

Discussion

1. General Discussion

The discussion focused on the proposed solutions to unemployment presented by the three speakers in the session.

The participants agreed that there is clearly no simple fix to unemployment, and that any solution must encompass a number of different elements. There was disagreement among the participants, however, on the necessary components of the package. Participants agreed that maintaining an appropriate rate of growth is a key element of any package to reduce unemployment. However, participants were divided on the extent to which growth alone could contribute to a further reduction in unemployment in Australia at the moment.

All the participants agreed that it was important to consider the interaction of the social security system with the labour market in any reform package. High effective marginal tax rates could pose a significant hurdle if the welfare system is not adjusted in line with developments in the labour market. Some participants argued that the earned-income tax credit is worth examining in this respect. However, it is important to consider the degree of taper in such a system taking into account both the disincentives from the high marginal tax rates, and the possible fiscal cost.

The means by which a reduction in the level of real wages could be achieved generated much discussion. Some participants argued that freezing award wages at their current level would not have a large impact because of the relatively small share of the labour force directly covered by the basic awards. Thus to achieve a given reduction in the average wage would require a larger reduction in wages at the lower end of the wage distribution. Other participants noted that there needed to be a shift in the balance of bargaining power from the employed to the unemployed, although, again, the mechanism by which this could be achieved was not obvious. Finally, some participants suggested that it might be worth considering policy measures which focus more on changing the cost of employing workers to the firm such as changes in payroll taxes.

In considering the equity impact of a decline in wages, participants noted that it is important to consider the welfare of the unemployed. While the decline in wages would disadvantage the already employed, it would be beneficial to those who entered employment. Given that the evidence suggests that low-wage earners are spread out across the household income distribution whereas the unemployed tend to be concentrated at the lower end, the welfare implications of a decline in wages may be more muted.

Finally, participants questioned why there have not been more aggressive attempts to address unemployment in the past. Some suggested that the up-front fiscal costs may be politically unpalatable, although others countered that in the long run, a reduction in unemployment is likely to more than cover the cost of any reform package.