

Discussion

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The central conclusion of this paper is that despite seemingly significant differences in the approach to labour market policy in Australia, the United Kingdom and New Zealand, labour market outcomes in the three countries have been very similar. It is concluded that 'while the labour market outcomes in Australia have been inferior to those in the United Kingdom and New Zealand in recent years, the overall differences have not been dramatic'. A subsidiary theme is a re-examination of the Calmfors-Driffill hypothesis, that either highly centralised or highly decentralised systems of wage bargaining yield better outcomes than systems with an intermediate degree of centralisation.

On the first point, having described the Employment Contracts Act in 1994 as 'the dog that didn't bark in the night', I can only agree. If employment rather than unemployment is the main variable of concern, even the relatively modest conclusion about Australia's weaker performance is hard to sustain. Employment growth has been stronger in Australia than in either the United Kingdom or New Zealand, and this remains true even when demographic factors are taken into account. The difference in performance on unemployment is more than accounted for by differences in the behaviour of labour force participation rates.

Welfare benefits and the supply side

Changes in labour market institutions can be expected to work more through the demand side of the labour market than the supply side. To the extent that we are concerned with supply-side phenomena like labour force participation rates, we must look elsewhere.

In considering the supply side, it is necessary to examine the alternatives to labour force participation, of which the most important include full-time education, early retirement, reliance on the earnings of other family members and reliance on social security benefits. I would like to focus on the last of these. I begin with the observation that whereas the receipt of unemployment benefits is conditional on an active search for work, most other benefits are subject to conditions that discourage the recipient from searching for work. Most obviously, invalid pensions are granted on the grounds that the recipient is incapacitated for work.

In the period under study, both the United Kingdom and New Zealand adopted policies that made unemployment benefits less attractive than other forms of social security. The New Zealand reforms of 1991 included cuts of around 20 per cent in the value of unemployment benefits, while cuts in other benefits were smaller. Similar differentials emerged in the United Kingdom under the Thatcher Government.

The result in both the United Kingdom and New Zealand was that withdrawal from the labour force became a more attractive option. By contrast, in Australia the value of unemployment benefits kept pace with that of other benefits. Although the number of recipients of these benefits, particularly invalidity and sickness benefits, was clearly

responsive to labour market conditions, the incentive to shift from unemployment to other benefits was weaker than in the United Kingdom and New Zealand. In addition, policy fluctuated between tacit acceptance of the fact that those at the back of the unemployment queue might as well be given a benefit that did not require a pointless search for work and attempts, particularly in periods of employment growth, to weed out recipients of invalidity and other benefits who were not truly eligible.

After a long period in which the growth in the number of recipients of benefits other than unemployment was tolerated, if not actively encouraged, both the United Kingdom and New Zealand Governments have recently moved to push recipients of these benefits back into the labour force. The idea of 'welfare to work' is a central theme of the Blair Government. The New Zealand Government has reduced the value of a range of benefits, bringing them closer to parity with the unemployment benefit.

The United States experience

Although the main focus of the paper is on Australia, New Zealand and the United Kingdom, it is hard to avoid looking at the United States. The United States is the only developed economy with extensive experience of a decentralised labour market combined with minimal availability of welfare benefits for the unemployed. US experience supports the prediction that this combination of policies should encourage high rates of labour force participation. The effects on household income of declining real wages for men have also encouraged high rates of labour force participation for married women.

In examining any economic choice, however, it is necessary to consider the best available alternative. In the absence of welfare benefits, the alternatives to employment at low wages include crime and begging, both of which are more prevalent in the United States than in most developed countries. Having closed off the option of welfare benefits, it may be possible to make the option of crime less attractive or less feasible through high rates of imprisonment and this approach is now being explored in the United States. Although crime rates have fallen in line with the economic recovery of the 1990s, the prison population has grown steadily, and is now approaching two million.

The economic feasibility of reliance on prison as the 'employer of last resort' has yet to be determined. Considered as a labour market program, imprisonment is very expensive (about \$40 000 per place on most estimates). The critical question is whether, when deterrent effects are taken into account, a high rate of imprisonment is cost-effective in promoting acceptance of employment at low wages as an alternative to crime.

The combination of minimal welfare support and high imprisonment as a response to crime has only been fully implemented during the United States expansion of the 1990s. It remains to be seen how these policies will work in the event of a serious economic downturn, or if, as advocates of the 'new paradigm' have claimed, the combination of these policies and the microcomputer ensures that no such downturn will take place again. As far as Australia, the United Kingdom and New Zealand are concerned, the critical question is whether it is possible to adopt the labour market and social welfare institutions of the United States without also importing its social institutions.

