

OASIS-Australia
Organisation Advocating Support Income Studies in Australia

Convener: Allan McDonald 28 Prince St Urangan Qld. 4655
email: allanmcd@keypoint.com.au
Tel: 07 4128 9971

Newsletter 4 January 2006

In the previous Newsletter of 7 December 2005 which followed parliamentary approval of the IR legislation, discussion led to the question "What steps can now be taken to reduce the conflict between economic and social values?"

This question presupposes that without some political action it is inevitable that there will be conflict, a conclusion reached following consideration of the question "can practising economists be practising Christians?". Much will depend upon the manner in which employers exercise their new-found powers. The treasurer urges caution - other ministers and employers organisations urge early action. Meanwhile the unions must develop their response to their loss of industrial power.

The inevitability of conflict, however, stems not only from the technical changes introduced through the legislation, but more importantly from the ideological or philosophical acceptance of the labour market as a commodity market. How do economists view the labour market? How does ideology based on economic theory view the labour market?

* * *

"Economics is concerned with the efficient use of limited productive resources for the purpose of attaining the maximum satisfaction of our material wants." (Jackson McIver McConnell and Brue - Economics, 4th edition - McGraw Hill, p3)

In the labour market, economics is concerned with the productive resources - i.e. the employed. ".....Today, despite decades of concern with social problems, economists are still mainly interested in output, productivity, the economy and the employed. The employed are called by statisticians 'the economically active population'. Economists are typically less interested in the unemployed, the economically inactive, than they are in the scarce resources used in production." (Dawson - The Two Faces of Economics - Longman 1996, p.17)

We can go further and say that economists are interested in the economically active population not because they are people but because of the resources they possess. Their concern for the welfare of people stems primarily from

concern for the development and protection of productive resources, and not from some basic social responsibility. It is this dilemma which makes it difficult for economists to develop any sound welfare policy.

Professor Daniel M Hausman states in his book "The inexact and separate science of economics", Cambridge 1992, when considering equilibrium theory and economic welfare, "Without an appreciation of the vision inherent in equilibrium theory welfare concerns would be deeply puzzling. Without such an appreciation, one can see it as a brilliant but (in my view) unsuccessful attempt to address a set of pressing practical problems with a conceptual apparatus inadequate to the task." p.19

"Economic phenomena are the consequences of rational choices that are governed predominately by some variant of consumerism and profit maximisation. In other words, economics studies the consequences of rational greed. p.95

One may question whether it is more appropriate to say that reliance on economic theory alone will result in a neglect of social issues, rather than a conflict between economic and social issues. The apparent conflict is one of lack of action rather than wrong action.

* * *

The labour market is in economic terms a market for the productive resources of people. It is not a market of people. This is a point considered at length in the Newsletter of 11 November 2005. We cannot rely solely on the labour market to provide economic and social security for all citizens. There must be political action to introduce some measure of income support based on social rather than economic needs, and this has been accepted by successive Australian governments.

If we are to develop a strong social framework supporting all citizens then it must be driven by political factors, not economic factors. There is a good case for developing a strong social welfare framework to counter the social weaknesses inherent in economic theory.

* * *

The recent IR legislation has moved Australia further towards a deregulated market economy and further towards the American model. What will be the impact on Australian society? How much can we rely on the observations of practising economists?

A D Dawson (The Two Faces of Economics - Longmans 1996) is one who has been an economic adviser in over thirty countries on behalf of various UN Agencies. He is an avowed free market economist who would no doubt be

supportive of the IR legislation. However, perhaps because of his experience in a wide range of national economies he can see shortcomings and possible areas of conflict. He makes the following general observations.

"The character of the economic and social situation is similar worldwide. The scale of deprivation and suffering differs; but everywhere the rich grow richer and the poor grow poorer." (p.xvi) "The market-driven economic system prevailing in the present world has the effect, perhaps unintentionally, of increasing the gap between the wealth of the few rich and the poverty and insecurity of the many poor." (p.xvii) "Let us face squarely the fact that capitalism has major faults: they arguably involve the economic insecurity it imposes on society, the alienation of people from each other and 'incentives' towards the erosion of the spirit of cooperation and community." (p.225)

With Australia now moving further towards the American IR model it is pertinent to consider some specific observations regarding industrial relations in the United States. The Economic Policy Institute Economic Snapshot for 21 December 2005 reveals that the minimum wage, which is not required by federal law to be adjusted for inflation, has not been altered for more than eight years. "the buying power of the minimum wage has eroded by 17% and is currently at its second-lowest value since 1955." Only three states now adjust their minimum wage annually to account for increases in the cost of living.

Dawson also comments specifically on areas of conflict in the Introduction and Summary of his book, p.xvi.

"....the extremely-right wing, now more militant than religious, which might have to face a class-conscious burst of rage from the four Americans in five being ripped off by each fifth American since the 1970s. In the slowed growth of American productivity since those years, the fours, the 80 per cent of Americans, have grown poorer, while the plutocratic fifth has cornered the assets of the world's wealthiest nation."

"A majority of Americans (the outside world's 'rich uncles') still own only part of a house and part of a car, and have part of a hope for an adequately financed retirement or sick bed."

"Americans are now exploited and harassed by their bosses more than ever during the past three or four generations."

* * *

It is difficult to select a wide range of observations for presentation in a short newsletter. In this case there is an attempt to introduce a mix of statements from the 1990s and reports on current research and studies. These observations, together with comments in previous newsletters, are indicative of the concerns of a large body of people in Australia and elsewhere, and sufficient, I believe, to reach three important conclusions

First, to talk of labour market reform along the lines of the recent IR legislation is to talk merely of better utilisation of the productive resources of labour. Economists call for labour market reform to improve economic efficiency - not for greater social cohesion. Labour market reform will lead to greater social insecurity.

Second, to talk of labour market reform and social reform in economic terms is at best unrealistic, and may even be misleading. Labour market reform is an economic response. Reforming social policies is a social response.

Third, there is a strong case to support the view that the IR legislation will lead to greater social insecurity, and there is no evidence to date that either of the major political parties is considering any social action to provide a suitable social response. They are both thinking in economic terms.

The IR legislation is powerful and will lead to major economic change. A social response must be equally powerful and lead to major social change. This is the opportunity for Australia to lead the world by adopting a social response which can be adapted to world wide economic pressures for labour market reform. This is the opportunity to promote social reform in social terms, not economic terms, and to demonstrate that social reform can be supportive of, and complementary to labour market reform.

Allan McDonald
for OASIS-Australia 5 January 2006