

A Disturbance in the Force: Australian Society and Economic Change

Address to the Anglicare National Congress, 2003

Many of us feel that, to draw on the title of the Conference, there has been a disturbance in the force in Australian society over the past decade or so. That is, that some fundamental changes have taken place in our community that has made it less forgiving, more unequal and desperately difficult for many people. A little while ago my colleagues and I wrote that

‘Australia enters its second century in a state of social crisis. This social crisis in the midst of a buoyant economy is evident from many signs in Australia’s cities, towns and rural areas. These range from manifest inequalities in entry to, and rewards from, economic activity to increasing demand on emergency relief agencies, public hospital casualty wards, crisis centres and services for the homeless.’ (Borland, Gregory and Sheehan 2001 p2).

I know that this sense of a disturbance in the force is strong among those, such as many of you, who work closely with people in need. In this address I will not seek to justify or elaborate on this perception of social crisis. Some argue that these 'many signs' are simply ripples on the edges of progress, rather than indicators of a real disturbance in the force. I will not debate this response here. Rather, I seek to do three things: to outline some of the economic roots of the situation we find ourselves in, to explore how this perception sits with the common sense of a buoyant economy and rising prosperity, and finally to make some brief reflections on what might be done.

Economic and Social Policy – Integration and Separation

A century ago, the founders of the Australian federation saw economic development and equality as central goals of the new democratic nation. Not only was Australia to grow and develop, bringing prosperity to its citizens, but this growth was to be achieved with a high degree of equality, in stark contrast to the inequities of the Old World. This equality with growth would be assured both by the nature and conditions of business activity (broadly based industry, in part behind tariff walls, a living wage and defined hours of work) and through social support measures. Thus the new nation led the world in aspects of employment

protection (the minimum wage and the eight-hour day) and of the development of social welfare measures. Development and equality stood as central, integrated goals of both economic and welfare policy.

In spite of many periods of intense difficulty, this model served Australia well for seven or eight decades. In particular, the generation of high levels of full-time employment, at good wage levels and with only moderate dispersion of earnings around the mean, provided the foundation for a prosperous and reasonably equal society. Both family prosperity and social equality were underpinned by full-time work at reasonable wage rates. This meant that the task facing the social security system was modest, and manageable within the financial resources of governments.

Australia has responded relatively quickly to recent global change, more quickly than many countries in Europe. The main thrust of policy has been on economic adjustment and efficiency, and on the lowering of costs. The predominant settings of policy – tariff reduction, microeconomic reform, de-regulation of the labour market, privatisation and taxation reform – have been directed at creating an open, efficient economy able to be cost competitive in the emerging world economy. In the main, this broad thrust of policy has had bipartisan support.

While the potential social implications of these policies, and indeed of broader global changes, were recognised to some degree, they were regarded as matters to be dealt with by social policy and the social security system, rather than by economic policy. This separation of economic and social policy is new to the Australian federation, and represents a paradigm shift from the previously prevailing strategy.

The economic challenges which policy has addressed are real indeed, and there has been a good deal of success. For example, the openness of the Australian economy, in many dimensions, is a major asset. Yet Australia moves through the early years of this decade with severe, and perhaps deepening, social problems.

