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### **The Australian Labour Market 1996-1998**

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## **Introduction**

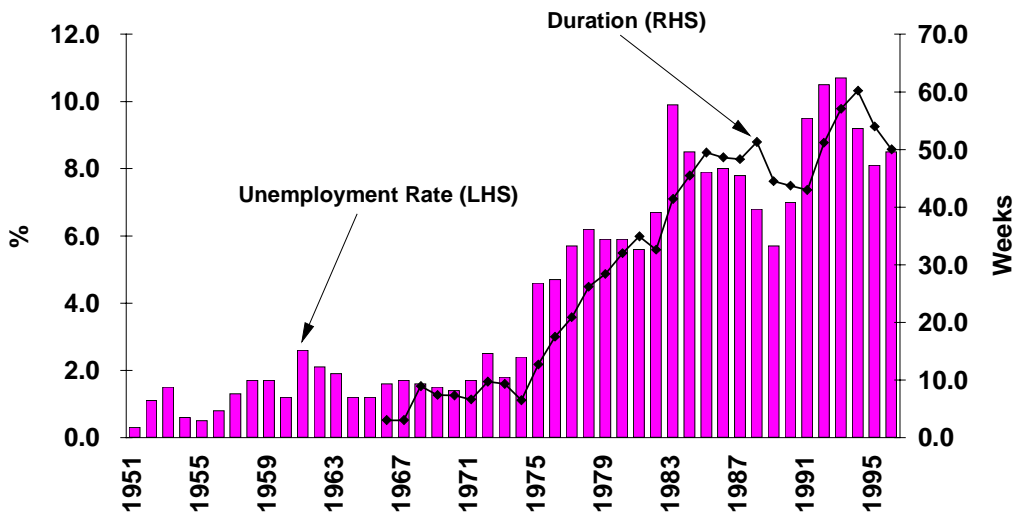
This paper examines the developments in the Australian labour market and industrial relations since the election of the Howard Government in March 1996. According to analysis by the Brotherhood of St. Laurence (1998) an estimated 12 per cent (at least 1.7 million people) of the Australia population were living in a household with an income below the poverty line in November 1995. Unemployment, living in a sole-parent family and disability were identified as the key factors associated with poverty. The developments in the labour market together with the policy changes that have occurred in the last two years have not redressed the key source of poverty -- unemployment. Rather, policy developments appear to be contributing to rising inequality and social exclusion and the growth in the numbers of the working poor. The single most important problem facing Australia is the persistently high unemployment which has fallen only by 0.2 of a percent over the last two years.

The paper initially provides an overview of the main labour market trends that have emerged or persisted since 1986, focusing mainly on employment and changes in the level and distribution of wages. The evolution of the industrial relations system under the Coalition Government is then examined. The final section discusses the breakdown of labour market programs and the Work for the Dole Scheme. The central theme of this chapter is that the labour market policies of the Coalition Government over the past two years which are designed ostensibly to improve the functioning of the labour market have instead tended to intensify polarisation and disadvantage in the labour market.

## **Unemployment**

Figure 1 captures the history of unemployment and the average duration of unemployment in Australia since 1950. The average duration of unemployment has increased from three weeks in 1966 (the first available data) to 50 weeks in 1997. Long term unemployment (one year or longer) is now entrenched. Mitchell (1996, 1998) and Watts and Mitchell (1997) show that the rise in unemployment is largely due to the failure of governments to maintain growth in GDP sufficient to match the growth in the labour force and labour productivity growth. Thus, in the absence of programs to promote employment growth, the long term unemployed have very little chance of regaining employment.

**Figure 1 Unemployment rate and Average duration of unemployment in Australia**



Source: Foster 1996

Table One breaks down unemployment into age groups and also work preference (full-time or part-time). Youth unemployment rates are very high and have never recovered from the large cuts in public sector apprenticeship schemes in the mid-1970s. 15-19 year olds face around a 19.6 per cent unemployment rate overall and they constitute about 7.8 per cent of the labour force. The problem has been somewhat attenuated by the large increases in school retention rates, the changing demographic distribution of the labour force and the decline in teenage labour force participation (Biddle and Burgess, 1998). Nevertheless, full time youth employment has successively declined over the past 30 years (Wooden, 1996). Recorded unemployment has doubled since 1978, but this alone grossly understates the severity of the decline in the labour market. Mitchell and Watts (1997) estimate that hidden unemployment in 1997 is around 500,000 persons.

**Table 1 Unemployed people by age and whether looking for full or part-time work, November, 1997**

Age	Looking for full-time work		Looking for part-time work		Total	
	Unemployed (000's)	UR (%)	Unemployed (000's)	UR (%)	Unemployed (000's)	UR (%)
15-19	77,800	27.4	65,200	14.7	143,000	19.6
20-24	110,700	13.5	23,100	8.1	133,800	12.1
25-34	146,600	7.7	20,600	4.9	167,200	7.2
35-44	120,400	6.8	22,400	4.1	142,700	6.1
45-54	85,500	5.7	23,000	3.5	99,200	5.2
55+	41,600	6.6				
55-59					36,300	7.2
60-64					11,600	4.8

Source: ABS, The Labour Force Australia, November 1997, Cat No. 6203.0, Table 24.

UR = Unemployment Rate

## Employment

The focus in this paper is on employment. An analysis of the changes in employment in Australia since March 1996 mirrors the bleak picture contained in Figure 1. Employment is no longer a guaranteed means of avoiding the disadvantage usually associated with unemployment. Employment growth has been very moderate since March 1996 (2.69 per cent) relative to labour force growth (2.30 per cent). The demand side of the market has not been able to provide enough jobs to match the number of persons who desire them, given the rate of productivity growth. For the unemployment rate to remain constant, real GDP growth must be equal to the sum of labour force and labour productivity growth, other things equal. In the midst of on-going debates about labour market deregulation, minimum wages and taxation reform, the most salient, empirically robust fact that has pervaded the last two decades is that the actual GDP growth rate has rarely been above this required rate, which is necessary to bring the unemployment rate down.

