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What is the crux of the government’s case for its industrial relations reforms? In statements by senior ministers over the past few weeks one point comes up again and again: that the only way to maintain employment growth is to reduce protection for employees. It’s one of those commonsense claims that often aren’t examined too closely. And there’s no evidence to suggest that it’s true.

Mr Howard phrases his argument carefully. “The reality”, he told ABC Radio earlier this month, “is that countries like Germany, that have very highly regulated labour markets, Germany and France have double the unemployment rates of countries like Britain and New Zealand and the United States, that have less regulated labour markets.”

Even superficially, this is unconvincing. Labour market regulations in Germany and France are so notoriously rigid that they are virtually irrelevant to the present debate, and Germany has two added burdens: the post-communist economic problems of East Germany and the arrival of over 1.8 million asylum seekers and unauthorised immigrants during the 1990s. At the opposite end of the spectrum, the United States, Britain and New Zealand provide notoriously few protections to employees – with, as we’ll see, not especially outstanding results. What’s happening between these two extremes is much more significant for Australia.

But there’s a more important problem in the way Mr Howard argues his case. Unemployment rates are a highly unreliable indicator of the comparative health of labour markets in different countries. They are fatally flawed because they can leave out a large group of potential employees: those individuals who have dropped out of the jobless statistics altogether, switching to disability payments, for example, or living off savings.

A much more reliable measure is the proportion of the working-age population in each country who have a job. The OECD provides these figures for each of its member countries, and they give a different picture of which countries are doing well for their working population.

The OECD has also developed an index of employment protection, designed to measure “the strictness of employment protection legislation” for each of these countries. According to the organisation, the index takes into account “regulations governing the terms and conditions of permanent contracts in case of individual dismissals; additional provisions in the face of mass layoffs; and regulations governing the possibility of hiring on temporary contracts.”
When we match up the two sets of figures – employment rates and the job protection index – for Australia and 16 comparable OECD countries an interesting pattern emerges, and it doesn’t offer much support to the government. As the table shows, Australia is already in the bottom half of the job protection range – 1.5 in an index that ranges from 0.7 (for the US) to 3.1 (Spain), and we’re a shade above average on the employment scale (69.5 percent). The four countries below us on the index – the US, Canada, Britain and New Zealand – do indeed have higher percentages of working-age people in employment. But so do five other countries with higher levels of employment protection: Switzerland (77.4 per cent in employment), the Netherlands (73.1 per cent), Norway (75.6 per cent), Sweden (73.5 per cent) and Denmark (76 per cent).

To put it another way: out of the six countries with the highest levels of employment, only one has less employment protection than Australia. Each of the other five – Switzerland (1.6 on the job protection index), the Netherlands (2.3), Norway (2.6), Sweden (2.6) and Denmark (2.9) – has more protection, and sometimes significantly more, yet is performing better in terms of providing employment for its citizens.

What about the government’s favourite labour markets – the ones in the United States, Britain and New Zealand? The US is really in a class of its own, offering virtually no regulation of either temporary forms of employment or the dismissal of individuals, although it gives some protection against mass dismissals. The social cost can be very high, and the benefits – an extra 1.7 per cent in employment above Australia’s rate – are easily matched by the more generous systems in Switzerland, the Netherlands, Norway, Sweden and Denmark. Four of those five countries also out-perform the other low-protection countries, Britain, New Zealand and Canada, in providing jobs.

I suspect that the government thinks that labour market deregulation is an easy way to generate employment, regardless of the potential costs. But the figures show that if the government really does want to create jobs, it can do so without joining the race to the bottom of the job protection league table. The performance of Switzerland, the Netherlands, Norway, Denmark and Sweden shows that alternative policies can be just as successful in providing jobs.

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