

Labour Markets

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The regulation of the labour market is totally inconsistent with other policies the government is adopting to make Australia internationally competitive again, nevertheless it is the one big problem that Labor will not tackle. Therefore, what the Opposition says about it is doubly important.

Labour market regulation has an appalling record. It is based on the nonsensical premise that there is an inherent conflict between employers and employees. Regulation creates conflict and prevents co-operation. It robs the poorest people of property in their own labour, often throwing them out of work. It is a most serious affront to human rights. It is inflexible and inefficient.

It is also one-sided in that unions are effectively above the law and above the government. Because unions can flout laws they can issue threats which produce results that the elected governments do not want. Rather than admit impotence, governments tend to adjust the law to appease unions. This unhappy state of affairs is described aptly by the passage in the Hancock Report which likens unions to players who are so strong that they need not accept the umpires' rulings.

Union power is facilitated by the Arbitration Commission, but it does not depend upon the Commission. Without centralised arbitration, British unions showed that governments of both shades can be dominated and economies all but wrecked. An end to all centralised regulation is a necessary but not a sufficient requirement of a just and efficient labour market. Neither can the Australian labour market be fixed by edict alone.

Just as policies which do not admit the very considerable power of unions are doomed to fail, so too are policies which assume that the government can force the compliance of even small recalcitrant minorities. Ted Heath failed and Malcolm Fraser failed because they relied on laws that could not be enforced without resort to unacceptable force. Fraser's record parliamentary majority proved beside the point. In democracies one cannot win by creating martyrs.

Since some unions are prepared to flout the law, labour market reform is an exercise in *realpolitik*, rather than law-making. It is like dealing with a foreign state where success is determined by the strength of one's position, rather than the justice of it. Worthwhile reform will be achieved only with a sustained campaign gaining incremental objectives.

Restoration of personal liberty, high productivity, low inflation and full employment seem to me to be the ultimate objectives of any program of labour market reform. The last three objectives will be achieved best by a highly flexible labour market in which each decision-maker experiences the costs and benefits of his choices.

It is only against the background of the reality of union power, however deplorable that may be, and the goals of justice and flexibility, that industrial relations policy can be assessed sensibly. Industrial relations is both the most important issue facing the nation and the most important difference between the political parties. Senator Chaney's speech to the H.R. Nicholls Society was, therefore, an important statement.

By failing to mention the illegitimacy and immorality of our industrial relations system, Senator Chaney gives it an aura of respectability it does not deserve. I recommend Daniel Patrick Moynihan's book, "A Dangerous Place", to him. Moynihan defends plain talking to illiberal dictatorships at the United Nations---the parallels to be drawn are obvious. Nevertheless, so far as they go, Chaney's arguments are sound.

The speech is overtly of the "the lamb shall dwell with wolf" genre. The central theme is an old one: "...the best way of reducing union power is for management to treat their employees well". This is true enough, and what is more, in a competitive industry it is difficult to make profits if one does not. His exemplar of good management was an exporting, and therefore a competitive company, and the union dwelt elsewhere. The company had the incentive and the opportunity to treat its employees well, and the employees had the same incentive and opportunity. Chaney rightly wants institutional and legal reform to remove third party obstacles to better and more direct employer/employee relationships. In a deregulated product market owners and employees sink or swim together, so he is right when he says: "From a public policy stance, deregulation of the product market is probably one of the best incentives to good management".

More generally, he is right to talk about things a future government can achieve: it can remove some of the obstacles to flexible negotiations and it can change the incentives faced by the negotiating parties. However, it will not always be able to enforce even the most appropriate sanctions.

Since Gerard Henderson and John Howard devised the policy three years ago, the central plank of the Liberal's industrial relations policy has been the right of individual workers and their bosses to opt out of industrial awards to reach their

own agreements. The opting-out policy has been wrongly dismissed, by Mr Willis and by others, on the grounds that the Commonwealth has no constitutional power to enforce the terms of the agreements reached by the parties who opt out. Of course, the relevant State government industrial legislation may override agreements reached by mere citizens, but Liberal state governments will probably encourage the law to protect these agreements. Those states which allow this added flexibility will drain capital from those which do not. So the policy will become general or certain states will decline.

Opting out is a gradualist policy that will not precipitate a major confrontation which the government would probably lose. But, by providing visible and popular alternatives to big unions, the right to opt out will gradually reduce the extent of union power, the inflexibility of the market, and the occasions when injustice is done. In the light of past failures I do not believe it is too gradualist.

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