The already high gender segmentation in the labour force, that became apparent during the 1980s continued to worsen over the last two years. Two factors have contributed to this. First, almost half of the new jobs created are now part-time. More workers than ever are now relying on part-time work for their incomes (see Table 2).

**Table 2 Part time Employment as a Percentage of Total Employment**

	1983-89	Dec-90	Dec-95	Dec-96	Dec-97
Males	5.7	8.5	11.0	12.0	12.2
Females	37.7	40.2	42.7	42.6	43.0
All Persons	18.8	21.7	24.5	24.9	25.5

Source: ABS Labour Force Cat 6203.0

**Table 3 Changes in Employment and Labour Force, March 1996-January 1998**

	March 1996		January 1998			
	Employment	Labour Force	Employment		Labour Force	
	(000's)	(000's)	(000's)	% Change	(000's)	% Change
<b>Full-time:</b>						
Male	4198.4		4281.8	1.98		
Female	2054		2084.1	1.47		
Persons	6252.4		6365.9	1.81		
<b>Part-time:</b>						
Male	523		566.3	8.30		
Female	1518.6		1585.5	4.40		
Persons	2041.6		2151.8	5.45		
<b>Total:</b>						
Male	4721.3	5180.9	4848.1	2.68	5279.1	1.89
Female	3572.6	3883.9	3669.5	2.71	3994.7	2.85
Persons	8294	9064.8	8517.6	2.69	9273.8	2.30

ABS Labour Force Cat 6203.0 (seasonally adjusted). Minor rounding errors may occur.

Second, women rely on part-time work much more than men (see Table 3). Many part-time jobs are casual and/or low-paid. The rise in importance of part-time work has often been interpreted as a reaction to the desire by workers for more flexible work arrangements. But, the percentage of part-time workers who want to work more hours has more than doubled since 1978 which indicates that the demand constraint and structural changes towards casualisation have been forced upon the work force. In November 1997, 597,000 part-time workers (or 27.7 per cent) wanted to work more hours. There is also a

high degree of underemployment in the labour market. This is reinforced by the steady percentage of unemployed workers who desire full-time work (78.5 per cent).

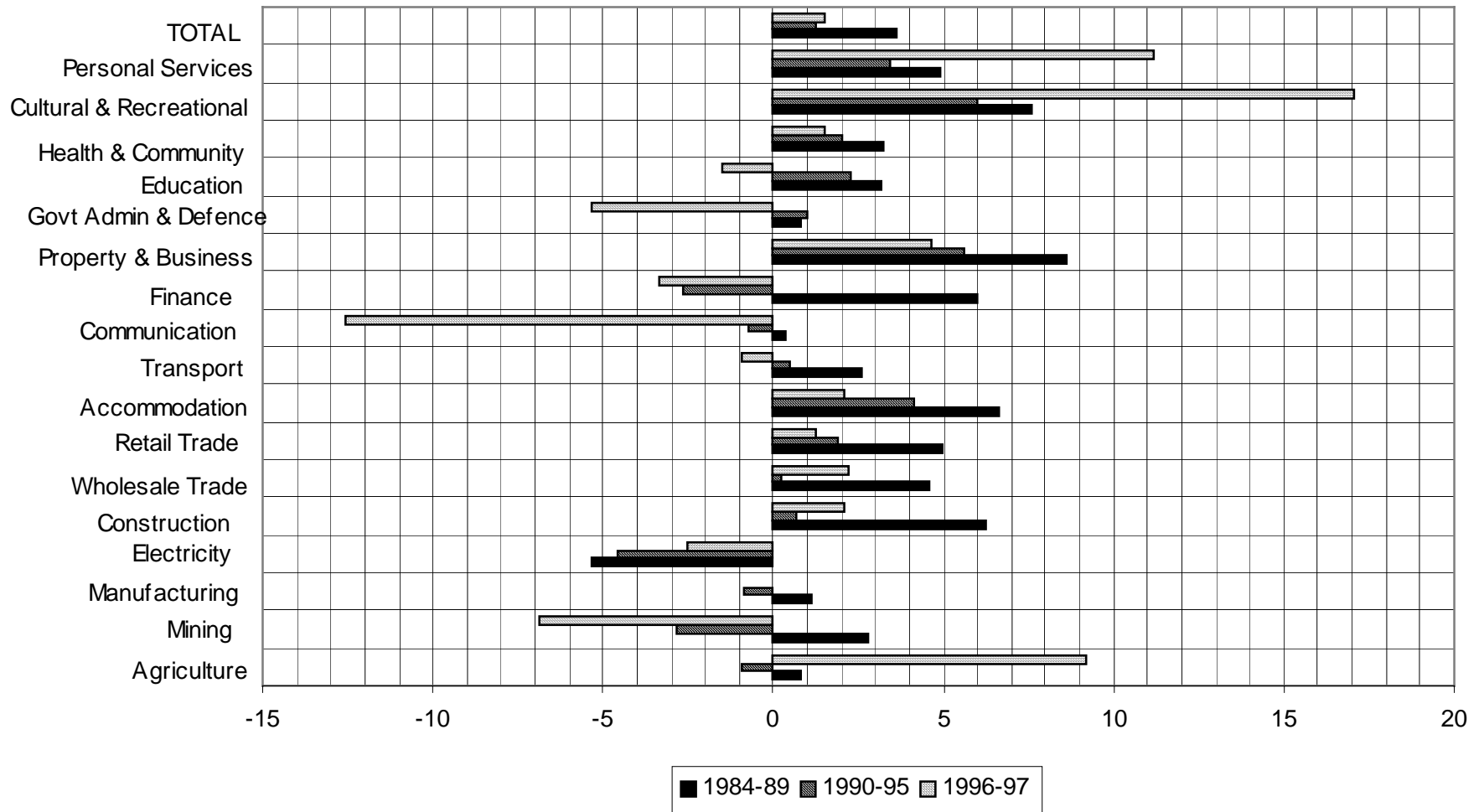
There has also been a fundamental shift in the composition of industry employment in the last decade which has been reinforced by the severe public sector budgetary cutbacks in 1996 and 1997. Figure 2 compares the average annual (compound) growth rates in employment over three periods: the expansionary period of 1984-89, the recession and recovery period of 1990-95, and the period since the Howard Government was elected (1996-97).

