

# “Checkpoint Charlie”

A  
SUBMISSION TO THE  
HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON  
**YOUTH UNEMPLOYMENT**

BOB DAY

## INTRODUCTION

*"Mr Gorbachev, tear down this wall!"*

US President, Ronald Reagan

Berlin, Germany

12<sup>th</sup> June, 1987

Barbed wire, land mines, fortifications and armed guards. Most people remember the Berlin Wall and that notorious border crossing which stood between East and West Germany called "Checkpoint Charlie". For nearly 50 years the Berlin Wall partitioned Germany and cut off the people of Eastern Europe from the liberty and prosperity of the West. Checkpoint Charlie came to symbolise governmental regulation and control of traffic which had once been free.

Walls and checkpoints are apt metaphors for the barriers which Australian governments have erected – and continue to maintain, which exclude the young unemployed from the experience of work. They were erected in the name of an ideology just as blinkered to the best interests of the people they were said to be "protecting". It is time they too were torn down.

12<sup>th</sup> June, 1997



I am sure that you will all have seen the attached graph which plots suicide and unemployment rate proportions for young men between 20 and 24 years of age. There is a marked correlation between the two lines, in their lock-step, relentless rise. They lend a sense of urgency to the debate over the role of Government in the youth labour market, an area where many of its previous interventions, however well-intentioned, have been catastrophic. I want to put a case for deregulation. The economic arguments in its favour are compelling enough but the moral and philosophical arguments seem to me quite overwhelming.

Historically, Australia developed a centralised wage-fixing system as a result of the political consensus which also gave us tariff protection. It's safe to say that without the one we would never have had the other. High tariff walls led to what's been called "the cost-plus mentality." Whatever goods cost to manufacture - including the cost of labour, the manufacturer would simply add his margin to arrive at a price.

The policy decision to lower and eventually abolish tariff barriers was taken in principle long ago, but the implications of that decision, as it impacts on the labour market, have not been thought through and articulated adequately. Lip-service is pretty generally paid to the notion that youth and trainee wages and conditions ought to have a degree of flexibility, since these are the categories in which employees are making the transition to optimum usefulness. But in practice Industrial Relations Commissions, unions and even, I regret to say, governments are far from flexible.

There are still many companies large enough and profitable enough to work on a version of "cost plus" when it comes to employing young people. But in the small business sector, for companies employing 20 staff or less it is no longer the case. There are something like 900,000 small businesses in Australia (812,000 non-agricultural and 95,000 agricultural - AFR 20/8/96) and most of the owners work 10-12 hour days, 6-7 days a week. Each and every one of them would, I'm sure, love some help. The fact is however, as far as small business is concerned employing people is no longer an option. It is complicated, expensive and fraught with danger. Yet, as it has become something of a commonplace to observe, small business is the

sector in which there is most scope for generating new jobs. And there is simply no point in looking to big business to solve the problem - they are actually spending big on new technology so they can reduce their workforce numbers.

The main question in Australian politics, for the foreseeable future, is how long the old, cosy Industrial Relations Club is going to insist on pricing most young people out of the job market. We've built a huge brick wall across the road to employment and every rule, every regulation, every Award is just another brick in the wall. And all our job subsidies and training schemes and labour market programmes are just feeble attempts to scale the wall. Getting just one young person over the wall is hard enough - trying to get 200,000 over is fighting a losing battle.

The conventional wisdom of a decade ago was that any erosion of the artificially high youth wages could only conceivably have one motivation and one outcome - namely to put pressure on wages more generally. It fits in nicely with the demonological view of employers as a class, but has very little to do with the way successful small businesses work now and have done for a long time. In fact it's one of the 'givens' of contemporary industrial relations that the smaller the business the more it depends on a co-operative rather than a confrontational model.

Another 'given' within small business, which the Industrial Relations Club has so far failed to grasp, is that a business can only pay wages commensurate with the value of the work done. It's a fundamental proposition, logically and ethically unassailable, unlike the present expectation that - in the interests of an anachronistic regulatory model or furthering a dimly conceived notion of "social justice" - employers should pay inflated youth wages or pay none at all and do without the services of a young worker.

