

# **Economic Issues**

**No. 5**

## **The SA Labour Market Through the 1990s**

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## **Editor's Note**

Welcome to the fifth issue of *Economic Issues*, a series published by the South Australian Centre for Economic Studies as part of the Centre's Corporate Membership Program. The scope of *Economic Issues* is intended to be broad, limited only to topical, applied economic issues of relevance to South Australia and Australia. Within this scope, the intention is to focus on key economic issues — public policy issues, economic trends, economic events — and present an authoritative, expert analysis which contributes to both public understanding and public debate. Papers will be published on a continuing basis, as topics present themselves and as resources allow.

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**Michael O'Neil**  
**Director**  
**SA Centre for Economic Studies**  
**February 2003**



# The SA Labour Market Through the 1990s

## Overview

This Issues Paper summarises major trends in the South Australian labour market over the 1990s in order to assess the performance of the labour market over the decade, in light of the 1990 recession and the collapse of the State Bank – two events which had a substantial impact on the labour market during the early part of the decade.

One of the defining characteristics of the South Australian labour market during the 1990s was a poor performance in generating new jobs and a persistently higher level of unemployment. For instance, between 1990 and 2000 total employment in South Australia rose by only 3.2 per cent, compared with a rise of 15.1 per cent for Australia. Employment in both South Australia and Australia fell following the 1990 recession and recovered thereafter, however the recovery for South Australia took significantly longer than for Australia. The effect of weak employment growth was a persistently higher rate of unemployment for South Australia with the state having an average unemployment rate of 9.3 per cent for the decade compared with an average rate of 8.3 per cent for Australia.

The poor performance of South Australia in terms of employment growth and high unemployment must be largely explained by the weakness of the state economy over the decade. Factors that contributed to the relatively poorer performance of the state economy include, :

- The impact of the State Bank collapse on government spending and general economic conditions which compounded the initial impact of the recession, causing an even deeper recession for South Australia;
- The negative impacts of ongoing structural change impacted on the state economy relatively more heavily due to our historical dependence on those industries which have suffered decline, particularly manufacturing, often associated with the loss of headquartered companies;
- The state had weaker linkages with the international economy in terms of trade and investment linkages earlier in the decade, and although trade ratios were considerably stronger by the end of the decade, investment linkages were still poor; and
- Economies of scale effects, whereby the relatively smaller size of the South Australian economy/market has encouraged businesses to relocate to interstate markets or avoid locating in South Australia.

While the weakness of employment growth was perhaps the most significant trend

*... recession and collapse  
of the State Bank ...*

## **1.2 Economic Growth and Exports**

Prior to examining the performance of the South Australian labour market, we provide a brief overview of growth in the South Australian economy through the 1990s. The pattern of economic growth is important because changes in the size of the aggregate economy have a direct impact on growth in employment.

Figure 1 illustrates an index of growth in gross state product (GSP) and gross domestic product (GDP) for South Australia and Australia respectively. South Australia has clearly exhibited a slower pattern of aggregate economic growth relative to Australia over the 1990s, with annual growth in the state's GSP from 1989-90 to 1999-00 averaging 2.0 per cent, compared with 3.4 per cent for Australia. This slower rate of economic growth has had a pronounced impact in terms of slower employment growth over the decade.

**Figure 1**  
**Index of Gross State Product/Gross Domestic Product**



While South Australia's aggregate economic performance over the 1990s was poor relative to Australia, the true underlying performance of the state economy is masked by the demographic characteristics of the State's population. This is demonstrated by Figure 2, which shows an

share of foreign direct investment relative to the other states and the nation as a whole.