The Howard period has produced total employment growth barely above the 1990-95 period which was plagued by deep recession. In contrast to the recovery period of 1984-89, the employment growth achieved by the economy under Howard has been dismal. Employment levels in the production industries (mining, manufacturing, electricity, gas and water, agriculture, forestry and fishing, and construction) have been flat or in decline over the Howard period. Manufacturing is the largest production industry and since March 1996 it has not only declined absolutely but its share in total employment and has also declined from 15 per cent to 13 per cent.

The service industries showed dichotomous behaviour. Personal services, culture and recreational services, health and community, property and business exhibited employment growth, while communications and education declined. Retail and Wholesale trade were stifled. The decline in education reflected the harsh public sector cutbacks. Government administration and defence (mostly the former) declined substantially.

The growth of the service industries intensified the segmentation mentioned earlier. Table 4 summarises the trends in industry employment over the life of the Howard government. Many of the trends were already established prior to this period. However, the sharp decline in public sector employment is directly attributable to the policies of the current government. The other notable aspect of this period is the sharp shift in mix between full-time (down 31.9 thousand) and part-time (up 216.3 thousand). In the fastest growing industries (like Property and Business) part-time work is fast becoming the norm. This sharp change in mix is also evident in the retail industry.

**Figure 2 Average Annual Percentage Changes in Industry Employment – 1984-89, 1990-95 and 1996-97, Australia**



Source: ABS Cat. 6248.0 Wage and Salary Earners. The changes are the average annual (compound) growth rates for each period.

**Table 4 Percentage Changes in Industry Employment, May 1996 to November 1997**

	Part-time as a Per Cent of Total Employment ( per cent)		Δ in Part-time Employment (000's)	Δ in Full time Employment (000's)	Δ in Total Employment (000's)
	May 1996	Nov 1997	May-96 to Nov-97	May-96 to Nov-97	May-96 to Nov-97
Agriculture	24	22	-1.8	35.7	33.9
Mining	3	3	0.3	-4.6	-4.3
Manufacturing	10	11	11.1	22.7	33.8
Electricity	5	4	-1	-8.1	-9.1
Construction	13	14	2.1	-1.7	0.4
Wholesale trade	13	14	2.3	-11	-8.7
Retail trade	42	44	40.9	-20.2	20.7
Accommodation	47	47	12.2	13	25.2
Transport	13	13	0.8	-7.4	-6.6
Communication	12	13	-1	-16.5	-17.5
Finance	17	18	-0.3	-13.8	-14.1
Property & Business	24	35	111.9	-41.1	70.8
Govt Admin & Defence	12	14	3.7	-18.1	-14.4
Education	32	33	7.8	-17.2	-9.4
Health & Community	39	38	1.6	29.2	30.8
Cultural & Recreational	38	40	17.4	14.9	32.3
Personal Services	29	30	8.3	12.3	20.6
<b>TOTAL</b>	<b>25</b>	<b>27</b>	<b>216.3</b>	<b>-31.9</b>	<b>184.4</b>

Source: ABS AUSSTATS



**Table 5 Wage and Salary earners - Employment, Full-time, Part-time by Sector and Level of Government**

<b>Sector</b>	<b>Aug 1983</b>	<b>Aug 1990</b>	<b>Aug 1985</b>	<b>Feb 1996</b>	<b>May 1996</b>	<b>Aug 1996</b>	<b>Nov 1996</b>	<b>Feb 1997</b>	<b>May 1997</b>
<b>Private(000's)</b>	3624	4763	5175	5149	5300	5295	5358	5308	5391
% of total jobs	68.8	73.2	76.7	77.0	77.0	77.7	78.0	78.5	78.4
FT % of total full-time	65.6	70.1	73.9	74.2	74.3	75.7	76.2	76.3	76.3
PT % of total part-time	82.3	82.6	82.9	83.6	82.8	82.4	82.1	83.6	83.2
<b>Public (000's)</b>	1642	1742	1573	1538	1586	1517	1515	1458	1484
% of total jobs	31.2	26.8	23.3	23.0	23.0	22.3	22.0	21.6	21.6
FT % of total full-time	34.4	29.9	26.1	25.8	25.7	24.3	23.8	23.7	23.7
PT % of total part-time	17.7	17.4	17.1	16.4	17.2	17.6	17.9	16.4	16.8
<b>All Sectors (000's)</b>	5266	6504	6747	6686	6885	6813	6873	6766	6875
FT % of total jobs	80.8	75.1	69.4	70.3	68.8	70.1	69.9	70.0	69.3
PT % of total jobs	19.2	24.9	30.6	29.7	31.2	29.9	30.1	30.0	30.7
<b>Federal (000's)</b>			339	353	355	303	293	291	288
FT % of all Federal			90.6	91.1	90.9	89.9	89.8	91.1	90.3
<b>State (000's)</b>			1078	1029	1076	1069	1076	1019	1048
FT % of all State			73.6	75.2	72.3	72.6	71.9	73.8	73.1
<b>Local (000's)</b>			156	155	155	146	147	148	149
FT % of all Local			76.1	74.8	74.6	75.8	74.0	72.8	70.6

