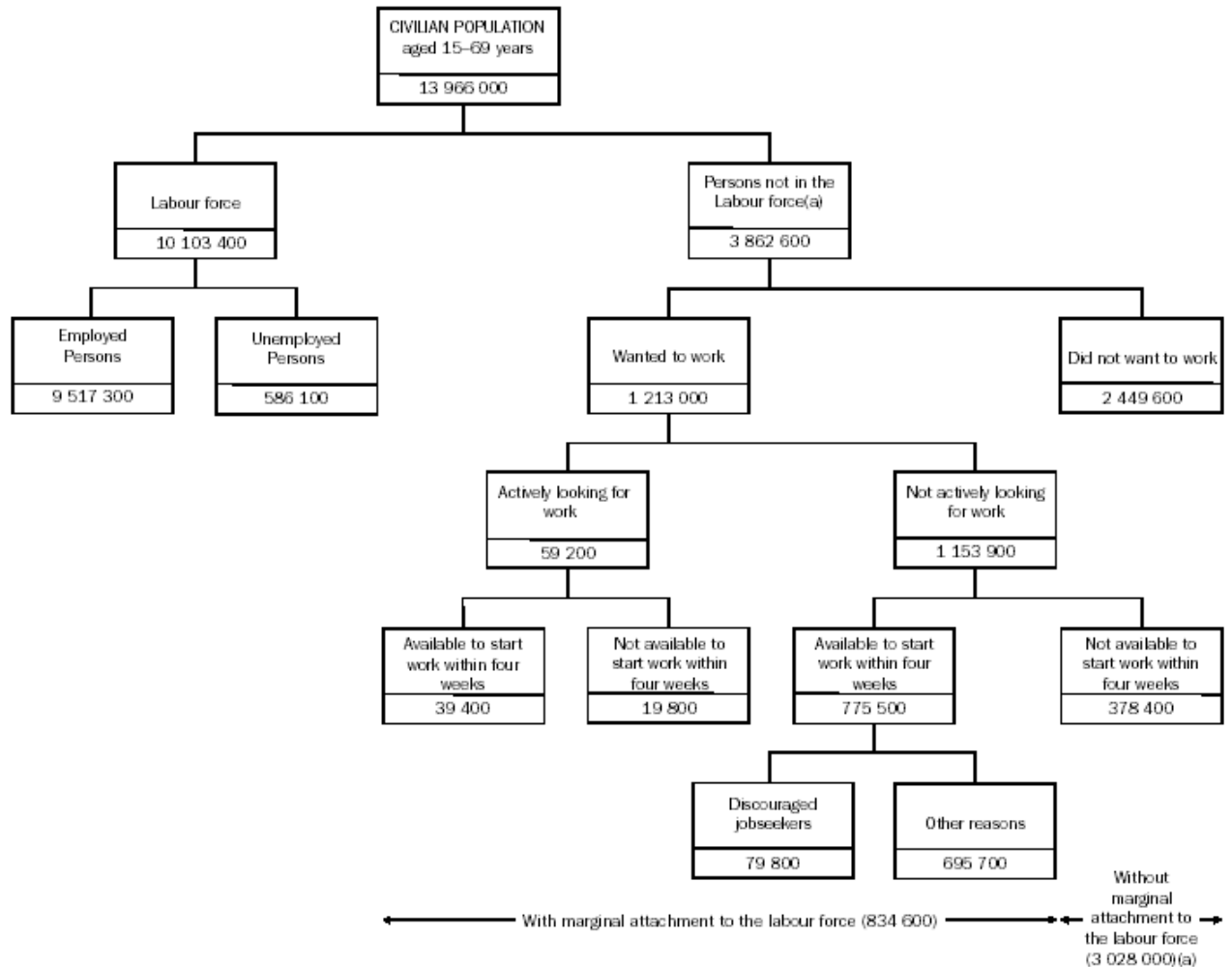
Third, there are people of working age who have left the labour force and gone on to disability benefits, or taken early access to the old age pension. Some recipients of disability benefits are completely incapacitated for work. However, many people with minor disabilities who would be employable in 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 does not make economic sense in a context where the proportion of the population in this age group can be expected to increase steadily.

Table 1 presents the numbers of persons in the various relevant categories as of September 2003. As can be seen there are large numbers of people who were not working, who wanted to work, but who were not counted as unemployed. Note also, the large number of persons who have given up trying to find work and who were officially counted as 'discouraged job seekers'.

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.

Besides underestimating the true level of unemployment, it is also the case, as per a recent survey by Bell (2002) and other sources, that:

- 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 has 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). One in six children now grow up in jobless households.

- In the long 1990s 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 severe underemployment.
- The employment rate for women has increased substantially in recent decades, and the labour market status of women has 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 current recovery (starting in the early 1990s) has 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. 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).
- There has been a major expansion of 'non-standard' forms of work in Australia, particularly 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). 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 inequalitarian 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).

