



ECONTECH'S ESTIMATES ARE CONSERVATIVE, NOT EXAGGERATED

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By Chris Murphy on the economic validity of the ACCI commissioned Econtech report

Contrary to the impression given by Kenneth Davidson's article (*BusinessDay*, 20/8), Econtech's estimates of the economic costs of re-regulating industrial relations are conservative, not exaggerated.

The OECD article Davidson referred to actually finds that the evidence suggests that high union density tends to curb employment rates. This is contrary to the impression given by Davidson's article.

This OECD conclusion also covers the regression equation preferred by Davidson, but in any case that equation is affected by a problem known to econometricians as multicollinearity.

Econtech's estimates of the economic costs of re-regulating the labour market are conservative because:

- Econtech assumes that only a third of the decline in union membership since 1992 is due to industrial relations reforms.
- Econtech conservatively estimated a productivity loss of 1.4 per cent, whereas the Treasury Economic Roundup estimated a loss of 2.4 per cent using the same OECD study.
- An international study by Di Tella and MacCulloch found that unfair dismissal laws caused much larger job losses than assumed by Econtech.
- Econtech's estimates of the adverse employment and productivity impacts from re-regulating industrial relations are small compared with the strong performance of the labour market during the de-regulation era that began in 1993.

Hence, it is likely that, as a minimum, re-regulation of the labour market would add 1.77 percentage points to structural unemployment and reduce productivity by 1.4 per cent as found by Econtech.

The Econtech study commissioned by the Australian Chamber of Commerce and Industry is the best information available to the public on the likely effects of re-regulating industrial relations.

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