February 1988

DISCUSSION PAPER NO. 186

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LABOUR MARKET SYSTEM
PRACTICES IN THE AUSTRALIAN
SOME OBSERVATIONS ON WAGE-SETTING

PAPERS

DISCUSSION

Centre for Economic Policy Research

THE AUSTRALIAN NATIONAL UNIVERSITY
I. INTRODUCTION

The paper is an effort to reframe the argument from the perspective of a new perspective, which has been developed in the field of economic theory. This new perspective is based on the idea that the macro-economic framework is not sufficient to explain the observed phenomena. Instead, it is necessary to consider the micro-economic framework as well.

The micro-economic framework is based on the idea that the economy is composed of individual agents who make decisions based on their own self-interest. These decisions are influenced by the market conditions, which are determined by the supply and demand for goods and services. The macro-economic framework, on the other hand, is based on the idea that the economy is a single, integrated entity, and that aggregate data can be used to understand the overall economic situation.

The micro-economic framework is more flexible and adaptable, as it allows for the introduction of new factors that can affect the economy. The macro-economic framework, on the other hand, is more rigid and inflexible, as it is based on a set of assumptions that are not always valid.

The purpose of this paper is to provide a new perspective on the economic phenomena, which can help to explain the observed phenomena more accurately. The paper is divided into two parts: the first part provides an overview of the micro-economic framework, while the second part provides an overview of the macro-economic framework.

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II. MICRO-ECONOMIC INEFFECTIVENESS

All industrial relations environments can be improved upon. In the Australian case debate focuses on, among other things, employer-employee relationships, restrictive work practices (RWP), the consequences of craft-based unions and the implications of binding occupational minimum wage legislation. Recent developments in labour market theory may be used to demonstrate some potentially deleterious consequences of the last of these. Employer-employee relationships, RWP and craft unionism will not be examined in this paper. Binding occupational minimum wage legislation has been chosen for analysis here because of its importance and the fact that very little of what follows has been accorded attention in the Australian literature or public debate.

It is assumed that the presence of the Commonwealth and various state arbitration commissions has facilitated the institution of, and changes in, occupational minimum wages. Further, it is assumed that minimum wages are higher than would be the case under alternative assumptions concerning institutional arrangements. This is tantamount to saying the Australian system compresses wage relativities, an empirical issue examined cursorily below. If this is not the case the analytical points developed have far less relevance, an observation highlighting the importance of empirical evidence in the area.

Much of the discussion of Australian minimum wage legislation is concerned with the consequences of regulation for unemployment (Porter, 1987; Fane, 1987). There is, however, a different issue pertinent to wage regulation that may have more significant implications for dynamic efficiency than does unemployment. This concerns the acquisition of job skills from informal on-the-job training (OJT) and may be best understood through a simple exposition of human capital theory (Becker, 1964).

In this model, workers “invest” in the acquisition of skills by taking relatively low wages in the training period, receiving returns to the investment after the training period in the form of relatively high wages. The implication is that the imposition of binding minimum wages leads to reduced skill acquisition (Hashimoto, 1981; Leighton and Mincer, 1981). The reason is that if the firm is forced to pay relatively high wages to workers undergoing OJT that is useful in other firms, once skilled these workers will command increased wages elsewhere. Firms “paying” for the training can only recoup the returns by offering less than market wages post-OJT, but such a strategy guarantees the loss of trained workers to other firms. A rational strategy is for firms to reduce the time workers spend learning and increase the time workers allocate directly to production in the training period. If this is the case it follows that binding occupational wages may have encouraged lower acquisition of OJT skills in Australia than would otherwise have been the case.

Tan (1980) provides an extra dimension to the training-wage nexus which should be of more than passing interest for Australian commentators. In his view technological change starts in one firm and slowly diffuses through the industry. Workers acquire technology-specific skills which are eventually useful in alternative employment. Such investments will be paid for in large measure by workers (by taking relatively low wages in the training period), who will be rewarded through the payment of relatively high rates of wage growth. If minimum wages are imposed, one consequence may be the reduction of incentives for firms to introduce technological change at the shop floor. This may have important long-run consequences for labour productivity growth.

The empirical evidence related to the above takes several forms. The prediction from the training model of a negative relationship between starting wages and rates of wage growth has been supported with US micro-data (Chapman and Tan, 1980) and Australian aggregate industry data (Chapman and Alston, 1987). As well, a myriad of indirect

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It is important to understand that the ability and propensity of employers to pay over award wages is not relevant to the argument developed above. What matters is the possibility that firms would have paid less than the award to workers undergoing training in the absence of the institutions.
The authors focus on the assessment criteria for the process of reclassification with the view that the restructuring of the superstructure can only be interpreted in connection with the view that the Australian welfare system is somewhat deficient in comparison to the American welfare system (Treas et al., 1990) in the sense that government expenditure is much higher in Australia but relatively low in America, an indication of the need for increased expenditure in the welfare system. The authors argue that such increased expenditure is needed in order to meet the needs of the less fortunate segments of the population.

