

the greater and faster will be any response to tax competition from other countries (or States). The recent case in Australia, where Queensland cut in half the stamp duties on share transactions, is a good example of the tax competition likely in the future. Here was a highly mobile financial activity where changes in differential rates would prove irresistible to traders. In this context the other States were forced to adopt a comparable stamp duties regime for fear of losing all their tax revenue from this source to Queensland.

For the Federal government the Internet poses a long-term threat to all income taxes, particularly when high powered data encryption technologies become more readily available. In addition, taxes on consumption which can be digitised are vulnerable. At risk here are taxes on computer software and music and video services. The risks the State governments confront arise through the Internet challenge to their gambling tax revenues and to taxes on financial services. The Internet can already be used to evade State gambling taxes and the Financial Institutions Duty (FID).

The increased level of international cooperation on the challenge posed by the Internet comes from concerns about negative tax competition involving a downward spiral of tax rates. Obviously such tax competition will not be sustainable—hence the high level of international cooperation in addressing this issue.

Other tax policy issues

This chapter cannot hope to cover all tax issues. Rather our goal has been to give the reader a taste of the nature of many of the controversies which are the focus of much of the tax policy debate in Australia and overseas. Other issues not considered include benefits principle taxation, which involves user-pays levies such as Higher Education Charges, airport landing fees, road user charges, and primary producer levies, and issues such as environmental levies designed to prevent public asset degradation and resource rent taxes.

Nonetheless, the reader should now have a reasonable foundation for going forth and engaging in a constructive debate over the nature and direction of tax reform in Australia.

10 The labour market since Howard

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This chapter examines the developments in the Australian labour market and industrial relations over the two years following the election of the first 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 Australian 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 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 to the growth in number of the working poor. The single most important problem facing Australia is the persistently high unemployment level, which only fell by 0.2 per cent over the first two years of the Howard government.

Initially we provide an overview of the main labour market trends that have emerged or persisted since 1986, focussing 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. Our central theme is that the labour market policies of the Coalition government over its first two years, which were designed ostensibly to improve the functioning of the labour market, instead

Table 10.1 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 (000s)	UR (%)	Unemployed (000s)	UR (%)	Unemployed (000s)	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 10.24
 Note: UR = unemployment rate

tended to intensify polarisation and disadvantage in the labour market.

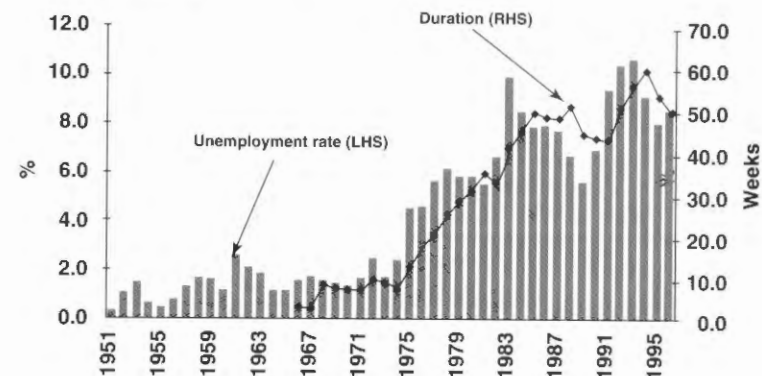
Unemployment

Figure 10.1 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 Mitchell and Watts (1997) show that the rise in unemployment is largely due to the failure of governments to maintain a sufficient growth in GDP. Thus, in the absence of programs to promote employment growth, the long-term unemployed have very little chance of regaining employment.

Table 10.1 breaks down unemployment into age groups and into 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. Youth aged 15-19 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.

Figure 10.1 Unemployment rate and average duration of unemployment in Australia



Source: Foster (1996) provided by Derek Sicklen

Mitchell and Watts (1997) estimate that hidden unemployment in 1997 was around 500 000 persons.

Employment

Chapter 4 provides further analysis of the unemployment situation in Australia, so the focus of this chapter is employment. An analysis of the changes in employment in Australia since March 1996 mirrors the bleak picture contained in Figure 10.1. 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), leading to a very modest decline in the unemployment rate. The demand side of the market has not been able to provide enough jobs to match the number of persons who desire them. For the unemployment rate to remain constant, real GDP growth must be equal to the sum of labour force and labour productivity growth. In the midst of ongoing 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 two years. Two factors have contributed to this. First, almost half of the new jobs created were part-time. More workers than ever are now relying on part-time work for their incomes (see Table 10.2).

