S U N D A Y   I N D E P E N D E N T   V

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O.E.C.D. ATTITUDE TO UNEMPLOYMENT

It cannot be doubted that unemployment is a very serious economic and social ill. A great deal is said about its consequences but much less about its root causes. It is indeed remarkable that there should be so little public debate (as opposed to mere breast-beating) about so obvious and so serious a problem.

While nearly all of the 24 OECD nations have experienced slow growth and rising unemployment, they have adopted differing economic strategies. Comparison might therefore throw light on the problem even if only to show us what not to do. One OECD nation, Switzerland, has an unemployment rate of only 0.4 per cent of the working population.

Switzerland's performance is particularly remarkable in the light of constant insistence by some that Australian, British and US unemployment is caused by monetarist policies, because Switzerland is one of the few places that I can think of that have actually practised anything close to Friedmanite monetarism to ten consecutive years or more.

Several nations have practised monetarist policies for short periods and some, including Fraser's Australia, talked as if they were, but almost no-one has stuck to it.

In most modern economies it is not possible, even in the relatively short run, to decrease aggregate unemployment by increasing aggregate demand. Unemployment tends to have risen particularly rapidly in some places which have attempted, in recent years, to stimulate their economies by increasing public sector expenditure or by adopting expansionary money supplies - note France and Canada. But it has also climbed rapidly in the UK which some say has adopted monetarist policies.

There is no evident correlation between unemployment and monetary and fiscal policy adopted over the preceding two to three years. There may well be a high positive correlation between tight monetary policy and low unemployment over the long run but the sample is small. The point is if there is a correlation it is opposite to that most often claimed.

Economic theory suggests that unemployment will be associated with a labour market in which the price of employment (wages) is kept artificially higher than that at which each potential employee can find an employer who can sell the fruits of the employee's labour.

Artificially high prices resulting in market failure are most often brought about by monopolies. Trade-unions are monopolies which control the supply of labour dedicated to raising cost. We would therefore expect unemployment to be associated with a powerful union movement.

I know of no measure of union strength; nevertheless, the OECD nations again provide us with a helpful insight.

Japan twice suffered what became known as an " oil shock" - the first in 1973, the second in 1979. The prices of imported energy rose sharply at a time when the prices of Japan's exports did not, seriously prejudicing Japan's terms of trade

After the first "oil shock", real wage growth remained high and output was squeezed In the second "oil shock" there was a dramatic drop in real wage growth for 1979/80 which, this time, made room for Japan's terms-of-trade loss, and this time output growth hardly dipped. On the second occasion the whole nation's lost earnings were shared reasonably evenly rather than being concentrated in unemployed workers and, since the productive process was not disrupted, losses were quickly made up. Japanese unions had learned from the past episode.

If Mr. Hawke's 'accord' with the unions means that the National Wage Case is shortly to award a wage rise of four percent, or even a little more, our Australian "drought and trade shock", in spite of the gains of the six months wage pause, will be inequitably, unfairly and unnecessarily distributed to the unemployed. Any talk of 'catch up' before full employment is achieved is even more unfair.