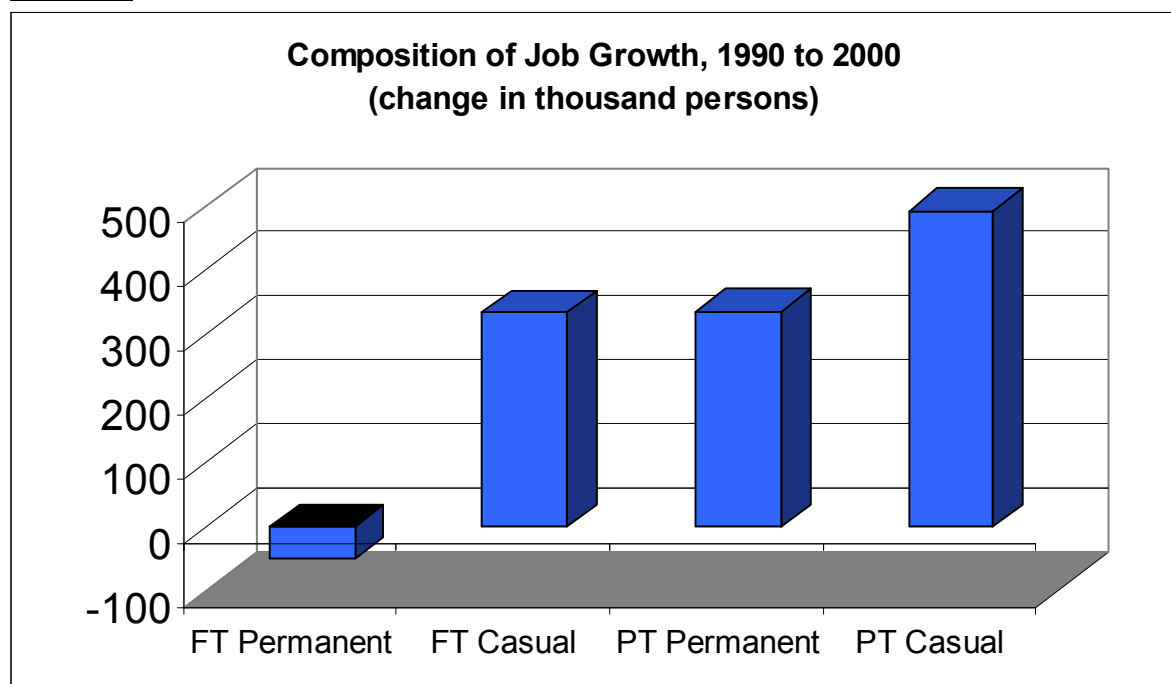
Good Jobs and Social Viability

My central argument is that many of these social issues can be directly traced to developments in the labour market over the past 25 years, and over the 1990s in particular. In short, the economy has failed to generate an adequate supply of jobs paying a living wage, and hence able to support full and independent involvement in the Australian community. In the 1990s, all of the net increase in jobs has been at earnings of less than \$600 per week, at 2000 values. Such an outcome cannot support viable communities, nor maintain the social fabric intact.

There are three main aspects of the labour market failures that are contributing to social crisis in Australia. The first of these is increased inequality in earnings in the different types of jobs that are available, and in particular within full-time jobs. The second is the continuing change in the type of jobs available, especially the rise of part-time casual jobs, and the increasingly unequal distribution of better paid jobs. The third is the growing polarisation of households into work rich and work poor, with many couples having access to several jobs and working long hours in total, at the same time as an increasing proportion of couples have little or no work.

All three are important, but given time constraints I will only discuss the second here - the changing types of jobs being created in Australia, and their distribution. One very striking fact is that the number of full-time permanent jobs in Australia actually fell by 51,000 between 1990 and 2000 (Chart 1). Three quarters of all jobs in 1990 were full-time permanent jobs, but during the decade there was actually a decline in this big segment of high value jobs. While there was significant growth in full-time casual jobs, 75% of all additional jobs created in the 1990s were part-time jobs, and nearly one-half were part-time casual jobs. These differences in job types matter a lot in terms of earnings – the average part-time casual job had earnings only 30% of the average full-time permanent job in 2000, and this takes no account of the difference in employee benefits between the two cases.

