

IR plans cling to outdated dogma about pay and jobs

ANALYSIS
JOSH GORDON

IN 1803 a young Frenchman named Jean-Baptiste Say formalised a seductively neat economic idea. Prices, he suggested in his famous *Treatise on Political Economy*, tend to naturally adjust so that in the end, there is no excess demand or supply.

More than 200 years later, the idea that markets — left to their own devices — automatically “clear” underpins the Coalition’s industrial relations agenda.

The argument is that if the basic wage is shackled by rules and regulations it is unable to adjust to keep demand for labour in sync with the supply.

In other words, so-called wage rigidities are to blame for unemployment because they prevent pay rates from falling and soaking up excess workers.

It’s a pretty attractive idea. If true, the Government need only grind back Australia’s antiquated labour laws (they haven’t changed dramatically since 1907) and watch the market work its magic.

Trouble is, as we learned at this week’s Economic Society of Australia conference, decisions about whether to look for work, opt out of the labour market altogether, and to hire and fire can’t always be neatly explained away by the 19th century mechanistic view of the world.

Is it necessarily true that lowering the minimum wage leads to higher employment and productivity?

Texas University economist James Galbraith believes the answer is unequivocally no. He claims that countries with lower minimum wages and higher levels of income inequality tend to have higher unemployment rates, as low-skilled workers chase a diminished pool of well-paying jobs.

(Other economists disagree. Melbourne Institute director John Freebairn claims Australia’s relatively high minimum wages have probably discouraged employment.)

And, as Melbourne Institute labour market expert and deputy director Mark Wooden says, there’s the question of whether the Government’s plan to curb union negotiated agreements and do away with unfair dismissal laws will produce more jobs and lead to more flexibility and choice.

In fact, it could do the exact opposite, Professor Wooden argues.

Economics is waking up to the idea that the world is complex. Perhaps the Government needs to do the same.