



**ECON-19: Inside the Corona Crash**  
*Season 1: Episode 3*  
*Out of Work*

**James Whitmore:** In late March this year, a month or so after we got word of the virus spreading around the world, Australia entered its first period of pandemic restrictions. We all know what happened next. Flights stopped, restaurants and shops closed and many of us started working from home. My name is James Whitmore and you're listening to ECON-19, a podcast that takes you inside the economics of the COVID-19 pandemic.

The impact on work is the most obvious effect. In July, the unemployment rate reached 7.5%, up from 5.2% a year ago. In this episode, we're going behind the headlines to find out what's really happening in the labour market. Who has been worst affected, and why things aren't as bad as they could have been. Jeff Borland is a Professor of Economics here at the University of Melbourne. Jeff is a labour economist. He studies how we work.

**Jeff Borland:** I think the thing that drew me to specializing in labour economics from all the areas in economics, is that it's about human activity. I've never really been interested in other areas of economics like financial economics or industrial economics. I've always most liked the parts of economics that are about human interaction. I think partly because to me, it's where the really interesting questions are. I think the other thing about labour economics is that it's such a huge part of people's wellbeing. On average, 60 to 70% of people's income comes from labour market activity. We know that far beyond that huge amount of people's enjoyment of life, their sense of self-esteem comes from the sense of doing something purposeful in life, comes from the work they do. Unemployment is where there are more people wanting to work than there are jobs available.

Economists sometimes talk about labour supply and labour demand. Labour supply is the number of people who would like to work. Labour demand is the number of people who are employed or the number of jobs available.

Unemployment is when labour supply, the number of people who want to work, is greater than the number of jobs available.

James Whitmore: In Australia, we talk about official unemployment figures, but that doesn't always fully represent what's actually happening in the economy, does it?

Jeff Borland: No, usually from a social point of view, what we're most interested in is the total amount that people would like to work and the total amount of work that's available. Unemployment is one part of that, in that whenever there's a difference between the amount that people would like to work and the amount that is available, some people who want to work, just can't get any work. They're the people who are counted as unemployed, but there's another way in which that difference between the amount which people would like to work and the amount of work which is available is manifested. That's something known as underemployment. Underemployment is when a person has a job, but they're not working as many hours as they'd like in that job. If what we're really interested in, as a society, we are making sure that people can get all the work they want.

Economic policy makers wanting to make sure that we're utilizing all of the productive resources we have available. In that sense, the problem we're worried about is overall labour underutilization. That's partly to do with unemployment, people who want to work, but can't get a job at all. But it's partly to do with underemployment, people who have a job but aren't working as many hours as they'd like. In the last 50 years or so, progressively, underemployment's become a bigger part of labour under-utilisation. That's because 50 years ago, everyone who was working was pretty much in a full-time job and working as many hours as they wanted to. With the growth of part-time employment, progressively in the last 50 years, more people who are working, are working part time and there's always some proportion of those people who would in fact, like to be working more hours.

James Whitmore: What's driving the loss of work in the pandemic?

Jeff Borland: Basically through government restrictions on activity, through people spending less on particular activities where they think they might be at danger of contracting COVID. The businesses that provide those activities that the government's banning and that people withdrawing from, they've suffered huge decrease in revenue. That means that they've reduced their demand for workers.

James Whitmore: That's one of the messages that's coming through from economists throughout the pandemic, is that it's not just the restrictions that are causing the contraction. It's the people changing their behaviour and that means that even if we just suddenly bring ourselves out of restrictions, the economy's just not going to fix itself is it?

Jeff Borland: There's a variety of levels on which can talk about that. The general point is you're exactly right. That, for example, even if we're able in Australia to

relax all of the restrictions on local economic activity, we wouldn't bounce back to where we were in March.

James Whitmore: Are there people who have been worst affected by job losses and who are they?

Jeff Borland: Activities that involve social contact are concentrated in particular industries. For example, accommodation and food services, retail trade, arts and recreation services. What we saw from March to May in the period when there were big employment losses, was that two thirds of those employment losses were concentrated in the three industries that I've just mentioned. What follows from that is that it's going to be the workers, who are most in those industries, who are going to be hardest hit by COVID-19 during the period when we were getting these decreases in employment. The workers who are concentrated in those industries are in particular young people. Young people make up about 50% of the workforce in those industries. That explains why from March to May, even though young people only account for about 15% of the workforce, they accounted for 40% of the decrease in employment.

