ECONOMIC REFORM AND DEREGULATION

IN AUSTRALIA

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ECONOMIC REFORM AND DEREGULATION IN AUSTRALIA: OVERVIEW[1]

Australia has substantially deregulated its economy since the early 1980s. Controls on the domestic financial system have been relaxed, and competition has been allowed to operate; foreign exchange controls have been abolished; international trade barriers have been roughly halved, and import quotas abolished; the growth of the shares of government revenue and expenditure in GDP was halted, and even temporarily reversed; in telecommunications and transport, competition has been introduced, restrictive labour practices have been reduced, and government business enterprises have been corporatised or privatised. There has been a substantial improvement in the efficiency of the tax system as a result of a broadening of the tax base; however, Australia has failed to replace its out-dated wholesale sales tax with a VAT, and has introduced an inefficient superannuation levy.

Judged by the criterion of progress on deregulation, the Achilles heel of Australia's Labor governments has been the labour market. Labor's strategy has been built around an accord with the trade unions, designed to remove the worst abuses of union power while avoiding labour market deregulation. During the last 12 months labour market regulations have been substantially tightened, and an attempt is now to be made to alleviate their adverse effects on training and employment with countervailing subsidies, and partial exemptions.

I. Introduction

This paper surveys the course of deregulation in Australia and puts it into a broader context by making comparisons with the policies and performance of New Zealand. Among the questions discussed are: why did Australia deregulate when it did? Why did deregulation occur in some sectors, but not others? Has deregulation improved Australia's measured economic performance? Before trying to answer these questions an attempt is made to give a rough working definition of deregulation.

In many contexts the meaning of "deregulation" is clear: policies which relax licensing controls on production and international trade are deregulatory on any sensible definition. But in some other contexts a definition is needed; examples of areas in which the term is potentially ambiguous are government expenditure and taxation policies, the corporatisation of government business enterprises (GBEs), and industrial relations policy. A definition that is adequate for the purposes of this paper is that policy changes are "deregulatory" or "market-oriented" - I use these terms synonymously - to the extent that they tend to align actual outcomes more closely with what would occur if the government's only economic role were to protect property rights, help enforce contracts, and provide pure public goods. This definition implies that most reductions in government expenditure are deregulatory; and so too are tax reforms which broaden the tax base and reduce tax rates at unchanged or reduced revenue. Conversely, policies which redistribute income, or set minimum wages, are not deregulatory, regardless of whether or not they are desirable.

To avoid begging questions about the desirability of deregulation it is necessary to summarise my

own position, which is that some income redistribution through the tax and social security systems is desirable, and so too is the subsidisation of primary education and health care: despite the inefficiencies which such policies produce they seem to be the best ways of promoting equity. In all the other cases considered in this paper I favour deregulation.

II. Deregulation, left and right

Proponents of market-oriented economic policies have been dubbed the "New Right", and in both Britain and the United States deregulation was championed by parties of the right. It is therefore slightly paradoxical that in Australia and New Zealand most of the deregulatory policy changes were implemented by Labor governments. Indeed, the Labor parties in both countries were accused by many of their own supporters of abandoning their traditional loyalties.

The extent of this paradoxical alignment of parties of the left with deregulation can easily be overstated: the Fraser government did implement some deregulatory policies, and the Hawke and Keating governments have tightened regulations in several areas; the paradoxical alignment proved to be temporary in both countries, and there was never any paradox over how the parties on each side of the Tasman lined up on the question of labour market deregulation: in opposition, the Liberal and National parties in Australia have strongly supported extensive deregulation of the labour market, and in government their amendments to the Trade Practices Act (TPA) weakened the ability of unions to enforce their own labour market regulations; in contrast, despite occasional suggestions to the contrary, the Labor Party's dependence on the unions has meant that it has always resisted relaxing the labour market regulations from which they derive their power. In New Zealand, compulsory unionism was abolished by the National Party in 1983, but reinstituted by

Labor in 1984; a major deregulation of the New Zealand labour market was implemented by the National government's Employment Contracts Act, 1991.

From the late 1970s, the Liberal party in Australia was engaged in an internal debate between the conservative old right and the radical new right. The old right favoured protection for manufacturing and agriculture, and the use of regulated statutory monopolies in transport and communications to cross-subsidize rural interests at the expense of the urban sector; while the new right supported the deregulatory policies which were proving politically successful overseas. Because the conservative governments in both Australia and New Zealand made negligible progress towards embracing the international trend towards deregulation, their quicker, bolder, and more determined opponents were presented with the opportunity to outflank them. Bob Hawke's alacrity in seizing this opportunity in 1983 was probably due in part to his having learnt from the failures of Gough Whitlam and the successes of Neville Wran. The Liberals were totally disorientated when Hawke adopted policies which were more deregulatory than those which they had dared, or wanted, to implement. Their uncertainty as to whether to attack him from the old right or the new right has been symbolised by their vacillation over who should lead them. When they decided, in 1990, to stake a claim to being the party of deregulation, their position was dangerously more radical than the views of most voters.