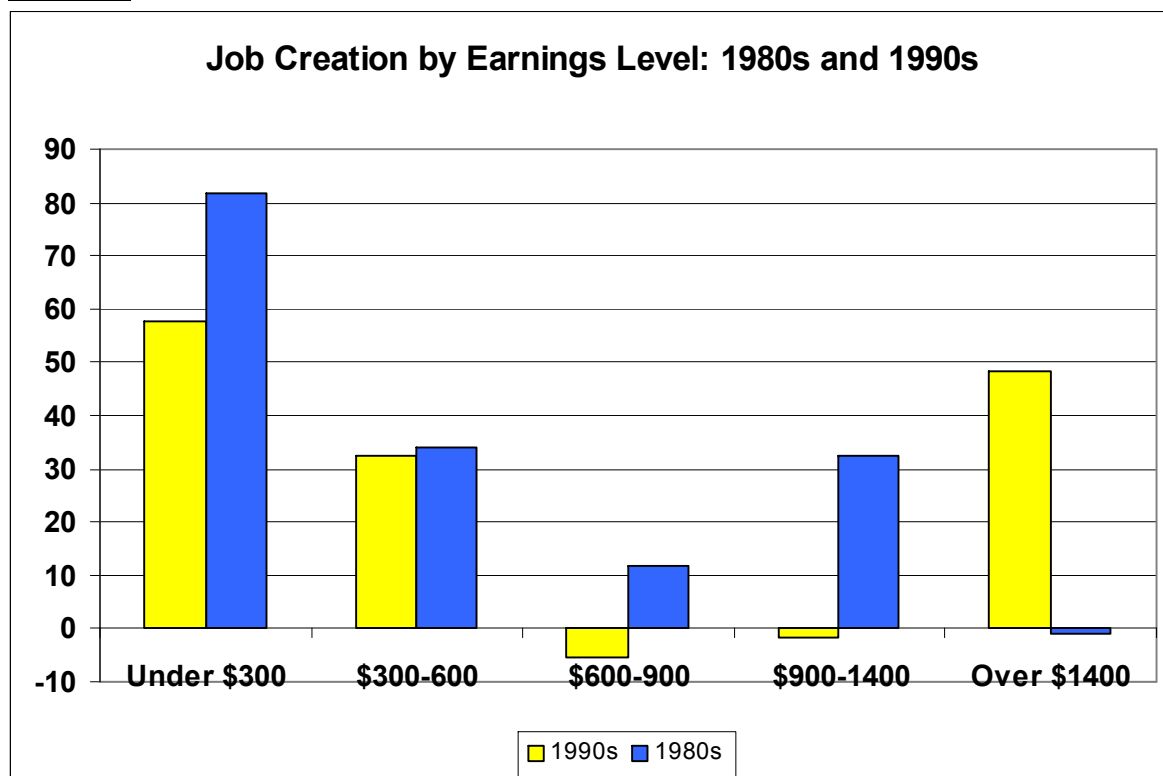
Chart 1



Source: Borland, Gregory and Sheehan (2001), based on Cat No 6310.0

The net result of these trends can be assessed, at the individual level, by comparing employment by earnings distribution, for all jobs, in 1990 and 2000. For this analysis the 1990 earnings scales are adjusted to 2000 values by the increase in average full-time earnings (all persons) over the period. A similar analysis was also undertaken for 1980, adjusting the 1980 earnings scales to 2000 values.

Chart 2



Source: Borland, Gregory and Sheehan (2001), based on ABS Cat No 6310.0

As shown in Chart 2, jobs paying less than \$300 per week increased by nearly 60% during the 1990s, on top of an increase of over 90% in the 1980s. Indeed, nearly half of the total increase in jobs over the decade was in jobs paying less than \$300 per week in 2000, and over half was in jobs paying between \$300 to \$600 per week. There was no net increase in jobs paying over \$600 per week, in spite of strong growth (48%) in jobs paying over \$1400 per week. In particular, the total number of jobs declined in the middle income area between \$600 and \$1400 per week, which provided 53% of all jobs in 1990.

In others words, other than for some well-paid managers and professionals, job growth in the 1990s was overwhelmingly concentrated at low earnings levels. While there may have been some growth in low paid

full time work, the main factor here is clearly the growth in part-time and casual jobs.

Why No Increase in Good Quality Jobs?

The next question, then, is this: why was the buoyant economy of the 1990s virtually unable to generate any significant increase in jobs of good quality, as measured by earnings? Many factors undoubtedly played some partial role, as Australia sought to respond to the rise of the global knowledge economy. These may include the shift from goods to services industries, changes to the industrial relations system, the declining role of trade unions, the impact of new technologies on middle management and the skilled trades, private and public sector initiatives to reduce costs and to respond to global pressures, and so on.

But whatever these specific reasons, the fact remains that the strategy adopted by Australia over the past two decades to respond to global change has not produced an employment outcome consistent with social viability. Indeed, Australia shows all the signs of becoming a peripheral economy focusing on relatively low level activities, with the real action elsewhere. Look at the decline of manufacturing, and the loss of 130,000 middle income jobs in manufacturing over the decade. Or at the universities, with rapid growth in service courses often taught by casual, part-time staff. Or at the loss of substantive capabilities in public service. Or at the impact of privatisation on critical clusters of Australian expertise. Or at the widespread decline in R&D and innovation after 1996.

The jobs experience of the 1990s and beyond is a sharp reminder of what sort of economy Australia is becoming – one which is increasingly marginal in terms of substantive activities and one which provides little real work, training or opportunity to many of its citizens.

Peripheral Economy and Economic Boom?