Source: ABS Wage and Salary earners, Sector and Level of Government, Australia, AUSSTAT, 6248.0

Table 5 documents the movements in employment for wage and salary earners since 1983 by sector and level of government. Since the election of the Howard Government, the overall public sector has lost around 102 thousand wage and salary earner jobs (or 6.5 per cent of the public sector workforce). The losses, are substantially due to harsh budgetary policies of the Commonwealth where some 67 thousand jobs have been shed representing 18.9 per cent of the Commonwealth public sector workforce inherited by the Howard Government. The States have cut around 28 thousand jobs (2.6 per cent) and Local government has cut 6 thousand jobs (3.9 per cent). This has led to the public sector declining as an employer relative to the private sector which has gained 91 thousand jobs over the period. Total wage and salary employment thus has declined by some 11 thousand jobs.

Finally, working-time continues to be both polarised and deregulated. The growing bi-modal distribution of working hours in Australia has been highlighted (EPAC, 1996, Ch.3). In particular, the growth in part-time employment has meant that average working hours per week have declined, but average weekly hours for full-time and part-time workers have increased (ABS, Catalogue 6203.0). There are now "over-worked" full-timers. The ABS suggests that around 40 per cent of males and 30 per cent of all workers are working 45 hours plus per week, which constitutes around 60 per cent of all full-time workers.

A combination of factors have conspired to deregulate working time patterns in Australia. On the demand side the deregulation of product markets and the growing service sector share has meant that employers require greater intertemporal flexibility with respect to labour deployment. On the supply side the growth in participation in post-secondary education and the growth in female labour force participation rates have meant that there are more workers with diverse and fragmented working time preferences (EPAC, 1996, Ch.3).

However, we should add to this that there has been an emerging institutional framework that has facilitated working-time deregulation. The push for labour market "flexibility" by employers (Campbell, 1993), the indifference of trade unions (Campbell, 1996), the spread of enterprise bargaining and the de-collectivisation of the workforce have all facilitated a fundamental change in working-time patterns. Manifestations of the deregulation of working-time include: the extension of the spread of hours for the "standard" working day or working week; the growth of evening and weekend employment; the growth in rotating and flexible working-time patterns like split shifts and workers "at call"; and, the increase in unpaid hours, notably unpaid over-time which has become averaged or an expected part of "standard" working conditions.

## **The Level and Distribution of Wages**

The structural shift in employment by industry has ramifications for the general level of wages, because the sectors which are declining in relative size are typically those which pay higher wages. In Table 6, average weekly earnings by ANZSIC Industry are shown for the period November 1983 to August 1997. The Table reveals that the highest paying industries in November 1983 have experienced the fastest rate of growth of AWE with a correlation of nearly 50%. Earlier work pointed to the high rank correlation of industry wages (Watts and Mitchell, 1990a). Table 7 shows the growth in Award Indexes for the period November 1983 to June 1997 by gender. Female award wages have risen significantly more quickly than males awards, albeit from a lower base. However this has not meant increased earnings equity.

The distribution of earnings in Australia has continued to widen since the 1970s, despite frequent changes in the principles of wage fixation and, in particular, a period of centralised wage fixation between 1983 and 1987 (see King *et al* 1992, Watts and Mitchell 1990b, Gregory 1993, McGuire 1994 and Watts 1997a). In the decade to 1996, the adult, full-time distribution of wages was characterised by increased polarisation, mainly through the downgrading of the lower half of the wage distribution (Watts, 1997a).<sup>1</sup> A major factor appears to have been the differential rates of wages growth across occupations. When changes in the structure of employment by full-time and part-time status are also taken into account, the distributional change is likely to be even greater. In the next part of the paper we examine the changes in industrial relations and labour market legislation enacted by the Federal Coalition Government and their potential impact on the level and distribution of wages.

## **Changes to the Wage Determination System**

### *Workplace Relations Act*

Under the previous Government the Prices and Incomes Accord was the central element in wage fixation. It evolved in the light of changing economic circumstance through 8 phases, from a centralised indexation model to an increasingly decentralised model based on enterprise bargaining. The new government abandoned the Accord after it took office and introduced the Workplace Relations Act (WRA), which formalised the process of decentralisation and encouraged non-union enterprise bargaining at a time when employee trade union density was already low, with around 30% of employees belonging to trade unions.<sup>2</sup> Table 8 shows the key features of the Workplace Relations Act.

**Table 6 Average Weekly Earnings, November 1983 to August 1997**

<b>ANZSIC Industry</b>	<b>Nov-83</b>	<b>Aug-97</b>	<b>AWE Growth</b>
Mining	512.9	1204.3	134.8
Manufacturing	333.0	669.3	100.9
Electricity	398.3	837.1	110.2
Construction	344.1	699.2	103.2
Wholesale Trade	315.5	615.3	95.0
Retail Trade	191.1	345.0	80.5
Accommodation	178.4	338.6	89.8
Transport & storage	374.4	770.3	105.7
Communication services	370.8	799.4	115.6
Finance and insurance	323.4	774.4	139.5
Property etc	281.0	583.3	107.6
Govt Admin and Defence	349.8	687.2	96.5
Education	367.0	599.6	63.4
Health	288.8	524.1	81.5
Cultural services	286.0	428.2	49.7
Personal services	317.9	550.6	73.2
All industries	311.3	582.2	87.0

Source: AUSSTATS, 6302.0, 6312.0

**Table 7 Growth in Award Indexes, November 1983 to June 1997**

<b>Award Index</b>	<b>Index Growth</b>
Male Hourly Earnings	60.56
Female Hourly Earnings	69.60
Persons Hourly Earnings	63.28
Male Weekly Earnings	58.15
Female Weekly Earnings	64.57
Persons Weekly Earnings	60.09