The Calmfors-Driffill hypothesis

I turn now to the relationship between the experience of the countries under study and the Calmfors-Driffill hypothesis. I want to begin by arguing that a definite empirical test of this hypothesis is virtually impossible. The problems of ranking countries such as Japan are discussed by Wooden and Sloan. But even if an unambiguous ranking of countries from most to least decentralised were available, it would still be very hard to test the hypothesis of a hump-shaped relationship. Consider the simplest possible test in which the observations are divided into three groups and the hypothesis to be tested is that the mean value of some outcome variable is lower for the middle group than for the other two. The test will not, in general, be robust to changes in the arbitrary selection of the boundaries between the middle and the extreme groups. A closely related problem arises in a regression context where a quadratic relationship between the performance variable and a measure of centralisation is estimated. Since the centralisation measure is merely ordinal, it is determined only up to a monotonic transformation. If the relationship to be estimated were linear, an inappropriate choice of transformation would imply misspecification of the functional form but would be unlikely to change the sign of the estimated coefficient. By contrast, if a quadratic relationship is being estimated, it is quite likely that a monotonic transformation could result in a change of sign in the second-order term.

The difficulties of empirically testing the Calmfors-Driffill hypothesis do not detract from the intuitive appeal of the argument that the consequences of wage bargaining will be internalised when wages are set within enterprises or for the economy as a whole, rather than when they are set on an industry-by-industry or occupation-by-occupation basis. However, it is not clear this argument is best formalised by arraying countries on a linear scale supposed to measure decentralisation or deregulation.

Moreover, decentralisation and deregulation are not the same thing. A requirement for unions to undertake secret ballots before striking or a ban on secondary boycotts may promote decentralisation, but they involve more regulation rather than less. Similarly the effects of government intervention are likely to vary depending on whether government attempts to support unions, to support employers or to act as a neutral arbiter.

Effects on welfare

Wooden and Sloan do not have very much to say about the welfare effects of the reforms under consideration. In this context, it is important to distinguish two different arguments in favour of labour market reform. The first is that a combination of union monopoly power and government intervention, such as minimum wages and the provision of welfare benefits, has raised real wages above the market-clearing level and thereby caused high levels of unemployment. Assuming workers are rational, higher wages raise their welfare sufficiently to offset the risk of unemployment, at least for 'insiders'. In this situation, the argument for labour market reform is the standard argument against monopoly, that the benefits to consumers (in this case, both employers and the ultimate consumers of goods and services) from the removal of the monopoly will outweigh the costs to producers.

The second argument is that in a regulated and centralised labour market, employees and employers are denied the option of making mutually beneficial agreements to depart from awards or industry-level bargains. In this situation, labour market reform will generate a Pareto improvement except for the losses to those employed in the operation of the centralised system, such as union officials, members of industrial courts and so on.

The arguments presented above about the central role of the social welfare system suggest that the issue is primarily one of monopoly power and income distribution rather than the collection of \$50 bills lying on the pavement. If so, labour market reform is likely to remain controversial.

2. General Discussion

The discussion centred on three issues:

- the impact of product market deregulation on labour market outcomes;
- the relevance of the Calmfors-Driffill hump; and
- the transferability of institutional structures across countries.

Some participants argued that product market deregulation is likely to have a significant impact on labour market outcomes. Furthermore, in some countries where product market deregulation has preceded labour market deregulation, it appears that the product market deregulation in itself has induced changes in the labour market, which labour market reforms have then subsequently codified. Thus it was difficult to attribute labour market outcomes to particular labour market reforms. Some participants therefore concluded that varying degrees of product market deregulation across countries may have had as great an impact as the differences in labour market reforms.

Participants were divided on the relevance of the Calmfors-Driffill hump. Some participants argued that while it is problematic to pinpoint the position of a country on the hump, useful insights can be gained from examining the effect of changes over time in a country's relative position on the hump. These insights suggested that a move away from the top of the hump, either towards greater centralisation or greater decentralisation, tends to generate improved labour market outcomes. Other participants argued that there is no clear direction of change in labour market institutions in countries such as Australia. For example, in the past decade, Australia has moved both towards increased centralisation and then towards increased decentralisation. It would be difficult, given the lags involved, to identify the impact of these shifts on labour market outcomes.

Some participants argued that labour market institutions play a number of different roles in different countries. Institutions are designed to achieve complex, and not necessarily economic, outcomes. Thus it may be too narrow to assess the efficacy of institutions solely in terms of their impact on labour market outcomes. Furthermore, attempting to codify institutions in a simple index is fraught with difficulty. Given these issues, one should be careful about the appropriateness of one country's institutional structure for another country.