There was also an element of chance in the paradoxical alignment of parties and economic policies. The Fraser government's setting up of the Campbell Committee of inquiry into the Australian financial system, under a businessman known to favour financial deregulation, helped facilitate the Hawke government's adoption of deregulatory policies. The Campbell Committee's final report, which was presented in September 1981, recommended extensive deregulation of the financial

system, the abandonment of most exchange controls and the floating of the Australian dollar, subject to light, infrequent and temporary intervention by the authorities. In the remaining 18 months before it lost office, the Fraser government implemented only a few[2] of the proposed reforms, and none of the main ones.

The Liberals might have eventually implemented the financial sector reforms recommended by the Campbell Committee if they had not lost power. As it was, the incoming Hawke government set up its own committee, under Mr. V. Martin, to review the recommendations of the Campbell Committee from the perspective of Labor's economic and social objectives. While the Labor government was waiting to make up its mind on both exchange controls and financial deregulation it was abruptly forced to make a snap decision on exchange controls by a strong speculative capital inflow in December 1983, which would have been hard for the authorities to resist, even if these controls had been tightened. In my opinion it was greatly to the government's credit that its snap decision was not to try to stem the inflow with tightened regulations, but rather to remove almost all Australia's exchange controls and allow the currency to float.

Soon after this decision had been taken, the government received the Martin Committee's report which argued that financial regulations were not an appropriate method for achieving equity goals, and accordingly supported the thrust of the Campbell Committee's recommendations for deregulating the domestic financial sector. The adoption of the Campbell Committee's recommendations on external policies made it easier for the government to adopt the Campbell and Martin recommendations on the reform of the domestic financial system. Firstly, deregulation now had the virtue of consistency; and secondly, a deep inter-bank market, with overseas institutions participating, was needed if the floating exchange rate system was to operate without excessive

fluctuations. Having had to defend the case for removing both external and domestic financial controls, and having been widely praised for implementing these policies, the Hawke government was more inclined to adopt a general strategy of economic deregulation than would otherwise have been the case.

III. Deregulation in Australia since 1983

Since 1983 Australia has undertaken a major program of economic deregulation. The most important of the many substantial achievements, and occasional failures, of this program were listed in the Overview. This section provides further details on the main policies, and partial justifications of the judgements made in the Overview.

Government expenditure, taxation, superannuation, and social security

Perhaps the most remarkable aspect of the Hawke government's economic record was its eventual reversal of the upward trend in the shares of the government sector in national income and employment. Labor's first two budgets were strongly expansionary, though less so than the policies promised by the outgoing Fraser government: the sharp increases in total government disbursements relative to GDP can be seen in Chart 1.[3] However, during the 1984 election campaign Hawke made a threefold commitment to fiscal restraint, which became known as the "trilogy". Specifically, he promised that there would be no increase in government expenditure as a proportion of GDP over the life of the next parliament; he made the same promise with respect to tax revenue; and he promised that the budget deficit would fall in nominal terms in 1985-86, and as a proportion of GDP over the course of the next parliament. Labor's success in keeping these three

promises is reflected in Chart 1; the chart also shows that the share of government spending in GDP has again begun to grow in the 1990s. One important way of controlling government spending was to target social security benefits, including old age pensions, towards those with low measured incomes. This helped meet Labor's commitments under the trilogy, but raised effective marginal tax rates at low levels of income.

The rising budgetary cost of unemployment benefits in the recession helps to account for the sharp increase in government outlays relative to GDP in the early 1990s. However, as Chart 1 shows, government consumption and investment expenditure have also risen relative to GDP since 1989. Chart 2 shows that the proportion of government employment in total employment has fallen in Australia over the last 15 years, but by far less than in New Zealand.

New Zealand undertook a major reform of its tax system in the late 1980s which included the introduction in 1986 of a 10 percent tax on almost all items of final consumption. This consumption tax, which was raised to 12½ percent in 1989, replaced a former wholesale sales tax and was also used to reduce the burden of the income tax. Australia's experience with tax reform has been very different from New Zealand's. Following the failure at the 1985 Tax Summit of the then Treasurer, Paul Keating, to gain acceptance for a broad-based consumption tax, and the 1993 election defeat of the Liberal/National coalition, whose platform was conspicuously built around a similar tax proposal, none of the Australian parties now publicly supports the introduction of a broad-based consumption tax, although the case for such a tax remains as strong as ever.

