
PRICES AND INCOMES AND LABOUR MARKET POLICIES



Short answer questions

Question 1

- (a) Labour market programs have many and varied objectives, including:
- Reducing inflation and unemployment by helping to restrain wages growth.
 - Improving our international competitiveness by restraining wages and promoting productivity.
 - Reduce the number of industrial disputes and the costs associated with these disputes.
 - Helping to ensure an equitable distribution of income prevails.
 - Achieving specific policy objectives such as a target inflation or unemployment level.
- (b) Work for the Dole was introduced by the Howard Government in 1996. The program is intended to increase the work participation and skills base of the long term unemployed Australia's unemployment problem. Long term unemployed often find it difficult to find employment as many become entrenched in an unemployment cycle as their skills deteriorate and finding employment becomes a more difficult task. Work for the Dole is based on the rationale that in exchange for welfare payments, welfare beneficiaries should also return something to the community as well as do their best to find employment. The scheme received increased funding in 2001, with 9000 schemes having been started by mid-2002. However, Australia's structural and long term unemployment problem has yet to see any major inroads with structural unemployment estimated to constitute around 5-5.5% of Australia's 6% unemployment level.
- (c) Over the past decade, globalisation has seen the continued merging of global labour markets. For employers, the increasing movement of employees between countries means that businesses are no longer confined to domestic labour markets when choosing employees. It also means that employees can search for the most rewarding and highest paying jobs – in many countries forcing an increase in professional and executive wage rates in order to remain internationally competitive and prevent a 'brain drain' phenomenon. By 2000, around 120 million people had migrated to work in different countries around the world. This has also resulted in the beginnings of a merger in international employment relations styles, with companies now able to research and implement 'global best practices'.

Question 2

- (a) **Across all gender groups, wages of workers on Awards are far less than the national average. Award workers' incomes are on average only 62 per cent of the average for male workers in Australia and 73 per cent of the average wage for females.**
- (b) **Certified Agreements are enterprise agreements that are negotiated on a collective basis between employers and workers who are collectively represented, often by a union. The agreements cover such factors as wage adjustments, working conditions, workplace practices and reforms to increase productivity. Once agreed upon, they must be lodged with, and approved by the AIRC. Australian Workplace Agreements are on the other hand are negotiated on an individual basis by employers with their employees. They cover the same issues as Certified Agreements, but are instead lodged with the Office of the Employment Advocate to ensure they satisfy a 'no disadvantage test'.**
- (c) **The Office of the Employment Advocate encourages the growth of individual contracts and enforces restrictions on compulsory union membership. It assists employers and employees with the operation of the Workplace Agreements and assists employees when employers have breached their obligations under the agreement. The Employment Advocate also approves AWAs to ensure they pass then ten standards of the 'no disadvantage' test.**
- (d) **The move towards a decentralised labour market commenced in 1991 when the Hawke Government introduced the notion of enterprise bargaining. Further flexibility was introduced in 1993 with Accord VII which allowed workers to opt out of the Accord system. The major move towards deregulation however, occurred with the introduction of the Howard Government in 1996. The Howard Government removed the Accord system, instead relying on enterprise bargaining and Awards to cover the lowest paid workers. As a result, 40 per cent of workers are now on some sort of individual agreement. The major disadvantage of a decentralised labour market is that it can lead to greater inequality in the distribution of income. By removing the notion of comparative wage justice, inequality is worsened and by allowing workers to negotiate on an individual rather than collective basis, the balance of power in the wage negotiation process can be shifted towards the employers which can cause a further widening of the inequality gap.**

Question 3

- (a) **1. Real unit labour costs fell by around 10 per cent between 1980 and 1990 before stabilising from 1990 to 2000 – reflecting the introduction of enterprise bargaining. The index shows that real unit labour costs fell from around 106 basis points in 1980 to 95 in 1990 before stabilising.**
- 2. Labour productivity has increased dramatically in Australia over the past 20 years. Productivity jumped from an index value of 90 in 1980 to almost 130 by 2000 – reflecting an increase of almost 45 per cent.**

- (b) Enterprise bargaining aims to increase the flexibility and productivity of the workforce. It is designed to allow business to provide workers with increased wages in exchange for productivity increases – benefiting both sides of the employment relations function. Enterprise bargaining, by exchanging productivity increases for wage rises should result in two key outcomes:

1. An increase in labour productivity

2. A similar increase in real wages – as business profits from productivity increases are returned, at least in part, to workers.

As the diagram shows, this has occurred over the past 20 years. Productivity and real wages have increased at virtually the same rate – particularly however since the early 1990s when enterprise bargaining was first introduced. At the same time, as expected, real unit labour costs – the gap between increases in business profits driven here by productivity and the increases in labour costs (wages) – have stabilised as business's have traded wages rises for productivity, stemming inflationary pressures.

- (c) Enterprise bargaining, whilst increasing the flexibility of the labour market and improving the allocation of resources in the economy, has negative consequences for the distribution of income. Enterprise bargaining destroys the notion of comparative wage justice – where workers in the same job receive the same pay – by allowing more efficient workers to receive extra pay. Additionally, enterprise bargaining will not produce the same wage outcomes equally for all workers equally, regardless of productivity. Those groups which are able to negotiate through powerful groups such as unions, will have far more power in the negotiation process than individual workers. This will result in even further inequality in the distribution of income. Indeed, wages share of national income has fallen by around 6 per cent over the past twenty years, likely exacerbated by enterprise bargaining. Further deregulation, although politically unlikely, would result in increased flexibility for small business operators, placing more industrial power into the hands of business owners and increasing the ease with which they can hire and fire workers. This would again only further increase the inequality of income by disadvantaging those already low income workers.

MULTIPLE CHOICE ANSWERS

1. C 2. A 3. B 4. D 5. C 6. A 7. D 8. B 9. A 10. B
11. C 12. C 13. D 14. C 15. B 16. B 17. B 18. A 19. A 20. D