

**LABOUR MARKET FLEXIBILITY AND AUSTRALIA'S
EXPERIENCE OF THE GLOBAL FINANCIAL CRISIS**

Paper prepared by

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15th November 2009

Introduction

Australia's experience of the global financial crisis has been remarkably benign, by comparison with that of most other advanced economies, by comparison with Australia's experience in the face of earlier shocks to the global economy, and by comparison with what was widely expected during the early stages of the crisis.

Previous Australian recessions have usually coincided with, if not necessarily been caused by, global recessions and in particular with recessions in the United States; and more often than not have entailed deeper contractions in economic activity than have occurred in the United States. In the aftermath of the global financial crisis which began in mid-2007 and intensified following the collapse of Lehman Brothers in September last year, both the global and US economies have experienced their deepest contractions since the end of World War II; as Reserve Bank Governor Glenn Stevens noted recently, 'it was widely anticipated that Australia would be affected by these developments ... it seemed pretty unlikely that we could escape a significant impact from such an international downturn'¹.

And yet Australia has been one of only four advanced economies not to have experienced the widely-used (if somewhat inaccurate) definition of a recession, consecutive quarters of negative real GDP growth, and the only one to have expanded over the year to the June quarter of 2009.

Australia's unemployment rate has risen, from a low of 3.9% in February 2008 to 5.8% in the months since July 2009; but this increase, though larger than in any period outside of those generally regarded as constituting a 'recession' (1974-75, 1982-83 and 1990-91) in the last four decades, has been much less than anticipated. As recently as May this year, the Australian Treasury (in its forecasts underpinning the 2009-10 Federal Budget) predicted that unemployment would peak at 8½% of the work force in the June quarter of 2009; in its Mid-Year Economic and Fiscal Outlook, released at the beginning of November, it lowered that projection to 6½%.

It has been widely suggested that one of the reasons for this smaller-than-expected increase in Australia's unemployment rate has been the enhanced flexibility of the Australian labour market as a result of the successive rounds of labour market deregulation which have been effected since the late 1980s. The purpose of this paper is to explore the extent to which this proposition is supported by the available evidence.

The deregulation of Australia's labour market

For most of the twentieth century, the wages and conditions of employment of Australian workers were prescribed in considerable detail by the decisions of quasi-judicial tribunals, the Conciliation and Arbitration (later, Industrial Relations) Commission and its State equivalents. Their decisions, popularly known as 'awards', were the outcome of hearings involving trade unions, as representatives of employees, and various associations of employers, with the Federal or State Governments often also making representations to the Commissions.

¹ Glenn Stevens, 'The Road to Prosperity', Address to 2009 Melbourne Institute & *The Australian* Economic and Social Outlook Conference Dinner, Melbourne, 5 November 2009.

'Awards' stipulated minimum rates of payment and other conditions of employment (such as working hours, annual and other leave, and additional payments) to be observed by all employers of workers covered by each award, irrespective of conditions in individual businesses or work-places; employers and unions could agree separately on 'over-award' payments. Awards often also stipulated that particular types of work could only be undertaken by employees belonging to a specific trade union.

The conciliation and arbitration system was intended to promote 'fairness' in pay and conditions across different industries and employers, to protect the interests of workers with limited bargaining power, and to minimize the number of strikes and other industrial disputes. In this latter regard, the system was quite unsuccessful: until the early 1980s, Australia was one of the most strike-prone countries in the OECD.

The centralized wage fixing system also meant that 'wage pressures in one sector or region would quickly flow into other parts of the economy, even where labour demand pressures were less apparent'; the resulting higher wage costs were then typically 'passed on in the form of higher prices, a process exacerbated by limited or restricted competition on the market for many goods and services'. And then, 'once inflationary pressures had emerged, it often required a period of much slower ... growth, and hence a sustained period of higher unemployment, to reverse the process'².

Beginning in 1987 with the adoption by the then Conciliation and Arbitration Commission of a so-called 'Second Tier' of 'productivity bargaining' in individual workplaces, followed a year later by a process of 'award restructuring', the provision for enterprise agreements in the 1988 *Industrial Relations Act*, and the introduction of the Enterprise Bargaining Principle in 1991, Australia began to move towards a less highly regulated labour market³. By 1993, the then Labor Government had recognized that 'greater flexibility in the wage determination system flowing from the move to enterprise bargaining' was an important element of strategies to 'improve the functioning of the labour market'⁴.

The trend towards a more deregulated labour market was taken significantly further by the Howard Government's 1996 *Workplace Relations Act*, which limited the role of awards to twenty 'allowable matters'; reduced the role and powers of the Industrial Relations Commission; provided for the use of collective agreements to which unions were not a party, and for individual employment contract (known as 'Australian Workplace Agreements'); and instituted stronger sanctions against illegal industrial action. The Howard Government's 2005 *Workplace Relations Amendment Act* (commonly referred to as 'Workchoices') further reduced the number of entitlements to be covered by agreements to five; removed the requirement contained in the 1996 legislation that agreements be embody 'no disadvantage' to employees compared to the previously applicable award (although this provision was subsequently re-instated under another name).

² Australian Treasury, 'Maintaining Low Unemployment in Australia', Statement No. 4, *Budget Strategy and Outlook 2004-05* (Canberra, 2004), pp. 4-7 and 4-9.

