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## ON THE DRY SIDE XIX

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### When is a Wages Freeze not a Freeze?

Ten years ago, when the Club of Rome was fashionable, a no-growth economy was so widely and successfully urged upon the Australian people by the trendy left that Treasury felt it necessary to issue a small paper explaining what economic growth alone makes possible. This year Australia has a no-growth economy. In terms of that much-despised measure of well-being, the gross domestic product, we are all a little poorer, which is to say that our command over the physical resources of the world is reduced. The millenium has arrived in Australia.

Our scarce resources of energy and minerals will last longer, and the environment is under less threat; our crass materialism is being forcibly checked. We can now expect the zero growthers to lead the scramble to reduce real wages as the pigs fly bravely overhead.

If, as Treasury expects, non-farm product this year will neither grow nor decline and since farm product will fall because of the drought by 15 or 20% and the workforce will grow, a decline in individual real earnings is inevitable. Profits, already at the lowest share of gross product since at least 1945, cannot absorb the decline. Aggregate real wage earnings will fall; sadly there is no power on earth that can prevent it. The only question is how the burden is to be shared. A refusal to accept fairly general reductions will merely concentrate the losses among the consequent unemployed.

It is real wages which must fall; that is, wages must increase less than prices. An effective income <u>and price</u> freeze would not achieve the necessary real wage reduction. To maintain a minimum wage at the same time as maximum prices are imposed would, in the present circumstances, have the wrong effect, pricing even more people out of work.

Australia does not have a price freeze operating but it has, in the minimum award wage system, a one-sided wage freeze which is stopping wages from falling to a level where every potential wage earner can get work. The current so-called "wages pause" is but an attempt to minimise the effect of an already established and very damaging freeze. The Commonwealth's wages pause says nothing about maximum wages, it is but an attempt to stop, or at least slow down, the seemingly inexorable escalation of wage minimums. It is important that individual employers who without government assistance can afford it, should be able to negotiate with employees, either directly or through their union, to attract the skills they need. That is the only way that people will be attracted into activities which will sustain rising living standards (pace econuts and winged pigs).

It is right that wages should be higher in the Bowen Basin than in Sydney not just because non-wage conditions are less attractive at Bowen but because conditions are less attractive and the employer, in fact the process, can afford to pay the higher cost. If those higher wages were then to flow onto less profitable processes through minimum awards, that would be a disaster for the marginal business and its employees. If, on the other hand, higher wages were to flow to the marginal business because of the competitive bids of more profitable shows it might still be bad for the business but not for its employees; they have voluntarily gone to better jobs.

The argument that high wages are necessary to maintain demand is possibly only matched in self-seeking sophism by the argument that a high tariff maintains employment. Wages are necessarily paid by someone. Whether, as it is in the first instance, paid by the employers or whether paid by purchasers, those people have as a result of the high wage less residual demand. It would make as much sense to argue that wages must be kept down to increase demand as it does to argue that they should be kept up. Aggregate demand is not changed by transferring demand from employers and purchasers to employees, or vice versa.

Demand is influenced by the money supply and is thus to some extent under the control of the government. If a government could be reasonably sure that an increase in the money supply would be reflected in increased activity rather than in inflationary wage increases for those with jobs then and only then it could use increased demand to stimulate employment. So in an indirect way high wages actually decrease demand.

The government's wages policy is not a wage freeze, nor should it be; it will affect average wages, and it should; but it certainly will not directly affect demand. It is a correct policy for the times and deserves defence by more than the Treasurer.

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Dear Mr Hyde

I have pleasure in acknowledging receipt of your articles, ON THE DRY SIDE XIX and DRY SIDE - CER.

Yours sincerely

PPMcG. per ED

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Editor-in-Chief