Source: AUSSTATS, 6302.0, 6312.0

Notes: The Award Index (June 1976=100.0) for the period November 1983 to June 1985 was spliced to the corresponding award index (June 1985=100) to generate the index growth rates. The weekly award index based on wages, rather than salaries was employed in the weekly calculations

**Table 8 Key Features of the Workplace Relations Act**

<b>Feature</b>	<b>Comment</b>
Compulsory Arbitration	Limited to minimum entitlements and emergency services disputes
Awards	Limited to 20 minimum entitlements Safety net adjustments for low paid
Certified Agreements	Union and non-union agreements possible, vetted by IRC
Strikes	Limited to sanctioned bargaining periods
Trade Unions	Closed shops illegal, non union enterprise agreements possible, limited rights of workplace entry, more sanctions over behaviour
AWAs	Individual contracts, vetted by Employment Advocate
Role of IRC	Ratify certified agreements Award safety net adjustments Award simplification
Office of Employment Advocate	Facilitate and certify AWAs

The WRA imposed extensive regulatory sanctions against trade union activity and paved the way for employers to reduce award coverage and to move towards non union bargaining. Some radical employers in the maritime (Melbourne’s Webb Dock) and coal (Rio Tinto’s, Hunter Valley No. 1 mine) industries are using the WRA in an attempt to diminish award and union presence at the workplace. In this anti-union context, Australian Workplace Agreements (AWAs) represent a key development of the WRA. These agreements attempt to formalise and facilitate individual employment contracts. They embody direct bargaining and do not require trade unions presence or participation <sup>3</sup>

The Department of Industrial Relations (DIR, 1995, 1996) has suggested that the WRA will lead to a more direct and balanced relationship between employers and employees, with a reduced role for third party intervention. Further it was claimed that there would be genuine freedom of association and a greater choice of union representation. On the other hand, the previous Accord system was considered to be too centralised, which resulted in a lack of choice for employers and employees in the bargaining process, as well as giving too much power to the Industrial Relations Commission (IRC) and trade unions, thereby causing an unbalanced relationship between the employer and employee. Also, the system was considered to be too rigid, because there was insufficient scope for incorporating the different circumstances across enterprises. In particular, the award system was a barrier to flexible employment arrangements. In

summary, the previous system was considered to be incompatible with microeconomic reform and responsible for the major macroeconomic problems, including unemployment and inflation.

There are now in effect three different processes in operation at the Federal level for determining wage increases. Under the award system minimum wage increases are established by the IRC to apply across enterprises for the particular award classification. Through enterprise bargaining wage increases are negotiated for the specific enterprise and or workplace. Outside of these collective mechanisms are AWAs and other informal and direct arrangements between each employee and management. Only 35% of employees are still covered by awards, while 35% are covered by registered enterprise agreements and 30% are covered by common law or individual contracts (Buchanan and Watson, 1997, 7). As a consequence, the award system which previously protected those employees with minimum bargaining power and ensured that wage increases were distributed across the workforce is becoming less important in the Australian industrial relations system.

#### *The 1996 Living Wage Case*

The Living Wage Case was conducted before the full bench of the IRC in 1996 and a decision was announced in April 1997. The ACTU was initially seeking a \$20 per week safety net wage increase, a minimum weekly wage of \$380 per week and an award wage increase of 8.75 per cent. In turn this would be further supplemented by \$20 per week wage increases in the following two years. The ACTU claimed that a large group of workers who were located within the Federal award system were missing out on enterprise based wage increases. Since real award wages have stagnated since 1993 the ACTU argued that these workers should receive "safety net" wage increases. In addition it argued that there was a need to protect the lowest paid through increasing a Federal minimum award wage rate.

The Reserve Bank was particularly influential in its opposition to the claim, by suggesting that it would push up average wages growth to unacceptable levels, which would feed through into costs and threaten the inflation target and ultimately delay interest rate cuts, thereby retarding economic growth and employment growth (Reserve Bank of Australia Bulletin, December 1996). The Reserve Bank also saw excessive wage increases as generating unemployment through the over-pricing of labour. There was a tension in the Reserve Bank's position. It could delay interest rate cuts as a result of what it regards as excessive wage increases. The delay in interest rate cuts prevents higher growth rates and employment expansion, and the Reserve is vindicated because the unemployment rate remains high or even increases.

The Federal government opposed the claim but did support an \$8 per week safety net increase. Apart from the ACTU a number of welfare groups, including the Brotherhood of St Laurence, supported the claim on the basis of growing inequality and growing numbers of working poor in the community.

In a split ruling the full bench of the IRC granted a \$10 a week safety net increase and increased the minimum wage to \$359.40 per week. Estimates suggest that around 2m. employees had not received enterprise bargained wage increases, of whom around 200 000 were on minimum wage rates. The impact of the safety net wage increase on average wages growth has been estimated to be less than 0.5 per cent (Bellchamber, 1997). In 1997 the ACTU subsequently made a second round living wage claim of \$58.60 over two years together with a \$20 per week safety net claim for those unable to negotiate wage increases under enterprise bargaining.

Under the Accord, the macroeconomic wage outcome was considered to be of utmost importance in the quest for low inflation and an internationally competitive economy. With the increased decentralisation of the wages system, the timing and size of wage increases have become less predictable. There are no longer wage targets or co-ordinating mechanisms, characteristic of the Accord. Thus there is a conflict between the push for enterprise bargains and the Reserve Bank's insistence on using wage outcomes as its guide to interest rate policy. There has been a de facto return to centralised wage targets in Australia which the Reserve Bank concedes are based on misleading and partial aggregate wage data (Reserve Bank, 1996).<sup>4</sup>

Ironically, low wage workers are strongly represented in the group whose wages continue to be largely controlled by the Commission through the setting of awards. The unfairness of imposing the burden of wage moderation on the low paid was noted by one of the Commissioners in a dissenting view at the Living Wage Case (Buchanan *et al* 1998). In addition, as noted in the previous section, the source of the polarisation of the adult full-time wage distribution over the decade 1986-96 was the downgrading of lower half of the wage distribution, which is a trend which is likely to continue.