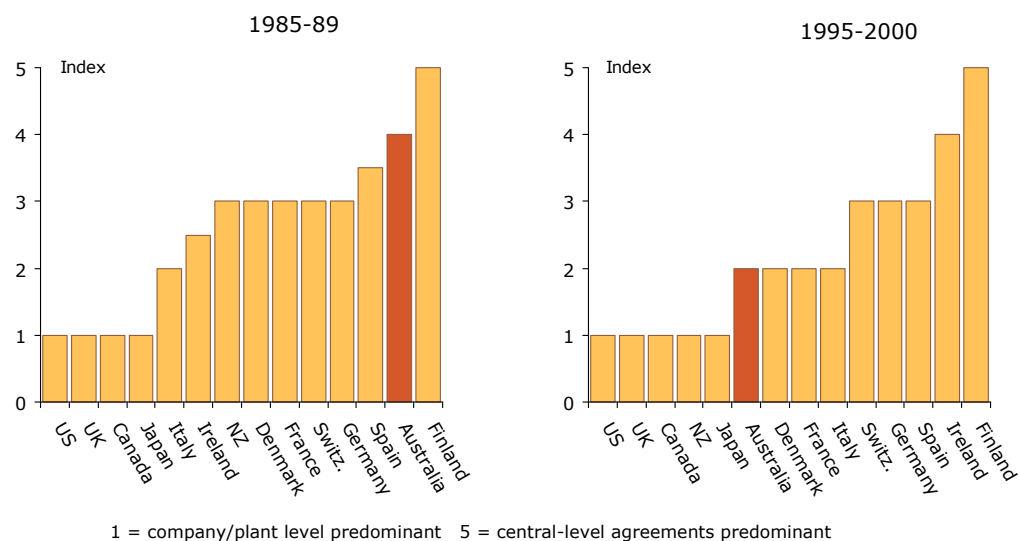
³ See Judith Sloan, 'Effects of the Labour Market on Microeconomic Reform in Australia', in Gary Banks and Steve Dowrick (eds), *Microeconomic Reform and Productivity Growth: Workshop Proceedings* (Productivity Commission, Canberra, July 2008), pp. 345-7 for a fuller account.

⁴ Australian Treasury, Statement No. 2, *Budget Statements 1993-94* (Canberra, 1993), p. 2.55.

It also transferred the responsibility for validating collective agreements from the Industrial Relations Commission to a new Workplace Authority; narrowed the scope of the 'unfair dismissals' laws introduced by the Keating Government in 1993, and transferred responsibility for setting the minimum wage from the Industrial Relations Commission to a new Fair Pay Commission.

As a result of the reforms implemented over the last two decades, Australia has gone from having one of the most highly-centralized and regulated labour markets in the OECD to being, in many respects, one of the more decentralized and least regulated⁵ (Chart 1). By 2008, only 16.5% of employees had their pay and conditions of employment determined by awards, compared with around 68% in 1990⁶; 39.8% were employed under a collective agreement, and 43.7% under some form of individual agreement. Australia had, in 2008, the fourth least restrictive employment protection legislation in the OECD⁷ (Chart 2 on p. 4).

Chart 1: Degree of centralization of wage-fixing systems



Sources: OECD *Employment Outlook 2004*, Table 3.5 p.151.

Trade union membership has also declined significantly over the past two decades, from over 57% of the employed work force in the mid-1980s to 18.9% in 2008⁸.

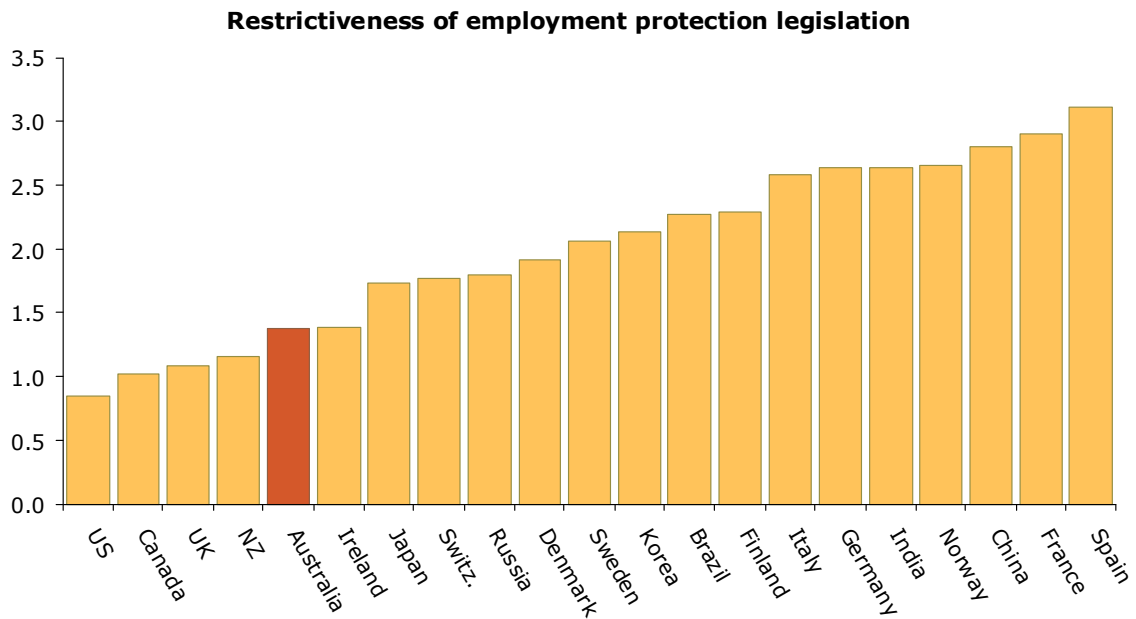
This trend reflects changes in the composition of the work force, in particular the declining share in total employment of traditionally heavily-unionized industries such as manufacturing and utilities, and social changes such as the trend increase in the employment of women (who have traditionally been less inclined to belong to trade unions), as well as changes in industrial relations legislation.

⁵ OECD *Employment Outlook 2004* (Paris, 2004) p. 151.

⁶ Mark Wooden, *Australia's Industrial Reform Agenda*, Paper presented at the 34th Conference of Economists, September 2005, p. 3; and ABS, *Employee Earnings and Hours August 2008* (catalogue No. 6306.0, Canberra, August 2009), Table 16.

