

## 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 themselves 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.

cent while the fourth division decreased by 8 per cent.

It is absolutely vital that the consequences of wage increases are felt by those who actually demand and grant them. Governments, wherefore, should never transfer the consequences of wage-hikes in such a way that jobs lost in other industries, either by raising taxes or loans to pay for make-work schemes, or by raising tariffs.

Both merely give the protected workforce a share of the consumer's dollar that would otherwise go to others. The metal trades in particular granted wage increases, the consequences of which, with the help of tariffs they have passed to others.

One of several reasons for the wage-hike of the past year was that the Government had, by missing its money targets for three successive years, squandered its reputation for sound monetary management. Unions and employers expected their excesses to be validated by even more money and inflation. When Governments say they will

adopt policies it is essential that they be credible.

All those who aspire to lead, in particular managers and politicians, should as evidence of good faith accept a further reduction in their own real living standard as they explain that when a nation suffers a loss of export earnings not fully offset by cheaper imports then all the people of that nation must be poorer. They must explain that under those circumstances to talk of maintaining real earnings is dangerous nonsense, which concentrates lost income in unemployment; and that if some suffer no lost earnings then others must suffer very big losses.

The story is simple enough to be understood by the rank and file unionist and his or her family. It is their understanding and inherent decency, not laws or arbitration commissions, which can do most to correct the failure of the labour market. They need and deserve leadership.

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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

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