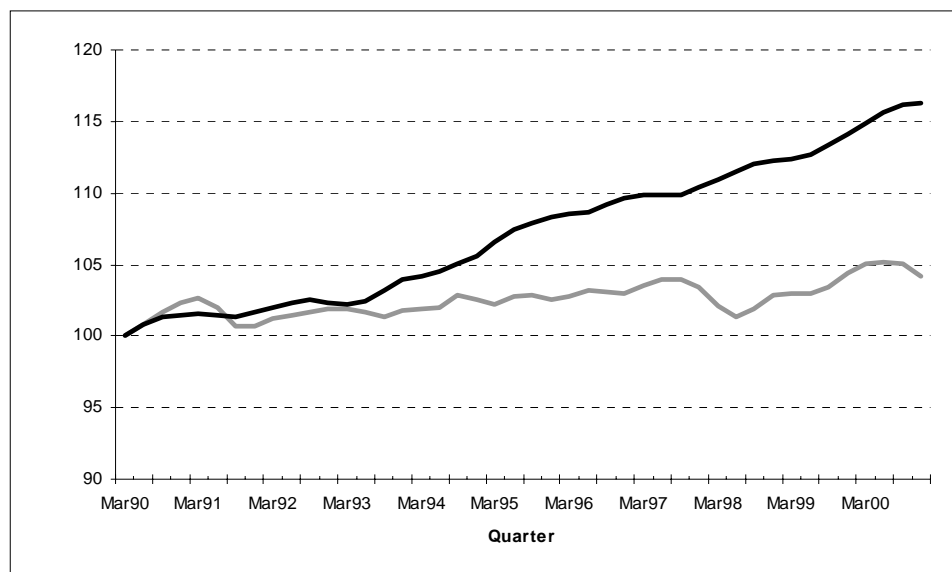
## 2. Overview of The South Australian Labour Market

It is not necessarily correct to view the South Australian labour market as being distinctly separate from other labour markets. The local labour market is closely interlinked with the national labour market as demonstrated by high levels of interstate migration, particularly for young university graduates. Nevertheless, because there are significant barriers and costs associated with moving interstate for employment, and the performance of the South Australian labour market ultimately reflects local factors, most particularly the state of the local economy, it is meaningful to examine trends in the South Australian labour market.

We commence by examining the general size and composition of the South Australia labour market, and how this has changed over time. Australian Bureau of Statistics (ABS) data reveals that in 2000, the South Australian labour force – the number of employed and unemployed persons over the age of 15 – was composed of approximately 734,000 persons, of which 678,000 (92.4 per cent) were employed and 56,000 (7.6 per cent) were unemployed.<sup>4</sup> This compares with a labour force of 709,000 people in 1990, composed of 657,000 (92.7 per cent) employed and 52,000 (7.3 per cent) unemployed persons.

This comparison reveals that the South Australian labour force grew only slowly over the decade to 2000. This is clearly demonstrated by Figure 3, which shows an index of growth in the size of the South Australian labour force relative to the Australian labour force.

**Figure 3**  
**Index of Labour Force Growth**  
South Australia and Australia – 1990 to 2000, Trend Series, Quarterly Average



Over the decade to 2000, the South Australian labour force increased by 3.5 per cent compared to 14.7 for the national labour force. The South Australian labour force actually declined in the latter part of the recession and again in 1997-98, growing only modestly during the intervening period, whereas the Australian labour force grew slowly through the recession, but then rose solidly through the remainder of the decade from 1993 onwards. As a result, the South Australian labour force declined as a proportion of the national labour force, from 8.4 per in 1990 to 7.6 per cent in 2000. This decline in the relative size of the labour force has been an ongoing process over an extended period of time.

The fall in the size of the labour force which occurred through 1997-98 is peculiar since economic growth was particularly strong in that financial year, with GSP growing by 6.3 per cent. Growth of this magnitude would be expected to generate a solid rise in employment and therefore, encourage greater participation in the labour force. However, employment and participation rates fell sharply (see Figures 6 and 12), such that the size of the labour force fell by around 19,000 persons between the June quarter 1997 and June quarter 1998.



Another factor that has contributed to slower population growth is South Australia's poor performance in terms of attracting overseas migrants. Over the 1990s, approximately 4.5 per cent of overseas arrivals to Australia settled in South Australia. This is well below the State's average share of the Australian population for the decade (8.1 per cent), and compares unfavourably with the State's average share of overseas arrivals from 1980 to 1990 (5.8 per cent). In the five years from 1966 to 1970 South Australia's share of Australian net migration gain was 10.1 per cent or 64,800 persons; in the five years from 1991 to 1995 this had declined to 4.2 per cent or 17,400 persons. More limited employment opportunities is certainly one reason why the State was less successful in terms of attracting overseas arrivals during the 1990s. Another important reason is that a majority of migrants and refugees initially arrive in Sydney and Melbourne and often have strong family ties there.

