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# THE AGE

## Howard's assault on wages

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The Prime Minister has gone for broke in a campaign that aims to destabilise the union movement and its ALP allies.

THE argument that the industrial relations legislation rammed through the Senate is designed to improve both the employment prospects of the unemployed and the productivity of the workforce can't be true.

In theory, lowering minimum **wages** makes it profitable for employers to take on the least "employment ready" **job** seekers who would be unemployable at present minimum **wage** levels.

If the IR changes promote higher productivity, they generate unemployment at a given level of output. The main impact of the IR changes will be to increase labour market "churn". If employers know they can sack employees without going through "unfair dismissal procedures" they will be less choosy about who they employ.

It is possible to argue that the social cost of unemployment is less when, say, 12 breadwinners are each unemployed for a month a year rather than one breadwinner is unemployed for a full year. But even though there is no difference in the level of unemployment, the adverse impact on productivity of higher labour market turnover is obvious.

The way to reduce unemployment is through faster **economic growth**. Labour market flexibility can help promote **growth** but the flexibility required is to anticipate and quickly correct skill mismatches through training and retraining rather than **wage** flexibility.

The Scandinavian countries have a highly regulated labour market (and a generous welfare system) and still manage to have the highest level of employment to population ratio. Historically **Australia** has managed high minimum **wages**, high living standards and low unemployment.

There was an economic, as well as a social, principle behind the establishment of the basic **wage** designed to keep a family of four in frugal comfort - it was that any employer who couldn't afford to pay a decent living **wage** should not employ people.

At the time the state ensured that efficient employers could afford the living **wage** by offering tariff protection. Maximising the minimum **wage** promoted productivity by preventing labour hoarding by industries that could only compete by undercutting **wages**.

With the evolution of industry away from manufactures, the reduction in natural protection due to cheaper transport and communication costs and the improved understanding of how economies functioned, Keynesian demand-management policies replaced industrial protection policies to create **jobs**.

The idea that there are pluses in having some rigidity in the **wage**-fixing system has been forgotten. No labour market can operate efficiently if one of the parties perceives it as a one-sided relationship with unjust industrial laws that put the rights of corporations above their employees.

The Government calculates that the IR changes will have a similar electoral impact as the introduction of the GST. It will take a couple of years for **wages** and conditions to begin to reflect the new IR regime and any attempt by employers to exploit their new powers will be offset by buoyant labour market conditions.

This political calculus ignores three things. The GST had a positive impact on income distribution because its regressive potential was offset by welfare and tax changes.

Second, the advocates of the IR changes underestimate the psychological impact of legislation that removes the ability of workers to negotiate with their bosses on a level playing field. Workers know the intention of this legislation is to empower employers at the expense of employees.

Whether overall labour market conditions remain tight over the next two years will depend on whether foreigners are prepared to finance **Australia's** ballooning private foreign debt.

But based on Western **Australia's** experience under the previous state coalition government - which deregulated the state labour market and set the minimum **wage** in Parliament - there was a "race to the bottom" in pay rates for semi-skilled workers. Surveys of workers in contract cleaning, retail catering and security (where **wage** costs are 70 per cent to 80 per cent of total costs) show a ruthless minority of employers quickly got rid of penalty rates and pushed hourly rates down below the minimum industry awards - the minimum **wage** became the de facto industry award rate. More ethical employers were forced to follow suit.

So if the electoral, and economic benefits of the new IR regime are problematic, what are the real reasons for the changes? There is no doubt that many members of the Coalition resent the erosion of the managerial prerogative - although I think a case can be made that the erosion of this prerogative is both a cause and a consequence of developing an advanced industrial **economy**.

The Coalition's rampant individualism is offended by the commitment to social solidarity that underlies trade unionism. But I think the real reason Howard is prepared to risk losing the next election on this issue is his belief that by killing off the trade union movement as a force in **Australian** society he is permanently destroying the nursery for future leaders of the ALP.

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