

US economist warns IR reforms won't boost jobs

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Australia will not be able to reduce its unemployment rate by deregulating the labour market, according to American economist James Galbraith.

Speaking at the Economic Society of Australia's annual conference in Melbourne yesterday, Professor Galbraith, who is head of the Lyndon B. Johnson School of Public

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Affairs at the University of Texas, discredited the argument behind the Howard government's industrial relations reforms.

He argued employers would not demand more labour simply because pay scales were widened through deregulation.

"What causes people to be employed is the decision of employers/business people that they can make money selling the

product that people are engaged to buy. That's an aggregate demand function," he said.

"It's got nothing to do with the structure of labour markets."

Professor Galbraith's view contrasts with that of Treasurer Peter Costello, who argues the unemployment rate can go below 5 per cent only with the government's IR reforms, which include measures to break down the protections applied

to Australia's lowest paid workers. Professor Galbraith said that in countries where pay scales were widely spread and large disparities existed between the high and low paid, workers at the low end would not be willing to take any job.

"If there are very few jobs that pay really well ... [workers] are going to hang around the high wage jobs hoping that one of them is going to open up."