



AUSTRALIA'S FUTURE LABOUR MARKET MYTHS AND REALITIES

FACTSHEET **HOW WELL HAVE WE DEALT WITH LABOUR MARKET CHANGE IN THE PAST?**

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KEY POINTS

- Australia has dealt well with labour market change in the past. Ultimately it has been the economic cycle (recessions and slowdowns), not structural change that has had the largest observable impact on the labour market.
- This underscores the need to keep the economy strong.

The Australian labour market has seen significant change over the past 30 years. These changes include a large rise in the share of Australians in the labour force; and also shifts in the share of employment across industries and sectors of the economy.

As well as these structural changes, the economic cycle has also had a big impact on the labour market – most notably the recession of the early 1990s and also the slowdown during the global financial crisis (GFC). It has ultimately been these slowdowns and recessions that have had the largest observable impact on the overall health of the labour market. (Figure 1)

The weakness in the jobs market during these slowdowns has been dramatic, and vast numbers of Australians have been adversely affected.

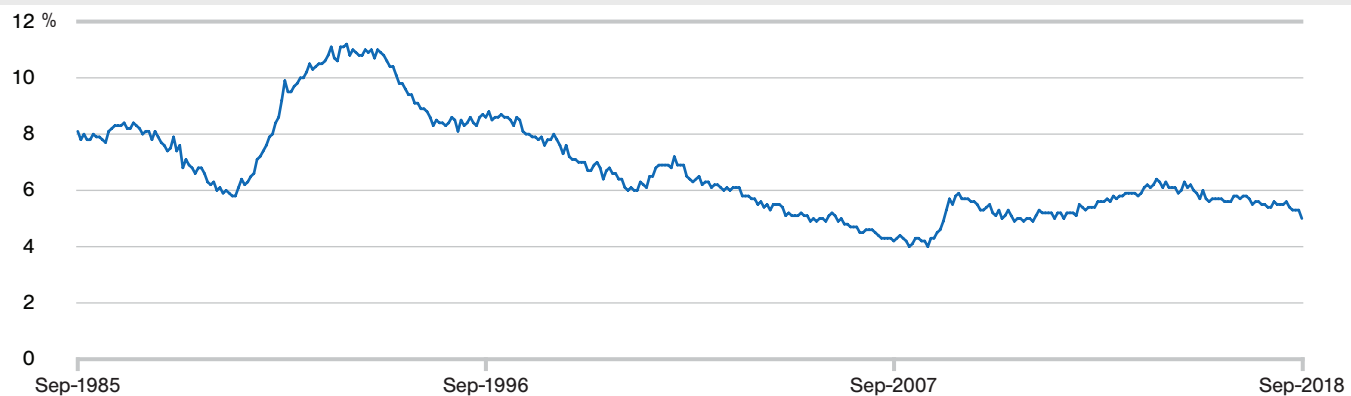
- » For example, in the early 1990s recession the unemployment rate increased from 5.8 per cent to 11.2 per cent over three years. In today's labour market, an unemployment rate of 11.2 per cent would correspond to 1.5 million people out of work.
- » It then took over a decade to return the unemployment rate to the low seen just prior to the 1990s recession.
- » During the GFC, the unemployment rate increased from 4 per cent to 5.9 per cent in less than a year, with the number of unemployed Australians increasing by 219,000.¹

The personal toll of labour market weakness during recessions and economy slowdowns underscores the importance of a strong economy. It is only through a strong economy that we can, ultimately, keep the unemployment rate low and Australians in jobs.

Conversely, the general robustness of the Australian economy over the past 27 years is reflected in our current unemployment rate of 5 per cent – a low rate by long-run standards.

Figure 1

The unemployment rate rises quickly when there is an economic shock



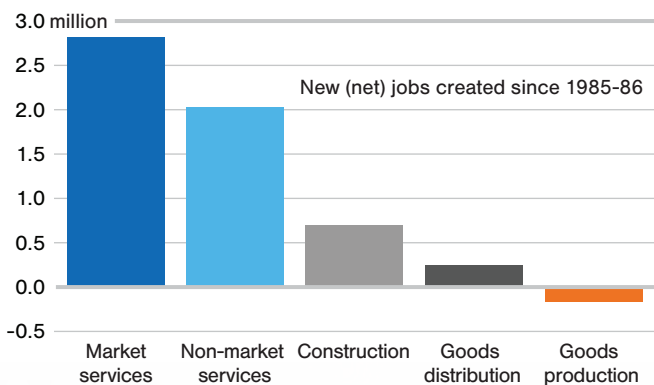
Source: ABS cat. no. 6202.0

¹ ABS cat. no. 6202.0

There have also been significant changes in the shares of employment across broad sectors of the economy over the past 30 years. The share of Australian employment in both market and non-market services has risen since the mid-1980s. Being a services economy is not a new development for Australia, with the services sector (market and non-market) comprising a majority of employment in the mid-1980s.

There has, however, also been a significant fall in the share of employment in the goods production sector.

Figure 2
The labour market has adjusted
and become more services orientated



Source: ABS cat. no. 6291.0.55.003

Notes:

Market services includes retail, accom. & food, profess. & scientific services, rental & hiring services, IT & communications, finance, admin. services, arts & rec., other services.

Non-market includes health, aged & child care; education & training; public admin. & safety.

Goods distribution includes wholesale trade, transport & storage.

Goods production includes agriculture, mining, manufacturing, utilities.

While the absolute number of those employed in the goods production sector has not fallen by much (there are 160,000 fewer people employed in this sector than 30 years ago), the reduction in the share of employment in the sector is stark.

In fact, if the share of employment in the goods production sector had remained the same over the past 30 years then there would be 1.6 million more people employed in that sector today (and fewer people employed in other sectors).

The ability of the Australian economy to accommodate such a shift in employment between sectors – in effect, re-distributing over one and a half million jobs in the goods production sector for jobs in services – suggests that we have been able to deal with labour market change in the past.

» Of course, for the individual workers involved, the adjustment described above is likely to have been quite dislocating. The experience of the economy in aggregate is unlikely to reflect the experience of every individual within it. As a result, there is a role for government to play in smoothing the adjustment process for individual workers through ensuring, for example, access to education and training.

It is also important to note that the period we have considered (post 1985-86) generally corresponded with an opening up of the Australian economy and (until recently) increases in labour market flexibility.

A less flexible labour market is likely to have been less successful in accommodating such a degree of change.