Although it backed away from the most important tax reform, the Australian Labor government did succeed in implementing a number of others.[4] The tax base was broadened by introducing a fringe

benefits tax; by abolishing investment allowances and accelerated depreciation; by reducing the tax concessions for superannuation; by taxing the realisation of real capital gains; by removing the exemption from company tax of the gold mining industry; by plugging the loopholes which had been used both to strip dividends and also to evade company tax; and by plugging loopholes used to avoid income tax on interest and on income received in undeclared cash payments.[5]

The broadening of the tax base, together with the reduction in the ratio of government spending to GDP and the fiscal drag effects of growth and inflation, allowed the government to introduce an imputation system to avoid the double taxation of dividends; to reduce the rate of company tax from 49 percent in 1983 to 33 percent today; and to reduce the highest marginal rate of income tax from 60 percent in 1983 to 48.4 percent (inclusive of the medicare levy) today.

By broadening the tax base and reducing tax rates, these reforms made major contributions to efficiency. But while ridding the tax system of some of its former inefficiencies, the government introduced two new inefficient levies of its own: a training levy was introduced in 1990; and a superannuation guarantee charge (SGC), was introduced in 1992 to replace a similar scheme which had operated as a labour market regulation since 1986. The SGC is a payroll tax from which firms can gain dollar-for-dollar exemptions for contributions to approved ("complying") superannuation funds. The training levy operated in a similar way, but with expenditures on approved training schemes taking the place of superannuation contributions. The fundamental weakness of the training levy was the inability of the bureaucracy to measure training. Much genuine on-the-job training consists of employees being shown in the course of their work how to perform skilled and semi-skilled tasks. This kind of training did not qualify under the levy because it is too hard to measure; what did qualify, because it could easily be recorded, was expenditure on undervalued

holidays wastefully camouflaged as training courses. Exactly analogous problems bedevil the SGC.

The SGC is the antithesis of an efficient tax instrument because activities which are very close substitutes receive very different tax treatment: savings in superannuation funds are implicitly subsidised at very high rates, while other forms of savings are heavily taxed - by the income tax; by the taxation of nominal interest, rather than real interest; and by the pension means tests. And to replicate the effects of the SGC with explicit taxes and subsidies would require very different rates on different individuals: the rates would be zero for those who are unaffected by the SGC, but would be very high for those who are liquidity constrained and whose contributions are so small and irregular that they are largely dissipated in transactions costs. It is ironic that the government should have resorted to a quantitative control on savings, while taking pride in its achievement in the elimination of quantitative controls on imports.

The training levy and the SGC have had very different fates: the former was introduced in 1990 at a rate of 1 percent on annual payrolls over $200,000; the rate was then raised to 1½ percent, before the levy was "suspended for two years" with effect from July 1994. The SGC is currently set at 4 percent for firms with annual payrolls below $1 million, and 5 percent for larger firms; the government plans to increase the rate of the SGC to 9 percent for all firms by 2002-03. A possible explanation for the difference in the durability of the two levies is that although both taxed employment, the training levy produced negligible offsetting benefits for the unions, whereas the SGC has helped to create a role for them as financial intermediaries.

Financial sector deregulation

The financial sector regulations which operated when the Campbell Committee began its inquiry restricted competition among the banks and diverted some of the resulting cartel profits to cross-subsidise lending to home owners. But the cartelisation of the banks eventually led to an expansion of banking activities by non-bank financial intermediaries (NBFIs), so that the regulations which had once boosted bank profits ended up by restricting their ability to compete with NBFIs. Consequently the banks were not hostile to many aspects of the proposed deregulation of the financial system, and accepted others, e.g. the opening of the sector to new entrants, as an inevitable price to be paid for being allowed to compete aggressively with the NBFIs.

Government business enterprises

In the last decade, Australian Labor governments have introduced a range of reforms to the running of government business enterprises (GBEs). Except in the case of domestic air travel, these policies have not amounted to full-scale deregulation, which would involve allowing free entry to all comers, the removal of cross-subsidisation and the privatisation of existing GBEs. Rather, the extent of deregulation has generally been limited to allowing new entrants to compete with existing GBEs in the provision of some fringe services and the corporatisation of the GBEs, i.e, the adoption of policies which require GBEs to adopt a more market-oriented approach to their operations. The Industry Commission's (IC) *Annual Report 1989-90* (p.33) catalogued six types of public sector reform, in which there was scope for major deregulation. It estimated that eliminating cost-padding in these six areas would free enough resources to raise GDP by 5.4 percent. Given the uncertainties necessarily involved in such estimates, they should only be taken as indications of the orders of magnitude of the effects of reform. The areas (and the corresponding IC estimates of the contributions of reform to raising GDP) were: rail transport (1.2 percent); other transport (2.0

percent); posts and telecommunications (0.5 percent); electricity supply (0.4 percent); water services (0.3 percent); and the contracting out of certain government services and capital works (1.0 percent).

