Simple explanation for the unemployment crisis

By JOHN HYDE

THE Left is very fond of pointing out that markets are not perfect. It points to market failure everywhere but where it is most obvious: in the labour market. Classical economists long ago identified monopoly as a prime cause of market failure; no one should now claim that supply and demand will of necessity interact to clear any market in which either buyers or sellers control prices.

Trade unions are monopolists in the labour market, with the ability to hold wages above the level at which all people can find employment. The employed benefit, in the short-run at least, at the expense of the unemployed. The Australian labour market exemplifies a simple case of classical market failure; more complex explanations are not necessary nor are they as convincing.

In other markets the authority of the Trade Practices Act is employed to stop behaviour similar to that of the trade unions in the labour market but it is beyond the power of any democratic government to compel the obedience of any substantial group which is determined to be defiant. In this sense, the unions are above the law and politicians who promise during election campaigns to get tough with the unions make a promise which they cannot deliver. (Events in Poland would seem to indicate that despotic governments do not find the task very easy either.)

Wage settlements are reached amid much mumbo-jumbo at the Arbitration Commission and other wage-fixing tribunals in the presence of some rather highly-paid witch doctors yet the prime purpose of these procedures is not to set wages but to reach agreement between the parties. The Commission merely reflects the underlying failure: the Commissioners then speak of "accommodative arbitration." The Commission is largely irrelevant to the central problem. Although they are charged with the task of having regard for the "national interest," they cannot.

There is no way that we should expect real wages to come down to market-clearing levels unless the monopoly power of the unions is in some way reduced. It is in the light of this imperative that government's role should be assessed.

The West Australian Government's efforts to prevent compulsory union membership by penalising employers who enter "no ticket, no job" agreements with trade unions are almost certainly on the right track. If union leadership must appeal to rank and file in order to hold membership, then they will have to consider the views of those who might lose their jobs. Let these people leave that union and negotiate separately.

Governments, themselves, are big employers; they should resist extravagant wage settlements for their own employees. Staff ceilings should be removed and replaced with cash limits. Staff ceilings merely induce Departments of State to reduce the numbers of the least costly officers at the same time as they make unnecessary promotions to higher pay scales. Between 1975 and 1981 the number of first and second division officers was increased by 20 per...