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COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA

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Incorporated in ACT

THE CEDA ROAD

BACK TO FULL EMPLOYMENT

A POLICY STATEMENT

February 1994

6. Labour Supply Flexibility

6.1 Labour market programs

There is an important role for active labour market programs in helping the work force to adjust better to available jobs. Microeconomic reform, workplace flexibility (especially on working hours), wage and incomes restraint, an attractive investment environment, and sound macroeconomic management will help create a good climate for job creation; but such policies will not be sufficient to ensure strong employment growth with low inflation.

- An integrated long-term growth strategy should include wage subsidies and other forms of special assistance for those who are (or are at risk of becoming) long-term unemployed, to enable them to gain work experience, self-confidence and credibility. It should also include action to influence the regional pattern of employment; facilitate relocation of workers; and improve existing training programs and job counselling and placement services.

Such interventions do little to enhance aggregate demand for labour or create additional jobs, but they can serve two useful purposes: in the short term they can redistribute employment in a socially desirable way; and in the longer term, they can boost the overall employment potential of the economy, by reducing the risk of structural mismatch and inflationary bottlenecks while the economy is still operating well below its productive potential.

It is important, however, to ensure that labour market programs are well targeted and well delivered.

- All labour market programs (including existing ones) should be subjected to rigorous cost-benefit evaluation and the role and effectiveness of the CES reviewed.
- Labour market programs are likely to be most effective if they are supported by reasonable structural wage flexibility; this is to ensure the incentive structure is pulling in the same direction (e.g., there is a positive incentive to acquire skills).

As well as reducing structural mismatch, labour market interventions should strive to influence labour supply in a way which will spread the burden of unemployment more equitably, while at the same time allowing a more optimal work/leisure trade-off.

- Governments should explore ways of facilitating worksharing, permanent part-time work, flexible working hours and voluntary early retirement.

Such interventions should be designed in a way which does not interfere with freedom of choice or add to costs of business. The focus would be on removing factors (e.g., in the award, tax or social security systems) which constrain people from working shorter hours than they would like to or which distort the choice between working and staying at home.

While governments have to carry the main responsibility for easing the structural problems of the labour market, employers can also make a useful contribution in two ways. First, they should adopt a more positive attitude towards the long-term unemployed. Various surveys and the level of response to labour market programs suggest that the present attitude of many employers to the long-term unemployed is unreasonably negative.

Second, employers have a responsibility, once the economy resumes normal growth, to provide their employees with a degree of in-house training and employment security, and should not expect workers to bear all of the uncertainty associated with structural and technological change in a globalised world economy. While the trend to part-time and temporary employment, sub-contracting and flexible working hours is necessary and

irreversible in an increasingly competitive world environment, enterprises offering long-term, full-time employment arrangements would gain from a better-motivated, more loyal and productive work force in the long term.

6.2 Immigration

The overall effect of immigration on the level of unemployment is determined not so much by the *number* of immigrants, but by the *characteristics* of the immigrant pool. This is because immigration increases both the supply of *and* demand for labour and it is the skill characteristics of the immigrants, as well as the financial resources they bring with them, which will determine the overall impact of immigration on the labour market. For example, immigrants from non-English speaking backgrounds are significantly more likely to join the ranks of the long term unemployed than those from English-speaking backgrounds¹.

- Australia's immigration program should be flexible and responsive to domestic and international economic conditions. The immigration program should also be closely attuned to the skill requirements of the Australian economy. This is particularly important while unemployment remains high.

6.3 Education and training

The structural problems of the labour market can often be traced to the system of education and training.

- There is a need for governments to improve the output from the education system, and in particular address the literacy/numeracy and basic competence problem, the lack of consistency in education standards and practices, the poor student intake into science, engineering and technology relative to other areas of study, the links between education institutions and business, the quality of teaching and most importantly, the relative priority given to technical and trade training.
- In the area of vocational training, the aim should be greater national coordination, with portability of qualifications and consistency of curriculum and standards, and increased understanding of, and responsiveness to, future patterns of labour demand. The establishment of the National Training Authority should help further these objectives.

