

6

The Labor Market

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Policymakers are focused on the labor market because of unemployment, which has shown a strong upward trend since the mid-1970s, rising from a rate of about 2 percent to about 8 percent by the end of 1997. This increase has largely been due to structural factors. The relatively slow pace of growth in labor inputs identified in the analysis of the production function in Chapter 2 has not kept pace with the growing labor force. Hence, estimates suggest that the steady-state unemployment rate has increased to around $7\frac{1}{2}$ – $8\frac{1}{2}$ percent at present.

The government has responded to these trends by implementing a broad range of labor market policies, aimed at creating a more flexible labor market. Since the late 1980s, it has been decentralizing the industrial relations system, increasing the scope for firms and employees to tailor wage and employment conditions to their particular circumstances, rather than have them dictated by central “awards” (legally enforceable documents that regulate a multitude of work conditions, including wage rates, job classifications, and hours of work). Also, the government has pursued active labor market policies to increase search skills and address skill mismatches, and has reformed welfare policies to improve the incentives for the jobless to seek employment.

This chapter reviews the key features of the slow pace of growth in labor inputs and the trend rise in unemployment in Australia, and presents some estimates of the steady-state unemployment rate. It then dis-

This chapter is based in part on material prepared by Dr. Jeff Borland, Centre for Economic Policy Research, Australian National University, who was a consultant to the IMF from October to December 1996.

cusses the role that the Australian industrial relations system and the welfare system have played in contributing to the rise in unemployment. Some of the benefits arising from the government's earlier reforms and policies to address the unemployment problem are then presented. Finally, the chapter provides an assessment of the most recent reforms for labor market performance.

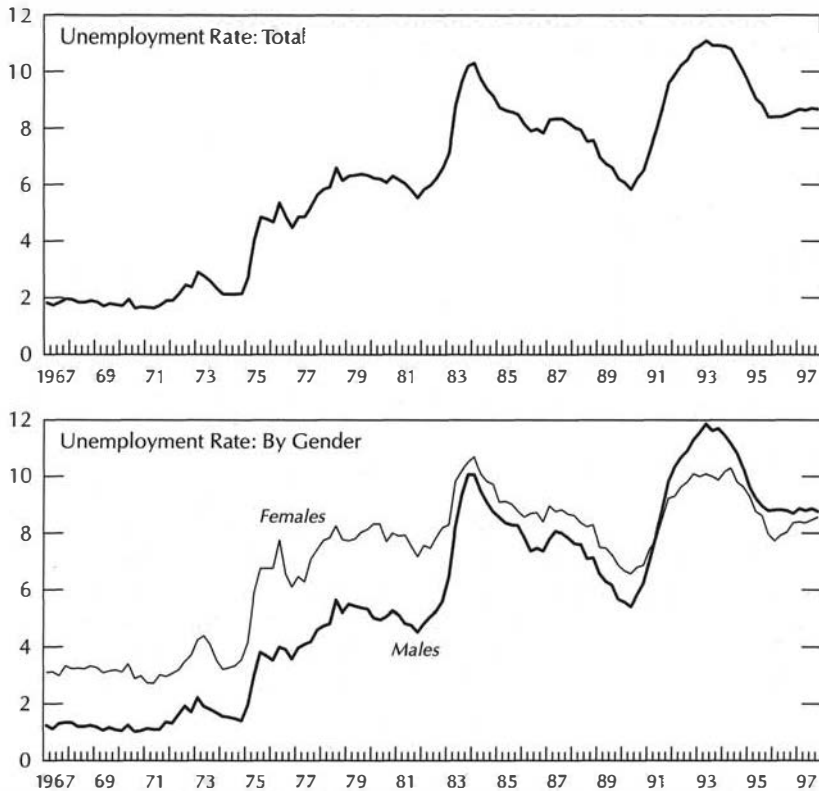
Trends in Unemployment

For the past three decades, unemployment in Australia has shown a strong upward trend.¹ From the mid-1970s to the early 1980s, the unemployment rate increased from 2 percent to 6 percent and stabilized temporarily at this level (Figure 6.1). During the 1980s, unemployment never fell sustainably below 6 percent, and it reached as high as 10 percent. In the 1990s, the rate has not fallen significantly below 8 percent and has reached more than 11 percent.

As for trends in employment, three distinct subperiods can be identified. During the 1970s, employment growth was weak, and considerably below the rate of expansion of the labor force (Tables 6.1 and 6.2). During the expansion of the 1980s, however, employment grew strongly, averaging 3½ percent per annum—one of the highest rates in the OECD. This robust growth stemmed from a rapid increase in female participation rates, especially among the more educated groups. These workers were of a quality that, even though many demanded part-time employment, which was relatively expensive for employers, they quickly found jobs as they entered the labor force, and, consequently, female employment grew by 5 percent per annum (Figure 6.2). Moderation of wage growth also contributed to employment growth in this period. Nevertheless, reflecting this simultaneous expansion of labor supply and demand, the unemployment rate at the end of the 1980s was much the same as it had been at the start of the decade.

¹In this chapter, the turning points in the economic cycle are based on the unemployment series. In particular, quarter j is defined as a turning point if changes in the rate of unemployment in the next three quarters (from j to $j+1$, $j+1$ to $j+2$, and $j+2$ to $j+3$) are in the opposite direction to the change in the rate of unemployment from the preceding quarters (from $j-1$ to j). This gives turning points at 1974/2, 1978/3, 1981/2, 1983/2, 1989/4, and 1993/3. It should be noted that the turning points in the real GDP series discussed in Chapter 2 differ from those in the unemployment series. The difference is significant in the 1990s as, although GDP began to grow from the 1991/2 quarter onwards, the turning point in the unemployment series occurred more than two years later, in 1993/3.

Figure 6.1. Unemployment Rate
(In percent, seasonally adjusted)



Source: Australian Bureau of Statistics.

The expansion of the 1990s has been different again. For the first two years of the recovery, employment declined, and the unemployment rate rose from 8 percent in 1990/91 to 11 percent by 1992/93. Subsequently, employment began to expand, but at a slower pace than in the 1980s, averaging less than $2\frac{1}{4}$ percent per annum from 1993 to 1997.

Other important trends and features of the labor market are:

- The divergent trends in male and female employment. Declining employment in the manufacturing industry has predominantly affected males, while females have taken advantage of the rapid expansion of employment in the finance and community service sectors (Table 6.3).
- The unemployed are disproportionately from younger age groups. In June 1997, 38 percent of unemployed persons were aged 15–24, though they only accounted for about 20 percent of persons in the labor force.

Table 6.1. Changes in Rate of Unemployment*(In percentage points, seasonally adjusted)*

	Persons	Males	Females
Total change ¹			
1974:2–1978:3	4.4	4.2	4.4
1978:3–1981:2	–0.9	–1.0	–0.7
1981:2–1983:2	4.7	5.5	3.4
1983:2–1989:4	–4.5	–4.8	–3.9
1989:4–1993:3	5.3	6.3	3.7
1993:3–1997:4	–2.6	–2.9	–2.2
Average annual change			
1974:2–1978:3	1.0	1.0	1.0
1978:3–1981:2	–0.3	–0.2	–0.2
1981:2–1983:2	2.3	2.8	1.7
1983:2–1989:4	–0.7	–0.7	–0.6
1989:4–1993:3	1.4	1.7	1.0
1993:3–1997:4	–0.6	–0.7	–0.5

Sources: 1974–77, Australian Bureau of Statistics (ABS), *Labour Force Australia Historical Summary 1966 to 1984*, catalogue no. 6204.0; 1978–1995, ABS, *Labour Force Australia 1978–1995*, catalogue no. 6204.0; 1996, ABS, *Labour Force Australia*, catalogue no. 6203.0.

¹The time periods are broken up on the basis of turning points in the unemployment series.

- Unemployed persons are disproportionately from groups with lower levels of educational attainment. In May 1996, the unemployment rate among persons who had not completed high school was more than 11 percent, compared to around 4 percent for those with a degree.

Steady-State Rate of Unemployment

The steady-state rate of unemployment abstracts from short-term cyclical fluctuations and hence gives policymakers an estimate of the “permanent” or long-run rate of unemployment.² A number of recent

²The term “steady-state rate of unemployment” is used here to encompass several different concepts, including the nonaccelerating inflation rate of unemployment (NAIRU), the natural rate of unemployment, and the steady-state rate of unemployment derived from an unemployment-vacancy (UV) curve or structural models of the rate of unemployment. Each of these approaches has different theoretical underpinnings, but all produce steady-state estimates of the unemployment rate from regression analysis. To illustrate the theoretical underpinnings of a model of the rate of unemployment, consider the example of the Layard-Nickell structural model estimated in Huay and Groenewold (1992). In that model, the economy is represented in a system of three equations for employment, price determination, and real wages. Estimates of the steady-state rate of unemployment are derived from the equation for employment together with information on exogenously determined labor supply. Hence, in this framework changes in the steady-state rate of unemployment occur due to changes in factors that are included in the employment equation—for example, real wages, expected aggregate demand, and the level of unemployment benefits.