We've also seen in this recession, in that period when employment was decreasing, that there was a slightly larger effect on females than males. That's quite unusual because in previous recessions in Australia, there hasn't been such a large negative impact on females, a very large negative impact on males. Again, that's an industry story. In the recessions of the 1980s and 1990s in Australia, the negative impact on employment was concentrated on manufacturing and construction, which were male dominated industries. You had very large decreases in employment for males and smaller decreases in employment for females. Because in this recession, we've had impacts mainly on industries where there's more even shares of males and females employed. The impact on males and females has been more even. But actually even taking into account the industry composition, there's been larger negative impacts on females than males.

I'm just not exactly clear why that is, it might be for example, that females have had to withdraw from the workforce more to take on, for example, home-schooling responsibilities. Another group who've have been particularly affected are recent migrants, the migrants who've been in Australia for less than five years. For example, in the first couple of months, the proportion of migrants in Australia for less than five years in employment, fell by about 10 percentage points compared to about two or 3% for migrants who've been here longer or are Australian born. Again, that's partly to do with industry composition, that more recent migrants relatively more likely to work in industries like accommodation, food services. Also, to do with the fact that people and migrants, for example, are excluded from eligibility for JobKeeper. JobKeeper has provided a subsidy to employers to keep on workers who are eligible.

Obviously employers prefer to keep on workers who're eligible compared to not eligible. They've probably been more likely to lay off temporary migrants, recent migrants than Australian born or longer-term migrants. The

final story about who's been hardest hit, is a story about permanent employees versus casual employees. There the story is that casual employees have been experienced much larger job losses than permanent employees. Seems that there's probably two reasons for that. One reason is that casual employees can be more easily dismissed and laid off than permanent employees. Then secondly, JobKeeper scheme made ineligible casual employees who'd been with their employer for less than a year. What we also see in the numbers is that while all casual employees have been more adversely affected than permanent employees, within the group of casual employees, casual employees who have a longer-term employment relationships have been less affected than those who had been employed for less than a year, they were more likely than other casual employees to lose their jobs.

James Whitmore: When we're talking about these groups of people, young people, women, migrants, are there any long-term ramifications for people who become unemployed?

Jeff Borland: Yeah, unfortunately there's a whole set of research describing a phenomenon known as scarring. Scarring is exactly like the word means. Sometimes you cut your finger and it's bleeding at the time, but then a month later you can't see anything there on your finger, the effects disappeared. Whereas other times you cut your finger and if it's severe enough, a month later it will have healed but there'll be a mark there, a scar. Scarring is the idea that something bad or adverse happens to you today and that effect doesn't disappear. It stays around for some time. That's exactly the idea of the phenomenon of labour market scarring. It's the idea that someone has an adverse experience in the labour market today, for example, they've become unemployed or they have to spend time out of employment because of COVID-19, that's obviously a bad outcome for them today, it lowers their wellbeing and welfare.

Scarring, well, unfortunately the effect may not just be confined today, it's likely that if you have an adverse experience today, then that's going to cast a long shadow on your labour market outcomes in the future. For example, if you're unemployed today, it makes you more likely to be unemployed in two years' time or three years' time, compared to someone who wasn't unemployed today. Studies for the U S, there's not really any studies for Australia, studies for the U S say that the cost of scarring can be quite substantial. Probably the best and most recent US study estimates that if you happen to be trying to enter into the labour markets, this is with specific reference to people who have finished their education.

If you're trying to enter into the labour market at a time when the unemployment rates is three or four percentage points higher than average, which is about what we expect the rate will probably peak out in Australia in the COVID recession, perhaps even a bit larger than that. That for the next 10 years, on average, every year, you're going to lose 6% of your income compared to if you didn't have to enter the labour market during a recession. That means that summing that together, it means look in the next 10 years entering the labour market during a downturn is going to cost you

about half a year's labour income out of that 10 years compared to if you'd been entering the labour market during a time when there wasn't a recession.

James Whitmore: Depressing. All right, let's talk about policy. The big centrepiece here for supporting workers is JobKeeper, a payment to businesses to keep workers on the payroll. Has JobKeeper done its job?

