



Under-employed and under the radar: - the unseen threat of under-employment

By Geoff Officer and Michael Collins

“Many Australians were working fewer hours than a year ago, with a confidential treasury calculation revealing the total of reduced hours was equivalent to 200,000 jobs.”

Malcolm Farr National Political Editor – The Daily Telegraph – 3 September 2009

In December 2008 the Donington Group commissioned research to examine the impact of the global recession on the Australian labour market. The study was constructed to examine the recession's labour market impacts in the following areas:

- ✦ Changes in labour income either through job losses, reduced working hours or falls in the price of labour.
- ✦ Employment impacts across different generational demographics.
- ✦ Observable changes in workplace social psychology.

The most important trend to emerge from the research is the role that under-employment has played in transmitting the impacts of the global recession through to the Australian workplace. It is a trend that is observable both in Australian and US labour markets.

The phenomenon of rapidly rising under-employment was an unseen consequence of the global recession. Because it was unexpected, it is very difficult to project how organizations will deal with this issue as the economy recovers. As a leading player in the human capital arena Donington sees under-employment as one of the key factors that will impact organizational productivity, morale and engagement in the near future.

This opinion piece prepared exclusively for TalkPoint Australia seeks to initiate dialogue with Human Resource Directors about the extent and the importance of this issue for their workplaces. We see this as a complex issue which will require much deeper understanding before prescriptions on how to deal with it can be handed out.

We need to better understand the employment impacts of the GFC

“While much of the recent interest has been on movements in the unemployment rate, there is considerable value in analysing other indicators, such as under-employment and hours worked, to better understand the impacts on the labour market.”

The Australian Bureau of Statistics – 6 August 2009

Many media commentaries currently paint a picture of an Australian labour market adjusting to a severe global downturn in a resilient and orderly manner. The relatively benign headline “Unemployment Rate of 5.8%” is seen as evidence that Australia has been able to mitigate the worst impacts of the GFC on our workforce. Success for this is attributed to the fact that employers are reducing hours rather than shedding jobs. But is this really the conclusion we should be coming to?

Careful examination of the labour market during this downturn shows that unemployment is only the tip of the iceberg. Beneath the surface lies the problem of under-employment. It is bigger and is growing faster than unemployment. Many sectors which have never experienced under-employment are now feeling its impact.

In a period of unprecedented economic upheaval, a benign official unemployment rate raises the concern that the employment impacts of the GFC are not being adequately captured. An undue focus on the unemployment rate could blind organizations to the potentially serious impacts of under-employment. Many organizations are currently only looking at the half of the employment picture that looks rosy - unemployment. A better understanding of the labour market impacts of the Global Financial Crisis requires that we look at the complete picture. The complete picture is - unemployment plus under-employment.

The size and breadth of the under-employment problem

“We think of a recession as having massive unemployment. In this recession there is massive under-employment. It is a moot point about which is better, given that working one hour a week is counted as being employed.”

Professor Bill Mitchell University of Newcastle – The Australian – 11 September 2009

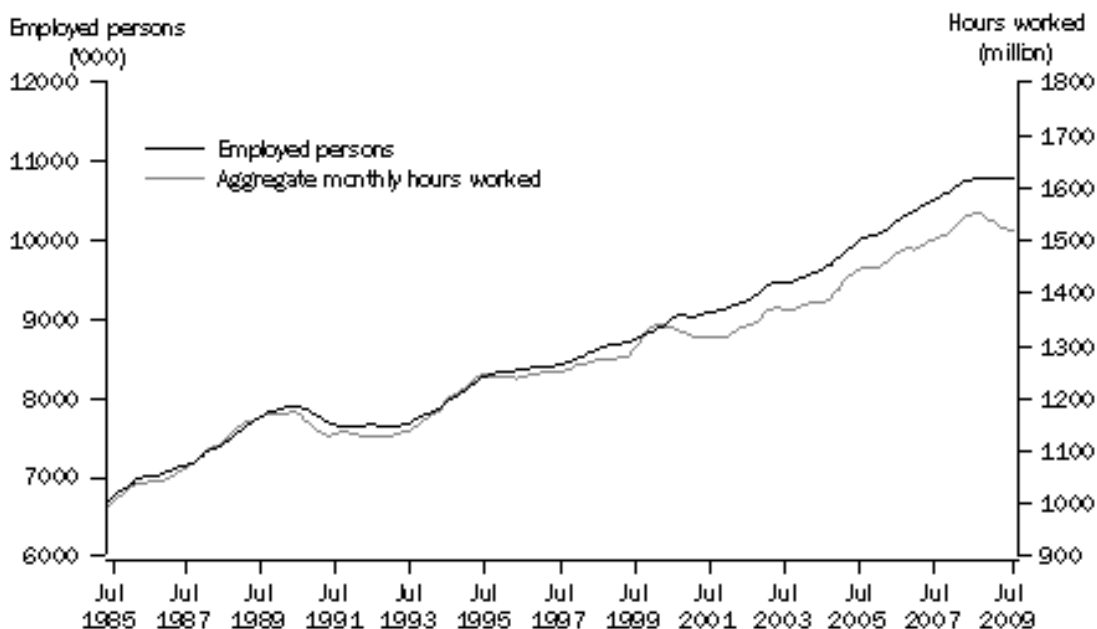
Statistics compiled by Roy Morgan Research reveal that as of August, in addition to the 5.8% of the workforce officially unemployed, there is a further 7% of the workforce who are under-employed. This equates to 800,000 under-employed Australians. The number of under-employed was as high as 1,000,000 (9%) in July according to Morgan data.