In the 1990s, South Australia's share of overseas arrivals to Australia was 4.5 per cent, compared with the State's average share of 8.1 per cent for the decade. This compares unfavourably with the State's average share of overseas arrivals from 1980 to 1990 of 5.8 per cent. In the five years from 1966 to 1970, South Australia's share of Australian net migration gain was 10.1 per cent, or 64,800 persons; in the five years from 1991 to 1995, this had declined to 4.2 per cent, or 17,400 persons. More limited employment opportunities are certainly one reason why the State was less successful in terms of attracting overseas arrivals during the 1990s. Another important reason is that a majority of migrants and refugees initially arrive in Sydney and Melbourne and often have strong family ties there.

Stronger interstate emigration flows were explained by the poorer economic conditions that prevailed in South Australia and the greater job opportunities that were available interstate. We have already seen that aggregate economic growth for South Australia over the decade in terms of Gross State Product was slower than for Australia. This more lacklustre performance of the economy not only encouraged stronger migration out of the state and therefore slower labour force growth, but also generated weak growth in employment over the decade.

That there was net interstate migration out of South Australia during the 1990s is not necessarily an entirely bad thing. To the extent that people migrated due to a lack of job opportunities, then the reduction in the supply of labour will have helped to preserve relative wages in South Australia.<sup>6</sup> Hence, the mobility of labour between regions helps preserve wage equality despite the existence of disparities in economic performance. Nevertheless, while net outward migration is not a problem, the factor that primarily induced the migration – the poor performance of the economy – represents a more significant problem that ultimately has a larger impact on the economic well-being of the population, especially in terms of generating jobs for those who are unemployed.

**Table 1**  
**Growth in Gross State/Domestic Product**  
Australia, State and Territories – 1990-91 to 1999-00, Chain Volume Measures

	Per cent change from previous year										CAAGR* 89-90 to 99-00
	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	
NSW	0.6	0.1	2.5	3.9	4.1	4.8	4.2	4.8	4.4	4.4	3.4
Vic.	-2.2	-2.3	4.3	3.6	3.8	4.7	2.9	5.0	7.4	3.8	3.1
Qld	0.0	3.5	7.1	3.7	5.7	3.8	4.9	4.1	6.6	5.8	4.5
SA	-0.6	-2.5	2.9	2.3	1.3	6.5	0.7	6.3	2.0	1.0	2.0
WA	1.9	4.3	2.3	5.5	7.4	4.9	3.2	5.9	3.7	3.5	4.3
Tas.	1.2	1.0	2.2	0.3	2.3	3.5	0.4	1.2	4.4	-0.7	1.6
NT	2.2	-3.4	0.5	0.4	8.2	6.5	2.9	3.2	9.5	0.9	3.0
ACT	1.4	-0.8	4.5	2.4	4.1	1.2	0.0	5.5	7.2	4.0	2.9
Aust. (GDP)	-0.1	0.3	3.7	3.9	4.2	4.2	3.7	4.5	5.3	4.3	3.4

Note

females in the labour force. The decline in manufacturing and expanding employment in the service industries, including retail, communications, leisure, tourism and property services has contributed to changing patterns of sectoral employment. These trends are examined in more detail below.

The gender composition of the South Australia labour force at the end of the decade is very similar to the national labour force, of which 56.2 per cent (5.4 million) was male and 43.8 per cent (4.2 million) female. However, unlike South Australia, the size of the male labour force at the national level has actually grown (by 10.4 per cent) over the 10-year period to 2000. Growth in the size of the female labour force over this period was also stronger at the national level (20.7 per cent).

### **3. Trends in Employment**

#### **3.1 The Growth and Composition of Employment**

The most significant characteristic of the South Australian economy over the 1990s was its poor performance in generating new jobs. Between 1990 and 2000, total employment in South Australia rose by only 3.2 per cent, compared with a rise of 15.1 per cent for Australia. Figure 6, which illustrates an index of growth in total employment over the decade, shows that the level of employment declined in both South Australia and Australia with the recession. Growth in total employment for South Australia then remained weak for most of the remainder of the period, whereas total employment for Australia generally continued to rise from 1993 onwards. Only in the last two years of the decade did South Australia experience growth in total employment that was commensurate with Australia.