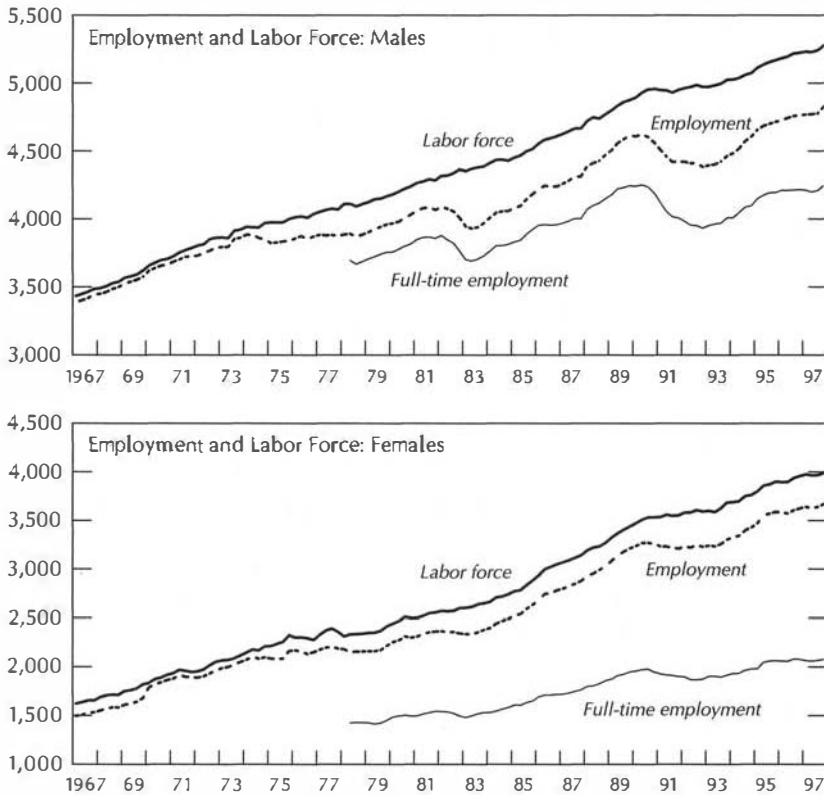
Table 6.2. Changes in Employment and Labor Force
(In percent, seasonally adjusted)

	Persons			Males			Females		
	Full-time employment	Employment	Labor force	Full-time employment	Employment	Labor force	Full-time employment	Employment	Labor force
Total change ¹									
1974:2–1978:3	—	2.2	6.9	—	-0.1	4.2	—	6.4	12.1
1978:3–1981:2	5.2	6.1	5.1	5.2	5.2	4.6	5.4	7.5	6.7
1981:2–1983:2	-3.3	-2.2	3.0	-4.4	-3.8	1.8	—	—	4.3
1983:2–1989:4	19.8	25.3	19.3	13.5	18.0	12.0	30.1	37.5	31.4
1989:4–1993:3	-5.7	-2.3	3.5	-7.0	-4.8	0.1	-2.8	1.4	5.5
1993:3–1997:4	7.8	10.6	7.4	6.9	9.2	5.6	9.6	12.6	9.9
Average annual change									
1974:2–1978:3	—	0.5	1.6	—	—	1.0	—	1.5	2.7
1978:3–1981:2	1.9	2.2	1.8	1.9	1.9	1.6	1.9	2.7	2.4
1981:2–1983:2	-1.6	-1.1	1.5	-2.2	-1.9	0.9	—	—	2.1
1983:2–1989:4	2.8	3.5	2.8	2.0	2.6	1.8	4.1	5.0	4.3
1989:4–1993:3	-1.5	-0.6	0.9	-1.8	-1.3	—	-0.7	0.4	1.4
1993:3–1997:4	1.8	2.4	1.7	1.6	2.1	1.3	2.2	2.8	2.2

Sources: 1974–77, ABS, *Labour Force Australia Historical Summary 1966 to 1984*, catalogue no. 6204.0; 1978–1995, ABS, *Labour Force Australia 1978–1995*, catalogue no. 6204.0; 1996, ABS, *Labour Force Australia*, catalogue no. 6203.0.

¹The time periods are broken up on the basis of turning points in the unemployment series.

Figure 6.2. Employment and Labor Force
(In thousands, seasonally adjusted)



Source: Australian Bureau of Statistics.

studies have estimated this rate for Australia, and they show a fairly consistent picture (Figure 6.3; a summary of the methodology for each study is presented in Box 6.1). The steady-state rate of unemployment is estimated to have increased from around 1 to 2 percent in the early 1970s to around 5 to 6 percent in the early 1980s. There is also evidence of a 1 percentage point increase during the 1980s, and a further 1 to 1½ percentage point increase from the late 1980s to the present, bringing the current rate to around 7½ to 8½ percent. Estimates of the NAIRU from the Treasury Macroeconomic Model of the Australian economy (TRYM) currently place it around 7½ percent.³

³Based on a rolling regression of the TRYM wage equation from 1974 to 1994 (see Downes and Stacey, 1996). Estimates of the NAIRU are subject to a good deal of

Table 6.3. Changes in Employment by Industry*(In thousands)*

Males	Total	Manu- facturing	Wholesale/ Retail Trade	Finance	Community Services	Construction
ASIC						
Classification ¹						
1974:2–1978:3	–43	–124	63	17	67	–37
1978:3–1981:2	226	67	–16	59	39	24
1981:2–1983:2	–149	–102	–9	1	–6	–57
1983:2–1989:4	696	51	181	153	99	157
1989:4–1993:3	–241	–102	–7	–15	14	–49
ANZSIC						
Classification ¹						
1989:4–1993:3	–241	–106	–12	–18	3	–53
1993:3–1997:4	439	43	86	135	17	46

Females	Total	Manu- facturing	Wholesale/ Retail Trade	Finance	Community Services	Recreation/ Personal Services
ASIC						
Classification ¹						
1974:2–1978:3	131	–56	19	24	112	7
1978:3–1981:2	181	6	42	35	48	6
1981:2–1983:2	10	–16	–14	10	29	–6
1983:2–1989:4	893	35	21	165	228	115
1989:4–1993:3	–1	–48	–47	–20	113	8
ANZSIC						
Classification ¹						
1989:4–1993:3	–1	–47	–49	–20	98	–16
1993:3–1997:4	462	33	103	126	105	41

Source: ABS, *Labour Force Australia*.

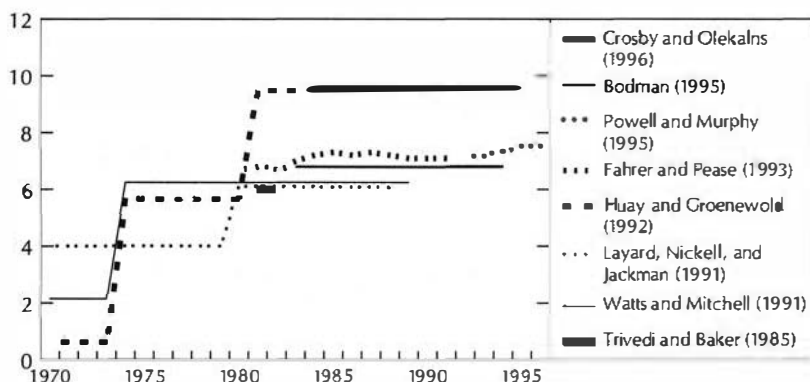
¹Changes to the method of industry classification in 1993 (from ASIC to ANZSIC) mean that it is not possible to maintain consistent industry groups from 1974 to 1996. For purposes of comparison, data for both methods of industry classification are reported for the time period 1989/4 to 1993/3. Community services include education and health.

Causes of Changes in the Steady-State Rate of Unemployment

Studies have generally concluded that there are four proximate causes of the increase in the steady-state rate of unemployment in Australia, although the importance of each has varied over time.

uncertainty. The 95 percent confidence level around the Treasury NAIRU estimate is 5.2 to 9.6 percent.

Figure 6.3 Estimates of the Steady-State Rate of Unemployment
(From various studies, in percent)



Sources: Studies listed.

