

 THE AUSTRALIANCURBING INFLATION  
IS IN LABOR'S HANDS*Wages policy is the gorilla in the room*

RESERVE Bank governor Glenn Stevens had more good news than bad to deliver yesterday. The Australian economy is better-placed than most to avoid recession, and while inflation will peak at 5 per cent later this year, it should be back in its box by 2010. For anxious home borrowers, Mr Stevens flagged further interest rate cuts. But he warned that unemployment was likely to rise by about one percentage point, as it did during 2001-02, when the economy last slowed noticeably. Now the rub: all of the above depends on wages behaving. "This assessment hinges to no small extent on growth in overall labour costs not picking up further," he warned. At a time of higher unemployment, the notion that workers might start seeking wage rises beyond the economy's capacity to pay seems laughable. Which is what makes Mr Stevens' comments all the more telling. He was too polite to say where the threat of a wages breakout might come from, but it is not hard to work out what he might have been getting at. Julia Gillard's yet-to-be-released legislation to roll back Work Choices is the gorilla in the economic policy room. While Ms Gillard's commitment to keeping the building industry watchdog is commendable, it remains to be seen how Labor's policy will develop. The Rudd Government loves to recite the mantra that it is keeping fiscal policy tight to help the Reserve Bank lower interest rates. But a large budget surplus is meaningless if wages policy is sending the opposite signal.

Re-regulation of the labour market

makes no sense at the best of times. But it makes even less sense at this point of the economic cycle, with consumer spending stalled, inflation still high and business planning for the largest investment splurge in a generation. Sure, the Government says it won't return to the old centralised wage-fixing system. But even a small change at the margin could break the economy by entrenching inflationary expectations. The present crop of union leaders are arguably the least economically literate in the nation's history. In NSW, they vetoed electricity privatisation because Labor's arcane rules allowed them to. No economic rationale was offered, because there wasn't one — it was an exercise in rank-pulling. Does Kevin Rudd seriously expect the trade unions will behave differently in the national economy if he gives them the seat they demand at the wages policy table?

When the Reserve Bank last raised interest rates in March, *The Australian* was critical because we thought the economy was already slowing. "In hindsight, the central bank may have been wise to have taken harsher measures earlier," we wrote. By easing monetary policy six months later, Mr Stevens and his board have switched focus from fighting inflation to encouraging growth. The Government should do the same with a pro-market wages policy. Unlike interest rates, which can be quickly readjusted, a bad wages decision can't be taken back six months later without the loss of jobs.