**Figure 6**  
**Index of Growth in Total Employment**  
South Australia and Australia – 1990 to 2000, Trend Series, Quarterly Average

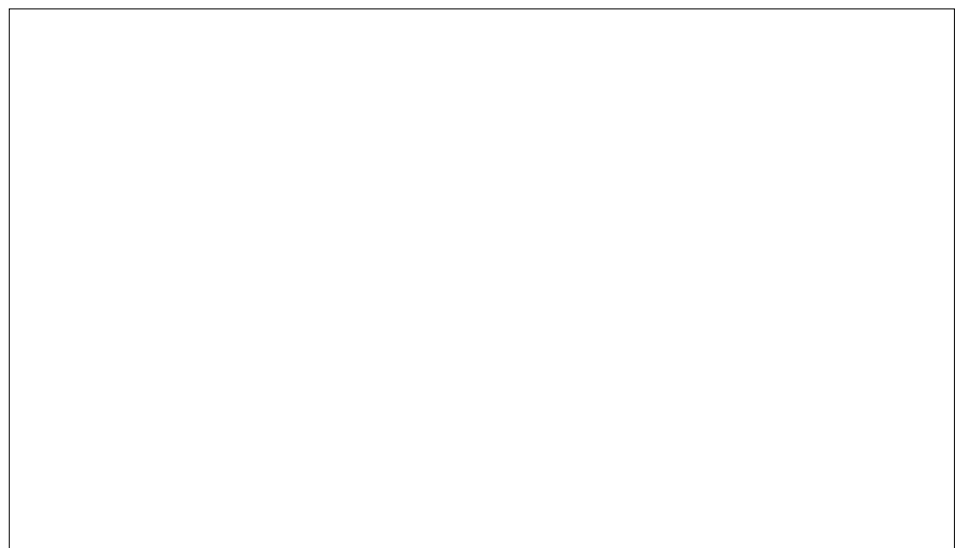


Figure 7, which shows a state comparison of employment growth over the 1990s, reveals that much of the growth in employment at the national level is explained by strong increases in employment for Queensland and Western Australia. The comparison reveals that South Australia's employment growth record over the decade has obviously been very weak, with the state recording the second lowest rise in employment of the major states. Interestingly, employment levels in South Australia remained more buoyant than in Victoria until the latter part of the decade when employment conditions suddenly deteriorated in South Australia in 1997-98 (though this may be due to a statistical aberration rather than actual outcomes). Even so, both States shared a similar pattern of employment growth reflecting similarities in the structure of their economies, in particular the importance of manufacturing. Victoria has



However, full-time employment at the national level did manage to rise modestly over the period (7.7 per cent).



- Economies of scale effects, whereby the relatively smaller size of the South Australian economy/market has encouraged businesses to relocate to interstate markets or avoid locating in South Australia.

*... slower population growth is a symptom of weak economic growth ...*

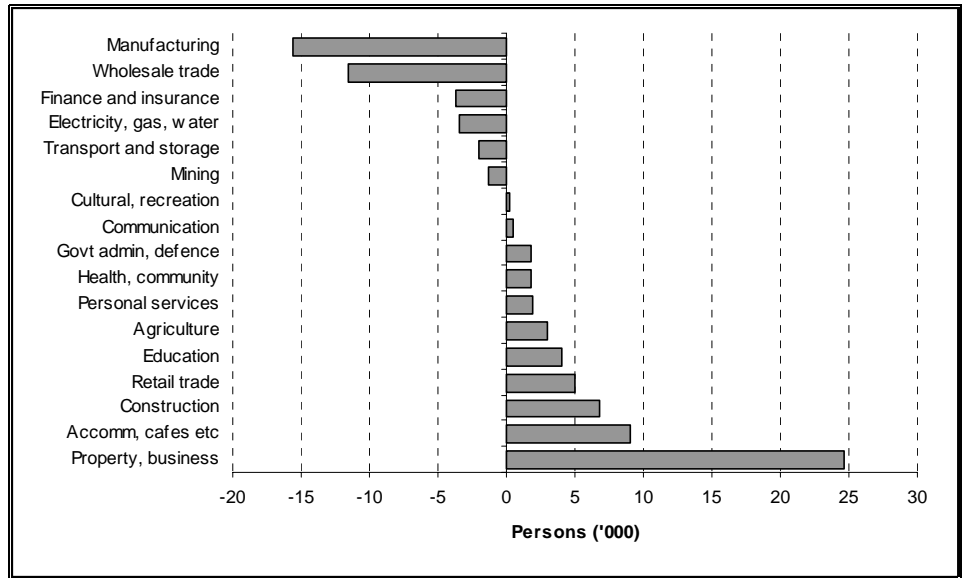
Although we suggested earlier that South Australia's relatively slower labour force growth was partly due to weaker population growth, it is not a significant factor in explaining poor employment growth, as slower population growth is a symptom of weak economic growth – i.e., limited employment opportunities triggered outward interstate migration and reduced overseas migration – rather than a determinant of employment/economic growth.