⁷ OECD, *Online OECD Employment Database*, accessed 12 November 2009.

⁸ ABS, *Employee Earnings, Benefits and Trade Union Membership* (catalogue no. 6310.0, Canberra, successive years).

Chart 2: Restrictiveness of employment protection laws

Note: scale from 0 (least restrictive) to 6 (most restrictive) based on laws relating to 'protection' against individual dismissal, regulation on forms of temporary employment, and specific requirements for collective dismissal. *Source:* OECD Online Employment Database.

The Rudd Government's *Fair Work Act 2009* represents a partial re-regulation of the Australian labour market, although the broad thrust of the changes made over the past two decades will remain intact. The new legislation will increase to ten (with effect from the beginning of next year) the number of minimum employment standards (including additional standards relating to various leave entitlements), provides for the phasing out of Australian Workplace Agreements (for employees earning under \$100,000 per annum) in favour of a single stream of agreement-making, introduces a requirement for bargaining 'in good faith', expands access to unfair dismissal provisions, and establishes a new body (Fair Work Australia) to provide the framework for the workplace relations system.

Australia's labour market experience during the global financial crisis

The principal economic arguments for labour market reforms of the kind implemented in Australia over the past two decades have been that they would enhance productivity and strengthen the capacity of the economy to absorb shocks.

The OECD has argued that 'increasing scope for direct negotiations between employers and employees has probably ... helped to raise productivity' and 'recent experience confirms the importance of policies to assure that wages adjust flexibly in response to supply- and demand-pressures, so as to support high levels of employment in a constantly changing environment'⁹.

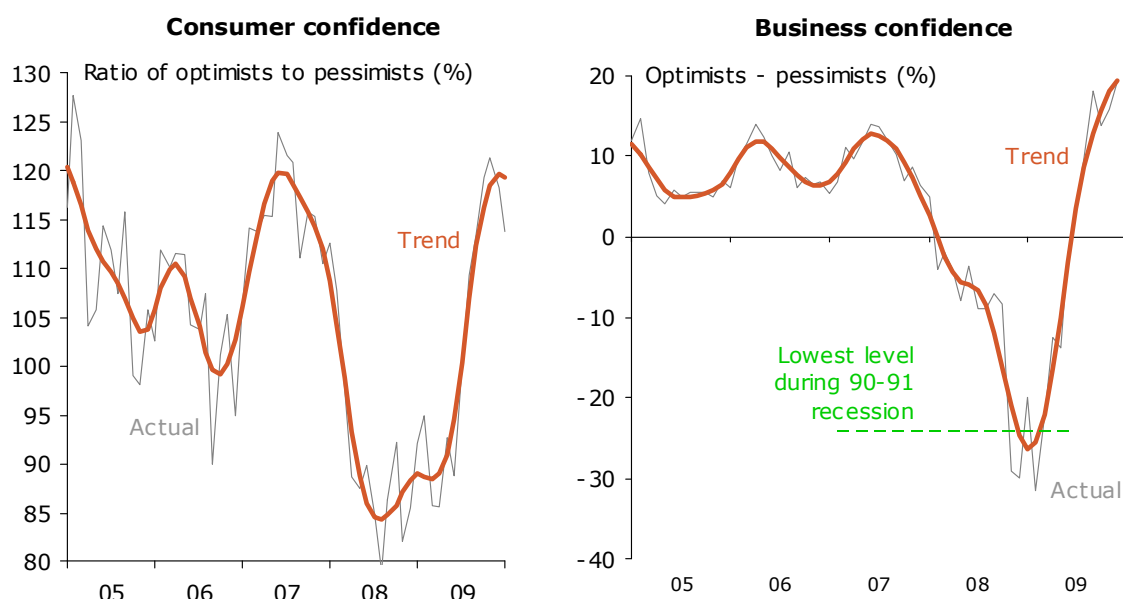
⁹ OECD, *Employment Outlook 2006* (Paris, 2006), cited by Australian Treasury, 'Australia's Labour Force Utilization', Statement No. 4, *Budget Strategy and Outlook 2007-08* (Canberra, 2008), pp. 4-22 and 4-23. Note that some subsequent OECD research has been more unequivocal about the linkages between labour market regulation and labour productivity growth: see, for example, OECD *Employment Outlook 2008* (Paris, 2008), p. 57.

The fact that, during the period in which the Australian labour market has become progressively more decentralized, the Australian economy has experienced three significant global economic shocks (the Asian crisis of 1997-98, the 'tech wreck' of 2000-01, and the global financial crisis and ensuing 'Great Recession' of 2008-09) without itself experiencing a recession (in the most commonly-used sense of that term) would appear to constitute *prima facie* evidence in support of the second of these arguments – even allowing for the possibility that other factors may also have contributed to this outcome.

The collapse of the American investment bank Lehman Brothers in mid-September 2008 led to a dramatic intensification of the financial crisis which had begun in mid-2007. The global financial system came very close to ceasing to function altogether, and was arguably prevented from doing so only by the introduction of unprecedented government guarantees of banks' wholesale borrowings and retail deposits, and dramatic expansions in central banks' balance sheets. Even those measures did not prevent a substantial contraction in the availability of finance from banks and through the debt securities markets, sharp falls in share prices, and significant declines in consumer and business confidence. These developments were manifested in an abrupt decline in discretionary consumer and business spending around the world, in turn prompting a marked contraction in both production and trade.

In Australia, even though the disruptions to the financial system were considerably less than in the United States or Europe, business confidence fell sharply, on one measure (that compiled by National Australia Bank) to a level below the lowest reached during the recession of the early 1990s (Chart 3). Consumers' assessments of economic conditions over the next 12 months also plunged to their lowest level since 1992, although consumers' assessments of their own financial position and of buying conditions for major items remained positive (almost certainly reflecting the prompt response of monetary and fiscal policy) so that, overall, consumer confidence actually remained above the previous low in July 2008 (when mortgage interest rates peaked).

