Many of the newly classified long-term unemployed must be asking whether they will ever work again. The likelihood of finding employment decreases the longer the period spent without a job. Usually the newly unemployed find work fairly quickly while the remainder are likely to experience long periods of unemployment with a declining probability of ever getting out of the rut. But in this recession those retrenched have become, against all their expectations and labouring experience, the new long-term unemployed. The widespread despair is not garnered by the unemployment statistics. April’s figures showed that 30,000 job seekers dropped out of the chase for a job. In economic parlance the labour participation rate fell a fraction. But these disaffected people—the hidden unemployed—are set to crawl out of the woodwork once the employment indicators turn up. We can use the iceberg as a useful metaphor in understanding the significance of the unemployment problem. The visible part does not do justice to what lurks beneath the surface.

The 80s boom showed that when employment growth is strong the labour force participation rate shoots upwards. Typically a 1% growth in jobs saw a corresponding increase in the participation rate of 0.4%. This is the same as saying that for every ten jobs created, four led to a fall in hidden unemployment while six resulted in a fall of the recorded unemployed. Consequently the official unemployment rate fell only sluggishly. At the peak of the boom the Australian unemployment rate nestled at 5.9% leaving a hard core of unemployables untouched by economic recovery. We can expect much the same scenario to unfold as the recovery gathers pace.

Much is already being made of the incipient housing recovery. Employment, always a lagging indicator of economic activity, will surely rise. But as young marrieds begin to deck out their newly-constructed homes with furnishings and fittings, our import bill will resume its upward climb. Household effects, from tiles to towel-holders, furniture to fans, are more

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often than not imported. Much of the expansionary effect of such spending will, therefore, flow offshore.

Even much of the infrastructural spending proposed in the One Nation package will flow abroad as we acquire imported road-making and rail-laying equipment. When the economy was chugging along the last time our import spending grew three times as fast as domestic spending. Nothing has changed in the structure of the Australian economy to suggest a lowering of that ratio. Indeed, it may be said that thanks to continuing tariff reform our propensity to import may be all the greater. Witness our disturbing tendency to import processed goods.

All this is seemingly of academic concern to people like Greg. After six months on the dole (sorry, job search allowance) he qualified for job training allowance where he was given special access to a pool of jobs where the government subsidises the employer's wage-bill to the tune of $160 a week for some three months. But for Greg, alas, no luck; the competition and the numbers eligible for the scheme were too fierce. Job subsidies, although a drain on the budget, do make good sense. Such are the monstrously high 'on-line' costs associated with labour employment these days that some incentive, other than the socially divisive expedient of cutting wages, needs to be offered to business. There is a plethora of such costs, namely, workers' compensation, holiday loadings, the superannuation levy and now Dawkins' training levy.

State imposed payroll tax is another impost. The states earn nearly $6 billion from taxing labour as an input into the production process. Is it not ludicrous to tax labour when there are easily over a million people unemployed? It is even sillier when Australia is notorious for its high wage cost structure. There are, moreover, economic forces afoot that will ensure the continuation of this uncompetitive wage structure. Microeconomic reform has taken a grip in the corporate sector. Companies have used the recession as an opportunity to shed marginally unproductive labour. The real danger is that the remaining workers on the companies' payrolls, under the guise of enterprise bargaining, can seek wage rises based upon their productivity having risen merely because of labour shedding. The higher real wage level that will then ensue makes it all the more difficult for the unemployed to obtain jobs.

Paul Keating should strike out with his own version of 'new federalism' by bribing the states to axe the payroll tax and substitute some better means of revenue raising. This should cheapen the relative cost of labour and, allied with the demand-led kickstart to the economy, would give some hope of rescue from the economic scrapheap for Greg and the legions like him.

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Two decades of declining economic performance overlaid by the current recession have seen increasing numbers of Australians cast aside. Issues of living standards and inequality have returned to the national psyche and the political agenda. Ahead of the next federal election both major parties have recognised the need to convince electors that past trends will be reversed once they regain (or achieve) office. Their rival blueprints have been subject to expert scrutiny, much of which has served to confuse all but the most quantitatively expert.

This is unfortunate, though unavoidable. It is a complex task to assess the impact of major policy changes on people's economic circumstances and the inequalities between them. Claims that inequality has increased may make for a good story, but they often rest on methods and assumptions which are themselves challenging and are generally neither explicit nor subject to scrutiny.

One aspect of the debate which all accept, however, is that it is valid to estimate how different people's incomes are likely to change in response to new policies and to infer from this how people themselves are affected by the change. This is, of course, normal practice which accepts that 'a dollar is a dollar' irrespective of who gets it. Recent research conducted at the Social Policy Research Centre at the University of NSW casts doubt on this simplistic view of the world, in the process shedding new light on old questions about how income is perceived and how income changes translate into public perceptions of living standards and inequality. The research is based on a national survey of a representative sample of Australians conducted in late 1988. Among other questions, respondents were asked to indicate the lowest incomes their household would need in order for them to be able to 'make ends meet'. Not surprisingly, responses to this question varied with actual income, richer households indicating that they needed more income than poorer households just to make ends meet. Our analysis also revealed that several indicators of family need—the number of adults and children and whether the person was above or below pension age—affected the