Growth in real unit labor costs. This is regarded as the primary factor behind the increase in the steady-state rate of unemployment between the mid-1970s and early 1980s, accounting for about $2\frac{1}{2}$ of the 4 percentage point rise (see Valentine, 1993; Pissarides, 1991; and Huay and Groenewold, 1992). The contractionary phases starting in 1974/2, 1981/2, and 1989/4 were each preceded by significant increases in real unit labor costs, of as much as 8 percent (Figure 6.4, top panel). While the first two episodes reflected large economywide nominal wage increases (flowing through the centralized approach to industrial relations, as discussed below), the last was more a reflection of inflation declining more rapidly than wage growth.

Increases in the level of unemployment benefits. The unemployment benefit replacement rate (defined as unemployment benefit payments as a proportion of average earnings) for each family type increased substantially between 1971/72 and 1974/75, but has been relatively stable since.⁴ This increase has tended to reduce the rate of outflow from unemployment (Gregory and Paterson, 1980; and Trivedi and Kapuscinski, 1985), and has accounted for about 1 percentage point of the increase in the steady-state rate of unemployment between the mid-

⁴The unemployment replacement rate for a couple with no children rose from 40 percent in 1971/72 to about 55 percent in 1974/75.

1970s and early 1980s (Pissarides, 1991; and Huay and Groenewold, 1992).⁵

Slower GDP growth. Around 1973/74, GDP growth exhibited a structural break, and employment growth shifted down in parallel. As in many other OECD countries, the growth slowdown reflected a deceleration in productivity, the underlying causes of which were discussed in Chapter 2. The decline in output growth explains perhaps ½ percentage point of the increase in the steady-state rate of unemployment in the 1970s and early 1980s, but has been critical from the late 1980s onwards (see Pissarides, 1991; Huay and Groenewold, 1992; Dao, 1993; and Phipps and Sheen, 1995) (Figure 6.4, bottom panel).

Structural change. Increases in unemployment have also coincided with accelerations in structural change, as measured by the interindustry variation in employment growth (Figure 6.5). At the same time, rates of exit from unemployment declined because the shift in the pattern of production created mismatches between the skills of the unemployed, who had lost jobs primarily in manufacturing, and those demanded by employers, primarily in services. While the impact of structural change was small in the 1970s and early 1980s (Trivedi and Baker, 1985; and Dao, 1993), Fahrner and Heath (1992) show that skill mismatches caused exit rates from unemployment for males to decline during the 1980s. Furthermore, there appears to have been a decrease in the search effectiveness of the unemployed (Fahrner and Pease, 1993).

Institutional Factors Affecting the Labor Market

This section considers two factors that have played a key role in influencing recent trends in the labor market: the industrial relations system and the welfare system.

The Australian Industrial Relations System

The Australian industrial relations system has centered on government-sponsored compulsory arbitration and conciliation in conjunction with an industrial policy that traditionally protected manufacturing industries from import competition with high tariff levels. This system created relatively high real wages by international standards, which partly re-

⁵In addition, Scarpetta (1996) found that the replacement rate accounts for about 0.9 percentage points of the difference between the structural unemployment rate in Australia, which he estimates at 8.7 percent, and the average OECD structural employment rate, estimated at 7.1 percent.

Box 6.1 Studies of the Steady-State Rate of Unemployment

1. Trivedi and Baker (1985)
 Period of estimation: 1964/2 to 1981/2 (quarterly)
 Estimation approach: Single equation models for log of rate of unemployment in Australia—Nonmarket clearing model and search/turnover model. Solve for equilibrium rate of unemployment by imposing steady-state conditions on model.
2. Watts and Mitchell (1991)
 Period of estimation: 1966/4 to 1989/2 (quarterly)
 Estimation approach: Cointegrating regression for log of rate of unemployment in Australia. Error-correction model of change in log of rate of unemployment. Solve for equilibrium rate of unemployment by imposing steady-state conditions on cointegrating regression.
3. Layard, Nickell, and Jackman (1991)
 Period of estimation: 1956 to 1988 (annual)
 Estimation approach: Single equation model for rate of unemployment in 19 OECD countries—model derived from four equation model for prices, real wages, demand, and production. Solve for equilibrium rate of unemployment by imposing steady-state conditions on model.
4. Huay and Groenewold (1992)
 Period of estimation: 1968/1 to 1986/4 (quarterly)
 Estimation approach: Multi-equation model for real wages, employment, and prices for Australia. Solve for equilibrium rate of unemployment from estimated employment and real wage equations imposing steady-state conditions.

flected the resource rents from primary production and minerals. When prices and wages in certain sectors rose as part of a boom, the centralized wage system would ensure that similar wage increases were granted in other sectors, based on the principal of "comparative wage justice," thereby raising the economywide wage level (as noted in Chapter 5). This was apparent in the booms of the early 1970s and early 1980s, when real unit wages costs increased sharply. The system also acted to protect the real wages of low and unskilled workers and, in effect, acted as a means of redistribution within the economy to reduce income inequality.⁶

⁶High levels of protection enabled manufacturing firms to pass wage increases on to consumers in the form of higher prices. This, in turn, led to higher wages, which led to demands for higher levels of protection and so on. Exporters, however, could not pass on these higher costs.

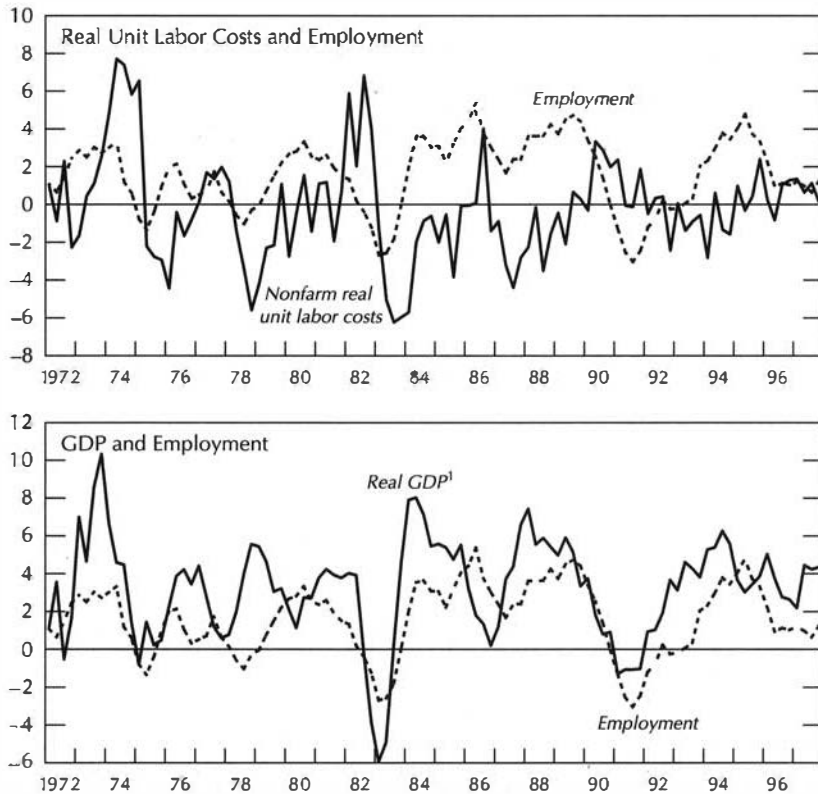
5. Fahrer and Pease (1993)
 Period of estimation: 1979/4 to 1992/1 (quarterly)
 Estimation approach: Equilibrium UV curve for Australia derived from equations for inflows to, and outflows from, unemployment with steady-state conditions imposed.
6. Powell and Murphy (1995)
 Period of estimation: 1976/1 to 1996/2 (quarterly)
 Estimation approach: Phillips curve model for Australia—change in log wages with inverse of rate of unemployment as explanatory variable. NAIRU derived from imposing steady-state conditions on Phillips curve. (Estimate for 1991/4 is from Powell and Murphy, 1995; and estimate for 1996/2 is from private correspondence with Chris Murphy.)
7. Bodman (1995)
 Period of estimation: 1983/1 to 1994/7 (monthly)
 Estimation approach: Equilibrium UV curve for Australia derived from stochastic growth model for aggregate employment with steady-state conditions imposed.
8. Crosby and Olekalns (1996)
 Period of estimation: 1959 to 1995 (quarterly)
 Estimation approach: Phillips Curve Model for Australia, allowing lagged values of the unemployment gap to affect inflation. Measures expectations using three lags of the inflation rate.

The wage-bargaining system in Australia has a number of distinct features: the federal and state governments have joint responsibility for industrial relations matters; the system is administered by industrial tribunals set up at both the Commonwealth and state levels that have the power to arbitrate in disputes over wage setting; and the system of “awards” documents minimum terms and conditions of employment.

