

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

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Do Economists Care?

The April series of essays entitle "Do Economists care?" has brought forward a number of comments and questions. It now seems appropriate to publish this series in booklet form.

It is planned to produce a small booklet in A5 size with plastic binding for under \$4 plus postage. If demand is sufficient a small run will be produced commercially and will be made available on the basis of a voluntary donation of up to \$4 per copy or three for \$10, postage paid.

Please let me know if you would like one or more copies so that printing can be finalised.

The Work Choices Act

This Act can be criticised on many fronts, and there is no doubt that many of these criticisms will be confirmed over time as employers take advantage of the additional powers conferred on them. What is not so apparent, and therefore all the more insidious, is the realisation that one of the prime motives for introducing the legislation is based at best on a serious misrepresentation of facts, and at worst on a concealment of the true objective.

All who voted in favour of the legislation should properly be called to account.

The Government, mainly through the Prime Minister and the Workplace Relations Minister, repeatedly claimed that the Work Choices legislation would create more jobs, and thus reduce the rate of unemployment.

The Fair Pay Commissioner is expected to set minimum wages at levels which will create more jobs by reducing the price of labour, and employers are expected to reduce wages to create more jobs.

These moves are justified on the basis that they are in accordance with the laws of supply and demand which state that if supply exceeds demand, a reduction in price will increase demand.

Equilibrium will be reached when supply equals demand. In the labour market this means that if supply exceeds demand, and there is high unemployment, a reduction in price (i.e. wage rates) will increase demand up to the stage where there is equilibrium. (An unemployment rate of less than one percent was common in the 1960's and must be regarded as achievable.)

These laws correctly apply in most commodity markets where the price of an individual commodity has only a minimal effect on inflation. In the labour market, however, rising labour costs do have a large impact on inflation. An increase in labour costs has a direct impact on costs in most industries.

Economists have therefore claimed that there is a need to override these laws in the labour market, and to maintain some level of unemployment to ensure no inflationary impact.

Economists have declared there is a natural rate of unemployment which is high enough to ensure there is no inflationary effect. Any reduction in unemployment below this natural rate may have an inflationary effect. Economists are obviously more concerned about inflation than they are about the unemployed.

If a reduction does occur economists will then take action through their control of the Reserve Bank. They have the ability to slow down the economy and reduce demand for labour by increasing interest rates; a point well known to all economists and economic advisers to Governments.

The recent decision by the Reserve bank to increase interest rates was influenced by a perceived improvement in employment growth. To say, and to repeatedly say, that reducing wages will increase employment without qualification is to tell only part of the story.

Unfortunately economists can never agree and come out and say just what is the natural rate of unemployment. One can only read the signs. Judging by the recent Reserve Bank decision the natural rate of unemployment must be somewhere in the vicinity of 5 per cent - a far cry from the achievable one percent.

This figure is supported by the 1994 White Paper on Employment and Growth "Working Nation" presented by Paul Keating when he was Prime Minister. In this paper the stated aim is for an unemployment rate of around 5 per cent by the turn of the century.

Either Government is misleading the people by only telling part of the truth, or there is another objective which is being hidden from the people. If, for example, a reduction in wages does reduce unemployment, and this is followed by an increase in interest rates, unemployment will revert back to the earlier level.

There will not be any long term increase in employment, there will not be any long term decrease in unemployment, but the reduction in wages will remain. Wage income for the lower paid workers will be reduced.

Employers will have achieved their objective of a reduction in labour costs. Little wonder they are so supportive of the Work Choices legislation.

Is it too much to ask that the Government comes clean on its true objective? Is it to reduce unemployment, or to reduce wages?

Allan McDonald
for Oasis-Australia

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