

# Notes from an informal discussion with the Employment White Paper Task Force on: Defining and measuring full employment

1 September 2023

## Participants

Jacqui Philips & Peter Davidson (ACOSS); independent experts - Ross Garnaut, Jeff Borland, Elizabeth Hill; and representatives from the Employment White Paper Task Force and Treasurer's office.

## Purpose and format of meeting:

Informal discussion of definition and measurement of full employment.

Chatham House rules to apply (i.e. views of individuals won't be quoted).

Thanks to the three experts for contributing (noting views are their own).

Material circulated:

- Journal article from Ross Garnaut,
- Draft brief from ACOSS

## ACOSS:

### ACOSS motivation:

Benefits of full employment for people excluded from labour market

- There are now 500,000 people long-term on inadequate unemployment payments, after the early 1990s recession there were 300,000 and this was considered a major social and economic problem at the time.

Full employment also has wider economic benefits.

## Historical background

Full employment has taken a back seat to price stability in macroeconomic policies since the 1990s:

- Generations have grown up without experiencing its benefits - tacit acceptance of 4-5% unemployment or more.

## Opportunity now (post COVID stimulus) to restore and lock in full employment

- RBA Review recommends equal consideration given to employment and price stability, though some question whether this is a departure from status quo.
- ACOSS wants to see equal *priority* as well as '*consideration*' (the wording used in the RBA Review Report). Must be a clear whole of Govt commitment,
- RBA should not define the target of full employment that it is required to deliver—that has to come from Government.
- RBA cannot do the heavy lifting (balancing full employment and price stability) alone – fiscal and other policies, employers, unions and civil society must contribute.
- This requires a clear definition of full employment, supported by robust benchmarks/measures: the Treasurer's statement that '*anyone searching for a job can get one without searching too long*' is a good starting point.
- Also important to set a policy goal that *people excluded from paid work have genuine opportunities*.

## Issues to consider when measuring full employment:

- hours as well as jobs
- ratio of vacancies to unemployed
- time taken to obtain employment/more hours
- suitability of work for people.

A Government agency (Treasury? Jobs and Skills Australia? but not RBA since the targets should be set by Government) should monitor progress and report publicly.

## Independent experts:

### Historical background:

- We've lost our sense of meaning/experience of full employment; unemployment was 2% or less for a long time after WW2. After White Paper on Full Employment in 1945, its authors were surprised at sustained low unemployment rates.
- Full employment didn't feature much in Government documents including RBA statements in the decade before COVID but reappeared when unemployment fell considerably in 2022 and early 2023- good to see it make a return.
- Full employment helped keep inflation low in post WW2 period - employers faced with limited access to workers invested to improve productivity; higher productivity allowed increases in real wages without inflationary pressure.

### Benefits of full employment:

- As well as improving employment opportunities for people, full employment (properly understood) would lift wages and also productivity (since if labour is scarcer, employers would have to invest in machinery and work practices that lift the productivity of each worker).

### Defining full employment:

Full employment can be defined either in terms of the 'Non Accelerating Inflation Rate of Unemployment' or NAIRU (below which inflation rises sharply), or ready access to jobs/ paid working hours for people, noting the Treasurer's definition (see above) - we need a broad, simple definition

- In practice these are much the same—the problem with using the NAIRU in Australia has been miscalculation of what it is.

### Setting targets for full employment:

- Need to be careful with excessive precision of a full employment target - note that the 2-3% inflation target is not precise; depends on economic conditions and will change over time. With a precise target, we may be satisfied with unemployment that is unnecessarily high.

- New Zealand's rigid 2% inflation target has resulted in five recessions when there has been one (during COVID) in Australia with its more flexible inflation target.
- Full employment targets should be defined and regularly and transparently reviewed by Government, independently of RBA.
- Possible measures - a combination of point-in-time labour underutilisation measures and speed of movement towards employment/adequate paid hours.
- Should include unemployment/underemployment - look for simple numbers based on more complex indicators/interactions.
- Labour force participation measures are too thin, need to also consider suitability of hours of work, skills match and job quality.

A gender-informed measure of full employment would have three dimensions and take a life course perspective:

- good match of hours (sought and obtained)
- good match of skills
- decent work, not any work.

Need to consider optimal work-care preferences rather than 'constrained choice':

- Women are more likely to manoeuvre sideways and downwards in their careers to accommodate care of family members.
- This is not a 'choice', it's constrained choice, due to policy failure.
- Outcome is that human capital is underutilised and productivity is lowered.
- Women are twice as likely to be employed part time or casual - in part due to unequal sharing of child care, inadequate child care services.

These problems permeate the 'care economy', with too many short casual contracts and on-demand jobs - flexibility is for employers only.

### **Evidence on the relationship between inflation and unemployment:**

- Recent empirical evidence indicates that the 'Non Accelerating Inflation Rate of Unemployment' or NAIRU (below which inflation rises sharply) is now no higher than 3.5% - since unemployment was reduced to that level

for a year without pressure on wages causing inflation to accelerate.

- Ian McDonald estimates a NAIRU of 3.3% (Journal of Keynesian Economics).
- RBA and Treasury have consistently over-estimated wage growth for years because their models are backward-looking (to an era when wages responded more sharply to reductions in unemployment) and poorly defined and calibrated.
- Best to avoid estimates of NAIRU derived from models - These have been repeatedly revised down as policy makers realised there was more room to move before triggering inflation.
- Instead use descriptive evidence of status quo/ recent trends to predict what will happen to inflation in short-term and long-term if labour underutilisation falls.

### **Dual mandate of the RBA (full employment and price stability)**

Full employment and price stability already have equal priority in RBA Act:

- This cannot be over-ridden by the succession of formal agreements between RBA and the Treasurer which set inflation targets.

RBA shouldn't be left to define its own employment targets - Governments should set them.

RBA Review calls for 'equal consideration' of full employment and price stability:

- They should have equal status but important to avoid a formulaic approach to balancing full employment and price stability.

### **White Paper Task Force:**

White paper is due by end of September, statement of agreement between Treasurer and RBA on the conduct of monetary policy by end of December:

- White Paper will raise five objectives - sustained and inclusive full employment, job security and wage growth, productivity, skills for the future workforce, and barriers to employment.
- RBA arrangements are not included - these are being considered separately.

- Agrees full employment is about more than unemployment - broader measures of underutilisation needed, including underemployment, discouraged workers, people outside the labour force.

Treasurer's recent statement is the basis for definition of full employment, which has two dimensions:

- *sustained*, which relates to macroeconomic stability and the NAIRU (which can be reduced, e.g. by broadening labour force participation) and
- *inclusive*, which relates to structural unemployment and improving employment opportunities for people excluded from employment.