Australian Industrial Award System

Awards are legally enforceable documents, issued either in the Commonwealth jurisdiction by the Australian Industrial Relations Commission (AIRC) or in the state jurisdictions by the various state tribunals, and are generally specific to particular crafts, occupations, or industries. Though most awards are “consensual,” (i.e., their content is

Figure 6.4. Determinants of Employment Growth
(Annual percentage change)

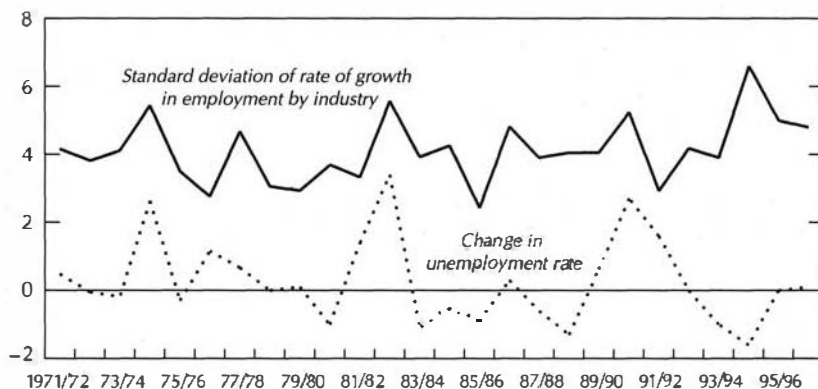


Source: Australian Bureau of Statistics.

¹Production-based measure.

bargained between unions and employers, sometimes with the assistance of a conciliator, rather than determined by an arbitrator) the possibility for either party to call for compulsory arbitration exerts a strong influence on the outcome of the bargaining process. Awards regulate a multitude of work conditions, including wage rates, job classifications, and hours of work. Both Commonwealth and state awards are generally “minimum rate” awards, specifying minimum conditions. Employees and employers can also negotiate enterprise agreements and “over-award” payments above these minima.

Most industries have one award that covers the majority of employees, but there are numerous other awards covering particular occupa-

Figure 6.5. Structural Change in Employment by Industry—Total Persons Employed

Sources: Australian Bureau of Statistics; and Braalbury, Ross and Doyle (1991).

tions and crafts. These craft-based awards usually span many industries, often according to the structure and coverage of trade unions, and are not based on single-business enterprises. In 1997, there were about 3,200 awards, 100 of which covered 60 percent of all employees.

In the Commonwealth system, awards usually bind not only union members and employers to them, but apply both to union and non-union members covered by the awards. So-called “roping-in” awards can be used to extend coverage of an existing award to additional parties. In the state system, the coverage of an award can be extended to all employees in an occupation, even if their employer is not a direct respondent to the award. Thus, while only about 31 percent of the labor force were union members in 1996, about 80 percent were covered by awards or formal enterprise agreements.

The Accord Process

Over the 12 years from 1983–96, the industrial relations climate was dominated by the process initiated by the Statement of Accord negotiated between the Australian Labor Party and the Australian Council of Trade Unions (ACTU) in February 1983 and implemented on the election of the Australian Labor Party in March 1983.⁷ This followed a pe-

⁷The Accord ended in March 1996 when the Australian Labor Party lost office to the National-Liberal Coalition.

riod of relative decentralization in wage setting in the early 1980s, which saw annual wage increases averaging 13 percent, as settlements in key sectors quickly became regarded as community norms. It became clear that wage restraint was needed and that a rebalancing of the share of wages and profits in national income was required to stimulate investment and employment growth.

There were two distinct periods during the operation of the Accord. The first, between 1983 and 1987, involved a high degree of centralization in wage determination with no wage increases allowed beyond those granted in national wage cases. The ACTU agreed that, under normal circumstances, there should be no over-award claims and, in exchange, the Labor government supported the indexation of wages. The Accord was also used as a vehicle for improving nonwage conditions. As a trade-off for wage concessions, the government reintroduced the Medicare health scheme, and later introduced superannuation and training and education programs. Personal income tax rates were also reduced via a series of explicit wage/tax trade-offs. The second period, between 1987 and 1996, sought to gradually move the industrial relations system away from the central determination of wages and toward bargaining at the enterprise level (see Box 6.2 for a brief chronology of the Accord).

Advantages and Disadvantages of the Centralized Determination of Wage and Employment Conditions

The award system has been responsible for setting reasonable minimum wage standards and reducing the costs of collective bargaining. Also, the system had a fair degree of flexibility (albeit in the upward direction) as it was always possible for an employer to pay wages in excess of the award. The coordination of wage settlements through the Accord system also promoted wage moderation, which helped reduce the real wage overhang that existed in the early 1980s, thereby increasing employment in the period 1984-89.⁸

⁸Chapman, Dowrick, and Junanker (1989) suggest that the Accords reduced wage inflation by 3 percentage points per year and cut real wages by 10 percent between 1983 and 1989. Chapman (1990), using a number of macroeconomic models, estimates that the wage restraint engendered by the Accords generated between 300,000 and 800,000 more jobs between 1983 and 1989 (equivalent to between 5 and 13 percent of employment in 1983) than would have happened had there been no change to wage-setting behavior. The higher employment also encouraged greater labor force participation, but the employment growth was sufficient to bring about a significant reduction in unemployment.

Box 6.2 A Brief Chronology of the Accord

Mark I: 1983–85

- Full wage indexation for CPI changes
- No “over-award” wage increases

Mark II: 1985–87

- Following a sharp fall in the terms of trade and the resulting depreciation of the Australian dollar, wage increases were discounted from full indexation in exchange for income tax cuts and the phased introduction of a 3 percent employer contribution to superannuation.

Mark III: 1987–88

- Established a two-tier wage setting process under which the national wage case determined a general wage increase (which was no longer indexed to the CPI) and bargaining for a productivity-based increase (of up to 4 percent) at the industry/workplace level.

Marks IV/V: 1988–91

- No general wage increases, but a further wage/tax trade-off. Introduction of the Structural Efficiency Principle (SEP), in which bargaining over wages was linked to the restructuring of awards, within limits set by the Australian Industrial Relations Commission.

Mark VI: 1991–93

- Uniform wage increase of 2½ percent, but linked to further award restructuring. Enterprise-based bargaining was gradually introduced.

Mark VII: 1993–96

- Enterprise bargaining was the central means of obtaining wage increases, but there were arbitrated “safety net” increases of \$A 8 a week each year for workers who were unable to negotiate enterprise deals.

The centralized system also had a number of disadvantages. The increased centralization of wage setting under the Accord decreased flexibility at the firm level and was an important factor leading to lower growth in productivity. A centralized structure prevents wages from performing the role of providing incentives for workers to accept new working practices and to adapt to new technologies. Awards traditionally featured narrow job classifications that encouraged an extreme division of labor, and wages were set for jobs, not skills, thereby reducing productivity. The lower wage dispersion within the award system than in economies with more deregulated labor markets provided little in-

centive for workers to acquire new skills.⁹ Furthermore, little incentive existed for employers to develop skills in labor relations because terms and conditions of employment were largely equalized across enterprises.

Over time, the advantages of the centralized system were seen to be outweighed by the disadvantages, as firms' ability to reduce costs by adjusting wages or adopting productivity-enhancing changes in work conditions were constrained. In particular, the sharp deterioration in the terms of trade in 1985 and the opening up of the economy to external competition brought considerable focus on the functioning of the industrial relations system.

Several studies have attempted to assess the impact of the wage bargaining system on macroeconomic outcomes. Bruno and Sachs (1985) and Calmfors and Driffill (1988), among others, have argued that highly centralized and highly decentralized industrial relations systems yield superior labor market outcomes compared with in-between systems.¹⁰ The centralization of wage bargaining can help promote wage moderation at the economywide level, while decentralized bargaining enables wages to be closely linked to circumstances at the enterprise level. If unions are industry-specific, however, and wage bargaining is not coordinated across industries, unions have an incentive to seek higher wages because any increase in the output price of that industry will only have a limited effect on the aggregate real wage. The current Australian industrial relations system is an "in-between" system, with elements of both centralized and decentralized wage determination, although for most of the 1980s under the Accord it was effectively centralized.

⁹While wage dispersion between the highest and lowest paid (the 90th and 10th percentiles) in Australia is higher than in many European and Scandinavian countries, it is lower than in Switzerland, the United Kingdom, and the United States. The differential between the highest and middle paid (the 90th and 50th percentiles) is relatively low, while the differential between the middle and lowest (the 50th and 10th percentiles) is relatively high, but nonetheless lower than in the United States, which has a less centralized collective wage bargaining system than Australia. Blau and Kahn (1996) compare male wage inequality in the United States with nine other industrial countries (including Australia), primarily in the middle or late 1980s. They find that the presence of very centralized systems of collective bargaining, and mechanisms for extending union contracts beyond the union sector (such as the award system in Australia), were the most persuasive reasons for the lower dispersion of wages.