7. Social Acceptability

As noted elsewhere in this policy statement, structural change will require further restraint in government recurrent spending (including on social wage programs), wider application of user-cost pricing, increased exposure to foreign competition, greater flexibility in the wage structure (with a somewhat lower minimum wage), and a shift towards expenditure-type taxes. These changes will help the long-term unemployed (in many ways the most disadvantaged section of the community) but will all tend to worsen the relative position of low wage workers, who are already feeling the direct or indirect effects of financial deregulation, increased international mobility, faster and more skill-intensive technological change, and enterprise bargaining.

Most Australians will not want to see the gains from stronger economic growth and lower unemployment secured at the cost of lower living standards for low paid workers. While some short-term adjustment costs are unavoidable, they should not be borne by the

¹ See Chapman, Bruce, 1993, *Long Term Unemployment in Australia: Causes, Consequences and Policy Responses. A Discussion Paper*. Report Prepared for the Department of Employment, Education and Training.

relatively poor. Apart from ethical considerations, it is not easy to implement radical economic change unless there is a high degree of social consensus.

- As well as maintaining an effective welfare safety net, the Government should try to cushion any adverse impact of economic reform on low income workers and their families. This can be done in basically two ways: first, through adjustments in the income support system (e.g., tax rebates or higher family supplements) targeted at those just above the welfare level; secondly, through the provision for adjustment assistance and labour market programs of the kind noted earlier.

CEDA also recognises that the Government will need to fund its Mabo social justice package and assist the long-term unemployed.

- To minimise the risk of adverse economic effects from social compensation policies, it is important that:
 - the costs be funded in ways which do not impact on the fiscal deficit or the competitiveness of Australian industry;
 - social services be delivered by the most cost-effective means available (and the Industry Commission has proposed important reforms in this area);
 - the system not discourage self-provision; and
 - disincentive problems arising from the current social security system (which were noted in the Green Paper on Full Employment) be addressed - in particular, the high withdrawal rate of unemployment benefits and the deterrent to part-time work.

The recent establishment of an independent review of the pension income and assets test is noted. It is to be hoped that it will explore fundamental reforms, including the difficult concept of a universal social wage, or guaranteed minimum income paid to everyone whatever their earnings.

As a significant proportion of low paid workers are from ethnic backgrounds, the multicultural nature of Australian society requires special attention. Multiculturalism provides both benefits and challenges for the economy. On the one hand, our international competitiveness is enhanced by the linguistic and cultural skills, expertise and personal networks of the cultural groups in Australia. On the other hand, multiculturalism raises special issues which must be addressed, such as the particular educational and social needs of immigrants.

8. Environmental Acceptability and Quality of Life Concerns

Any bold strategy designed to improve real GDP per head may entail some risks for the urban or natural environment. The risks are often small and need to be evaluated realistically and the potential costs balanced against the benefits.

That said, improvements in material well-being which are secured at the cost of other dimensions of well-being (leisure, occupational health and safety, clean air and water, erosion of our natural resource base, etc.), or at the cost of future generations' health or quality of life, cannot be said to constitute genuine economic progress.

- Strategies designed to promote ecologically sustainable development are supported. They include the development of environmental databases; mechanisms to assess and monitor environmental impacts; full costing of environmental resources; and integrated approaches to land and sea management.

Strong economic growth will eventually provide the wherewithal to address more effectively both environmental and quality of life concerns.

At the same time, it is recognised that some aspects of our quality of life and natural environment have suffered in the last twenty years and need to be tackled with a degree of urgency.

- A system of priority-setting needs to be established. Quality of life and environmental issues requiring early attention include water pollution, loss of biological diversity, land degradation, depletion of the ozone layer, the generation of industrial and toxic waste, urban and stormwater sewage, road congestion, and high crime rates.

It is important, however, that these problems be addressed in the least economically harmful way. The choice of instruments is critical.

- Governments should minimise the use of detailed, prescriptive regulation and harness instead the forces of the market through incentives, taxes and pricing policies. This has great potential application in the area of pollution control. Where possible, guidelines and public exposure of offenders should be preferred to rigid standards.
- Governments should strive for greater coordination and harmonisation of policies, standards and decision-making processes at the various levels of government, so as to reduce delays, complexities, uncertainties and costs.

The findings of the Resource Assessment Commission's Coastal Zone Inquiry are noted, in particular the need to change the way in which coastal resources are used.

- The call for an integrated national approach to address the problems of Australia's coastal zone is supported.