Table 10.2 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. No. 6203.0

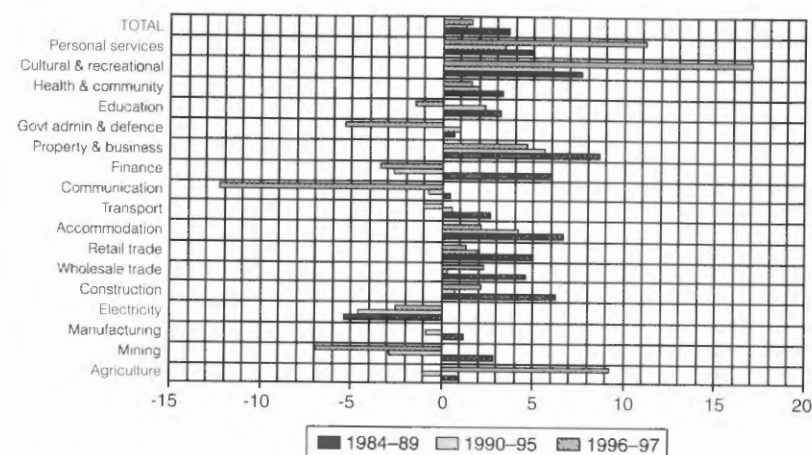
Table 10.3 Changes in employment and labour force, March 1996 to January 1998

	March 1996		January 1998			
	Employment (000s)	Labour force (000s)	Employment (000s)	% change	Labour force (000s)	% change
Full-time						
Male	4198.4		4281.8	1.98		
Female	2054		2084.1	1.47		
Persons	6252.4		6365.9	1.81		
Part-time						
Male	523		566.3	8.30		
Female	1518.6		1585.5	4.40		
Persons	2041.6		2151.8	5.45		
Total						
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

Source: ABS, *Labour Force*, Cat. No. 6203.0 (seasonally adjusted). Minor rounding errors may occur

Second, women rely on part-time work much more than men (see Table 10.3). 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 10.2 compares the average annual (compound) growth rates in employment over three periods: the expansionary period of 1984-89,

Figure 10.2 Average annual percentage changes in industry employment, 1984-89, 1990-95 and 1996-97, Australia

Source: ABS Cat. No. 6248.0 Wage and Salary Earners
The changes are the average annual (compound) growth rates for each period.

the recession and recovery period of 1990-95, and the period since the Howard government was elected (1996-97).

The two years of Howard government 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 was dismal. Employment levels in the production industries (mining, manufacturing, electricity, gas and water, agriculture, forestry and fishing, and construction) were flat or in decline over the Howard period. Manufacturing is the largest production industry and since March 1996 it *not only declined absolutely* but its share in total employment 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 10.4 summarises the trends in industry employment over the first months of the Howard government. Many of the trends were already established prior to this period, but the sharp decline in public sector employment was directly attributable

Table 10.4 Percentage changes in industry employment, May 1996 to November 1997

	Part-time as a percentage of total employment (per cent)		Δ in part-time employment (000s)	Δ in full-time employment (000s)	Δ in total employment (000s)
	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
Total	25	27	216.3	-31.9	184.4

Source: ABS AUSSTATS

to the policies of the current government. The other notable aspect of this period was the sharp shift in mix between full-time (down 31 900) and part-time (up 216 300). In the fastest growing industries (like property and business) part-time work has become the norm. This sharp change in mix is also evident in the retail industry.

Table 10.5 documents the movements in employment for wage and salary earners since 1983 by sector and level of government. After the election of the Howard government, the overall public sector lost around 102 000 wage and salary earner jobs (or 6.5 per cent of the public sector workforce). The losses were substantially due to harsh Federal budgetary policies under which some 67 000 jobs were shed, representing 18.9 per cent of the Commonwealth public sector work force inherited by the Howard government. The States cut around 28 000 jobs (2.6 per cent) and local government has cut 6000 jobs (3.9 per cent). This led to the public sector declining as an employer relative to the private sector, which gained

Table 10.5 Wage and salary earners—employment, full-time, part-time by sector and level of government

Sector	Aug 1983	Aug 1990	Aug 1985	Feb 1996	May 1996	Aug 1996	Nov 1996	Feb 1997	May 1997
Private (000s)	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
Public (000s)	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
All sectors (000s)	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
Federal (000s)			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
State (000s)			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
Local (000s)			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

91 000 jobs over the period. Total wage and salary employment thus declined by some 11 000 jobs.