In 1990 the government abolished the "two-airline policy" which had restricted the domestic airline market to the privately operated airline Ansett, and a state airline, which has now been absorbed into Qantas. In addition to shielding them from competition on domestic routes, this policy had prevented competition between the two incumbents by controlling prices, and capacity; and by requiring an almost exact division between them of routes and services. Qantas was the only Australian airline allowed to operate international flights. Econometric studies which have compared fares and airline productivity in Australia and North America, have estimated that average costs of Australian domestic airlines were about 10 to 20 percent above those in North America, even after adjusting for Australia's lower population density. (Kirby, 1984).

For almost a decade, successive governments held out against the proposals of the Davidson Committee (October 1982) for deregulating the telecommunications sector. Maddock (1992) contrasts Labor's rejection of these proposals with its acceptance of the deregulatory recommendations of the Campbell Committee, and argues that the determining factor was union opposition to the exposure of Telecom to competition. Eventually, a watered-down version of Davidson's proposals to introduce competition took effect: Telecom's prices are still subject to regulation by Austel, an agency set up for this purpose in 1989, but in 1991 and 1992 licences to compete with Telecom in the markets for international and long-distance calls were granted to a new private entrant, Optus, which had been formed by the privatisation of the state-owned communications satellite (Aussat). Part of the price paid by the government for acceptance by the

Telecom unions of even limited competition was that OTC, the state-owned company which had provided international telephone services, was merged with Telecom.

The Davidson Committee's proposal to introduce timed local calls has still not been implemented, and this, together with the regulatory control of Telecom's prices, ensures that Telecom sets inefficiently low access charges and continues to tax long-distance calls to subsidise local calls (Abraham, 1993). Competition from Optus has reduced the price of long-distance calls, but this competition is limited by the imposition of local content requirements on Optus's equipment purchases, and by the interconnection charges which Optus must pay for the use of Telecom's local network. Determining the true marginal cost of local interconnections is made difficult by the fact that other local calls are not charged on a time-used basis. Maddock notes the irony of the decision to set up a regulated duopoly in telecommunications just as the regulated airlines duopoly was being abolished.

Tariffs and QRs

The average levels of nominal and effective rates of protection in manufacturing, and the dispersion of these rates, as measured by the standard deviation of the percentage rates across 4-digit ASIC manufacturing industries, have been roughly halved since the late 1970s. Protection remains high in textiles, clothing, and footwear; in most other sectors there have been substantial reductions. One of the most important examples of a sector in which protection has been reduced is the automotive industry; the effective rate of protection in transport equipment, of which motor vehicles is a major component, has fallen from 65 percent in 1983/84 to 29 percent in the mid-1990s.

The major reductions in protection were implemented in two across-the-board packages of trade reforms in May 1988 and March 1991, and in a number of industry specific plans - in steel, automotives, heavy engineering, shipbuilding, and communications equipment.[6] The March 1991 reforms are scheduled to reduce tariffs, in all major sectors other than textiles, clothing and footwear and transport equipment, to 5 percent or less by 1996. The industry plans have sought to combine gradual, pre-announced, reductions in protection with mergers, designed to reap the benefits of scale economies, and subsidised retraining for workers made redundant by the withdrawal of protection. The mergers were enforced by the threat of withholding subsidies from the firms which did not implement the steps laid out in the plans. Summary measures of the extent of reductions in protective rates are given in the Table 1 below. These estimates may overstate the reductions in protection, since they take no account of anti-dumping actions, which have proliferated as tariffs have been reduced.

Table 1: Rates of protection (%) in Australian manufacturing

	Nominal rates		Effective rates	
	average	dispersion	average	dispersion
1978-79[a]	15	15	24	30
1983-84[a]	13	16	22	43
1989-90[b]	9	11	15	22
1992-93[b]	7	8	12	16

[a] Using 1983-84 base year weights.

[b] Using 1989-90 base year weights.

Source: Industry Commission (IC), *Annual Reports*.

In addition to reductions in tariff rates, there have been very important shifts in the method of providing protection: local content provisions apply in several areas, including the vehicle industry, and radio and television broadcasting; but quotas, which used to be an important method of protecting the clothing, textile and footwear industries and the automotive industries have been largely abolished[7].

IV. The regulation of the Australian labour market

The Australian labour market is regulated in two overlapping ways: first, the pay and working conditions of about 84 percent of employees are regulated by state and federal tribunals, of which the most important is the Australian Industrial Relations Commission (AIRC). Second, by allowing unions to have *de facto* and *de jure* immunity from liability for most of the damages regularly inflicted on firms which do not accede to their demands, Parliament has delegated to them many of its own legislative and punitive powers for regulating wages and working conditions.

The Fraser government moved a small part of the way towards reducing the power of unions to regulate the labour market by inserting two sections, 45D and E, into the Trade Practices Act (TPA); these amendments removed the legal immunity of unions from damages caused in

"secondary boycotts", i.e., disruption of trade between a firm and its customers or suppliers.

