

Labour Market Policies

17

Multiple Choice

- | | | | | | | | |
|----------|---|-----------|---|-----------|---|-----------|---|
| 1 | C | 6 | B | 11 | C | 16 | D |
| 2 | C | 7 | B | 12 | A | 17 | B |
| 3 | D | 8 | C | 13 | C | 18 | B |
| 4 | C | 9 | D | 14 | C | 19 | B |
| 5 | C | 10 | A | 15 | B | 20 | B |

Short Answers

Question 1

- (a)** An enterprise agreement is a workplace agreement negotiated collectively between an employer or group of employers and their employees, usually covering all non-managerial employees in that company.
- (b)** Unions represent employees in most negotiations over enterprise agreements. Employees can choose to negotiate a collective agreement with their employer directly, without union involvement. However, even in workplaces with low levels of union membership, the task of representing those employees is normally taken up by a union. Once they are finalised, enterprise agreements apply equally to both employees who are union members and those who are not union members. Unions also often represent individual employees when those employees believe that an employer has breached a provision of an enterprise agreement.
- (c)** As a minimum, all enterprise agreements must comply with the ten National Employment Standards. Further, they must comply with the relevant award or awards for the employees covered by the agreement. They cannot offer pay rates below those set out in the equivalent award. If the enterprise agreement varies provisions within the award, it must pass the 'Better Off Overall Test', which requires that the employees be made better off overall by the agreement compared to the applicable award.
- (d)** A decentralised system of wage determination offers the benefit of allowing for greater flexibility in negotiating pay and working conditions for employees through enterprise agreements rather than industrial awards. By linking wage increases to productivity improvements, there is a greater incentive for workers to improve their productivity and eliminate restrictive work practices. Higher productivity leads to higher long-run economic growth, while putting downward pressure on cost-push inflation. Since the introduction of enterprise bargaining in the early 1990s, Australia has been successful in keeping inflation within the average 2-3 per cent target band. At the same time, workers covered by enterprise agreements have experienced greater real wage growth than those on awards, contributing to higher living standards.

Question 2

- (a) Labour market policy most influences cost-push inflation, because labour costs typically represent around 60 per cent of costs for businesses.
- (b) Labour market policies can influence inflation by encouraging greater productivity growth through determining wages on the level of individual enterprises. If firms achieve a higher rate of productivity this means they are generating more output for the same amount of inputs, which means they may be able to increase wages without any increase in prices, thus reducing the rate of inflation. Labour market policies can also reduce cost-push inflation by imposing limits on wage growth (such as through a wages freeze) or through other policies that tend to restrain wage growth across an economy (such as decentralised wage determination).
- (c) By allowing for greater variation in wage outcomes, decentralised wage determination can help to prevent strong wage growth in one area of the economy from flowing across into another area of the economy (a common problem under centralised wage determination). Decentralisation can reduce inflationary pressures by linking wage increases to the productivity and business conditions of individual enterprises. Decentralisation can also reduce inflationary expectations by changing expectations that a certain rate of inflation may be entrenched because of centralised wage determination.
- (d) Economists generally agree that changes to Australia's industrial relations system over the past two decades have generally led to increased productivity and economic growth. As the old system of detailed industrial awards has given way to a system based largely on enterprise agreements, wage increases have been linked to productivity improvements, with annual productivity growth peaking at 3 per cent a year during the late 1990s. There has also been a reduction in the role of labour market regulations and a greater focus on employers and employees taking responsibility for resolving disagreements in the workplace rather than relying on formal industrial hearings in a tribunal. The level of industrial disputes has fallen and wage growth has remained moderate, consistent with keeping inflation within the 2-3 per cent band. Even during periods of strong economic growth and skill shortages (especially in the mining and construction industries), there has been no wages blowout, unlike during previous periods of strong economic growth. Overall, the shift towards a more decentralised wage determination system since the 1990s has supported the longest period of sustained economic growth on record, which since 2008 has continued under the Fair Work Act which has sought to provide stronger minimum standards for employees.

Question 3

- (a) Conciliation is a dispute resolution process in which firms and employees meet to discuss their differences in the presence of a third party, who attempts to bring the parties to an agreement. However this third party does not have any power to impose an agreement on those parties.
- (b) Fair Work Australia may intervene to resolve a dispute between employees and employers if their enterprise agreement includes a provision for compulsory dispute settlement by Fair Work Australia. Fair Work Australia may also intervene if industrial action is occurring, and this action poses a threat of significant harm to the Australian economy or the population.
- (c) The best measure of the effectiveness of labour market policies in resolving industrial disputes is the number of working days lost due to industrial action. On this measure, Australia's labour market policies have been successful in recent years. Since the introduction of enterprise bargaining in the early 1990s there has been a consistent downward trend in the level of disputes. As the graph shows, the number of working days lost due to industrial disputes each year has fallen from over one million in the 1980s to the range of around 100,000 to 300,000 during the past decade. This has been achieved during a period of skill shortages and strong growth in sectors such as mining, and the low level of strikes has been sustained despite some concerns that by restoring some rights to employees, the Fair Work Act might cause a surge in industrial disputes.
- (d) There are several advantages of effective dispute resolution mechanisms. First, they help to resolve disputes that have become deadlocked between employers and employees. Without a mechanism for ending a deadlocked dispute, strikes can sometimes continue for months or even years. Second, by resolving deadlocked disputes businesses can be protected from damaging industrial action that can stop production and undermine profits, and employees can be protected from a loss of work and income. Third, such a mechanism can ensure a sensible resolution of a dispute that balances the interests of employers and employees. Fourth, an economy can avoid disruptions to supply that can cause damage to other sectors of the economy (eg industries that rely on certain inputs to their production process) or to its international reputation) if supply delays from a strike cause disruption to trade).