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News release

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Interest Rate Rises Could Boost the Number of Long-Term Unemployed

Interest rate rises may boost long-term unemployment said leading economist Professor Bruce Chapman drawing on new research released today by the Australia Institute.

The research done by Professor Chapman of the Australian National University and Dr Cezary Kapuscinski, implied that international factors and high interest rates in the early 1990s, combined with similar difficulties in the 1983 recession, may have increased the number of long-term unemployed by 25-50 per cent.

In releasing the paper Dr Clive Hamilton, Executive Director of the Australia Institute said: "It is widely accepted amongst economists that the high interest rates of the early 1990s made the 'recession we had to have' deeper than it needed to be. But we didn't realise how dire the consequences of one really bad year could be for long-term unemployment."

Professor Chapman said that "If governments had been able to put in place policies that allowed employment growth to be just 0.4 per cent higher in each of the key recession years of 1983 and 1991, there would have been about 25 per cent fewer long-term unemployed at the end of the 1990s. This highlights the importance of taking full account of the effects of restrictive policy on the welfare of the disadvantaged".

"From a justice perspective long-term unemployment harms society's most vulnerable. The figures show it hits the least educated and the least skilled and then further eats away their future earning capacity", said Dr Hamilton.

"But everyone bears the burden of long-term unemployment. Not only do tax payers have to foot the bill for the increased social security payments, it can also be inflationary. People get shut out of the jobs market, reducing labour supply and decreasing efficiency" said Dr Hamilton.