Industrial relations policies of the Hawke governments

Labor's industrial relations strategy has been to rationalise the existing regulatory system and remove the most prominent abuses of union power in order to avoid thoroughgoing labour market deregulation. The centrepiece of this strategy has been the Prices and Incomes Accord in its various versions, the most recent of which is Accord Mark VII. The Accord is a detailed agreement between the ACTU and the Labor government on social and economic policy; but to the considerable extent that the ALP is the political arm of the unions, the correct way to view the wages component of the Accord is as an agreement among the unions that each will refrain from fully exploiting the power which it derives from the existing industrial relations regulations. It served both a cynical purpose and a useful purpose: it helped Australian unions avoid the labour market deregulations which substantially reduced the powers of unions in Britain, New Zealand and the United States; and it helped avoid a recurrence of the wages break-outs, and resulting unemployment, which had occurred in 1974-75 and 1981-82 when the regulatory system transmitted throughout the workforce, wage increases won by powerful unions.

Chart 3 shows the small fall in real wages and the rapid growth in private sector employment which have occurred in Australia since 1982. Chart 4 shows the close correlation between reductions in real wages, lagged one year, and increases in private sector employment.[8] The Accord certainly worked well for the Accord partners: Labor governments have won five successive elections, and the Australian labour market has not been deregulated. But to conclude that the Accord held down wages would be to focus myopically on its short-run effects, while ignoring the fact that, since it is

part of a political strategy to prevent labour market deregulation, it has kept wages above market clearing levels in the medium and long run.

An important element in Australian industrial relations policy has been the desire of the ACTU and successive Labor governments to encourage, and if necessary force, small unions to amalgamate. The objective of this policy was to strengthen unions, and to reduce demarcation disputes. Since many restrictive practices had been mandated by the regulations, or "awards", of the Commonwealth and State tribunals, the amalgamation of unions, and the relaxation of restrictive practices which rationalisation and amalgamation permitted, necessitated a process of award restructuring.

Because the scope for efficiency enhancing deals varied from enterprise to enterprise, the ACTU's attitude to the centralised system changed: having been firmly committed to centralised wage determination in the early 1980s, it came to support and encourage the spread of enterprise bargaining on above award rates, at least as long as the unions could veto any agreement which would have undercut existing conditions or wage rates. The substantial benefit of enterprise bargaining is that it allows for the efficiency gains from the abandonment of restrictive work practices to be shared between firms and employees, thereby giving unions an incentive to abandon these practices. As with wages policy, the amalgamation of unions and the restructuring of awards was an attempt by unions and the Labor governments to put their own house in order so as to avoid having it done by their political opponents.

The Industrial Relations Reform Act, 1993 and the Working Nation package

The Industrial Relations Reform Act, 1993 (IRRA) slightly relaxed regulatory controls in one area - enterprise bargaining - but tightened them in several others, and also extended the legal immunities which allow unions to regulate the labour market. Its overall effect was to tighten regulations substantially. The potentially deregulatory part of the IRRA is its provision for "enterprise flexibility agreements" (EFAs) between corporations and their employees which can displace the industry-wide employment regulations which would otherwise operate. Unions cannot veto an EFA, but the Commission must do so if it fails to meet any of a number of conditions, which include the following: in aggregate it must offer terms and conditions of employment which do not "disadvantage"[9] the employees covered by it; 50 percent of employees must support it; it must be in the "public interest"; and it must be consistent with the new provisions on minimum entitlements of employees, described in the next paragraph. If all the criteria are passed, the AIRC must allow the EFA to replace the industry-wide regulations which would otherwise have applied. The Industrial Relations Act, 1988 (IRA) already provided for enterprise bargaining by means of "certified agreements", but these provisions were widely criticised on the ground that unions were able to veto them.[10] The provision for EFAs could lead to substantial efficiency gains from the abandonment of restrictive work practices, and the relaxation of the restrictive provisions in industry-wide regulations. Whether this actually happens depends on how the Commission interprets the vague and ambiguous criteria for approving EFAs, and on whether unions use their legal immunities to impose *de facto* vetoes. All the other changes introduced by the IRRA either directly tighten regulations, or enlarge the legal immunities which allow unions to impose their own regulations.

The IRRA extended labour market regulation by specifying a set of minimum entitlements of employees which applies to all those covered by both State[11] and Commonwealth regulations,

including certified agreements and EFAs. These minimum entitlements relate to minimum wages, equal remuneration for work of equal value, job termination rights, and the right to unpaid parental leave. The minimum entitlements provisions have been described as a "safety net". This reflects a popular fallacy that those with low skills benefit from regulations which prohibit employers from offering them jobs which do not provide specified minimum wages and conditions. The fallacy can be seen by noting that such regulations differ only in administrative detail from regulations which prohibit people from taking jobs if their skills are worth less to employers than the cost of the regulated wages and conditions. Therefore the only safety provided by the safety net is that those in secure jobs are safe from competition from the involuntarily unemployed: if the skills of the latter are insufficient to make it worth an employer's while to hire them and provide the minimum conditions, they are prohibited from working even if they regard unemployment as worse than the minimum conditions allowed by the regulations.