The institutional intervention in the setting of awards is the only means by which any consistency between the structure of awards and bargained outcomes can be maintained, but through its capacity to adjust interest rates the Reserve Bank can effectively veto any award adjustment which it views to be excessive. As the centralised role of the IRC in wage setting has diminished, the vacuum is being filled by the Reserve Bank (see also Buchanan *et al* 1998). Table 9 show that the growth of the award index (both hourly and weekly) lagged appreciably behind the growth of average weekly earnings, even over the period of Labor

Government, when the award system covered nearly all workers and was central to wages policy. With the reduced coverage of awards and the increased burden on workers on awards to exercise wage moderation, it is inevitable that wage dispersion will continue to increase, particularly through the downgrading of the lower half of the wage distribution, unless there is intervention via a more generous social welfare system and/or a more progressive tax system. Given the budgetary stance of government, this would appear to be unlikely. Indeed some commentators argue in favour of a reduction in benefits to restore the incentive to work (see, for example, Moore, 1997). These changes will be exacerbated by the structural deterioration of the labour market, described in the first section.

**Table 9 Average Wages Growth per Different Wage Measures (%)**

Year	Awards	AWE (ABS)	AWOTE (ABS)	AWE (National Accounts)
1993/94	0.99	2.89	3.06	2.59
1994/95	1.34	3.42	4.05	1.60
1995/96	2.03	2.48	4.52	4.23
1996/97	1.45	2.35	3.52	4.64

Source: calculations from data in Reserve Bank Bulletin.

In Australia, both political parties appear to believe that enterprise bargaining leads to increases in productivity and efficiency and hence international competitiveness, via improvements in work practices. This implies a link between less regulated workplace arrangements and the expansion of high wage, high productivity jobs, but this link has never been explained. By contrast, the OECD Jobs Study (1994) and OECD (1996) point to the alleged benefits of the greater wage flexibility that characterises the American model, in the form of stronger growth and increased employment opportunities for *low skilled* workers which imply larger income gains for the economy as a whole, which are claimed to offset the social implications of wider wage differentials and hence the growth of low wage jobs. Workplace arrangements that sanction low wages are unlikely to promote high levels of investment, which is the source of long run increases in labour productivity. Finally, the failure of enterprise bargaining outcomes to reflect the growth in labour productivity raises the question of whether enterprise bargaining is an appropriate form of wage determination in this fragmented system.



The Australian industrial relations system has become more decentralised and less centrally co-ordinated through the demise of the Accord and the introduction of the WRA. Awards and safety net adjustments still provide for some degree of collectivisation and equity within the system. However, the Coalition has signalled further industrial relations legislation if elected to a second term of office. Further award simplification, a diminished role for awards, inducements for AWAs, and further restraints on trade union activity is planned, which signals further decentralisation and de-collectivisation of the system. In this context important issues that will challenge policy include the position of the very low paid and the likely emergence of an underclass of working poor, as in the USA, growing earnings polarisation and the further deregulation of employment arrangements (especially working-time). These changes will challenge the ability of the system to deliver both job and productivity growth .

## **Labour Market Policy?**

### *The Decline of Labour Market Programs*

Underpinning the Labor Government's Working Nation Policy was the explicit assumption that the constraint on reducing unemployment was structural, so that the first objective was to reduce the Non Accelerating Inflation Rate of Unemployment (NAIRU). Accordingly there were extensive targeted labour market programs which included wage subsidies for long term unemployed and the preparation of the unemployed for employment through training schemes. However, in the absence of job creation, these policies merely shuffle the queue of unemployed workers (Thurow, 1975). The provision of extra training is useless, unless extra jobs are created via rising levels of aggregate demand. The Job Compact which spelled out the mutual obligations of government and unemployed, was symptomatic of the shift in emphasis from passive income support to active programs.

In its first two budgets (1996/97, 1997/98), the Coalition Government have radically reformed the programme of employment assistance for the unemployed. It was claimed that both the efficiency and effectiveness of assistance would improve through an employment services market that rewarded the service providers for placing clients into *real* jobs. The new arrangements would be funded by scrapping most of the Labor Government's labour market programmes in 1998, with the exception of some entry-level training programmes which support the objectives of the Modern Australian Apprenticeship and Traineeship System (see below) and regional assistance and employment strategies for Aboriginal and Torres Strait Islander peoples. These programmes will function alongside the employment services

market. The New Enterprise Incentive Scheme (NEIS) will also be retained to assist unemployed people to establish new businesses.<sup>5</sup>

Wage subsidies will be available to employers who take on jobseekers being case managed or who have been unemployed for six months or more. Projected expenditures on labour market programs were to fall by \$1.8b. over four years in line with the Government's strategy of deficit reduction. This budgetary strategy was claimed to increase the growth capacity of the Australian economy, and ultimately achieve sustained reductions in unemployment.

An integrated, 'one-stop-shop', service delivery agency is to be developed which provides all the income support services including pensions and family payments currently provided by DSS; registration, assessment for, and referral to employment assistance services currently undertaken by the CES; enhanced self-help facilities to assist with job search for jobseekers; activity testing; provision of information, advice and guidance on Government and community employment and welfare services; assistance for students; and special assistance for some groups, notably Aboriginal and Torres Strait Islander people, young people and migrants.