¹⁰Dowrick (1993) has argued that fully decentralized systems perform somewhat better than fully centralized systems. However, analysis by the OECD (1997) found no statistically significant relationship between economic performance and the extent of collective bargaining for a range of OECD countries.

Another approach has been to assess the impact of the wage bargaining system by comparing across countries the performance of firms or plants that are similar in product, scale, and technology. Drago and others (1992) found that strong, craft-based unionism, as well as occupational awards, were important factors contributing to the inferior performance of Australian plants. They also highlighted the relative lack of participatory management and the flat earnings profile of Australian workers relative to their overseas counterparts as other important drawbacks of the Australian system.

The Welfare System

In many respects, the Australian welfare system is not generous by the standards of many other OECD countries (Table 6.4). For example, average replacement rates for single people in the first year of unemployment, at 30 percent of wages, are quite low.¹¹ In addition, the receipt of unemployment benefits in Australia is subject to a relatively stringent activity test.¹² Several features of the Australian system are likely to have an important impact on work incentives, however. Unlike in most other OECD countries, unemployment benefits are not related to past earnings, but instead are based on current need ("means tested"), and benefits are paid for an indefinite period. Both factors reduce search incentives for the unemployed.

The fact that benefits are independent of previous earnings implies that for persons in the bottom 10 percent of the earnings distribution, the replacement rate is close to or even exceeds 100 percent for some household groups (Table 6.5). Furthermore, persons receiving unemployment benefits are also eligible for other noncash benefits. The calculations of the replacement ratio also do not take into account the costs of work. The OECD (1996, p. 41) has estimated that for a one-earner couple with two children in Australia the gain in income from full-time employment at average production worker earnings would be 41 percent not taking account of child-care costs, but negative 25 percent taking account of child-care costs, and negative 5 percent taking

¹¹Compared with the OECD average, replacement rates in Australia are relatively higher for couples with children than for couples with no children, and higher for couples than for single persons.

¹²The activity test usually means that for someone to qualify for the unemployment benefit they must be available for and actively seeking work and must accept suitable work opportunities, including part-time and casual employment. They may also be required to participate in labor-market programs and accept assistance designed to address labor-market disadvantages.

Table 6.4. Unemployment Benefit Replacement Rates for Single-Earner Households*(Percent of average earnings for production workers, 1995)*

	Australia	OECD
Replacement rate in first month of unemployment		
Gross replacement rate		
Single	22	52
Couple (no children)	40	52
Net replacement rate		
Couple (no children)	49	60
Couple (two children)	64	68
Couple (two children, housing benefits)	71	73
Replacement rate in sixtieth month of unemployment		
Gross replacement rate		
Couple (no children)	40	19
Couple (two children, housing benefits)	71	67

Source: OECD (1996, Table 2.1).

Note: Gross replacement rates are before tax. Net replacement rates are after tax and other benefits.

account of child-care costs and benefits for child care. Using data on annual earnings from employment in 1989/90, however, Whitlock (1994) found that only about 11 percent of families in Australia had replacement rates of more than 80 percent, and only about 3 percent had rates of 100 percent or more. Single parents and couples with children had the highest replacement rates, and single persons and couples without children the lowest.

The fact that unemployment benefits are paid indefinitely results in the Australian system being more generous for the long-term unemployed. In most OECD countries unemployed persons receive welfare benefits that are lower than unemployment benefits after they have exhausted their unemployment entitlements. Though average replacement rates in Australia are lower than the OECD average in the early part of unemployment, they are slightly higher for persons unemployed for 60 months or more. Recent research comparing Australia with other OECD countries suggests that the duration of unemployment benefits was an important factor contributing to unemployment in Australia (Box 6.3).

Reforms to Labor Market Policies

Substantial policy changes have been made in the past decade to combat the root causes of the trend rise in unemployment. The indus-

Table 6.5. Replacement Rates—Unemployment and Other Benefits*(Percent of after-tax income of wage earner, 1995)*

	Couple: 2 Children	Single: 20 Years +	Single: 19 Years and Less
Earnings			
50th Percentile	81	42	64
25th Percentile	83	51	74
10th Percentile	97	63	88
5th Percentile	116	80	97

Source: EPAC (1996a, Table 4.3).

trial relations system has been modified, active labor market programs have been pursued, and welfare programs have been reformed—all with the aim of improving labor market flexibility, strengthening work incentives, and improving the skills of the working population.

The Industrial Relations System

Since the late 1980s, the government has been attempting to shift the focus of industrial relations away from the centralized award system toward direct negotiations between employers and employees at the enterprise level. In this way, wage and employment conditions can be tailored more closely to the circumstances facing individual firms.

Pre-1996 Reforms to the Industrial Relations System

While some progress was made prior to the enactment of the Industrial Relations Reform Act of 1993 (IRRA), this legislation significantly advanced the move toward enterprise bargaining. The Act provided for two types of enterprise agreements—certified agreements for the union sector¹³ and enterprise flexibility agreements for the lightly unionized or nonunion sectors—that henceforth were to provide the main avenues for employees to achieve wage increases. Nonetheless, awards retained a crucial role, since enterprise bargains were still to be screened to ensure that they contained “no disadvantage” for employees, compared with the relevant awards. The AIRC was also to guard the interests of employees who were not able to gain wage increases through enterprise-bargaining by providing general “safety net” increases in award wages.

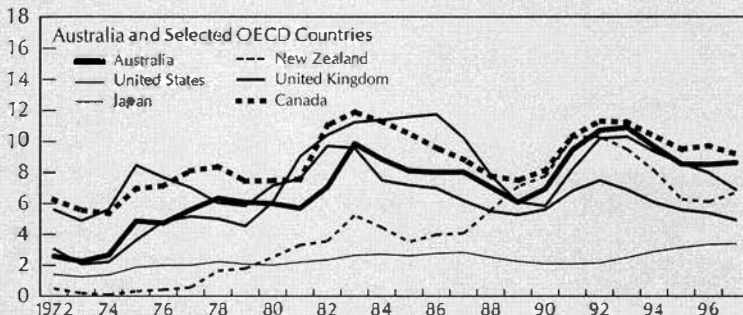
¹³Certified agreements were being formed under earlier legislation, but the 1993 IRRA gave them further impetus.

Box 6.3 Comparison of Australia with Other OECD Countries

The unemployment rate in Australia generally moved closely with the OECD average, until the most recent contractionary period, when it moved several points above the norm. This gap has been narrowed, but not closed, during the current expansion. Among individual OECD countries, Canada's and the United Kingdom's unemployment paths have been similar to that in Australia, while those of Japan and the United States have displayed less cyclical variation and no trend increase. New Zealand experienced a longer contractionary period than Australia in the late 1980s and early 1990s, during which the unemployment rate increased from 4 to 5 percentage points below the rate in Australia in the mid-1980s to the same levels in the early 1990s. By the end of 1997, the unemployment rate in New Zealand was once again below that in Australia (by more than 1 percentage point).

Recent studies have examined the causes of differences in unemployment between countries. In a study of 20 OECD countries, Jackman and others (1996) found that the relatively high rate of unemployment in Australia is explained by the longer duration of unemployment benefits and the higher level of union coverage in Australia than most other countries. Ball (1996) examined causes of changes in the NAIRU for 20 OECD countries between 1980 and 1990. He finds that the main explanation for cross-country differences is the interaction between the extent of disinflation experienced in each country and the duration of its unemployment benefits. For example, although the United States experienced strong disinflation during the 1980s, this did not cause an increase in the NAIRU as the six-month limit on unemployment benefits encouraged job search. He found that the increase in the NAIRU in Australia (despite continued high inflation in 1990) was explained by the unlimited duration of unemployment benefits.

International Comparisons of Unemployment Rates
(In percent)



Source: OECD Economic Outlook Database.

Enterprise bargaining has spread, and now about one-third of the workforce negotiate their wage increases through formal enterprise agreements, one-third by informal unregistered agreements, and one-third by awards.¹⁴ The bulk of enterprise agreements are in the manufacturing, construction, and health and community service sectors.