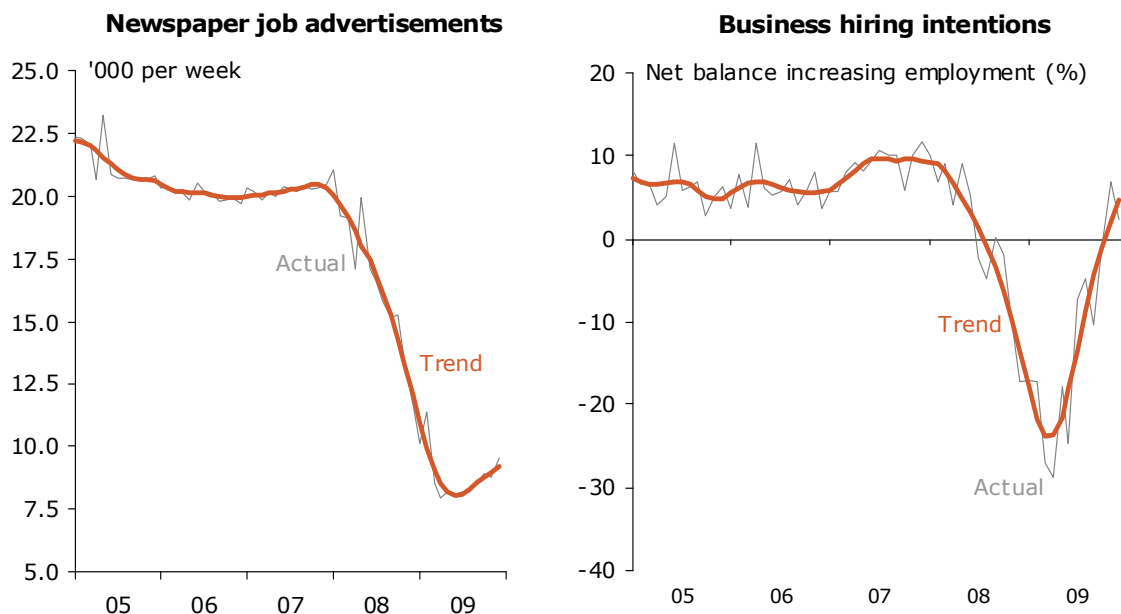
Chart 3: Consumer and business assessments of the economy



Sources: Westpac-Melbourne Institute; National Australia Bank.

In particular, it appeared likely during the months following the collapse of Lehman Brothers that a significant deterioration in the Australian labour market would ensue. The number of newspaper job advertisements recorded by ANZ Bank fell by 48% between September 2008 and March 2009 (Chart 4), to their lowest level since the series commenced in 1975; over the same period the number of internet job advertisements fell by 41% (and by a further 16% over the next three months). The Skilled Vacancies index compiled by the Federal Department of Employment and Workplace Relations fell by 54% between September 2008 and June 2009, when it reached its lowest level since June 1983 (and some 21% below the trough recorded during the early 1990s recession). The employment expectations components of the National Australia Bank and Westpac-ACCI business surveys also turned sharply negative, although without reaching the depths plumbed during the recession of the early 1990s. The number of announced retrenchments¹⁰ began rising significantly, from an average of around 3,600 a month in the September quarter 2008 to 4,250 a month in the December quarter and nearly 6,000 a month in the March quarter 2009 (peaking at over 8,700 in January).

Chart 4: Survey indicators of labour demand



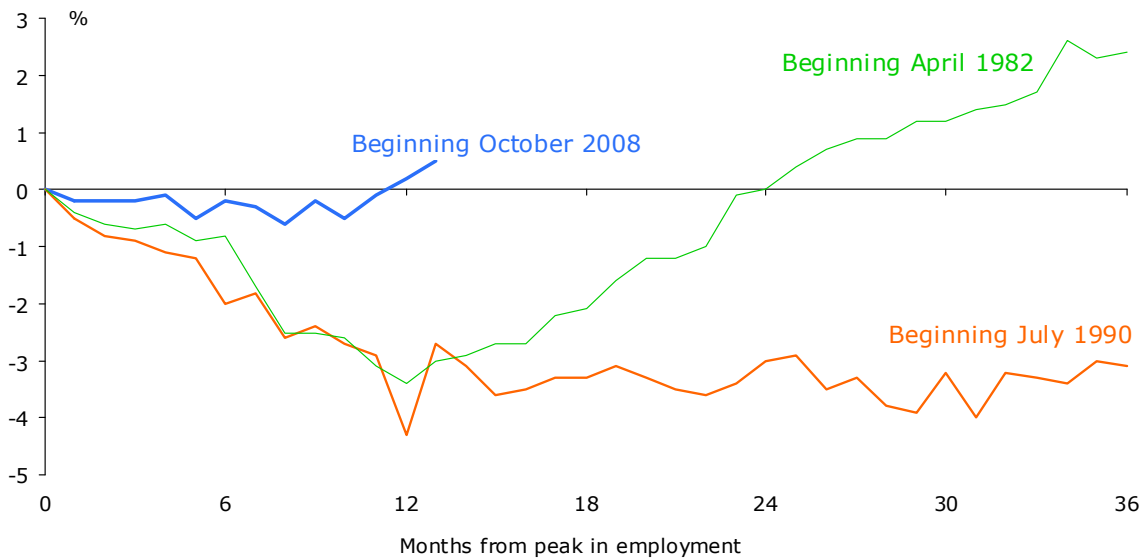
Sources: Australia & New Zealand Banking Group; National Australia Bank.

There was thus considerable cause for concern that unemployment would rise sharply, a concern that was reflected in the official forecasts referred to earlier.

