Economic and social costs of unemployment

Economics, Macroeconomics

Analyse the Effectiveness of government policy initiatives aimed at managing unemployment in Aust & Examine the Extent to which these initiatives may conflict with other macroeconomic objectives in the Australian economy. The labour force can be defined as the section of the population 15 years and above who are either working or actively seeking work. Australia's current labour force is about 11. 5million. Australia's unemployment rate is calculated as the number of unemployed persons between 15 and 65 who are actively searching for work, over Australia's total labour force. The Current Unemployment Rate from March 2012 is 5. 2%. The Australian governments have struggles with the challenge of the achieving a sustained reduction in unemployment. A variety of strategies have been used over the last three decades. These strategies include numerous micro and macro-economic policies, normally known as a policy ' mix', where the macro policies are short term and micro policies are long term. There are a number of types and causes of unemployment in the Australian economy, all of which impact upon Australia's economic performance. In order to understand the consequence of unemployment, types of unemployment must first be explored. Cyclical unemployment is that which takes place during a downturn in economic activity or a recession. Structural unemployment is caused when a company or industry undertakes structural changes, seasonal unemployment is when an employee's job only lasts through a particular season, Frictional unemployment is when an employee is between jobs and hardcore unemployment exists when a person is unemployable due to personal, mental, or physical characteristics. Full employment has been a major goal of the Australian government. During the

92’ recession unemployment reached 11. 2% and in 20 years it has fallen to 5% and in 2012 to just above 5%. The unemployment rate at full employment is known as the Natural Rate of Unemployment (NRU), or the Non-Accelerating Inflation Rate of Unemployment (NAIRU), because at this level of unemployment, inflation equals zero. Australia’s NRU is 6% of the workforce Real Wage W Real Wage W D D S S QN QN QL QL U U E E LF LF Inflation % 6% 3% LRPC Unemployment % 6% 3% Natural Rate of Unemployment Inflation % 6% 3% LRPC Unemployment % 6% 3% Natural Rate of Unemployment The Natural Rate of Unemployment The demand for labour, D is a negative function of the real wage, and the supply of labour, S is a positive function. Vertical line LF denotes the labour force. Full employment is where equilibrium occurs — real wage W and labour quantity QL. The distance EU (QN — QL) is equivalent to the natural rate of unemployment. The Natural Rate of Unemployment The demand for labour, D is a negative function of the real wage, and the supply of labour, S is a positive function. Vertical line LF denotes the labour force. Full employment is where equilibrium occurs — real wage W and labour quantity QL. The distance EU (QN — QL) is equivalent to the natural rate of unemployment. The Long Run Phillips Curve The Short Run Phillips Curve (SRPC) shows the short run trade off between the inflation rate and unemployment rate. The Long RRun Phillips Curve (LRPC) indicates that there is no tradeoff between inflation and unemployment in the long run, and that the economy’s natural rate of unemployment is 6. 5% that the economy’s natural rate of unemployment is 6. 5% The Long Run Phillips Curve The Short Run Phillips Curve (SRPC) shows the short run trade off between the inflation rate and unemployment rate. The Long RRun Phillips Curve (LRPC) indicates that there is no tradeoff between inflation and unemployment in the long run, and that the economy's natural rate of unemployment is 6. 5% that the economy's natural rate of unemployment is 6. 5% Full Employment can be achieved by multiple macroeconomic policies. The Macroeconomic policies which have been used over the past 12 months in Australia to address the economic objectives of full employment and economic growth and manage Employment are monetary policy, Fiscal Policy And various Labour Market Policies. The Main two aimed at managing unemployment are Monetary and Fiscal Policy. Monetary Policy is undertaken by the Reserve Bank of Australia (RBA) and involves the Reserve Bank changing the official cash rate in order to influence the cost of money (Interest Rates) in the Australian Economy. Fiscal policy is the government's use of taxation and government expenditure in the budget to influence economic activity. Whilst Both Policies have played an important role in the current economic Downturn, Fiscal policy has become the main policy instrument to address the global Financial Crisis (GFC). These policies unlikely to reduce the structural employment rate, it instead increased inflationary pressures because high economic growth induced by technological change can result in high structure unemployment. But the critical element in these policies to reducing the unemployment is the maintenance of non-inflationary and steady rate of economic growth. These policies can contribute to improve labour market outcome by aiming to achieve the highest possible rate of economic growth. Arthur Okun's theory states that unemployment will be reduced when economic growth increases, which will lead to higher productivity and lead to a higher labour force. While macro-economic policies affect the level of unemployment, there is also micro-economic reform which can affect the levels of unemployment aswell. Microeconomic reform is the government improving the resource allocation between firms and industries, in order to maximise output and seeking to improve the efficiency and productivity of producer. A wide range of microeconomic reform have been introduced to improve the competitive economic environment in Australia and increase the potential for higher productivity, employment and economic growth. Recent solid productivity growth in Australia economy has led to a stronger economic growth and a lower unemployment rate. There are three major microeconomic policies to reduce the unemployment rate industry reform, reduction in real wage, and taxation reform) But with every plus there is a minus. When Macroeconomic policy stabilizes the macroeconomic system, the Government figures out more reasons to take on more macroeconomic systemic risks and starts to shed those risks into the economy. When these risks start to shed we end up getting the worst of both worlds receiving ‘ Stagflation’ combined with widespread technological unemployment. These risks ultimately lead to social fragility not macroeconomic fragility, Which releases much more unemployment and a perceived deficit. While there is consequences from macro-economic policies on the economy there is also consequences on the economy from reducing the levels of unemployment, since workers have more money and are thus able to increase their living standards, they are likely to spend more as consumers. As capital and consumer goods are now being purchased in greater quantities, there is a rise in aggregate demand. This results in increased profits for firms, which leads to greater incomes for workers, which again allows them to increase living standards. This leads to a higher inflation level, then before the unemployment level declined. While the labour force can be affected by multiple macro and micro economic policies, there is always still going to be some level of unemployment which is why full employment cannot eb achieved by the Australian government but is a high point in the aims of the economy. Thus is why the government must always go ahead with their reforms and policys to achieve sustained economic growth and decline the levels of unemployment. MURRAY O’BRIEN 12. 3 ECONOMICS

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