Whilst the month to month numbers are volatile, the trend is clear: rising levels of under-employed Australian workers. This trend is confirmed in the US, where Department of Labor Statistics tell an even grimmer story. In addition to the 9.7 % of unemployed Americans, there is a staggering 16.8% of Americans who are deemed to be under-employed.

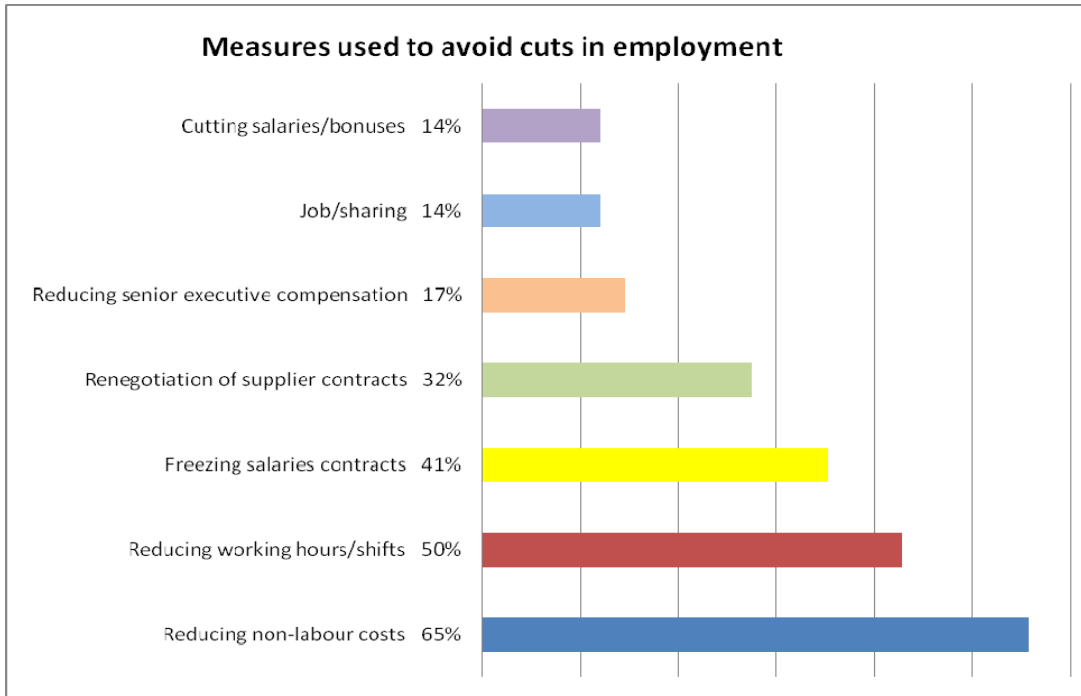
Using the ABS aggregate monthly hours worked series, aggregate monthly hours worked by employed people in Australia in August 2009 fell 4 million hours to 1.507.7 million hours. This represents a decrease of 0.3 % from July and represents a fall of 2.5 % over the last year.

In the 1990-92, recession aggregate monthly hours worked and employment decreased at approximately the same time. During the current downturn, the fall in aggregate monthly hours worked has been larger (in percentage terms) than the fall in employment, and has occurred earlier than the fall in employment.

Aggregate monthly hours worked and employed persons, July 85 – July 09



The incidence of under-employment in the Australian economy is widespread. Authoritative research released in August by the Australian Industry Group (AIG) validates this. Results from the research show that 50 per cent of Australian businesses have reduced employee hours to cut costs. The AIG survey covered 500 services, manufacturing and construction businesses employing some 228,000 staff.



** Australian Industry Group – “Looking Towards the Upturn Report” August 2009*

Though the occurrence of under-employment is widespread, its impacts have not been uniformly felt. Some sectors of the Australian workplace have been more heavily impacted than others. Roy Morgan Research data shows that the major impacts of underemployment have been in the following areas:

- ✦ In terms of age demographics it is young Australian employees who are feeling the burden. Older employee demographics are in fact working more hours
- ✦ Under-employment’s impact is greatest in Australia’s largest cities. Some country areas have experienced little reduction in hours worked over the last year.
- ✦ In terms of gender, the impact is greatest on male employees. Women are in fact in aggregate working more hours.
- ✦ The manufacturing, mining, construction and retail sectors have all experienced significant reductions in hours. Conversely, recreation and personal, communication and financial, property and business services have shown increases in hours.
- ✦ Aggregate hours worked has increased in Queensland, and kept steady in Western Australia and South Australia. The story is different in NSW and Victoria, where many full-time employees have been told to work fewer hours if they want to retain their job.