And yet the deterioration in the labour market which actually occurred, though by no means insignificant, was far less worse than initially seemed probable. At its greatest extent, between October last year and June this year, employment fell by a net 59,200 or 0.5%. This is considerably less than the peak-to-trough job losses of 313,200 (or 4.0%) during the recession of the early 1990s, and 229,500 (or 3.5%) in the recession of the early 1980s. And this net decline has since been entirely erased, with employment increasing by 112,100 between June and November (Chart 5).

¹⁰ As recorded by ANZ Bank.

Chart 5: Employment in successive downturns
Cumulative change in employment from pre-recession peak



Sources: ABS; Grattan Institute.

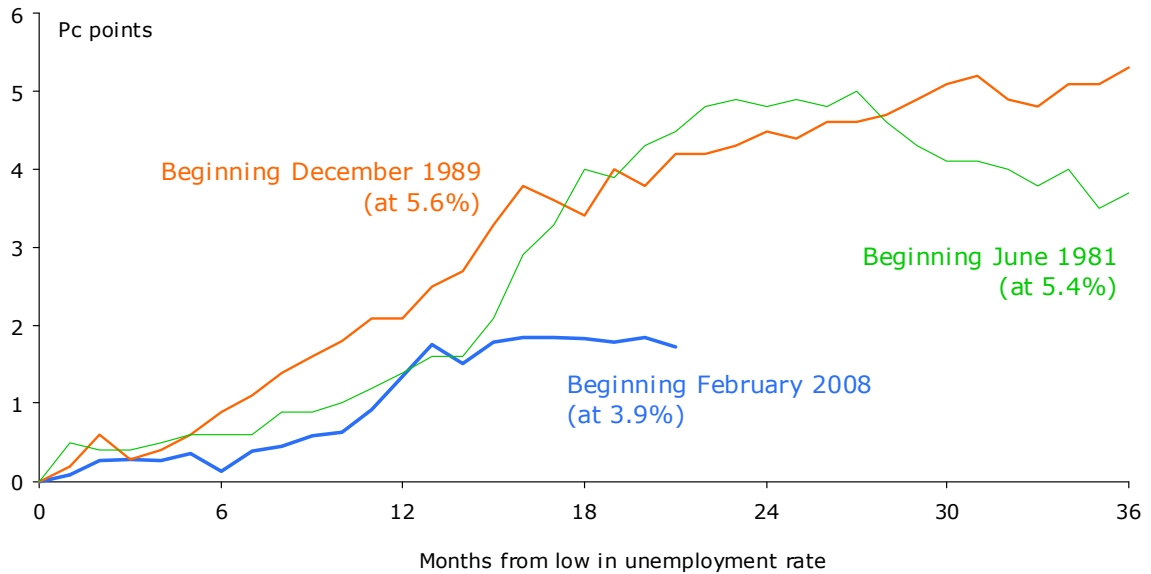
Of course, actual job losses were greater than implied by these aggregates. Industry level data (which are only available for the middle month of each quarter) suggest that some 197,000 jobs were shed between August 2008 and May this year in the manufacturing, mining, construction, wholesale and retail trade, finance and insurance services, rental hiring and real estate services, education and training, professional and other services sectors (of which nearly 50,000 were in manufacturing alone); while over the same interval 183,000 jobs were added in other sectors, chiefly health care and social assistance (78,000), public administration and safety (41,000) and transport, postal and warehousing services (33,000).

Similarly, data on employment by occupation (which is also available only for the middle month of each quarter and, unlike the industry disaggregation, is not available in seasonally adjusted terms) suggests greater job losses among machinery operators and drivers, labourers, sales workers, and professionals, largely offset by job gains among community and personal services workers, clerical and administrative workers, technicians and trade workers, and managers.

Despite the comparatively small net decline in overall employment, the number of unemployed persons has risen by more than 200,000 since February 2008, pushing the unemployment rate up from a low of 3.9% to 5.8% by June 2009, at within 0.1 pc point of which level it has since remained (Chart 6).

This is the largest increase in Australia's unemployment rate outside of a period customarily regarded as a recession since monthly labour force figures were first compiled in 1978. The rise in unemployment reflects the continued relatively rapid growth in the labour force as a result of high levels of immigration, and the fact that the labour force participation rate has fallen by considerably less (0.4 pc points at its greatest extent) than in the recessions of the early 1980s and early 1990s (during each of which it fell by more than 1 pc point)..

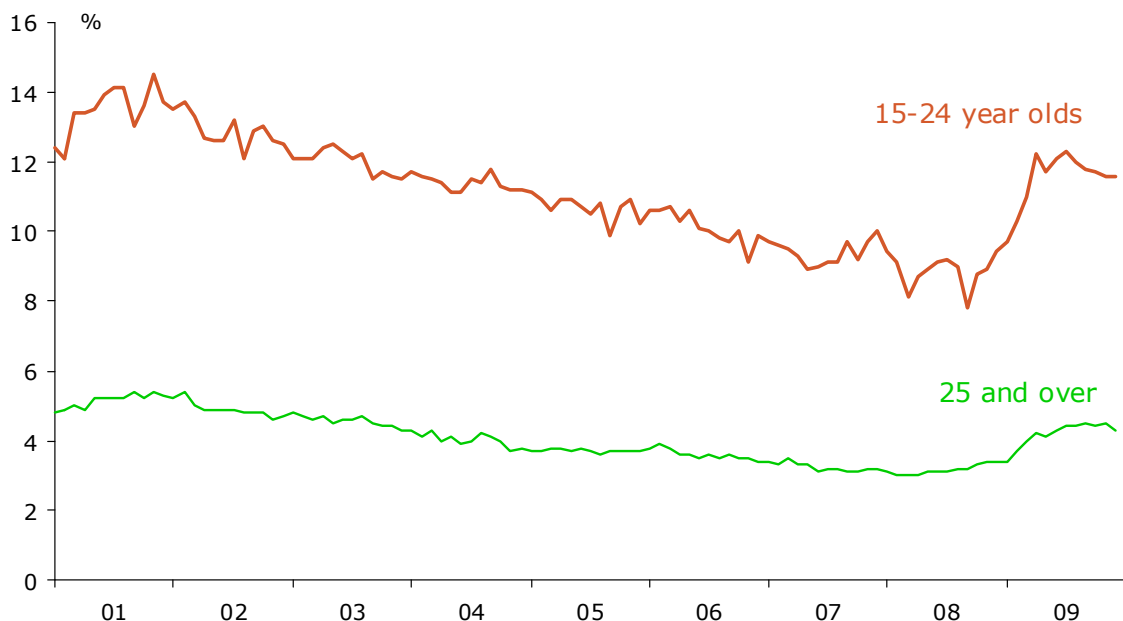
Chart 6: Unemployment rate in successive downturns
Cumulative change in unemployment rate from pre-recession trough