Finally, working time continues to be both polarised and deregulated. The growing bimodal distribution of working hours in Australia is highlighted (EPAC 1996, Ch.3). In particular, the increase in the share of part-time employment has meant that average working hours per week have declined, even though 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 has 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

Table 10.6 Average weekly earnings, November 1983 to August 1997

ANZSIC industry	Nov 83	Aug 97	AWE growth
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

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).

We should add to this the effect of 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 work force 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 overtime, 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 10.6, average weekly earnings by ANZSIC Industry are shown for

Table 10.7 Growth in award indexes, November 1983 to June 1997

Award index	Index growth
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

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.

Source: AUSSTATS, 6302.0, 6312.0

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 per cent. Earlier work pointed to the high rank correlation of industry wages (Watts and Mitchell 1990b).

Table 10.7 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 male awards, albeit from a lower base. This has not meant increased earnings equity, however.

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; 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).¹ 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 section 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 eight phases, from a

Table 10.8 Key features of the Workplace Relations Act

Feature	Comment
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

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 per cent of employees belonging to trade unions.² Table 10.8 shows the key features of the Workplace Relations Act.

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 industry (Melbourne's Webb Dock) and coal industry (Rio Tinto's, Hunter Valley No. 1 mine) have used 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.³

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 has claimed that there would be genuine freedom of association and a greater choice of union representation. The previous Accord system was considered by the

DIR to be too centralised, resulting 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 Australia's 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 per cent of employees are still covered by awards, while 35 per cent are covered by registered enterprise agreements and 30 per cent are covered by common law or individual contracts (Buchanan and Watson 1997, p.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 work force, 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 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, to 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 regarded as excessive wage increases. The delay in interest rate cuts would prevent higher growth rates and employment expansion, and the Reserve Bank would be vindicated because the unemployment rate remained high or even increased.

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 2 million 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 coordinating 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).⁴

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 the lower half of the wage distribution, a trend which is likely to continue.

Table 10.9 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*

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 10.9 shows 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 of this chapter.

In Australia, the Labor and Liberal 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. The OECD Johs 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 income gains for the economy as a whole. These are claimed to offset the social implications of wider wage differentials arising from the growth of low wage jobs. Workplace arrangements that sanction low wages are

unlikely to promote high levels of investment, which, however, 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 coordinated 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 during its second term of office. Further award simplification, a diminished role for awards, inducements for AWAs, and further restraints on trade union activities are planned, signalling 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 has radically reformed the program of employment assistance for the unemployed. It was claimed that both the efficiency and the effectiveness of assistance would improve through an

employment services market that rewarded the service providers for placing clients into *real* jobs. The new arrangements were to be funded by scrapping most of the Labor government's labour market programs in 1998, with the exception of some entry-level training programs 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 programs were designed to function alongside the employment services market. The New Enterprise Incentive Scheme (NEIS) was also retained to assist unemployed people to establish new businesses.⁵

Wage subsidies were to be available to employers who take on job-seekers being case managed or who have been unemployed for six months or more. Projected expenditures on labour market programs were to fall by \$1.8 billion 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 was developed which provided 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 job-seekers; 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 job-seekers was to be provided through competing 'employment placement enterprises' (EPEs) that are contracted by DEETYA, after a tendering process and an assessment of likely regional demand.⁶ DEETYA is responsible for quality and the ongoing monitoring of contract performance by these agencies. Payment of a placement fee to an EPE will only be made if the EPE places an eligible job-seeker in a job listed on a national vacancy database. The fee would reflect the different needs of job-seekers and the levels of assistance required to place them into jobs. It was expected that approximately 60 per cent of available Intensive Employment Assistance (IEA) places and nearly 70 per cent of IEA funds were to be provided to long-term unemployed job-seekers, with the balance going to other job-seekers from special groups and those at high risk of long-term unemployment.