Small variations in employment conditions now have major impacts on household liquidity and solvency

“There is increasing pressure for them to decrease the numbers of hours that they work if they're a part timer. More full timers are being asked to become part timers and what is really confronting to these people is, one that they're not high wage earners, so they can't afford to drop pay.”

Leon Carter, National Secretary Finance Sector Union – ABC 7.30 Report - 20 August 2009

Australia household leverage is approximately three times larger than it was at the start of the 1990's recession. Many Australian employees are currently in financially fragile positions. Research by Dunn & Bradstreet released in September shows that one third of Australia's suburbs have entered the danger zone for financial distress, despite signs that economic conditions are improving. Dunn & Bradstreet found that 33 % of postcodes had fallen into the "high-risk" category of financial distress. This is up 30 % on the same time last year.

Given this fragility, small variations in employment conditions now have outsized impacts on household liquidity and solvency. With credit cards at their limits and large mortgage payments to make, even a few hours less per week is proving problematic for many households. Dunn & Bradstreet's chief executive, Christine Christian, stated that the rising risk of loan defaults underlined the potential for the global financial crisis to become a personal credit crisis in many Australian homes.

Unions and other employee interest groups argue that in the current uncertain job market employees have felt compelled to sign up to a reduction in hours, even if they couldn't afford it. For many employees the choice in their minds has been between 80% of a job or no job. The crucial issue for employees on reduced hours, who can't afford it, is how do they stay afloat until the economy recovers? Even if the economy does recover what happens if the under-employed don't have their previous conditions restored. The combination of persistent under-employment, fragile household liquidity and solvency potentially creates the pre-conditions for conflict in the workplace.

How is under-employment affecting productivity, morale and engagement?

“The unexpected way employment responded to the crisis makes predictions of how it will recover problematic.”

Deidre Macken, The Weekend Australian Financial Review September 5-6, 2009

Sometime during the first quarter of this year, employers began the transition from using job shedding as a strategy for reducing labour costs to using reduced hours. The last six months have seen employers live with the consequences, intended or otherwise, of this under-employment. These decisions taken by employers earlier in the year were in no real sense negotiated ones. They were however overtly and very publically supported by the federal government. Although seen by employers as a short term strategy, there is no evidence that employers thought through an exit strategy. There was no plan for when, how much and under which conditions, hours would be reinstated. In this sense the decisions that were made were unilateral, open ended and with no guarantee of reinstatement. Furthermore, for those who were made under-employed there was no guarantee that they would not become unemployed at some point in the future.

At this stage there are many things that can't be known about the impacts of under-employment. We don't know how long we will be saddled with it. We don't know what its ultimate extent will be. We don't know if it will be chronic. Until answers to these questions become clearer, we won't know what the long term impacts will be on employee productivity, morale and engagement.

We do know that moving forward things will be different. They will be different from any previous recession. No previous recession has ever experienced this phenomenon which is widespread, apparently acceptable and currently unaddressed. We have been lulled into complacency by a benign headline unemployment rate. The reality is that under-employment is a totally unforeseen phenomenon arising out of this downturn.

Some commentators say that the flexibility that has allowed the various under-employment arrangements to occur marks the beginning of a new era of flexibility for the Australian workforce. At the other end of the spectrum some view the emergence of this phenomenon as grounded in emotional blackmail, used by employers to exploit workers' job insecurity.

We do not share either of these views. We do believe that under-employment is, and will continue to be for the foreseeable future, the principal shaper of the social psychology of the Australian workforce. For industries facing secular decline, under-employment will have large negative impacts on morale and engagement. For sectors that are in long term growth trajectories it won't for all attempts and purposes exist.

The seven realities about under-employment

Any attempt to understand how under-employment may play out in the future should in our opinion acknowledge the following realities:

- ✚ Under-employment was a totally unforeseen outcome arising out of this downturn.
- ✚ Preliminary attempts to measure under-employment show it to be of significant scale and widely dispersed.
- ✚ Some sectors of the Australian workplace have been more heavily impacted than others.
- ✚ Because of the liquidity and solvency pressures faced by many Australian households, under-employment is having major impacts.
- ✚ Decisions to reduce working hours taken by employers earlier in the year were not in any real sense negotiated outcomes. They were unilateral, open ended and with no guarantee of reinstatement.
- ✚ No previous recession has seen this phenomenon which is widespread, apparently acceptable and currently unaddressed.
- ✚ At this point there is no indication that employers are ready to reinstate the hours and other conditions that were cut earlier in the year.

Let's begin the dialogue

The purpose of this opinion piece is to get under-employment firmly in the spotlight.

Under-employment is starting to be seen but is not yet being comprehensively and accurately measured. Our goal is to better understand this unforeseen phenomenon's impacts on productivity, morale and engagement. Once we start to gain a deeper understanding of this crucial but complex issue we can collectively do something about it.

The Donington Group looks forward to receiving your views. We plan to hold Boardroom discussions on the issues.

Please email Kirsty McDonald in Sydney (kirsty.mcdonald@donington.com.au) or Julie Mansfield in Melbourne (julie.mansfield@donington.com.au) if you are interested in participating in one of these discussions.