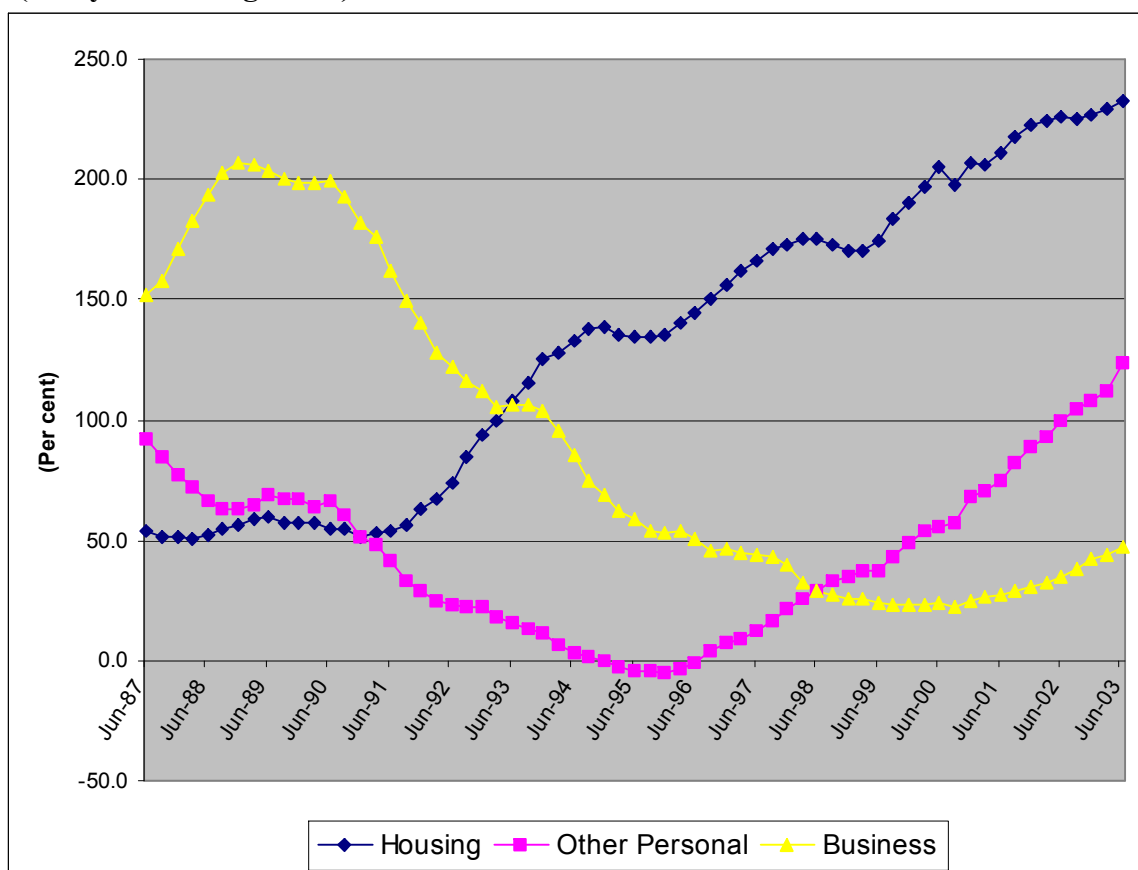
How can this be so? How can such a view of the economy be reconciled with the signs of boom, prosperity and general good times? How can it be reconciled with the longest expansion in Australia's history?

Several factors are relevant here, but the basic answer is simple: consumer and foreign debt, and property. That most familiar of phenomena - a consumer and housing boom - is masking the underlying changes in the Australian economy.

In understanding what is happening in the economy, one good place to look at is the credit markets. Chart 3 shows the cumulative real increase in credit outstanding over a ten year period, for the various elements of credit and for all lending institutions. The data are quarterly, so that the 'housing' point for June 2003 shows the percentage change in housing credit, after adjusting for inflation, over the ten years between the June quarter of 1993 and the June quarter of 2003.

The message of Chart 3 is clear, and striking. The 1980s were, as we know, the decade of business lending, and the financial institutions and the community paid a heavy price for the excesses of that time. In June 1989 real business credit was more than three times that in June 1979, an increase of 203.7%, while the increase in lending for housing and for other personal loans was about 60%. But in the years after 1990 business credit outstanding fell, and has grown slowly since then.