### **3.2 EmEm**





**Figure 8**  
**Change in Employment by Industry**  
South Australia – 1990 to 2000, Annual Average











While Australia experienced growth across all occupations with the

With the implementation of policy measures in the late 1980s and 1990s designed to reduce direct and indirect support for Australian industries, South Australia has arguably suffered more adversely in terms of



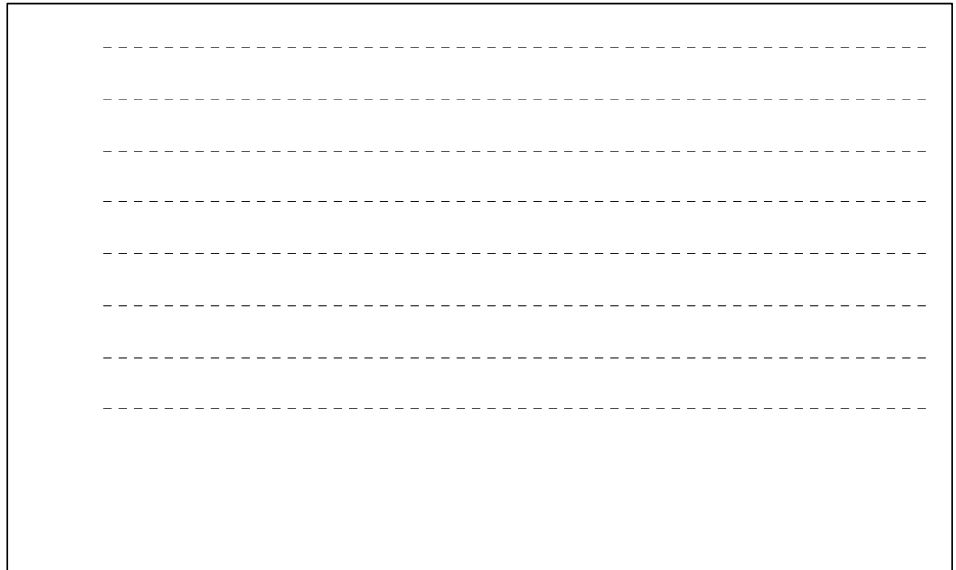
down the overall unemployment rate. However, the pattern of decline in unemployment for those aged 55-59 and 60-64 suggests very strongly, that many in this group withdrew from the labour force, qualified for disability payment, or are represented in the hidden unemployed.

Ignoring the differences between the relative unemployment rates for different age groups, it appears that the 35-44 year old age group fared the worst between 1990 and 2000, with their unemployment rate rising from 4.0 per cent to 6.3 per cent over the decade. Nevertheless, unemployment among younger aged people remains a more substantial problem, with unemployment rates for the 15-24 year (14.1 per cent in 2000) and 25-34 year (8.3 per cent) age groups remaining significantly above the unemployment rates for other age groups. In fact, the large size of the younger age groups, with 61 per cent of all unemployed persons in 2000 being aged between 15-34 years, indicates that reducing unemployment among these ages remains a significant challenge for government.

However, government now also faces a new and growing challenge in

of how the relative size of the long-term unemployed has changed over time.