The study concludes that the differences between the two countries are small, and that the differences highlighted in the study are not as pronounced as the authors suggest. The study concludes that there is a general difference overall between the two countries in terms of welfare expenditure. However, the magnitude of this difference is not as significant as the authors suggest. The study concludes that the comparison is conducted relative to other countries. Nevertheless, the comparison conducted relative to other countries. Nevertheless, the comparison conducted relative to other countries.
III. MACROECONOMIC ARGUMENTS

Introduction: A closer look at the relationship between the economic decisions of firms and the macroeconomic outcomes. This section aims to explore the implications of the macroeconomic framework on the behavior of firms and their impact on the overall economy.

Proposition of the current system and its implications for macroeconomic outcomes. The current system, as it is implemented in practice, is argued to be inefficient and suboptimal. There is a need to reform the system to improve its macroeconomic outcomes.

The current system is characterized by various inefficiencies and distortions that affect the overall economy. These include issues such as inadequate coordination, imperfect information, and market failures. The need for reform is highlighted, and various policy recommendations are made to address these issues.

In summary, the discussion in this section highlights the importance of reforming the current economic system to improve its macroeconomic outcomes. The focus is on understanding the current system's limitations and exploring potential solutions to address them.
The data of Table 7 show a comparison of wage outcomes in 1984-85 in Australia.

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The difference in direct and indirectly related macroeconomic

<table>
<thead>
<tr>
<th>Source: (Chapman, 1986)</th>
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<tbody>
<tr>
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<td>0.00</td>
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**Table 2**

- **Inflation**: Weekly Earners/Rents in Real Terms (Arts. vs. Can.)
- **Product**: Annual Income
- **Expenses**: Annual Interest
- **Income**: Annual Inflation
- **Flows in Flows**: Employment

The difference in direct and indirectly related macroeconomic

- **Table D**: The difference between the direct and indirect effects of inflation and other factors

Similarly, the experience of a government with different macroeconomic goals can affect the economy in the same way. For instance, the direct and indirect effects of inflation and other factors can be measured in the same way.

The difference in direct and indirectly related macroeconomic

- **Table E**: The difference between the direct and indirect effects of inflation and other factors

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The difference in direct and indirectly related macroeconomic

- **Table H**: The difference between the direct and indirect effects of inflation and other factors

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The difference in direct and indirectly related macroeconomic

- **Table I**: The difference between the direct and indirect effects of inflation and other factors

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The results are presented in Table 3. Dummy and D1982 is the country dummy interacted with a dummy for the period 1982-83. The annual rate of change in the GDP ON is the unmanufactured rate, i is the country where the GNP is worked out from and K is the population. The equation is in the form:

\[ y = \beta_0 + \beta_1 x + \beta_2 z + \epsilon \]

Where:
- \( y \) is the GNP
- \( x \) is the rate of change in the GDP
- \( \beta_0 \) is the intercept
- \( \beta_1 \) and \( \beta_2 \) are the coefficients
- \( \epsilon \) is the error term

For W.D.C. the data are taken from the period 1979-83.

The OECD countries are monitored by the following model of the country's economic activities:

\[ M = \alpha_0 + \alpha_1 G + \alpha_2 X + \alpha_3 Y + \alpha_4 Z + \alpha_5 T \]

Where:
- \( M \) is the GNP
- \( G \) is the government expenditure
- \( X \) is the exports
- \( Y \) is the imports
- \( Z \) is the investment
- \( T \) is the time period

The results are shown in Table 3.

The models were used to predict the activity over the period of the forecast.

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Conclusions and Perspectives on the Australian

The Australian economy has

The Reserve Bank of Australia, in its December 1992 Statement of Policy, noted that "the economy is now in a good position to absorb the effects of a more flexible exchange rate. This is particularly true of the labor market, where the economy has already experienced some improvement. The outlook for the near future is good, with economic growth expected to continue at a solid pace. The Reserve Bank will continue to monitor the economy closely and will respond to any developments that may affect inflation or the growth of the economy."

<table>
<thead>
<tr>
<th>Table 1:</th>
<th>1993-94 Economic Outlook</th>
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<tr>
<td>Actual</td>
<td>1994-95 Forecast</td>
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<tr>
<td>Output</td>
<td>GNP</td>
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<td>1.2%</td>
<td>1.5%</td>
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<tr>
<td>Inflation</td>
<td>2%</td>
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<tr>
<td>Interest Rate</td>
<td>5%</td>
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Note: The table presents the economic outlook for the Australian economy for the fiscal years 1994-95, with actual figures for 1993-94 and forecasts for 1994-95. The output is measured by Gross National Product (GNP), and the inflation is forecasted at 2% with an interest rate of 5%.
REFERENCES