Chart 3: Real Credit Growth, 1977-2003, by Purpose
(Ten year moving totals)



Source: Reserve Bank of Australia, Statistical Bulletin, June 2003

By sharp contrast, the 1990s and the early years of the present decade have been the era of lending for housing and for consumer purposes. Real housing credit increased by 232% in the decade to the June

quarter of 2003, and was nearly four and a half time greater than in the same quarter of 1990. Credit for other personal loans fell significantly in the wake of the early 1990s recession, and it was not until 1996 that it began to grow strongly. But it has more than doubled between the June quarters of 1995 and 2003. By contrast, lending to the business sector has been much more subdued, increasing by only 47.1% in the decade to the June quarter of 2003, and at that time being only 28% higher than at the peak in June 1990. Indeed, in the three years to June 2003, business credit outstanding has not increased at all.

The numbers involved here are massive. In June 2003 credit outstanding for housing and other personal loans was nearly \$500 billion, or about \$25,000 per head, of which about 80% was increased indebtedness since 1990. The household saving ratio – the proportion of total household income, including superannuation contributions and earnings, saved – fell from 9.9% to –1.2%. An indication of the impact of household borrowing, and hence reduced saving, on the economy is this: if households had saved at the same rate (about 10%) in 2002-03 as they did in 1989-90, their spending would have been about \$68 billion less in 2002-03.

Table 1: Industry Distribution of Growth in Hours Worked, 1990-2002
(Data are for August of each year)

	Share of Total Hours in 1990 (%)	Growth in Hours Worked, 1990-2002 (%)	Share of Change in Total Hours Worked (%)
Market Sector (ex construction)	64.4	0.2	11.2
Construction	7.7	1.8	12.0
Property and business services	7.7	5.3	42.5
Other	20.3	2.0	34.4
Total	100	1.2	100

Source: Australian Bureau of Statistics, The Labour Force.

As is to be expected, these trends have been reflected in the labour market. Given the changes in job types, and particularly the increased prevalence of part-time work, it is best to study hours worked rather than persons employed, as measures of the demand for labour. Table 1 provides some data on total hours worked in 1990 and 2002, for four industry groups: the market sector as defined by the ABS, but excluding construction, construction, property and business services and other industries.

The market sector (excluding construction)¹ provided 64.4% of hours worked in 1990, but only 11.2% of the increase in hours worked between 1990 and 2002. Over the twelve years this central two thirds of the economy only generated a 0.2% per annum growth in hours worked. By contrast, construction and property and business services, which accounted for 15.4% of hours worked in 1990, generated 54.5% of the increased hours worked. Other services², a category which is dominated by health and education, continued to generate growth in total hours worked.

So again we reach the same conclusion. The traditional heart of the economy – the ‘market’ sector – is not generating new jobs, or even any real increase in hours worked. But the consumer debt and property boom, aided by continued growth in traditional service areas, obscures this reality. This, I think, is why we are getting deepening social problems with the trappings of economic boom.

What Can Be Done ?

Three things need to be done, in my view. The first is to recognize some basic realities. Whatever its other successes, the broadly bipartisan response to global change over the past two decade has not delivered an economy that can sustain the nation’s social fabric. Furthermore, the situation will get worse before it gets better. All debt based booms break sooner or later, and that is true of the current property and consumer debt boom. As we saw with the Internet bubble, low interest rates around the world can lead to an extension of asset bubbles, but the break is inevitable. This means that the activity of caring for those in need, such as is undertaken by Angicare, will remain of critical importance.

The second is begin, in many ways and at many different places, the long task of trying to build again a substantive economy and an integrated community. Global change is here to stay, and cannot be ignored. Building a substantive economy that can support an integrated community will involve developing quite new approaches to achieving prosperity and equity in the emerging global economy. It will not be achieved either by ignoring the challenge or by tinkering with existing policies at the margin.

The third is to begin a new national debate about the policy structures that will deliver us a substantive economy and an integrated

¹ This category thus includes agriculture, mining, manufacturing, electricity, water and gas, wholesale and retail trade, accommodation, cafes and restaurants, transport and storage, communication services, finance and insurance and cultural and recreational services.

² This category includes government administration and defence, education, health and personal and other services.

community. This may not be possible until the current consumer debt and property boom has broken. But a real debate is vital if we are to think through how the whole of the Australian community can prosper in the global knowledge economy.

The level of smugness and self-satisfaction among policy makers and the economic elite at the present time precludes any real debate about these fundamental issues now.

But that will change, I assure you.