Sources: ABS; Grattan Institute.

The rise in unemployment has been concentrated among younger people (Chart 7). People aged 15-24, who represent about 18% of the labour force, have accounted for 32% of the increase in the number of unemployed since the trough in February last year. The unemployment rate among this group rose from 8.1% at that time to a peak of 12.3% in June, the highest since April 2003, before easing back to 11.6% in October. The unemployment rate among 15-19 year olds not attending full-time education (mainly school leavers), which is not available in seasonally adjusted terms, typically peaks in January or February: it did so in February this year at 20.0%, the highest for eight years, and well above last year's seasonal peak of 13.8%. As of October the unemployment rate among this group was still at 16.5%, the highest figure for this month since 2001.

Chart 7: Unemployment rate among 15-24 year olds



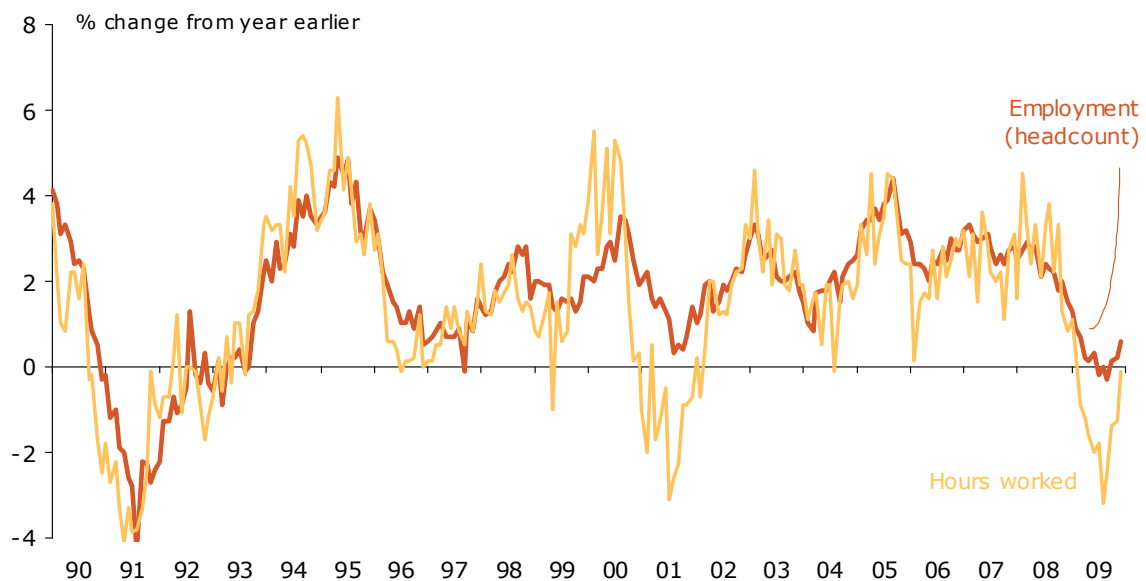
Sources: ABS; Grattan Institute.

The number of job losses, and the rise in unemployment, would have been much larger had it not been for the willingness and ability of employers to achieve reductions in their overall labour costs by means other than outright retrenchments, to a much greater extent than in earlier downturns. Among the alternatives adopted by employers were reduced working hours, the voluntary or mandatory taking of (paid or unpaid) leave, and (in a small number of cases, typically among managerial or upper-level professional staff) pay reductions.

During the early 1990s recession, aggregate hours worked declined from peak to trough by 4.5%, a proportion only marginally greater than the 4.0% decline from peak to trough in total employment noted above. That is, nearly all of the reduction in labour requirements was effected via cuts in the number of people employed, rather than by reductions in the average number of hours worked by those in employed.

The peak-to-trough decline in aggregate hours worked during the period of the global financial crisis (from July 2008 through August 2009) has been 3.5% - only 1 percentage point less than during the early 1990s recession - yet over the same period, employment itself only declined by 0.2% (and, as noted above, the peak-to-trough fall in employment - over a slightly different interval - was only 0.5%) (see Chart 8). The vast majority of the decline in labour demand during this more recent period was accomplished by reducing average hours worked by 3.3%, rather than by outright reductions in employment.

Chart 8: Employment and aggregate hours worked
Headcount and hours worked



This is also reflected in the distribution of employment between full- and part-time¹¹ jobs, with the former falling by almost 220,000 between July 2008 and August 2009 (the peak and trough, respectively, in aggregate hours worked), and the latter increasing by 197,000.

¹¹ 'Part-time' workers are those who usually work less than 35 hours a week, and either did so or were not at work during the 'reference week' (in which the labour force survey was undertaken): see ABS, *Labour Statistics: Concepts, Sources and Methods* (catalogue no. 6102.0, Canberra, August 2001), p. 42.

