

Box 3: International Comparison of Wages, Prices and Unemployment

Low inflation is currently the norm for most countries. A comparison of the experience of the major industrialised (G7) countries, Australia and New Zealand, shows that seven of these nine countries have experienced average inflation in the range 1-3 per cent over the past two years (Table 1). Australia's average inflation rate over this time, at 2.7 per cent, is typical of that of many other countries.

Consistent with this low inflation, rates of wage growth have also been low for most countries in the OECD. Four of the nine countries shown in the table experienced average wage growth of less than 3 per cent over the past two years; three had wage growth in the 3-4 per cent range. Australia and Italy were the outliers, with average wage growth of 4.4 per cent.

Faster average wage growth in Australia has been accompanied by trend growth in labour productivity which is faster than the average of the countries shown in the table.

From the point of view of controlling inflation in Australia, this combination of wages growth and productivity growth has been acceptable.

Inflation control, however, is not the only consideration in gauging the appropriate rate of average wage growth. It is possible to maintain low inflation, but still have wages growth which is too high to encourage job creation. This can happen for a variety of reasons. Wage bargaining generally may not be very responsive to unemployment; wage bargains in a particular leading sector may reflect conditions in that sector, but then be transmitted, through concerns about relativities, into other sectors which experience quite different conditions; wage negotiators may have unduly high expectations of future inflation in mind when striking their bargains. In any of these cases, a tendency for costs to rise limits the speed of short-term economic growth which is consistent with inflation control, and is

Table 1: Indicators for Major OECD Countries

	Core inflation ^(a)	Wages growth ^(a)	Trend labour productivity ^(b)	Unit labour cost growth ^(c)	Unemployment rate ^(d)
Japan	0.2	1.3	0.8	0.5	3.2
United States	2.8	3.5	1.1	2.4	5.5
New Zealand	2.2	3.3	-0.3	3.7	6.2
United Kingdom	3.0	3.9	2.4	1.5	7.9
Average	2.2	3.1	1.5	1.7	8.3
<i>Australia</i>	<i>2.7</i>	<i>4.4</i>	<i>2.2</i>	<i>2.2</i>	<i>8.6</i>
Canada	1.8	2.1	1.0	1.1	9.6
Germany	1.6	2.9	2.5	0.4	9.9
France	1.6	2.4	1.4	1.0	12.0
Italy	4.2 ^(e)	4.4	2.1	2.2	12.0

(a) Annual average percentage change, end 1994 to end 1996.

(b) Measured as an average over the five years, 1991 to 1996.

(c) Wages growth minus trend labour productivity growth. Numbers may differ due to rounding.

(d) Average of 1995 and 1996.

(e) Using headline inflation.

therefore detrimental to unemployment performance.

Overall wages growth in Australia is, to a degree, sensitive to the state of the labour market: average wages growth slowed from about 5 per cent in 1995 to closer to 4 per cent in 1996, though the latest data

suggest this slowing may have ended. The international comparisons shown here suggest, however, that growth in unit labour costs in Australia has still been on the high side over the past couple of years, given the rate of unemployment. ↗