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# THE AGE

## **Wage cuts won't boost jobs**

Author: TIM COLEBATCH - Tim Colebatch is economics editor

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The Howard Government's case for WorkChoices is based on false claims.

THIS is a story of two Freds, the OECD, and the new **workplace** relations rules that over time will force Australian workers to sign individual **workplace** agreements with their employers.

Fred Gruen was a warm, big-hearted man who began life as an affluent, idle Jewish boy in Vienna and ended it as an Australian farmer near Canberra. Transported here in 1940 as a "friendly enemy alien" on the Dunera, he became one of Australia's wisest economists, a scrupulously fair man, professor at the Australian National University and, for his sins, economic adviser to prime minister Gough Whitlam.

Twenty years ago, Fred decided to test the conventional wisdom that the best way to lower **unemployment** is to deregulate labour markets. Comparing countries' **industrial** relations systems and **unemployment** levels, he found the truth was not so simple. In fact, there are two paths leading in opposite directions that end with low **unemployment**.

One was the American route: weak unions, individual wage bargaining, minimal protection of employees, and minimum benefits or retraining for the unemployed. Employers could basically pay what they liked, hire and fire at will, and workers took what they were given or quit.

The other was the Scandinavian/Austrian path: strong unions, centralised wage bargaining, extensive regulation to protect workers, generous dole benefits and retraining schemes. Government, unions and employers sat down to negotiate economically responsible wage rises and work conditions, and firms and workers went along with it.

To anyone who studied the data, the truth of Gruen's conclusions was undeniable. Yet the orthodoxy resisted them. In 1994 the OECD published a 10-point job strategy that focused on ensuring "flexibility" in labour markets: in effect, shifting risks from firms to workers. And in 2005 **John Howard** introduced 1600 pages of laws of bewildering complexity, that in

effect allow employers to insist on dealing with their workers one by one, ending collective bargaining and sidelining unions. The American system was the only way to go.

But was it? Last week the OECD published a searching reappraisal of its **employment** blueprint. It made the same comparison Fred Gruen had made 20 years earlier - and reached the same conclusion.

"Different policy packages have yielded equally successful **employment** outcomes," it concluded. "Some countries have achieved high **employment** despite offering generous **unemployment** benefits, by combining (them) with **employment** protection and a strong emphasis on activation policies (for the unemployed)."

It used detailed modelling to find what worked. It found the level of minimum wages had no significant impact on **unemployment** levels. It found that moderate **employment** protection policies (such as unfair dismissal laws) do not hurt **employment**. And it found that countries with collective bargaining systems tend to have low **unemployment**.

Its findings, that is, refute the core argument the Howard Government has used to justify its WorkChoices laws: that ending collective bargaining, allowing real minimum wages to fall and removing unfair dismissal rights is necessary "reform" for Australia to keep lowering **unemployment**.

It's not that the usual arguments have no validity. Rather, the gains are too small to be noticed. Lowering the real minimum wage, for instance, would create few new jobs, but would hurt the living standards of low-wage workers. A few employers would increase hiring if workers lose their protection against unfair dismissal - but too few to notice.

Many pointed this out to **John Howard** last year. But the PM, as we all know, has a great knack of not knowing what he doesn't want to know. The same day the OECD report was released, he told Parliament: "Every country that maintains the rigid, regulated IR system that Labor is now unequivocally committed to has higher levels of **unemployment** than do the countries that embrace the sort of policy that we believe in."

The OECD figures show that is clearly untrue. Last month's 4.9 per cent **unemployment** rate simply puts us in the middle of the pack of rich countries. We are well behind countries with regulated IR systems such as Iceland (2.4 per cent), the Netherlands (3.8), Norway (4.0) and Denmark (4.3).

What makes them different, however, is that they spend money on training their unemployed, and Australia doesn't.

The OECD report shows Australia spends just 0.04 per cent of its annual income to retrain the unemployed, whereas Denmark spends 0.54 per cent and the Netherlands 0.36 per cent. Total spending on "active" support to help unemployed people find a job was 1.83 per cent of national income in Denmark, 1.44 in the Netherlands but just 0.39 per cent in Australia. One finding that was clear from the OECD's modelling was that such programs significantly cut **unemployment**.

What was different between the two paths to **unemployment**, the OECD noted in passing, was that the Scandinavian model produced a more equal

society, with less of a gulf between rich and poor. It did not pursue the point, but anyone interested would do well to read someone who has: Australian economist Fred Argy, a former senior Treasury official who has devoted his retirement years to arguing cogently for Australia to retain the egalitarian policies that laws like these erode.

Argy's work, most recently on [www.newmatilda.com](http://www.newmatilda.com), has similar conclusions to the OECD, but with one more: a society where people are broadly equal is a happier place to live than one where they are not.

Caption :ILLUSTRATION BY SPOONER

Headline: Wage cuts won't boost jobs

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