The IRRA extended the power of unions to regulate wages and conditions by giving employees immunity from most torts committed during negotiations on wages and conditions of work (s.170PG), and by emasculating the secondary boycott legislation. The restrictions on secondary boycotts by unions have been taken out of the TPA.[12] The new, weaker restrictions on boycotts by unions are now contained in the IRA. Peaceful picketing has been exempted (s.162A) from the revised boycott provisions;[13] and so has action in furtherance of claims which directly affect the boycotters, even if they are not employees of the firm being boycotted (s.162(7)(c)). Given the extreme rarity of successful damages actions against unions, the speed with which firms could obtain injunctions to stop secondary boycotts was a crucial part of s.45D of the TPA as it originally operated; but under the amendments introduced by the IRRA, a firm can only obtain an injunction ordering a union to lift a boycott once the Commission has certified its own inability to settle the

dispute promptly (ss.163G, 163P(2)); and the Commission can delay certification for 72 hours (s.163D).

The termination provisions, which were modified in June 1994,[14] are probably still the most wasteful change introduced by the IRRA, in terms of the excess of the high costs which they impose on employers - which include uncertainty, legal fees[15] and penalties, and loss of flexibility in hiring and firing decisions - over the value of the rights conferred on employees. These provisions give employees the right of appeal to the IRC against dismissal on the ground that it is harsh, unjust or unreasonable, and the IRC can award compensation and re-instatement; even if the complaint is not upheld, the employee does not have to bear legal costs. Before the June 1994 amendments, the onus of proof was placed solely on the employer.

The two principal consequences of labour market regulations which raise minimum wages and minimum conditions of work are to create unemployment and reduce on-the-job training. The government's policy initiatives of May and June 1994 tacitly acknowledge both effects.[16] Under the May 1994 Working Nation package trainees have now been partially exempted from the minimum wage components of the safety net, and subsidies for hiring the long-term unemployed have been introduced; similarly, the June 1994 amendments to the IRA limit the potential costs of the termination provisions to employers, thereby reducing the disencentives to hiring new employees. However, using subsidies, and partial exemptions from regulations to undo the harmful effects of other regulations is a band-aid strategy: why should only trainees be granted exemptions from the safety net? and why should workers have to incur a period of long-term unemployment to qualify for wage subsidies? By shifting yet more of the costs of unemployment onto tax-payers, the provision of wage subsidies for the long-term unemployed will increase the incentives for both

unions and regulators to raise minimum wages. Nor is it clear that the subsidies and exemptions will be sufficient to overcome the employment-destroying effects of the other parts of the IRRA. Finally, to make sure that useful training actually occurs would require a massive bureaucratic monitoring effort; the inability of the bureaucracy to perform such detailed monitoring scarcely needs proof, but proof is provided by the failure of the government's training levy (see section III).

V. Economic performance post reform

The Industry Commission's *Annual Report 1989-90* (p.33) estimated that GDP could be increased by 5.4 percent by implementing specified microeconomic reforms in the six areas of the public sector listed in section III. The IC also estimated that eliminating protection would raise GDP by a further 1.1 percent, giving an estimated once-off total increase in GDP due to implementing the seven specified reforms of 6.5 percent. In absolute terms this is a very large amount: 6.5 percent of GDP in 1994 is $A28 billion p.a., or about $A1560 per person p.a; and if the future gains are capitalised using plausible estimates of real rates of growth and interest, their present value would exceed annual GDP. However, if, for example, the realisation of these gains were spread out over 6 years, the *true* annual GDP growth rate would only be increased by about 1 percent; and the effect on *measured* GDP would be even less for two reasons. First, some government sector outputs are measured on the basis of inputs; in such cases, public sector productivity improvements have no measured effect on GDP at all. Second, policies - such as the elimination of cross-subsidies - which re-allocate resources from those who value them relatively little, to those who value them more highly, also have no direct effect on GDP.

Chart 5 shows real GDP growth in Australia and New Zealand over the period 1965-1993. In

Australia's case there appears to have been a once-over decline in the trend in 1974; since 1984 there may have been a very small increase in the average growth rate, relative to the period 1974-83, but the improvement has not got us back to pre-1974 average growth rate. And all these changes appear to be small relative to the year-to-year fluctuations in the growth rate. These year-to-year fluctuations have been so much larger in the case of New Zealand that it is impossible to detect any clear breaks in the growth performance associated with the onset of the deregulatory policies, although if the growth performance of the last 18 months turns out to be more than just a cyclical up-turn this pessimistic conclusion would have to be revised.

