

# ALR

## MARGINS

### *Long Time No See*

The unemployment rate for 15-19 year olds is 35%, compared with the labour force generally of around 11%. It is this, more than anything else, which has sparked the public anguish about young unemployed people. Yet the emphasis on youth unemployment at present preoccupying both government and opposition is, to a very large extent, misplaced. The biggest problem in the Australian labour market is long-term unemployment—and it is a problem likely to get worse.

Policy perspectives driven by an obsession with unemployment rates are unfortunate—particularly when the information relates to young people. This is because the size of the youth labour force has been shrinking rapidly since the early 1980s. The major reason is that educational participation rates have grown rapidly, meaning that today there are far fewer people aged 15-19 in employment or actively seeking work than there were a decade ago. In 1980 only 44% of young people were in full-time education; in 1991 the figure was about 71%. Consequently, while the unemployment rate of the young is very high, as a proportion of this age cohort unemployment is less than 10%, compared with over 12% in the 1982-83 recession.

The unemployment problem for young people is important but, in fact, long-term unemployment is an issue of far greater concern.

For any given pool of unemployed

people there are substantial disparities in the experience between individuals. One of the most important dimensions here is the length of time people have been jobless. The term long-term unemployment relates to those who have been out of work for 12 continuous months or more, of which there are currently over 300,000.

There are two basic facts about long-term unemployment. One is its numbers increase extremely rapidly about a year after a recession begins. In the last downturn, for example, long-term unemployment increased from about 70,000 in 1982 to around 190,000 in 1983. Similarly, in this recession it has increased by about two and a half times since 1990. The other is that once it takes hold, long-term unemployment decreases very slowly. Even though employment grew very rapidly from 1984 to 1989, in 1990 there were still around 40,000 more long-term unemployed than before the 1982-83 depression. These facts may be explained as follows. The long-term unemployed are the most disadvantaged participants in the labour force. They tend to have low levels of education and, as their unemployment duration rises, they increasingly have relatively low levels of on-the-job experience.

Two further things happen to prevent individuals escaping long-term unemployment. One is that the value of the skills they have depreciates through lack of use. The other is that the experience is a numbing and depressing one which naturally engenders negative attitudes and a lack of confidence. An obvious result is that employers are likely to prefer other applicants for jobs. This is particularly true today, when there are many alternative applicants for jobs.

In short, the long-term unemployed are pushed to the back of the hiring queue, then find themselves in a vicious circle. Yet the number of long-term unemployed is unlikely to fall in the next few years and could even increase rapidly. The Centre for Economic Policy Research at the Australian National University

recently produced a number of econometric simulations based on past experience to illustrate what might happen to long-term unemployment between 1992-96 under three scenarios concerning the unemployment rate. The 'low' scenario assumes that the unemployment rate falls to 9% by the end of 1993. The 'medium' and 'high' scenarios respectively assume that the unemployment rate stands at 10.5% and 12% at the end of 1993. Under the most optimistic of these scenarios, assuming that the economy grows relatively quickly, there will still be at least 300,000 long-term unemployed for several years at least. Under the medium scenario at least 400,000 people will be long-term unemployed, and the figure will still be growing slowly. And under the most pessimistic scenario, the total will reach almost half a million by the beginning of 1994.

Major policy conclusions follow from this analysis. The clearest is that when an economy moves into recession considerable and long-lasting problems of large-scale long-term unemployment will be created. And even if the economy grows relatively quickly after the recession ends, the number of long-term unemployed will remain very much above where it was before the downturn. The other important point is that a comparatively modest growth in employment can have an impact on the long-term unemployed. If the economy recovers to reach 9% unemployment in the next 18 months or so, as many as 160,000 people will avoid long-term unemployment compared with the current malaise.

The bottom line is that, while youth unemployment is an issue of legitimate concern, the actual and prospective magnitude of long-term unemployment is such as to demand greater policy attention. For many in the group it is already too late this time around, but the lesson for future policy is obvious.

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