**Figure 10**  
**Long-term Unemployed as a Proportion of Total Unemployed**  
**(Since last full-time job)**  
South Australia and Australia – 1990 to 2000, Moving Quarterly Average



occurred in the number of long-term unemployed in 1997 when another rise in unemployment occurred. While the number of long-term unemployed proceeded to fall over the remaining years of the decade, the relative size at the end of the period was still above the 1990 level. A very similar pattern is observed for Australia, however South Australia has consistently had a relatively larger long-term unemployed population due to persistently softer economic and employment conditions.

The average duration of unemployment (measured since last full-time job) also rose over the decade, from an average of 55 weeks in 1990 to 62 weeks in 2000 for South Australia, compared to a rise of 40 weeks to 50 weeks for Australia. Importantly, the average duration of unemployment for both South Australia and Australia rose continually over the first half of the decade, with no fall experienced in the immediate aftermath of the recession.

It does not appear that the deeper recession experienced in South Australia had an appreciable impact on either the size of the long term unemployed, nor the average duration of unemployment relative to the impact of the recession at the national level. Arguably the more interesting question is whether the poorer employment conditions in South Australia over the decade in terms of higher unemployment, including long-term unemployment, and longer durations of unemployment, had any particular impact on participation rates over the decade. We turn to this question in the following section.

## **5. Participation Rates**

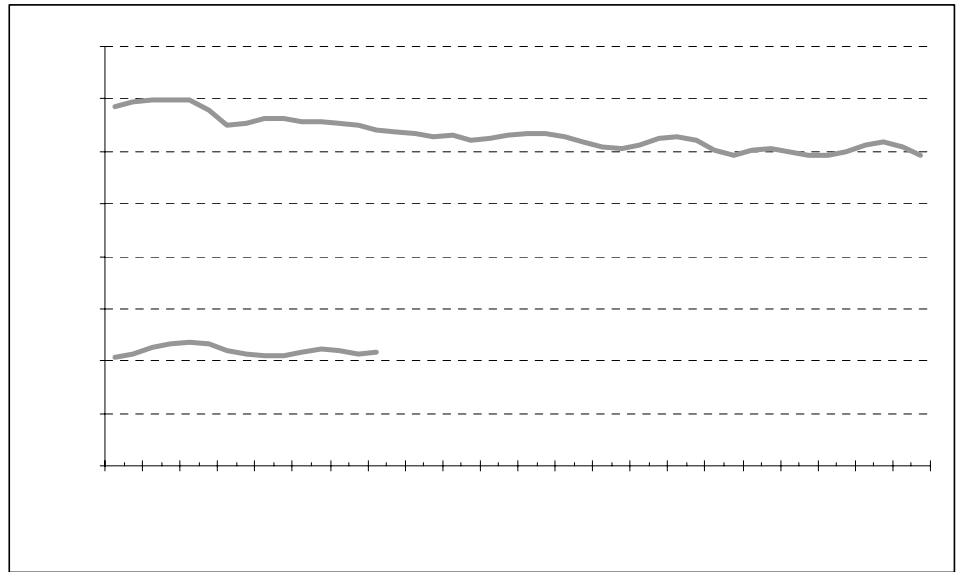
To the extent that a rise in unemployment, long term unemployment and the duration of unemployment has occurred, there is potential for workers to become discouraged and leave the workforce, thus masking the true extent of unemployment. Trends in participation rates – the number of people employed and unemployed as a proportion of the civilian population – for both South Australia and Australia, are depicted in Figure 12. Two series are shown.

The first series shows the overall participation rate (i.e., for persons aged 15 years and over) and is the lower of the two series depicted in Figure 12. With the recession, participation rates for both South Australia and Australia began falling slowly. The South Australian participation rate then levelled off for most of the decade before experiencing a sharp decline in 1998 with another deterioration in employment conditions. Given the unemployment episodes in 1991 and 1998, the overall effect was a fall in the participation rate for South Australia over the decade,