The early signs, following the implementation of this scheme in May 1998, were that the service to the unemployed had been

reduced with more uncertainty over where to find assistance and jobs information.

Other changes to programs simplified administrative procedures and eliminated inconsistencies between different programs. The CESAC changes represented the first step in the transition from highly structured discrete programs 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) was introduced to provide 'real' employment and training opportunities for young people of Australia. It replaced the Australian Traineeship System (ATS), introduced in 1985. The new system was designed to be more flexible in response to industry and individual needs, by assisting employers to provide jobs that include a mix of work and training that suited both the employer and the trainee. Traineeships and apprenticeships were to 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. Funding of \$206 million, largely redirected from the labour market program budget, was to 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 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, p.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 programs established under Labor, with their differing requirements, must have been administratively inefficient. Even with the availability of jobs many unemployed people still require direct assistance and support in locating 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, p.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, with a three-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 per cent rising in increments of 0.5 per cent to 6 per cent 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 different fields of study across the three tiers is not merely to recover portion of the cost of the courses being mounted but, in addition, takes account of 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 could offer some places to local students for upfront fees, provided that the institution had 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 New South Wales enrolments of HECS undergraduates for 1998 fell significantly, which suggests that the change in the structure of HECS had a significant impact on students' decisions to enter university. More generous support policies may assist in reducing attrition 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 programs and higher education, as 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 eschewed job creation and severely pruned the Federal public service in its first term.⁷ One interesting development, which perhaps largely reflects the government's view of the obligations of the unemployed, rather than its 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 piloted 178 Work for the Dole projects throughout Australia, involving over 10 000 participants. Many communities with the highest rates of youth unemployment 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 had been unemployed for at least six months and had not been in a training or employment assistance program got priority. The programs run for a maximum of six months and participants will be required to work a maximum of two and a half six-hour days each week. It was anticipated that most participants will be volunteers, but some people had 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 benefits. Those refusing to fulfil their 'obligation' 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 policy, that applied from 1 July 1998, the pilot Work

for the Dole scheme was expanded, with 20 000 new places out of 25 000 being associated with the requirement of 'mutual obligation'.

With the available places exceeding the supply of voluntary participants, many young unemployed workers were required to satisfy their obligation by participating in the other designated activities; 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 was not suitable, may be exempt from mutual obligation requirements and thus would not be forced to relocate. The government would also look at locating new Work for the Dole projects in areas where the different options were in short supply.

The government also planned to spend \$383 million over four years on initiatives including a pilot program to provide mentors for job-seekers, 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 wishing to receive the benefits of employment experience, but members of the target group, who are characterised by the cycle of despair, low self-esteem and poor 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. The scheme has been described as purely a political gesture to appease commonly held prejudices about unemployed youth (Grattan 1997). It 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, p.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 programs which have been overly complex to administer and inefficient in the provision of education and training and employment assistance. The government's 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 and the use of Work for the Dole programs 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 these labour market and industrial relations policies are 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. Cuts in labour market programs and study allowances, together with increased tertiary education fees, such as we have seen, are unlikely to facilitate training and education.

11 Industry policy in Australia

Robert Conlon

The term 'industry policy' in Australia has long been interpreted as *manufacturing industry* policy. For more than a century its dominant theme has been the protection of local manufacturing industries from import competition, and the story of protection in this country has largely been the story of the Australian tariff. However, over the last twenty years or so average tariff levels have steadily fallen and since the 1980s both major political parties have accepted (with some recent backsliding) the need for Australian industries to be more exposed to international competition. By the end of the century, the tariff will have been largely dismantled, but as tariffs have declined other, often less transparent, schemes have tended to take their place. For example, now, instead of taxing imports (or as a complement to import barriers), we subsidise exports implicitly or explicitly, or provide assistance for research and development. If tariffs were the 'old protection', these measures could be described as the 'new assistance'. Of course government help has not been restricted to manufacturing. Agriculture has also been assisted, mainly by taxation concessions, marketing schemes of various types (supported by taxpayers' funds), subsidies and adjustment payments of one form or another. These measures of assistance for industry—now known as business programs—have tended to proliferate. Indeed, over a long period programs to assist industry have grown more or less willy-nilly, often as a result of political expediency rather than from any underlying economic rationale.

In this examination of industry policy there are some important omissions. There is a legitimate case for including recent competition