Chart 6 shows the course of relative real incomes in the two countries. The dotted series in Chart 6 is real income per person of working age in Australia relative to that in New Zealand, as measured by the ratios of each country's nominal GDP per person aged 15 to 65, after adjusting for differences in the purchasing powers of the two currencies. Per capita incomes in the two countries were equal, according to this measure, for the average of the period 1972-73. In the 1960s per capita income was higher in New Zealand than Australia; since the early 1970s Australia has drawn ahead and any variation in the trend which may have occurred since the mid-1980s has been small relative to the year-to-year fluctuations. The solid line in Chart 6 is the ratio of real GDP in the two countries, indexed at unity in 1972-73, the period in which the dotted series is unity. Because Australia's population has grown faster than New Zealand's, this measure of relative performance is even less flattering to New Zealand.

Chart 7 shows that Australia's GDP growth rate since 1981 has been similar on average to that of the rest of the OECD. Charts 8 shows that inflation in Australia during the 1980s was a bit slower than in New Zealand, and much less variable; but in the 1990s New Zealand's inflation has fallen to

an even lower rate than Australia's. Chart 9 shows that relative to the OECD average, Australia's inflation was faster in the 1980s, but slower in the 1990s. Judged by the criterion of reducing inflation, Australia and New Zealand have both improved substantially since the mid-1980s, and New Zealand's improvement is even more marked than Australia's.

Chart 10 shows the unemployment rates of Australia, New Zealand and the whole OECD. Australia's rate was similar to that of the whole OECD during the 1980s, but rose substantially during the 1990s relative both to its past level, and relative to the average for the OECD. New Zealand's unemployment rate was far below that of both Australia and the whole OECD until about 1988. It then rose rapidly, and was temporarily even higher than the Australian unemployment rate; since 1991 the New Zealand unemployment rate has fallen relative to that in Australia, and is now slightly lower than the Australian rate. But it would be rash to draw any policy conclusions from such a small difference.

Measured by the criterion of low inflation, both Australia and New Zealand have done better since the mid-1980s than they did before then, and they have also improved relative to the rest of the OECD. The improvement in performance has been especially marked in New Zealand's case. On the other hand, unemployment rates in both countries have risen steadily since the 1970s, both in absolute terms and relative to the OECD average. Given the lack of labour market deregulation in either country in the 1980s this is not surprising. Time will tell whether the reductions in unemployment benefit replacement ratios in New Zealand in 1990 and the 1991 Employment Contracts Act will permanently reduce New Zealand's unemployment rate.

Chart 5 shows that differences in the growth rates of the Australian and New Zealand economies

before and after 1983-84 are small in comparison with year-to-year fluctuations. This also applies to comparisons between either of them and the rest of the OECD (chart 7). Even if the adoption of deregulatory policies has a large positive impact on GDP growth, one would not expect to find large differences between Australia, New Zealand and the OECD, since deregulatory policies have been adopted by most OECD countries since the early 1980s. New Zealand has been more thoroughgoing in its pursuit of deregulation than Australia, and Australia has probably been more thoroughgoing than other OECD countries on average; but these differences in national commitments to deregulation have not been very large.

It is sometimes argued that the true gains from deregulation include large increases in the rate of growth of technical efficiency and are therefore much greater than those predicted on the basis of the conventional, and largely static model, used in obtaining the estimates reported in section III. If deregulation does produce large increases in the rate of growth of efficiency it is hard to see them in the aggregate data for the Australian economy over the last two decades; and harder still to see them in the corresponding New Zealand data. Growth may well have slowed down since 1983-84, but given the amount of background noise in the data, it is hard to be sure. And, since the implementation of deregulatory policies is only one of many changes affecting national growth rates, one cannot be sure how fast Australia and New Zealand would have grown since the mid-1980s in the absence of deregulation.

The apparent lack of association between the pursuit of deregulatory policies and rapid GDP growth is evidence against the view that the adoption of deregulatory policies necessarily provides a major stimulus to economic growth. But this does not mean that deregulation has no benefits. First, as argued at the start of this section, measured GDP fails to pick up some of the true benefits

of deregulation. Second, even if the deregulatory policies of the last decade had contributed a once-over increase in real GDP of, say, 5 percent, the implied increase in the average growth rate of ½ percent p.a. would be scarcely noticeable against the background noise of ongoing year-to-year fluctuations in GDP.