This does not necessarily mean that around 200,000 employees kept their jobs but reduced their hours of work from more than to less than 35 hours per week. Although it is not possible from the available data to be precise, it is likely that a significant number of people who were displaced from full-time employment found part-time (or casual) positions elsewhere.

In either case, however, changes in labour market arrangements since the early 1990s – in particular, the reduction in detailed prescriptions in awards relating to hours of work – would have enhanced the ability of employers and employees to agree upon changes in working hours, and other working conditions, as an alternative to retrenchments; and to offer part-time and casual positions as an alternative to traditional full-time positions.

Interestingly, something similar occurred eight years earlier, during the relatively mild downturn which Australia experienced after an episode of monetary policy tightening, the introduction of the GST, and the global economic slowdown which followed the stockmarket 'tech wreck' of 2000-01. Aggregate hours worked declined by 3.2% between June 2000 and October 2001, but this was accomplished through a combination of a 4.7% decline in average hours worked and a 1.5% increase in aggregate employment. This latter figure masked a considerable amount of 'churn' within the labour market: full-time employment fell by 57,000 while part-time employment increased by 193,000. And despite the continued increase in overall employment, the unemployment rate nonetheless rose from a low of 6.0% in September and October 2000 to a peak of 7.1% in October 2001 (a month after the collapse of Ansett Airlines).

However the quite significant decline in hours worked during this episode attracted little attention at the time because the Statistics Bureau did not commence publication of monthly data on aggregate hours worked until August 2009.

The fact that much of the decline in labour utilization during the period of the global financial crisis was achieved through reductions in hours worked rather than through retrenchments meant that recorded unemployment rose by much less than it might otherwise have done.

As a very crude illustration, had employers sought (or been obliged by regulation) to reduce total labour utilization (as measured by aggregate hours worked) entirely through reductions in headcount (and all else had remained equal), then employment across Australia would have fallen by 378,000 between July 2008 and August 2009, instead of the 59,000 peak-to-trough decline in total employment which actually occurred. Assuming that the participation rate had behaved as it actually did over this period, an additional 220,000 people would by now have been recorded as unemployed, and the unemployment rate would have peaked at 7.9% in August, more than 2 percentage points above its actual level in that month.

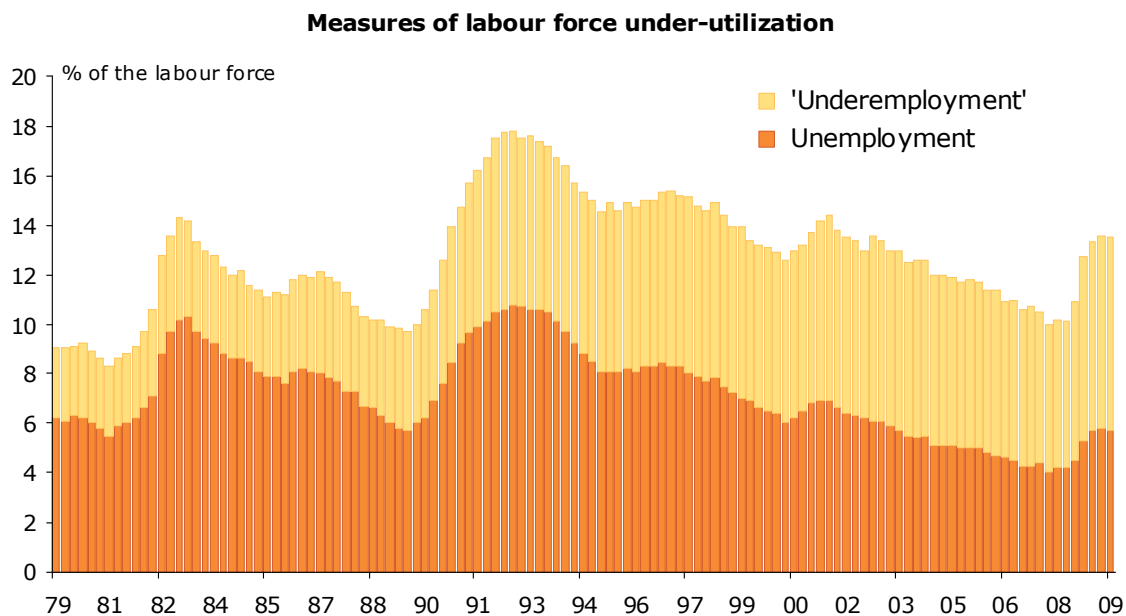
It is of course true that the relatively modest increase in officially recorded unemployment masks a somewhat larger increase in other forms of 'hidden unemployment'.

'Underemployment' – which the Statistics Bureau defines as people working part-time who want to (and could) work more hours, including those who are normally employed full-time but worked part-time in the survey reference week for 'economic reasons (such as being stood down or insufficient work being

available)' – rose from 5.9% of the labour force in February 2008 to 7.8% in August and November 2009¹², the highest level on record. ('Under-employment' peaked at a lower level of 7.1% in the early 1990s recession, reflecting the fact that, as noted above, reductions in labour requirements were typically effected by retrenchments rather than reductions in working hours).

Hence total 'under-utilization' (unemployment as conventionally defined plus 'under-employment') has risen by 4 percentage points, from 9.9% of the labour force in February 2008 to 13.6% in August 2009 (Chart 9). However this is below the previous peak of 14.5% in November 2001, and well below the peak of 18.2% recorded in November 1992.

Chart 9: 'Under-employment' and total labour force 'under-utilization'



Note: 'Underemployment' refers to persons who want, and are available for, more hours of work than they currently have. *Source:* ABS.

Reductions in average hours of work also of course result in a loss of wage and salary incomes. The national accounts measure of non-farm employee compensation per person employed fell by 1.2% over the first two quarters of 2009; this was only the second occasion in which this measure fell in consecutive quarters in the 38 years for which it has been published (the other was in the second half of 1994). Total non-farm employee compensation rose by only 2.1% over the year to the June quarter 2009, the lowest annual growth since the recession of the early 1990s.