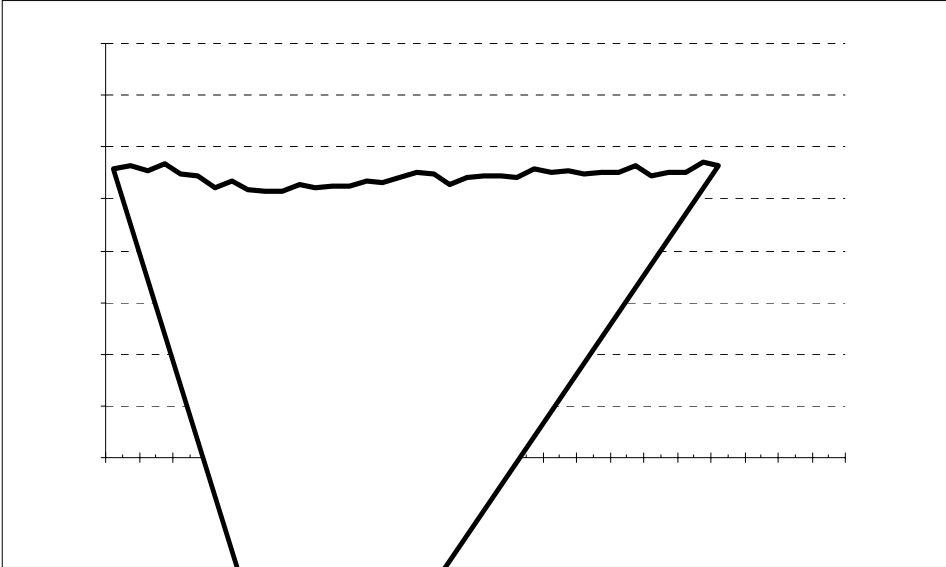
**Figure 12**  
**Trends in Participation Rates:**  
**Persons Aged 15 Year and Over and Persons Aged 15 to 64 Years**



**Figure 13**  
**Participation Rates by Gender**  
South Australia and Australia – 1990 to 2000, Trend Series, Quarterly Average



**Figure 14**  
**Metropolitan and Non-Metropolitan Employment**  
South Australia – 1990 to 2000, Quarterly Average





The poor aggregate performance of the South Australian economy in generating jobs is somewhat exaggerated by the demographic characteristics of the state population whereby the older age structure of the population naturally generates a slower rate of aggregate economic and employment growth. However, the severity of the recession, collapse of the State Bank and poor economic conditions in general generated slower population growth through the encouragement of interstate emigration by local residents while discouraging overseas migrants from settling here. This outcome in itself suggests policies designed specifically to improve population growth are unlikely to have much effect on aggregate economic growth and therefore employment growth.

One policy area where government may need to focus increased attention in the near future will be in relation to the ageing of the workforce and growth in unemployment among older age groups. There is a need for lifelong learning strategies in order to improve the productivity and adaptive capacity of existing workers, and retraining strategies for unemployed workers to leverage them into new jobs within expanding sectors of the economy. This is important because South Australia is still likely to experience significant structural change given its greater dependence on manufacturing and agriculture relative to the national economy. These sectors are likely to grow less strongly (or experience slow decline) in the future as resources shift to other higher growth sectors of the economy, namely services sectors.

While tailoring labour market policies to the needs of older workers represents a significant challenge for future governments, reducing unemployment among youth and other young cohorts still remains a significant present challenge for government. Another continuing challenge is to improve employment outcomes for males. Due to the nature of structural change whereby employment losses were concentrated in male dominated industries, aggregate male employment declined over the decade while participation rates for males also fell due to the paucity of employment opportunities. There is also a significant level of hidden unemployment in the age groups 55-64 years.



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## End Notes

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<sup>1</sup> Globalisation may be defined as “the decline in transaction costs of, or barriers to, doing business or otherwise interacting with people of other nations around the world. Its effect is to enhance the integration of markets for goods, financial and other services, technology, ideas, capital and labour, reducing differences in prices for those products and factors across space” (Anderson, 2000).

<sup>2</sup> Re-structuring of the economy is of course an on-going natural event as technical change and innovation, price changes due to changes in supply and demand and other factors change production processes, and the competitiveness of firms and industries, leading to the decline or rise of certain forms of economic activity and therefore transitional or permanent unemployment. However, the last couple of decades have seen a number of intentional policies (National Competition Policy, trade liberalisation, deregulation of financial markets, privatisation of government own

3