VI. Conclusion

Writing in 1989, Sieper and Wells (1991) praised the macroeconomic policies of the Labor governments in Australia and New Zealand: "Both governments have shown an unusual seriousness of purpose and a steadfast dedication to the fundamentals of sound government. Both have been notable for the diligence of their economic ministers. It may confidently be predicted that both will prove a hard act for their political opponents to follow." In the case of New Zealand, the National government extended the scope of deregulation to the labour market. But in the case of Australia, it is the Labor government itself which has found its initial "dedication to the fundamentals of sound government" a hard act to maintain: the shares in GDP of government expenditure and taxes have once again started to grow (Chart 1); the tax reform most strongly advocated by Treasurer Keating was killed by Prime Minister Keating; Federal labour market regulations have been tightened, but partially countervailed by subsidies; and Federal powers have been used to undermine state government attempts to relax labour market regulations in Victoria.

NOTES

1. This paper was written in May 1994; minor revisions were made to section IV in July 1994 to take account of subsequent policy changes. I am grateful to Robert Albon, Matt Benge, Greg Cutbush, Anne Daly, Ross McLeod, Ted Sieper, and Graham Smith for helpful comments. All errors are my own.

2. The Reserve Bank stopped issuing quantitative guidelines to the banks on lending operations in June 1982; and the Treasurer relaxed the required ratio of liquid assets to deposits for savings banks in August 1982.

3. The basic source of the data in all the charts is the OECD's *Economic Outlook*.

4. A survey of tax reform in Australia is given in Benge (1992).

5. The Coalition parties and the Democrats succeeded in preventing the introduction of an identity card, which would have facilitated the detection of tax evasion. However, alternative, though somewhat less efficient, checks on tax evasion were subsequently introduced.

6. See Albon and Falvey (1992).

7. In 1992 a tariff of $12,000 per vehicle was imposed on imports of used cars. Under the low-volume used car import scheme each registered importer was exempted from this duty on 100 vehicles per year. In August 1993 the exemption was tightened from 100 to 25 vehicles per registered importer per year.

8. To conclude merely from Chart 4 that real wage reductions raise employment would be to ignore the identification problem. A study which attempts to meet this problem, and which concludes that real wages reductions do indeed raise employment is Hagan (1991).

9. The "no disadvantage" test is contained in s.170NC.(1)(d), which neglects to specify what the EFA is to be compared with in applying the test. In practice the Commission

uses the existing industry-wide award as the basis of comparison, even though some of those who would be employed under an EFA might be unemployed if the EFA were not approved. The legislation also makes no mention of how the Commission is supposed to trade-off advantages and disadvantages among employees, or across the various components of pay and conditions for each employee.

10. The criteria which a proposed certified agreement must meet are the same as those which an EFA must meet, except that in place of the majority approval test for an EFA, a certified agreement must, if it applies to a single enterprise, meet the test of s.170MC.(1)(g). Part (i) of this sub-section contains the union veto provision: the parties to the certified agreement must include each union which is a party to any of the awards covering any of the employees covered by the agreement.

11. The application of the minimum entitlements provisions to State awards is provided for by the extension of the existing ss.152 and 153 of the IRA by the new s.170JH.

12. S.45E of the TPA has been repealed and s.45D has been amended to remove references to "substantial loss or damage" in the definition of prohibited conduct. The section now only prohibits conduct which would substantially lessen competition in product markets. In addition, s.51 of the TPA which grants unions general immunity from the prohibitions which apply to firms has been amended: the old s.51 gave unions immunity from the whole of Part IV - "Restrictive Trade Practices" - except s.45D and E and s.48. The new s.51 omits the references to s.45D and E. The result is that unions now have immunity from all restrictive trade practices except the s.48 prohibition on resale price maintenance!

13. If the 1994 provisions for peaceful picketing had applied in 1986, the legal outcome of the Mudginberri abattoir dispute would presumably have been reversed. Although the employees were willing to accept the regulated wages and conditions set by the AIRC's predecessor, the meat industry employees' union picketed the abattoir in support of its own demand for a different payment system. The government's health inspectors refused to cross the picket lines, and the government failed to order them to

carry out their duties; without their certification the abattoir was unable to export its meat and would have been forced to close immediately. Using the former s.45D of the TPA, the abattoir's owner was eventually able to force the AMIEU to lift its picket line.

14. The onus of proof of unfair dismissal is now shared by the emoployer and the employee. Compensation for award employees has been limited to a maximum of six months' remuneration; and the maximum compensation for non-award employees is now the lesser of six months' remuneration and $30,000. Non-award employees with base salaries over $60,000 p.a. are no longer covered.

15. The Commonwealth Auditor-General has estimated that under estabished procedures it can take up to 3 years and cost up to $300,000 to dismiss an incompetent public servant. (*Australian*, 30/3/1994)

16. The government's tacit acceptance of the blindingly obvious - that cutting wage and other labour costs to employers is a way to raise employment - is apparently not shared by at least one of the experts appointed to its Committee on Employment Opportunities. Under the headline, "Lower pay `would harm work creation'", Professor R.G. Gregory was reported to have "warned that allowing wages to fall would harm, rather than help, job creation and would only serve to increase the discrepancy between rich and poor." (*The Australian*, 21/9/1993).

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