And yet the broader consequences of a given reduction in aggregate labour income resulting from a decline in average hours worked are likely to be less severe than those of an equal reduction in labour income resulting from mass retrenchments. Put differently, cutting the total wages bill (and hence aggregate wage and salary income) by giving 100% of the work force a pay cut of (say) 5% via reduced hours of work is likely to have less adverse effects on the broader economy and on the individuals concerned than giving 5% of the workforce a 100% pay cut (by retrenching them).

¹² This series is also available only for the middle month of each quarter.

First, households whose total income is adversely affected by a cut in their hours of paid work will more often be able to 'tide themselves over' (by making selected reductions in their discretionary spending, or drawing on accumulated savings) than those who lose their job.

If they are home-buyers, they are more likely to be able to maintain or re-schedule their mortgage repayments (especially if they make arrangements with their lender soon after their circumstances change) than those who are retrenched; there is thus likely to be less downward pressure on housing prices in circumstances where reductions in labour utilization are accomplished through reduced hours of work rather than retrenchments.

Secondly, since consumer confidence is quite sensitive to reported news about unemployment, and 'underemployment' statistics are published less frequently and attract less attention than reports about unemployment, the ability to achieve reductions in labour utilization without resorting to mass retrenchments will, other things being equal, result in a smaller decline in consumer confidence.

Third, to the extent that reductions in labour utilization can be achieved through means other than retrenchments, people are less likely to become unemployed for extended periods of time. It is well-known that the longer someone remains unemployed, the more difficult it becomes for him and her to become employed, because of the atrophying of skills and because of adverse employer perceptions. Long-term unemployment is also a significant cause of poor physical and mental health, and of social exclusion. We also know that the 'non-inflation accelerating rate of unemployment' is higher, other things being equal, the larger the proportion of those out of work have been jobless for a long period of time, because those who have been out of work for extended periods are not regarded by employers (or by the already employed) as potentially employable: that is, long-term unemployment detracts from potential GDP growth¹³.

Thus, if a macro-economic shock makes a given reduction in labour utilization inevitable, the more than this reduction can be effected through reductions in average hours worked as opposed to outright retrenchments, the less will be the 'second-round' consequences of the initial shock, and the more resilient the broader economy is likely to be.

Conclusion

The principal argument of this paper has been that the gradual evolution towards a more flexible and less regulated Australian labour market since the early 1990s has assisted the Australian economy in responding to external economic shocks, and in particular has – by allowing employers and managers to pursue alternatives to retrenchments when faced with a perceived need to reduce labour utilization or their overall labour costs – reduced the increase in unemployment associated with external economic shocks.

This should not be taken to mean that greater labour market flexibility has been the most important reason for Australia's comparatively benign experience of the recent global financial crisis, or other shocks which preceded it during the previous decade.

¹³ See, for example, Bruce Chapman and Cezary Kapuscinski, 'Avoiding Recessions and Australian Long-Term Unemployment', Centre for Economic Policy Research Discussion Paper No. 418 (Australian National University, Canberra, July 2000).

After all, the United States has arguably the most flexible labour market of any advanced economy: yet that has not prevented the United States from experiencing a decline in total employment of 5.3% since December 2007 (6.4% in private sector employment).

Total hours worked in the United States have fallen by 8.8% over this period, but only about one-quarter of this reduction in overall utilization has been accomplished through reductions in average working hours. As a result, the unemployment rate in the United States has risen by 5.3 percentage points since December 2007, reaching 10.2% (the highest since April 1983) in November this year.

The dramatic deterioration in the American labour market has been driven by the 3.8% contraction in the American economy between the December quarter 2007 and the June quarter 2009 – the most severe in any of the US' 11 post-war recessions. It seems unlikely that any amount of labour market flexibility could have prevented such a deep economic downturn from having a profound impact on employment and unemployment.

It is instead more likely that the prompt response on the part of the Australian monetary and fiscal policy authorities to the exposures which the Australian economy did have to the global financial crisis – in particular, the provision of government guarantees for the wholesale borrowings of Australian banks, the speedy and substantial reductions in interest rates, and the timely, large and generally effective fiscal stimulus packages – helped to provided business with reason enough to conclude that (contrary to their initial expectations) the economic downturn in Australia would be sufficiently brief and mild to encourage them to take advantage of the greater flexibility which the labour market changes of the preceding two decades had given them to avoid mass retrenchments where possible, and to manage their labour costs in other ways.

Australian employers' willingness to avoid mass retrenchments may also have been influenced by the widespread experience of shortages, particularly of skilled labour, during the years immediately prior to the onset of the global financial crisis. Once they had become reasonably confident that any downturn in the Australian economy would be relatively mild and brief, employers are likely to have concluded that the costs entailed in 'hoarding' labour through such a downturn would be less than those associated with retrenching staff and then needing to re-hire others at some point in the future. Some employers may also have been influenced by experience and research suggesting that mass retrenchments at the first sign of a downturn can result in significant adverse and consequences in terms of morale and productivity among the 'survivors'¹⁴.

The conclusion offered here is that a flexible labour market is not a 'magic bullet', but rather part of a suite of institutional arrangements and policy frameworks which enhance an economy's resilience in the face of significant shocks.

¹⁴ See, for example, Sean Sands, *Redundancies: A Less than Optimal Strategy?*, Australian Centre for Retail Studies (Monash University, April 2009); Yehuda Baruch and Patricia Hind, 'Survivor Syndrome – A Management Myth', *Journal of Managerial Psychology*, Volume 15, No. 1 (2000), pp. 29-45; and Steven H Applebaum and Magda Donia, 'The realistic downsizing preview: a management intervention in the prevention of survivor syndrome', *Career Development International*, Volume 5, No. 7 (July 2000), pp. 333-350.

