Reducing Unemployment, Joblessness and Inequality in a Globalising Economy: The Case of Australia.

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ABSTRACT

One stylised view of globalisation and labour markets is that globalisation (along with skill-biased technological change), tends to increase income inequality through the widening of wage differentials, and that attempts to reduce inequality through labour market protection of low wage earners, would tend to cause unemployment. Thus there is deemed to be a trade-off between wage flexibility and unemployment that is sometimes called the "diabolical trade-off".

In this paper, the difference between wage inequality and household (or income unit) income inequality is emphasised. Although Australia has a strong tradition of trying to use regulated wages as an anti-poverty device, it is shown that this is not a sensible strategy in the contemporary labour market. Further it is pointed out that the major driver of any increasing inequality in Australia is the widening distribution of employment rather than increasing wage differentials.

The growth of jobless households in Australia is documented and the particular problem of jobless households with children emphasised. It is argued that reducing the incidence of jobless households with children should be a major policy priority.

The author was a member of the Australian Government's Reference Group on Welfare Reform that produced the McClure Report in 2000. Previously he was one of five economists who wrote a letter to the Australian Prime Minister in 1998, proposing, amongst other things, a wage tax trade-off to reduce unemployment (involving the use of an employment tax credit). The ideas of the McClure Report and of the 'five economists' are canvassed, and the likely effects of their proposals evaluated. This includes some results of a behavioural microsimulation analysis, undertaken in association with Alan Duncan of the University of Nottingham.

It is concluded that an appropriate policy package can be devised which would reduce unemployment, reduce the incidence of jobless families with children and reduce income inequality in Australia, thus avoiding the diabolical trade-off.