Labour market assistance to jobseekers will now be provided through competing 'employment placement enterprises' (EPEs) that are contracted by DEETYA, after a tendering process and an assessment of likely regional demand.<sup>6</sup> DEETYA is responsible for quality and the ongoing monitoring of contract performance by these agencies. A payment of a placement fee to an EPE will only be made if they place an eligible jobseeker with in a job listed on a national vacancy database. The fee will reflect the different needs of jobseekers and the levels of assistance required to place them into jobs. It is expected that approximately 60 per cent of available IEA places and nearly 70 per cent of IEA funds will be provided to long term unemployed jobseekers, with the balance going to other jobseekers from special groups and those at high risk of long term unemployment.

The early signs, following the implementation of this scheme in May 1998, are that the service to the unemployed has been reduced with more uncertainty over where to find assistance and jobs information.

Other changes to programmes simplify administrative procedures and eliminate inconsistencies between different programmes. The CESAC changes represent the first step in the transition from highly structured discrete programmes with a complicated set of rules and regulations to a simple structure in which providers are claimed to have complete flexibility in the means they use to find their clients jobs.

### *Apprenticeships*

The Modern Australian Apprenticeship and Traineeship System (MAATS) has been introduced to provide 'real' employment and training opportunities for young people of Australia. It replaces the Australian Traineeship System (ATS), introduced in 1985. The new system is designed to be more flexible to industry and individual needs, by assisting employers to provide jobs that include a mix of work and training that suits both the employer and the trainee. Traineeships and apprenticeships will be available in new industries to take advantage of growth and employment potential, with a focus on opportunities in small and medium sized businesses in emerging technology, information and service industries (Australia's Young People: Shaping the Future p.5). Funding of \$206 million, largely redirected from the labour market program budget, will be provided over four years for MAATS (Biddle and Burgess, 1998).

While the traditional apprenticeship system remains a significant source of entry level employment for young people, and the principal source of skilled manual workers in Australia, there has been a decline in the number of apprenticeships. The proposals to modernise and simplify the system and make it more flexible with training driven by business interests, and by expanding apprenticeships into new and emerging industries, should help to sell the system. It is unclear whether MAATS can overcome the problem of achieving widespread acceptance as an effective entry level training system in non-manufacturing industries, which eluded the Australian Traineeship System (Stromback, 1996, 9).

Active labour market programs still have an important role to play, and can improve the effective supply of labour, and reduce skill and capacity bottlenecks, although the plethora of labour market programmes under Labor with differing requirements must have been administratively inefficient. Even with the availability of jobs many unemployed people still require direct assistance and support in locating these positions and in readying themselves to take up such positions. If anything, youth require more extensive and expensive labour market services, not fewer and cheaper labour market services (Fay, 1996, 32).

### *Higher Education*

In the August 1996/97 Budget the Coalition Government retained the income contingent character of the Higher Education Contributory Scheme (HECS) for university students, but replaced the flat rate HECS, which was introduced in 1989, by a 3 tier HECS. The minimum level of taxable income at which repayment takes place was reduced to \$20,701 and the schedule of repayment rates associated with

different levels of income was steepened with the initial rate of 3% rising in increments of 0.5% to 6% for incomes of \$37,263 and above.

There is a strong economic justification for students making a contribution to the cost of putting on their courses, because the acquisition of a university degree confers considerable (net) economic, cultural and social benefits to them. Since these benefits are not exclusively private, a subsidy should be paid by government to ensure that sufficient students have the incentive to complete university degrees (Chapman 1996, pp. 44-5).

The Coalition's justification for the location of the different fields of study across the three tiers is not merely the cost of the courses being mounted, but, in addition, the prospective income stream of the graduate associated with the particular course. The linking of the current costs of educational services to the prospective income stream of their recipients has no justification in economic theory and has the capacity to distort preferences for different courses (see Watts, 1997b).

From the beginning of 1998, universities can offer some places to local students for upfront fees, provided that the institution has filled its target-number of places for HECS-only undergraduates. The minimum fee for these additional places will be set at the corresponding HECS charge for the particular course.

The increased emphasis on user pays has been accompanied by a decline in public funding of universities. Operating funds for Universities in 1997 were projected to be 0.6 per cent over 1996 levels and 1.2 per cent below 1996 levels in 1998. In NSW it appears that enrolments of HECS undergraduates for 1998 have fallen in the order of 8%, which suggests that the change in the structure of HECS has had a significant impact of students' decisions to enter University. More generous support policies may assist in reducing activity rates for those in full-time education. The 20-24 years group face the prospect of tighter and less generous study allowances and increased fees for tertiary education.

The reduced outlays by the Coalition Government on labour market programmes and Higher Education which were announced in their first two budgets, would suggest that deficit reduction strategies take priority over improved training and job readiness of the unemployed. The House of Representatives Standing Committee on Employment, Education, and Training 1997 p.121 concluded, "Cuts to education, training and labour market programs are not justified and should be reversed. Active, and often expensive, case

management is required to assist those disadvantaged youth, especially those seeking full-time employment without year 12 qualifications.

### *Work for the Dole*

To a large extent the Coalition Government has eschewed job creation and has severely pruned the Federal Public Service.<sup>7</sup> One interesting development, which perhaps largely reflects the Government's view of the obligations of the unemployed, rather than their desire to improve the functioning of the Australian labour market, was the introduction of the *Work for the Dole* legislation in 1997. It established a maximum number of hours of work for recipients of the dole per fortnight and allowed participants to receive an extra \$10 a week to cover additional costs.