Benefits of Pre-1996 Reforms

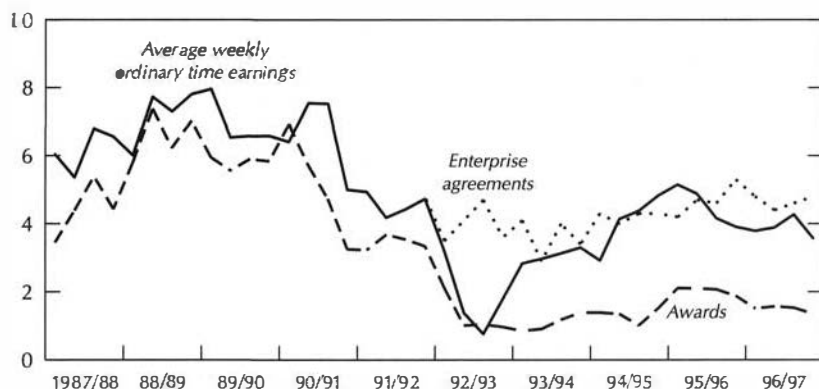
The reforms undertaken since the late 1980s have helped achieve a greater degree of flexibility in work practices, which has contributed to stronger productivity performance in the 1990s (as discussed in Chapter 8). Survey data and individual case studies also indicate some improvement in productivity performance. A survey of employers by the Department of Industrial Relations (DIR) showed that about half the respondents believed that registered agreements reached in 1994 and 1995 had “increased productivity a little,” while one-eighth believed that the agreements “increased productivity a lot” (DIR, 1996). The remainder reported no change. About half of employers believed that the agreements had a positive impact on profitability, quality of product or service, and the skill level of employees. A case study of the National Australia Bank shows that an enterprise agreement was important in giving the bank more flexibility by enabling it to increase the number of part-time and temporary workers (Ergas, 1995). This was the case in other areas too, as more flexible work arrangements enabled an extension of hours of operation in coal mines, retail stores, the hospitality sector, and manufacturing (Hughes, 1995).¹⁵

Employees who have negotiated enterprise agreements have benefited considerably compared to those whose wage rises have remained

¹⁴Enterprise agreements that are not registered are defined as “. . . collective written or verbal agreements which have not been lodged with any industrial tribunal or registrar” (Department of Industrial Relations, 1996). Nearly all registered agreements have been Certified Agreements, agreed between employers and unions. The nonunion Enterprise Flexibility Agreements have not been extensively used, largely because the small business sector has preferred to rely on informal arrangements, rather than have the AIRC register agreements—and subject them to a “no-disadvantage” test, during which unions have the right to object.

¹⁵Another example is the Broken Hill Propriety Company (a major steel producer and exporter), where the strong increase in productivity in the 1990s has been attributable, in large part, to agreements between management and employees that addressed inefficient work practices, and emphasized improving worker skills and achieving total quality management (a system of continuous improvement whereby employees are encouraged to develop ways to improve efficiency in their work areas). The agreement, however, was driven more by international competitive pressures in the export market for steel rather than by the labor market reforms (Demura, 1995).

Figure 6.6. Wage Inflation
(Annual percentage change)



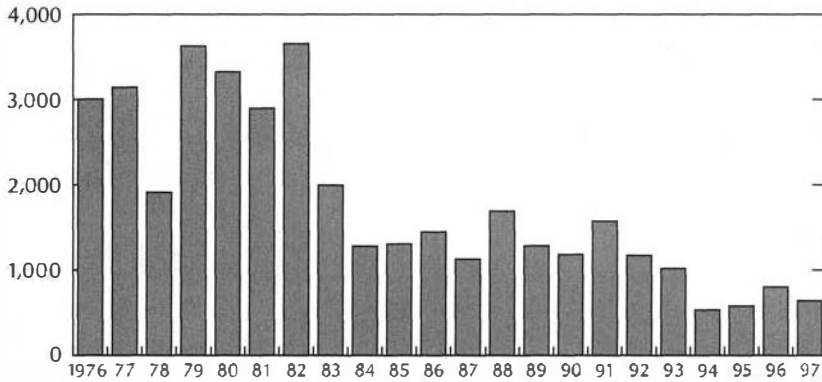
Source: Australian Bureau of Statistics; and Reserve Bank of Australia.

determined through the award system. Since 1991/92, wage increases in enterprise agreements have averaged about 4 percent per annum, while the increase in award wages averaged a little more than 1 percent per annum (Figure 6.6). This outcome is beneficial to the extent that the increased wage dispersion has reflected underlying economic fundamentals. Although there is evidence that the higher settlements in enterprise agreements were in compensation for increased productivity, the higher settlements through enterprise agreements have been concentrated in the sectors with strong unions, suggesting that union power may be as important as productivity improvements in achieving these higher wage settlements.¹⁶

Another benefit of the reforms appears to have been a reduction in working days lost due to industrial disputes. In the 1990s, days lost to industrial disputes fell to less than half the level for the late 1980s (which was well below the level for the 1970s and early 1980s; this was largely due to the Accord) (Figure 6.7). The recent fall appears to be due to a number of factors, including a reduction in union density (see Box 6.4), increased communication between workers and employers that has come with workplace bargaining, and changes to industrial ac-

¹⁶The Department of Industrial Relations survey of employers in 1995 showed that almost two-thirds of employers attributed the increase in wage rates in agreements registered in 1994 and 1995 to achieved or expected productivity gains (DIR, 1996). However, there is some doubt that the expected gains were actually achieved.

Figure 6.7. Industrial Disputes: Working Days Lost
(Thousands, year ending June)



Source: Australian Bureau of Statistics.

tion allowed under the IRRA.¹⁷ Reduced job security associated with the trend increase in unemployment is probably another factor.

Limitations of Pre-1996 Reforms

Despite the progress in shifting toward enterprise bargaining, and the associated gains, little progress was made in reducing the steady-state rate of unemployment in the 1990s. In part, this was because several features of the industrial relations system constrained labor market flexibility, including:

- *The central role of the award system.* Although enterprise bargaining increased, the award system remained the linchpin of the industrial relations system. Indeed, surveys suggest that most registered agreements were not true comprehensive agreements, but rather “add-ons” to existing awards, typically increasing wages over the basic award rate. Awards were subject to various reforms through the wage-fixing principles of the AIRC and legislative changes, but these reforms remained limited in their scope and implementation, and awards remained the benchmark against which the “no-disadvantage” test was conducted.

¹⁷While the IRRA allowed unions and employers to take industrial action during the bargaining period (subject to limited direction from the AIRC), once a certified agreement was in place, the penalties for breaching the agreement were significant. Furthermore, a certified agreement was required to include dispute settling procedures.

Box 6.4 Labor Unions and Industrial Relations Reform

The union movement in Australia supported reforms of the industrial relations system within the framework of the Accord with the Labor government. The unions embraced enterprise bargaining as a means of achieving real wage increases for their members, based on the productivity gains that would flow from enterprise agreements. They recognized that obsolete award provisions, which encouraged demarcation, discouraged skill formation, and hindered responsiveness and flexibility, required reform. While supporting these reforms, the Australian Council of Trade Unions (ACTU) has opposed any further moves to reduce the central role of awards in the industrial relations system. The ACTU sees the award system as providing a safety net of minimum standards of employment necessary to maintain the living standards of workers.

An important aspect of labor market reform in Australia has been the restructuring of the trade unions. In the mid-1980s, the ACTU had more than 150 affiliated unions, with three-quarters of the unions accounting for about 20 percent of the members in a multiplicity of craft unions. By the early 1990s, about 98 percent of union members were covered by 21 unions or union groupings, organized along industry lines.

The restructuring of the unions was in large part a response to new demands on unions that resulted from the reforms, but it was also a reaction to the marked decline in union membership in the past decade, which may well have weakened trade union power. Union density fell from almost 50 percent of employees in the early 1980s to about 31 percent in 1996 (see table). The reasons for the decline are varied, with research in this area pointing to factors such as structural change in the industry and employment mix, the absence of growth in real wages under the Accord, and changing community and management attitudes to unions (Economic Planning and Advisory Committee, 1996a).

Union Density by Sector

(In percent of employees)

	Private Sector	Public Sector	Total
1976	51.2
1982	38.6	72.9	49.5
1986	34.5	70.6	45.6
1990	30.8	66.8	40.5
1994	26.0	62.3	35.0
1996	24.0	55.4	31.1

Source: ABS, *Trade Union Members, Australia* (ABS No. 6325.0).

Notes: Figures for 1976 relate to November; figures for 1982 relate to the three-month period, March to May; and figures for 1986, 1990, 1994, and 1996 relate to August.

- *The excessive involvement of third parties.* Even if an enterprise bargain was agreed between an employer and employees, it had to undergo screening, during which it may have been opposed by unions not represented in the firm, and ultimately rejected by the AIRC.
- *Lack of labor union competition.* Unions had a monopoly status in representing employees in certain areas of the economy; employees could not register new unions (for example, at the enterprise level) if they could “conveniently belong” to an existing one.
- *Excessive employment protection provisions.* The unfair dismissal provisions, which were strengthened in the IRRA, were complex and emphasized procedure, rather than outcomes. This reduced the incentive to hire workers because it was difficult to subsequently dismiss them.

Recent Reforms to the Industrial Relations System

Following an election in March 1996, the new government recognized that further reform was needed and legislated the Workplace Relations Act in late 1996. The Act is based on the premise that the primary responsibility for determining employment matters rests with the employers and employees at the workplace level. The following paragraphs highlight the main changes to the industrial relations system.

