

Roy Morgan — Research —

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Henry Thornton has been hearing lots of stories from employers of labour about the impact of the new IR legislation. In essence these amount to a greater willingness to hire people (since it is easier to fire them) but also a greater commitment to working hard by workers. An economist friend points out that, logically, the new legislation must be biting as there is such an apparent impact on the public opinion polls.

Indeed, in an article published here and in Crikey! on Monday, July 17, the CEO of Roy Morgan Research, Michele Levine, argued that the crucial issue in Federal politics continues to be Industrial Relations rather than the much publicised leadership battle between John Howard and Peter Costello. The first poll taken after the nation-wide day of protest against Work Choices showed that the Labor Party held a seven-point two-party preferred lead over the Coalition (53.5% cf 46.5%). After the weekend of July 8/9, when the 'leadership deal' between Mr Howard and Mr Beazley was first revealed, Roy Morgan Research surveyed electors on who they prefer as Leader of the Coalition and who they thought would be the better Prime Minister – John Howard or Kim Beazley, and Peter Costello or Kim Beazley and why. Surprisingly, considering the amount of coverage the 'deal' had been given, the crucial issue continued to be Industrial Relations.

We know the official employment data has been surprising in its strength, which is hard evidence that the new system is helping to produce strong demand for labour. (See bottom lines in graph) We also know that the **official ABS unemployment data** is too low, in part because of not properly accounting for **people who would like to work but are not actively seeking work** according to the official definition.

Officially, the **ABS defines an employed person** as someone aged 15 years or over whom, during the reference week, worked for one hour or more for pay, profit, commission or payment in kind; or worked for one hour or more without pay in a family business or farm. An **unemployed person** is defined as someone aged 15 years or over who, during a period of one week was not employed, and had actively looked for work in the previous four weeks and was available to start work in the reference week.

The Roy Morgan Unemployment estimate is broader than the ABS mainly due to it's inclusion of the **disenchanted unemployed people** who have not looked for work in the past four weeks, as well as those who are unemployed but are unable to begin work in the reference week. Because of it's inclusion of these groups, it is a more realistic definition of unemployed persons.

As can be seen in the graph below, since the Roy Morgan Unemployment estimate was established, it has consistently been between one and three percent above the ABS estimate, simply because of the inclusion of disenchanted workers, and those unable to begin work in the reference week. Currently, the Roy Morgan Unemployment estimate sits at 6.6%, whereas the ABS estimate is 4.9%.

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Neither estimate includes those **people who want to work but are unable** due to the high cost of childcare, those disabled people who might be retrained to work in a new field or those people on disability or other pensions for whom the move to paid employment would involve such a high effective tax rate that they cannot be bothered. Unfortunately there are many of these people in Australia; they are forced (or encouraged) either not to work or to work as part of the cash economy!

Another ABS survey comes closer to revealing what these numbers may be. From 2004/5, the Multi-Purpose Household Survey found that, of the 6.3 million people not employed or who worked only a few hours, around 1.8 million stated that they would like to work more hours, 977,300 of which were not in the labour force. This substantial number could be deemed the '**hidden unemployed**'.

The ABS also calculates separate figures on those people working less than full-time who would prefer full-time work – **the underemployed**. (NB: Page down to the splendid diagram if you wish to see how complicated all this is). As of September 2005, of the 2,839,900 part-time workers in Australia, 612,000 said they would prefer to work more hours. Although the official ABS definition of underemployed siphons out a further 45,400 (for complicated statistical reasons) for a total of 566,600 underemployed people in Australia, it is clear that underemployment is as extensive as, if not more than, unemployment.

Therefore, adding **unemployed, underemployed** and the **hidden unemployed**, the total amount of labour capacity that remains unutilised or underutilised is closer to 15 % than 5 %. The table shows the basis for this judgment. Careful thought (preferably with a wet towel around the head and a glass of you favourite tipple in hand) may suggest there is some double counting involved and that the overall estimate of underutilised resources may be overstated. We shall continue to work on this point, and will welcome suggestions.)

HENRY'S UN- AND UNDER-EMPLOYED MEASURE		
	000s	%
ABS Employed*	10161.4	95.1
ABS Unemployed*	526.9	4.9
ABS Labour Force*	10688.3	100.0
RMR Employed*	9867.0	83.4
RMR Unemployed*	702.0	5.9
Henry's Underemployed Measure^	283.3	2.4
ABS Hidden Unemployed***	977.3	8.3
Henry's Labour Force	11829.6	100.0
Henry's Un- and Under-Employed Percentage	1962.6	16.6
ABS Underemployed**	566.6	5.3

*Figures from June, 2006
 **Figures from September, 2005
 ***Figures from Aug 2004-Jun 2005
 ^This is half the ABS Underemployed figure, on the crude assumption that people in this category would like to work twice as many hours per week.

On Monday, ‘real’ unemployment activist Marcus L'Estrange criticized Henry for referring to the record low ABS unemployment figure. This is ungenerous of Mr L'Estrange as we have for a long period recognized the shortcomings of available statistics and have in fact been attempting to construct more accurate figures – examples can be [found here](#) and [here](#). Henry has published a [substantial article](#) of Mr. L'Estrange's outlining what he considers to be the shortfalls of the official unemployment figures – an issue he considers so dire that he calls it “Australia's Watergate”.

While neither the ABS nor the Roy Morgan measures tell the whole story, the recent downward movement in both series is telling us clearly that the labour market is stronger than it has been for many years. The Roy Morgan series is the most general currently available and its sharp decline in recent months is consistent with the strong positive effect on the demand for labour as a result of the new IR environment.

Other things equal, strong demand for labour would strengthen the case for further hikes in interest rates. But if labour productivity has risen sufficiently strongly, this would be an incorrect conclusion. The hypothesis of increased productivity is harder to test but Henry is prepared to bet this will eventually be seen as a serious feature of the Australian economy post the new IR legislation. Add this to the demand being created by the China boom shows Australia at present is more than the lucky country!