The Federal Government has piloted 178 Work for the Dole projects throughout Australia involving over 10,000 participants. Many communities with the highest rates of youth unemployment have received few or no projects with the \$21 million scheme skewed heavily in favour of Coalition regional electorates (McGeogh, 1997). Young people aged 18 to 24 who have been unemployed for at least six months and have not been in a training or employment assistance program will get priority. The programs run for a maximum of 6 months and participants will be required to work a maximum of two and a half six-hour days each week. It is anticipated that most participants will be volunteers, but some people will have to work for their dole involuntarily. The projects are designed to formalise the principle of mutual obligation between taxpayers and the unemployed who receive financial support.

In January 1998, the Federal Government toughened its dole policy, by making it mandatory for all long-term jobless aged 18 to 24 to take part in training programs, to undertake voluntary or part-time work for at least six hours a week for a minimum of 14 weeks or to relocate in exchange for the benefits. Those refusing to fulfil their 'obligation' will face loss of benefits, with a standard 18 per cent reduction in payments for 26 weeks applying for a first offence. As part of the new policy, to apply from July 1<sup>st</sup> 1998, the pilot work-for-the-dole scheme has been expanded, with 20,000 new places out of 25,000 being associated with the requirement of 'mutual obligation'.

With the available places likely to exceed the supply of voluntary participants, many young unemployed workers will have to satisfy their obligation by participating in the other designated activities, but it was announced that young people who live more than 90 minutes commuting time from any mutual obligation activity and for whom literacy and numeracy distance education is not suitable may be exempt

from mutual obligation requirements and thus would not be forced to relocate. Also the Government would look at locating new work-for-the-dole projects in areas where the different options were in short supply.

The Government will also spend \$383 million over four years on initiatives including a pilot program to provide mentors for jobseekers, a literacy and numeracy program, and measures to help young people forced back into the education system by the new dole requirements.

The Work for the Dole scheme is designed to break the cycle of unemployment. Most participants would be volunteers who wishing to receive the benefits of employment experience but the target group who are characterised by the cycle of despair, low self esteem and work ethic are relatively less likely to volunteer and are more likely to need coercion into participating. Those who are forced to undertake this form of work and even volunteers are likely to be somewhat resentful, when their remuneration for two or two and a half days work a week is the same as unemployment benefits. It has been described purely as a political gesture to appease commonly held prejudices about unemployed youth (Grattan, 1997). The scheme is not designed for older people who make up a bigger proportion of the long-term unemployed.

A central theme of the strategies of employment assistance for the unemployed and Work for the Dole is to create real jobs. It is not clear what 'real' jobs are – if they are jobs that provide training, employment security and a career path, then virtually no youth jobs would qualify as real jobs. Work for the Dole schemes do not create real jobs, provide participants with marketable skills or reduce unemployment (Burgess and Biddle, 1998). The unemployed require long term jobs with pay and conditions and training and promotion opportunities similar to those already in employment. Only in these circumstances will they overcome the cycle of despair, low self- esteem and a poor work ethic. The House of Representatives Standing Committee on Employment, Education, and Training agrees. They concluded, (1997, 120) “The most significant factor influencing the employment of young people is the availability of jobs. The benefits of economic growth have not transferred into jobs for young people. Many entry level positions have disappeared”. Without sustained job creation relatively high unemployment rates for all age groups will persist.

## Conclusions

In this Chapter we have examined labour market trends and detailed the Coalition's industrial relations and labour market policies during their first two years in office which have ostensibly been designed to facilitate the achievement of full employment with low inflation. Two key points emerge from this analysis.

First, the central macroeconomic goals of the Coalition Government are a reduction in the budget deficit and the maintenance of a low rate of inflation. A small public sector is viewed as providing the conditions for the expansion of the private sector. Labour market and industrial relations policies are viewed as subordinate to the achievement of these goals.

Second, unemployment is viewed as structural, which reflects an industrial relations system, which remains too rigid and a set of labour market programmes, which have been overly complex to administer and inefficient in the provision of education and training and employment assistance. The solution to structural unemployment is further decollectivisation and decentralisation of the wages system, the dilution of the award system and privatisation of the public employment service. Combined with funding cuts for labour market programs together with the use of work for the dole programs there is a prevailing view that supply side solutions will somehow generate a large number of new jobs, especially for the unemployed.

It is our contention that labour market and industrial relations policies have been fundamentally misguided. Unemployment persists due to acute demand deficiency. Active labour market programs have an important role to play in assisting disadvantaged job seekers to locate vacancies and to prepare them for work. Structural and technological changes to the labour market mean that education and training are becoming more important in the preparation of people for work. However, cuts in labour market programs and in study allowances, together with increased tertiary education fees are unlikely to facilitate training and education.

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## NOTES

<sup>1</sup> The latest available data is May 1996, so an analysis of changes in the distribution of earnings since the election is not possible.

<sup>2</sup> Coalition State governments (including Victoria and Western Australia) had already implemented similar or more far reaching reforms.

<sup>3</sup> Details about AWAs are kept secret. The Employment Advocate registers AWAs and has a duty to ensure that the AWAs were not enforced under duress and that the agreements do not seriously disadvantage employees.

<sup>4</sup> With the advent of enterprise bargaining it is now very difficult to interpret aggregate wage data. The problem is that not everyone is covered by enterprise bargains, wage increases may be granted in exchange for trade-offs in other conditions and there are major compositional changes occurring in the workforce (Burgess, 1995).

<sup>5</sup> The programs to be scrapped were determined by a cost benefit analysis undertaken by the CESAC.

<sup>6</sup> The tendering process appears to have disadvantaged companies who were good on past record but not competitive in terms of the price they offered (Sydney Morning Herald, 1998)

<sup>7</sup> In the 1996/97 Budget the Commonwealth provided \$41.6 million over the following three years to establish the Green Corps (Young Australians For The Environment), which would give Australians aged 17-20 the opportunity to work on environmental projects. It was anticipated that Green Corps would be built up so that, at the end of a three year period, 3,500 young Australians would have participated.