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Deregulated US job market meaner, but not better

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MONDAY COMMENT

JOHN HOWARD produced his radical WorkChoices legislation so late in the piece and rushed it through Parliament so quickly that we didn't get much time to examine some of the arguments used to sell it.

For instance, when people questioned the need to dismantle the remaining elements of the arbitration system - including shifting its minimum wage-setting role to a Fair Pay Commission - they were referred to the shining example of the United States' highly deregulated labour market, which was much better at getting people into jobs than our regulated market.

But is the US labour market the exemplar it's cracked up to be? Not when you delve beneath the surface. I guess its reputation comes from its consistently lower rate of **unemployment**.

Of course, official **unemployment** rates ignore hidden **unemployment** (including the high proportion of America's male population hidden away in jail).

A different and better measure of success is given by its employment rate - that is, the proportion of the population of a particular age group that has a job. By this measure the Yanks don't do nearly as well.

It's true they do a little better than us on the **employment** rate overall. Taking the figures for 2003, their **employment** rate for all men of working age (15 to 64) is 77 per cent, compared with our 76 per cent. They're doing better on the equivalent figures for women: 66 per cent versus our 62 per cent.

But focus on the **employment** of men aged 25 to 64 and you find the tables are turned: we do better (83 per cent) than they do (81 per cent). In other words, their male **employment** rate overall is higher than ours only because they have higher **employment** among youth (15 to 24).

The two most likely explanations for their higher youth **employment** rates

are that American students are even more likely than ours to be working part-time (remember that university tuition fees are very much higher and less concessional in the US), and that America's school retention rates are lower than ours.

There's nothing in those two reasons to make us feel inferior. Quitting the education system early is hardly good for the nation's acquisition of skills, nor for the individual's lifetime earnings.

And, of course, neither of those reasons for high youth **employment** has anything to do with the choice of **industrial** relations system.

But let's look more closely at mature-age people (25 to 64) who fail to complete high school. For males, our **employment** rate is higher than theirs - 73 per cent versus 70 per cent. For females, our advantage is even greater - 53 per cent versus 48 per cent.

Now, we know it's these least-educated workers who are most at risk of **unemployment**. We also know that these are the people most likely to be affected by the minimum wage.

And it's these people whose **employment** prospects we've been told would be most improved by the new **industrial** relations system, particularly the move to the Fair Pay Commission.

Whenever it's been charged that the new commission will set wages lower than would have been set by the **Industrial** Relations Commission, thus leaving people on the minimum wage worse off, the reply is always that the relatively lower minimum wage will mean more unemployed get jobs.

But the shining US example offers no support for this contention. We know that the US minimum wage is very much lower than ours, but more of our least-educated people have jobs than their least-educated do.

In Australia the average wage of men (25 to 64) who didn't complete high school is 84 per cent of those who did. In the US it's only 67 per cent of those who did. The equivalent figures for women are our 84 per cent versus their 70 per cent.

Not surprisingly, a much higher proportion of their least-educated employees are in jobs that pay less than half the median (middle) wage rate: 42 per cent, versus our 25 per cent.

So the US system has produced lower pay for least-educated people, but not more jobs. The economists' knee-jerk assumption that lower wage rates lead to higher **employment** proves to be wrong in this case.

Who benefits from this meaner but not better system? Employers, certainly, but not Howard's Battlers.

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