There is a corollary to wages commensurate with the value of the work. Small business employers have a much better understanding of the value of that work to them than remote arbitral bodies can ever expect to develop. Let me give an example from the building trade. When I started in the home-building industry in 1973, Australia was building over 100,000 homes a year. Building apprentices'

wages at that time were extremely low and were, for all intents and purposes “deregulated”. As a result, just about every tradesman had an apprentice and because the wages were so low (less than 15% of an adult wage), most (but not all) lads came from lower socio-economic areas. Those lads have now long forgotten their lean times as apprentices and are doing well. Australia is still building over 100,000 homes and yet you would be lucky to find an apprentice anywhere. A first-year plumbing apprentice, for example costs an employer (with all the add-ons) \$301 a week - nearly 40% of an adult wage. A second-year apprentice costs \$420 a week. No tradesman could possibly pay wages like that. And they don't. And all the lads are unemployed. There are parallels to this in every area of small business, and the effect on national productivity is painfully obvious.

Even more painful, and not quite so obvious, are the effects that diminishing expectations of employment have on young people. Those who have spent any time in the workforce tend to forget the sense of self-worth and self-assurance that comes with it and the enhanced sense of autonomy that comes with promotion, successfully negotiating with an employer or changing to a better job. We take for granted too the pleasure of exhaustion at the end of a hard task done well, the thanks as well as material recognition from a satisfied boss, the feeling of money in your pocket that is well-earned. The philosopher Galen did not overstate the case when he said “Employment is Nature's physician and is essential to human happiness.” At no time is that truer than in the transition from school to adulthood when, as Elbert Hubbard said “we work to become - not to acquire.”

That process of becoming, through the experience of work, used to be taken for granted, along with a number of assumptions about the process which it's as well to remember. First and foremost, the rate of pay that went with that work was discounted because of the value to the employee of the experience generally and the particular skills acquired in the course of work. An explicit understanding at least as old as the medieval guild system was that the young, in accepting low wages, were *investing in their own education*, and that it was a rational and in no way demeaning investment.

To a traditional trade unionist mindset, concerned with the terms and conditions of members' employment and only notionally concerned about the flow-on effects on unemployment, deregulating the youth employment market for the small business sector may look like a form of class war. Those who take that view should remember that for every 10% increase in minimum wages there is a corresponding rise in unemployment of between 1.4 and 1.8%. For young people without formal school certificates, for example Year Twelve students, it means a rise of unemployment of between 3.4 and 3.8% (Maloney, 1994). By contrast, in New Zealand, which had an unemployed rate of 11% in 1991, a partial deregulation of the labour market has resulted in an unemployment rate of 6%, a figure that we aim for as an almost unattainable, distant goal.

One consequence of deregulation which has not been widely understood is its effect on age-based pay levels. They should become an anachronism when people are free to make their own arrangements. If 17 or 18 year-olds are capable of doing the work then they ought not to be discriminated against on the basis of their age. Training wages ought not to have any intrinsic connection with the age of the trainee, but only with their relative skill level. Deregulation is also the best medium and long term solution to another major economic problem - the shortage of skilled workers in Australia. That employers should be having to import them at a time of high unemployment is a national disgrace. But, when you consider the institutional solutions provided by TAFE and the like it is scarcely surprising.

If a teenager decides to enter the hospitality business, say as a waiter, there are basically two ways of going about it. The first is to attend a TAFE course, with a weekly Austudy allowance of around \$72 a week or the other option is to get a job in a restaurant, which involves making contact with real customers and the real economy. The only problem is that at the moment the restaurant will have to pay wages of around \$300 a week. I just can't see the sense in saying to young people you are allowed to collect \$72 a week to do nothing or attend TAFE but you're not allowed to collect \$72 a week to learn a trade.

This bizarre form of price-fixing - and that is the most useful way of conceiving the process - does little more than guarantee the continuation of endless Mickey Mouse courses in an infinite variety of subjects which few would otherwise take. Yet most young people would, I'm sure, rather be out in the workforce than in a classroom. It's perfectly understandable when you think about the sort of "practical" instruction they receive there. TAFE colleges do have a place in the scheme of things but not when they serve merely as child-minding centres. Moves to raise the age of compulsory school attendance should likewise be seen as a manipulation of the young by those most anxious to conceal the true level of unemployment.

One of the saddest things about the debate on youth unemployment in Australia is that most of the people directly affected by it, and their parents, have at least an intuitive understanding of these home truths. They know the difference between a real job with real prospects and a make-work exercise designed to allow government to reclassify them as "short-term unemployed" for the purposes of ABS statistics and political window-dressing generally. Those of them who haven't had their belief in the work ethic utterly eroded, at a social cost that scarcely bears thinking about (crime, drugs, teenage pregnancy, violence, poor health and sheer boredom) talk enviously about the apprenticeship schemes that gave their parents' generation a place in the workforce. We owe them no lesser start in life.



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