New arrangements have been introduced that make certified agreements more accessible. The Act provides for two types of certified agreements: those reached directly with employees, whereby relevant unions will be able to participate in negotiations and become a party to the agreement only if requested by a member to do so, and those reached between employers and unions. Certified agreements are subject to a global no-disadvantage test; that is, agreements must not result in a reduction in employees’ overall terms and conditions of employment when compared with the relevant award and any relevant law. Nonetheless, an agreement may result in an overall reduction of entitlements if such a reduction is not contrary to the public interest.

Australian Workplace Agreements replace the unsuccessful Enterprise Flexibility Agreements and may be entered into by an employer with an individual employee or group of employees.¹⁸ These agreements

¹⁸The main differences between Australian Workplace Agreements and certified agreements are that Australian Workplace Agreements can be collective or individual (but collective Australian Workplace Agreements require approval by each employee subject to the agreement), but certified agreements are collective and apply to all employees in an enterprise subject to majority approval. The Employment Advocate will be responsible for the no-disadvantage test for Australian Workplace Agreements, but may refer agreements to the AIRC for judgment, whereas the AIRC will have responsibility for the no-disadvantage test for certified agreements.

reduce the role of third parties, because involvement on the part of trade unions and the AIRC in the negotiation and approval of such agreements is greatly restricted. The Employment Advocate, who registers workplace agreements, may refer them to the AIRC if he or she has serious doubts about whether they satisfy the global no-disadvantage test. Employees may nominate a trade union as a bargaining agent on their behalf, but uninvited union involvement is excluded.

The federal award system has been simplified to promote its ongoing transformation into a true safety net. The number of employment conditions in awards is confined to 20 allowable matters, with all other matters being determined at the enterprise or workplace level (although, in exceptional circumstances, the AIRC may be allowed to arbitrate on nonallowable matters).¹⁹ Conditions relating to the proportion of different types of employees (for example, full time and part time), and to the minimum or maximum hours for part-time employees, will no longer be included in awards. Henceforth, the AIRC's role will focus on the setting of minimum wages and conditions in awards.

Union competition has been increased. The minimum membership requirement for the formation of trade unions has been reduced from 100 to 50. New enterprise unions may be formed, provided they have support of the majority of potential members. The capacity to engage in industrial dispute is not a requirement for their registration. The "conveniently belong" rule has been modified to require that a union opposing the register of another organization must show that those employees sought to be covered could conveniently belong to its organization and would be more effectively represented by it. The power of the AIRC to grant preference to union members has also been abolished. Finally, freedom of association provisions prohibit any action being taken against employees or independent contractors because of their involvement or noninvolvement with an industrial organization, or industrial action, or because of similar reasons.

¹⁹These allowable matters are classification of employees and skill-based career paths; ordinary time hours of work; rates of pay; piece rates and bonuses; annual leave and leave loading; long-service leave; sick leave; other types of leave (for example, maternity or paternity leave); public holidays; allowances; loadings for overtime or shift work; penalty rates; redundancy pay and notice of termination; stand-down provisions; dispute settlement procedures; jury service; type of employment; superannuation; pay and conditions for contractors; and provisions incidental to the allowable matters and necessary for the effective operation of the award.

The unfair dismissal scheme will be reinterpreted.²⁰ The AIRC will base its decisions on the principle of a "fair go all around" (fair to both employers and employees).

Industrial action in support of negotiation of a certificate agreement or Australian Workplace Agreement can take place during a bargaining period. However, it is prohibited during the period a certificate agreement or Australian Workplace Agreement is current.²¹

The legislation returned the regulation of secondary boycotts to the Trade Practices Act 1974. The provisions prohibit secondary boycott conduct for the purpose of causing substantial loss or damage or a lessening of competition. Both primary and secondary boycotts affecting overseas trade or commerce are also prohibited. Where the dominant purpose of the conduct is related to pay and working conditions, however, the conduct is not deemed to contravene the provisions.

The recent reforms bring Australia somewhat closer to the industrial relations system in New Zealand, which introduced comprehensive reforms in 1991 (Box 6.5). Unlike in New Zealand, however, the award system remains a key feature of industrial relations.

In recent years the state governments have introduced similar reforms to their industrial relations systems. The most dramatic shift occurred in Victoria, where the introduction of the Employee Relations Act in 1993 abolished compulsory arbitration and existing awards in the state, but retained a legislated safety net of minimum terms and conditions. However, the official transfer of certain industrial relations matters from Victoria to the Commonwealth did not occur until 1996. The federal Workplace Relations Act of 1996 now provides the framework for workplace relations in Victoria. Workers not already covered under the federal system will remain in the state system until their existing agreements expire, at which time no new state agreements will be allowed and employees will have the option of shifting to federal awards. Other states have tended to retain compulsory arbitration and the award system, but have provided employers and employees with the opportunity to negotiate enterprise agreements.²²

²⁰The scheme provides employees with access to a fair and simple process of appeal against dismissal. It ensures legal costs are minimized, discourages frivolous and malicious claims, and is in accordance with Australia's international obligations. The AIRC is to deal with unfair dismissal cases with powers to order costs against a party who unreasonably fails to discontinue or settle the case.

²¹The AIRC may make orders directing the end of industrial action, with the Federal Court having the power to enforce compliance.

²²The Queensland and South Australian governments have recently passed legislation to better harmonize their industrial relations system with the federal systems (Reith, 1997).

Box 6.5 Industrial Relations Reform: A Comparison of Australia and New Zealand

The industrial relations systems in Australia and New Zealand have traditionally shared many common features: compulsory arbitration of industrial disputes; a registration process that ensured recognition of unions before industrial tribunals and that prevented competition for members of existing unions; and a system of awards setting out wages and terms of employment.

During the 1980s, both Australia and New Zealand made tentative steps toward deregulating their labor markets. In 1987, the Labour Government in New Zealand introduced the Labour Relations Act, which attempted to rationalize the number of trade unions and required the formation of single bargaining units to negotiate at the enterprise level with large employers (O'Neill, 1994). However, the most dramatic shift, and one that caused a significant divergence between the industrial relations systems in Australia and New Zealand, came with the introduction of the Employment Contracts Act in 1991.

Under the Act, industrywide awards were abolished and replaced with a system of free contracting aimed at facilitating agreements negotiated directly between employees and employers at the enterprise level. Individual employees can either negotiate their own contracts or appoint a bargaining agent to represent them. Contracts must meet minimum standards relating to conditions such as wages, leave, hours of work, and grievance procedures. These changes effectively brought to an end compulsory unionism, closed shops, and preference arrangements for union members. Although the Act does not mention unions, legislative protection for their role is provided under the Trade Unions Act.

A comparison of the Employment Contracts Act and Australia's Workplace Relations Act reveals significant differences in the wage bargaining systems in New Zealand and Australia. Most important, Australia still maintains a system of awards and a significant role for trade unions in wage bargaining. Awards continue to be a reference point for workplace agreements through the application of the global no-disadvantage test, and awards are also to be the mechanism for implementing safety net wage increases for workers unable to gain wage increases through enterprise bargaining. While the monopoly power of trade unions has been removed, unions are nonetheless guaranteed a role in bargaining over certified agreements, provided a member requests their involvement. This said, provisions in the Workplace Relations Act relating to the registration process for unions, and outlawing of preferences clauses and closed shops, move Australia's system closer to that in New Zealand.

Labor Market Programs

A number of important policy changes have also been made to labor market programs. In 1994, the “Working Nation” statement announced initiatives to improve equity and efficiency by providing the unemployed—especially the long-term unemployed—with the necessary skills to compete for jobs effectively (Commonwealth of Australia, 1994). To achieve this, labor market expenditure was increased significantly, especially on wage subsidies and direct job creation.

The main elements of the “Working Nation” program were:

- The Job Compact, which was to provide a 6–12 month job placement, primarily in the private sector, to all those who had been on the unemployment benefit for 18 months or more. In return for a “job offer,” this group was obliged to accept a reasonable offer of employment or lose income support for a period. The job placements were to be achieved through a number of different programs, including wage subsidies for the duration of the placement period (JobStart); job creation schemes (JobSkills and New Work Opportunities); and self-employment schemes.
- A case management strategy, to help disadvantaged job seekers.
- The Youth Training Initiative, to provide intensive assistance to those under 18.
- An expanded traineeship system, including a national training wage, at lower-than-standard award levels, so as to facilitate entry into the labor force.