The Policy Response Thus Far

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?

In terms of unemployment and under-employment, these stem from the failure of the economy to create sufficient jobs (or perhaps 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.

For supply-siders unemployment is mainly a 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.

Education and skills enhancement is a good idea, especially since (as above) most of the unemployed are in low skilled areas of the labour market. However, there is no guarantee that more

education and training will create jobs. Such an approach could end up with better trained cues of unemployed. The critical issue is how to create more jobs, especially in the short to medium term. The view that reducing wages will help price workers into jobs and thus help 'clear' the market is based on a rather 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 a supply-side program argue for wages cuts for low skilled jobs. This view has been endorsed by the 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 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. The basic problem of course is that there are too few appropriate jobs on offer. As a former senior public servant has recently written, 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 much more emphasis in explaining and dealing with unemployment on economic growth and the *demand*-side of the economy. 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 the avoidance of recessions and faster economic growth are central to dealing with unemployment and

underemployment. 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 (Nevile 2000).

However, such aggregate economic growth may run into limits in terms of current account problems or via higher growth leading to higher inflation. An alternative is a more precise and targeted approach to job creation, mainly through publicly funded public and community sector jobs creation (Langmore and Quiggin 1994, Bell 2000; Quiggin 2000). This approach has the advantage of not being likely to exacerbate current account pressures and is better placed to more directly manage wage pressures and inflation. To the extent that unemployment is mainly a problem for the unskilled, such a program is also likely to be more easily blended with specific skills training. And to the extent that skills upgrading is too onerous or difficult for some, direct jobs creation might also aim to supply low skilled jobs for those that require them. The biggest problem with such direct jobs creation programs is that they cost money and will confront opposition from those who resist any increase in taxation and government spending.

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 adopted limited versions of each approach and have tended to muddle along on a middle path. Reasonably strong economic growth over the last decade or more has helped reduce unemployment and such a trend has been accompanied by the kinds of supply-side and labour market 'flexibility' policies noted above. However, even after over a decade of economic growth, unemployment has been agonizingly slow in coming down and a range of other adverse labour market trends noted above are apparent. A significant slow down or recession would again bring labour market issues and unemployment into stark relief. 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. Yet over the last decade or more, reasonable rates of economic growth and the realization by governments that unemployment and other adverse labour market trends do not seem to be biting politically, has seen the unemployment issue more or less shelved for now.

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 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. Between 1978-98, 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.

In the short to medium term, the labour market divisions and disadvantages outlined above, and which are increasingly played out on a spatial and regional basis, will also need to be addressed. Both supply-side and demand-side policies need to be blended in new innovative ways. People need to be educated and up-skilled for the top end jobs, and over time more of such jobs and areas of employment need to be created through higher levels of education, training, innovation and investment in the economy. This will hopefully offer more, better and different opportunities than those that were mainly created in the Australia economy in the last decade – low end, casual and part-time service sector jobs featuring low wages.

However, education, retraining and skills upgrading programs need to be seen in perspective. Whilst useful, particularly in the longer term as part of a national economic upgrading process, in the short to medium term the training route can only be a partial answer to unemployment and labour market disadvantage because it focuses mainly on the supply of labour and not on the supply of jobs. In a recent 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'. Serious consideration also needs to be given to the little debated possibility that the level of commitment, intellect and knowledge required to *successfully* participate in the 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 most 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 issue which in an increasingly knowledge based economy the market is not solving.

Conclusion

Despite an exceptionally long period of economic expansion since the recession of the early 1990s, official unemployment rates have only recently returned to the rates prevailing in the late 1970s, and are still well above those of the post-war 'Golden Age'. In part, this reflects the fact that unemployment is an inherently intractable problem, but the slow progress also reflects the fact that reducing unemployment has not, in general, been a high policy priority. If the current expansion continues, it may be argued that the government's strategy of focusing on economic fundamentals, and waiting for unemployment to decline as a result, has been vindicated. If, however, there is another recession any time in the next few years, it is likely that the expansion beginning in 1990 will be viewed as a missed opportunity to achieve a large and durable reduction in unemployment.

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. In twenty years time, if not before, serious labour shortages could emerge in many areas. This will obviously have implications for unemployment and under employment, although the issue of matching available skills and job vacancies will continue. In the meantime, and probably in the longer term, many Australians (particularly those without skills or those suffering other forms of labour market disadvantage) will remain unemployed, under employed or on low incomes. Hence, the problem of helping those who cannot easily up skill or compete in the labour market should be a priority.

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 partly dissolved down into more participatory forms of decision making in neighborhoods, communities and regions and that the state should 'enable' rather than direct (Botsman and Latham 2001; Smyth and Wearing 2002). Similar calls from various quarters have argued that the welfare state was never originally 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 few 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 serious questions about the fiscal capacity of the state in an era in which public cynicism of governments is rising and taxation increases are regarded by governments as electoral suicide.

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