Jeff Borland: Overall, JobKeeper has been an important and valuable part of the government's policies to address the COVID-19 recession. JobKeeper had several objectives to underpin the incomes of households who would have otherwise experienced large decreases in income because someone in the household becoming unemployed. To try and increase the viability and sustainability of businesses, to ensure that they are still around or once recovery gets underway. Then also, to try and preserve connections between employers and employees that would otherwise have been disrupted during the phase when COVID-19 was causing big day crisis in employment. It does seem that JobKeeper has delivered on those objectives.

James Whitmore: All right, let's talk about the flip side, welfare. There's a lot of discussion or some discussion among members of the government that welfare discourages people from looking for work. That's significant now that we're talking about winding up some of these programs, even though they've been extended, is that a thing? Does welfare discourage people from looking for work?

Jeff Borland: Welfare might discourage people from looking for work, but it really depends on the level of welfare and the type of welfare system you're talking about in order to know whether that disincentive effect actually exists. At the moment the big disincentive for job search is just that there's not enough jobs available. That's why in March to May, we saw so many people who lost their jobs, moving out of the labour force, usually in recessions, out of people who lose their jobs about three quarters move to being unemployed and a quarter move to being out of the labour force. What we saw in the first couple of months of the COVID recession was basically 80% of people moving out of the labour force and that them saying, "Look, I just don't think it's worth looking for work because there's no jobs there."

James Whitmore: I want to cast our eyes to the future. What are some of the strategies broadly, that the government will need to think about to increase employment?

Jeff Borland: Well, I think about policies in terms of levels or timing. I think so far the approach the government's taken, which is, I think been completely the right approach, is to worry about getting the health policy right to try and prevent and minimize the spread of COVID-19. Because of the very substantial negative implications of COVID-19 for economic activity. Then they've adopted very broad based response to COVID recession. Programs like JobKeeper, which apply across all industries, apply across broad

categories of workers. When you've got a downturn that's been as extensive as we've had, I think that's been the right approach. Once recovery is underway though, we will need to turn from the general to the particular. Just to give you a couple of examples of what I mean by that.

First of all, there's this expression that recovery lifts all boats, and that's probably true, but we also know that it'll lift them by different amounts. I think that we will increasingly see that there are particular groups who have been most disadvantaged by the recession and are finding it most difficult to get back into work. For example, if the recession rolls out as previous recessions, then the young are likely to be particularly adversely affected. We need to think about policies to assist them. Another example of the particular, is that we're going to need to do everything we can to get economic activity back to growing as rapidly as we can. I think that means, you're thinking about implementing structure reforms that increase your labour productivity.

You have measures that might, for example, try to raise workers' human capital. I think a big one on the agenda there is trying to proceed not too hastily but relatively hastily to address some of the big reforms to the training system that there've been proposed. Another example is that the existing JobKeeper and business support programs have been about saving jobs, preserving connections between employers and their workforces, which as I've said, is the appropriate objective for policy when new job creations virtually disappear. But once recovery gets underway, I think it becomes desirable for policy to shift towards assisting or promoting job creation. Also, probably doing that in a way that's targeted towards particular groups. Again the young, one idea would be for example, hiring credits or targeted wage subsidy programs for employers who create extra jobs for young people or for other disadvantaged types of workers.

The way I'd characterize policy making is that so far, we've had these broad based policies, health policies, to try and bring COVID under control, broad based economic policies to try and alleviate the substantial negative impacts of the recession. Once recovery gets underway, we need to move from the general to the particular, we've got to start looking at the particular, assisting the groups who've been most adversely affected. We've got to start looking at the particular policies that can help us get economic activity running as quickly as possible, improving labour productivity and we've got to have policies that are going to try and promote employment creation.

James Whitmore:

The most obvious impact of the pandemic has been on the way we work. As we've heard it hasn't been equal, young people, women, migrants, and casual workers have all been hit hardest. Luckily the government stepped in with some much needed support, but that support will need to continue for some time. The most important thing is stopping the virus. Thanks to our guest Professor Jeff Borland. Subscribe to ECON-19 for new episodes. For more insights on the economics of the corona virus, head to our website, [fbe.unimelb.edu.au/econ-19](http://fbe.unimelb.edu.au/econ-19). ECON-19 is recorded on Wurundjeri land. The podcast is produced by Seth Robinson, Sophie Thomas and me, James Whitmore. The theme music comes from Premium Beat.