The success of these programs, however, has been limited. In 1996, an official evaluation reached the following conclusions about the programs:

Job Compact. A job guarantee for all disadvantaged job seekers was not appropriate, as the program had relatively limited success in assisting the long-term unemployed into employment. While the objective of targeting assistance to this group was largely achieved (Table 6.6), much of this assistance did not contribute to sustained improvements in long-term unemployment due to considerable variation in the effectiveness of the different programs. The wage subsidy and business start-up programs proved to be relatively successful. A higher-than-expected proportion of job seekers was placed in programs such as JobSkills, however, which was costly and less likely to lead to unsubsidized employment outcomes. Finally, the average cost of achieving unsubsidized employment outcomes was greater than expected.

Case management. While case management appears to have delivered a more personalized service and had some deterrent effect against non-job seekers registering as unemployed, it does not appear to have

Table 6.6. Labor Market Program Participants by Duration of Unemployment
(Percent of total participants)

	Months Unemployed			
	12 or Less	12 to 18	18 to 36	36 or more
1992/93	37.9	25.6	28.5	8.0
1993/94	35.5	21.7	29.3	13.5
1994/95	31.8	18.1	29.1	21.0
1995/96 ¹	38.4	12.5	25.5	23.6

Source: Department of Employment, Education, Training and Youth Affairs (1996, p. 44).

¹Data through February of 1996.

achieved better matching of unemployed persons to training programs and employment.

Traineeships. These have proved attractive to both employers and trainees, but more emphasis needs to be placed on the quality of the training.

The evaluation led the government to introduce some major modifications in the 1996/97 budget. The reforms aim to improve the efficiency with which labor market services are provided, by introducing more competition into the market, and by more effectively fashioning the type of assistance to the individual needs of the client.

Under the changes, a service delivery agency known as Centrelink will provide a single point of contact for those seeking to obtain employment and income support. Centrelink will provide self-help job search facilities, screen clients for eligibility for further assistance, and refer eligible job seekers to contracted employment services providers for assistance. Employment services providers will offer a new more integrated employment service, FLEX—flexible labor exchange services. FLEX effectively combines previously separate labor exchange services, job search assistance, and intensive, individualized job preparation and support (this will involve a personal assessment of individual client need followed by up to two years of customized assistance that may involve wage subsidy assistance or an education or training placement).

Assistance will be targeted to those job seekers most disadvantaged in the community—those in receipt of a benefit from the Department of Social Security (DSS) and young people aged 15 to 20 years irrespective of income support. More intensive employment services, such as individualized job preparation and support, will be further targeted to long-term unemployed job seekers or those assessed as at high risk of becoming so. All job seekers will be able to access self-help assistance such as job vacancy touch screens from Centrelink.

Perhaps of most significance, a competitive employment services market will be introduced in 1998—the first in the OECD. Most of the funding previously provided for labor market programs will be “cashed out” to create a flexible pool of funding for labor market assistance. The public Commonwealth Employment Service has been corporatized and is now called Employment National. Employment National will be required to compete with private and community-based organizations to provide employment services. Payments to providers will be based on employment or training outcomes that end Department of Social Security payments (or reduce them substantially) to a job seeker for at least six months. Payments structures will also offer incentives that encourage providers, as payments will generally be higher for achieving primary outcomes, defined as a placement into full-time employment or traineeships.

The Welfare System

The design of the welfare system has been subject to a number of reforms aimed at enhancing work incentives, but these reforms have not changed the basic features of the system, with benefits still being independent of previous earnings, available for an unlimited duration, and subject to an activity test.

Recent reforms have eased the income test for social security and tightened the activity test. In July 1995, the allowance income test withdrawal rate was modified to encourage part-time and casual work.²³ Also, the workforce potential of partners of unemployed people was recognized by requiring both members of a couple to qualify for social security payments in their own right.²⁴ Prior to July 1995, partners of unemployed people, while attracting additional payments, were under no obligation to look for work.²⁵

²³The maximum withdrawal rate was lowered from 100 percent to 70 percent for income over a threshold of \$140 per fortnight.

²⁴This was accompanied by the introduction of a Parenting Allowance; the restriction of the Partner Allowance to people born before July 1, 1955 with no recent work experience; and generally requiring partners born after July 1, 1955 who do not have dependent children to qualify for an activity-tested unemployment payment.

²⁵In general, to satisfy the activity test unemployed people must actively seek and be willing to undertake suitable paid work. Most people are required to report on their job search efforts every fortnight. Also, the penalties for failure to meet the activity test have been changed. New activity test penalties were introduced for activity test breaches from July 10, 1997. The penalties are: (1) an 18 percent rate reduction for 26 weeks for a first breach; (2) a 24 percent rate reduction for a second breach for a two-year period; and (3) an eight-week nonpayment period for a third or subsequent breach in a two-year period.

In the 1996/97 budget, a further tightening of the activity test was announced with unemployed persons being required to complete a job-seeker diary that details job search activity (DSS, 1996). To reduce the incentives to voluntarily enter unemployment, the waiting period for receipt of unemployment benefits for persons with liquid assets was extended in the 1996/97 budget from 4 to 13 weeks. Furthermore, the definition of liquid assets was expanded to include long-service leave and sick leave payments as well as annual leave payments (DSS, 1996).

Assessment of the Reforms

The Workplace Relations Act of 1996 makes a significant contribution to furthering the spread of bargaining at the enterprise level. The Act encourages a more direct relationship between employers and employees and there is a reduced role for third parties, such as industrial tribunals and unions. There is now a much greater focus on agreements at the enterprise and workplace levels in determining the way in which wages and conditions are settled. A greater variety of options for agreement making are now available. This provides much greater opportunity for agreement making to spread to sectors of the economy, such as small business, which has previously relied on the award system and informal arrangements. The new "no disadvantage" test also provides a much greater scope for achieving real flexibilities in work arrangements. The role of awards is now much more focused, as is the range of employment conditions that they can cover.

The economic impact of the recent reforms is difficult to assess, even on a qualitative basis. Beneficial effects on labor market efficiency, and therefore on employment, should follow from the greater decentralization of industrial relations, as wage growth should more closely be matched with labor productivity changes at the enterprise level. Decentralization will also allow firms to adjust relative wages, so as to better match supply and demand for skills. Already, there is evidence that wage bargaining under the IRRA has increased the dispersion in wage outcomes between enterprises and industries relative to the Accord period of the 1980s (Pragnell and others, 1996). Furthermore, the Workplace Relations Act of 1996 has provided further impetus for the dispersion in wage outcomes by encouraging and simplifying workplace bargaining and by narrowing the scope of awards to 20 allowable matters, which can be traded off under a new global no-disadvantage test. These legislative changes have increased

the ability of firms to restructure working conditions and thereby improve productivity.²⁶

At the same time, the Workplace Relations Act does not represent a fundamental break from the past. The award system will retain a significant role: direct negotiations between employers and employees will still be constrained by the conditions of awards and the rulings of the AIRC. Similarly, while the prescribed role of unions in the bargaining process has been reduced, large industry and craft-based unions continue to be major players in the industrial relations framework. As a result, it is unclear how much decentralization will really follow from the reform. For example, it remains unclear whether wage changes in different enterprises have been completely decoupled, or whether the principle of “comparative wage justice” will continue. Similarly, to the extent that wage increases will be determined by the bargaining strength of unions rather than changes in labor productivity, efficiency gains may be limited. Moreover, doubts have been expressed as to whether the introduction of Australian Workplace Agreements will be sufficient to encourage the nonunion sector to take up enterprise bargaining; to the contrary, the simplification of awards may encourage employers to remain within the award stream (Sloan, 1996).

The recently announced changes to labor market programs place more emphasis on improving the efficiency of matching processes in the labor market, and less on job creation. Changes such as the introduction of a competitive market for provision of employment services, a greater emphasis on the provision of individually tailored assistance, and limits on the duration of assistance should have positive incentive effects—both for service providers and for unemployed persons—and therefore improve labor market matching. A key issue will be establishing payment systems that ensure that service providers have an incentive to provide equitable levels of assistance to their clients. The Employment Services Industry code of conduct and monitoring arrangements will further assist in this process.

Policy changes have also begun to address the effects of social security benefits on work incentives. The measures to modify the income test, tighten the activity test, and extend the waiting period, together

²⁶There are already some examples for certificate agreements and Australian Workplace Agreements negotiated in 1997 of restructured working conditions. In particular, ordinary hours of work have been varied without the payment of penalty rates; annual/sick leave provisions have been reduced in exchange for higher pay increases; and productivity has become a bigger factor in the calculation of future wage increases (Reith, 1997).

with changes to the monitoring of compliance for labor market program participants, should improve work incentives. The size of this effect is difficult to predict.

Since the 1980s, Australia has traveled some distance along the road of labor market reform. Over time, these reforms should enable the steady-state rate of unemployment to fall, but further reform is likely to be necessary if unemployment is to be decisively reduced from its current level.

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