

TITLE: Miners should pay premium

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Listening to the mining industry complaining about the high exchange rate is like listening to a three-year-old complaining about the noise of their own tantrum. It simply adds insult to injury. The surge in world demand for our resources and the flood of foreign money into Australia to buy or build mining assets has been a major driver of the 43 per cent surge in the exchange rate from \$US0.736 in 2004 to \$US1.056 now.

As the Australian dollar hit the \$US0.80 mark the strain on other exporting sectors began to show, particularly in manufacturing, tourism and agriculture. ABS statistics show the steady decline in employment in manufacturing from 1,051,100 in 2004 to 962,100 today. For the first time in decades manufacturing employment is consistently below one million.

But, we were told, don't worry about it. The mining industry, the Treasury and both major political parties argued the orthodox textbook line that the rise and rise of the mining boom was simply a good thing. Sure, it might lead to factory closures in Melbourne and empty hotels in Cairns, but as workers move out of declining industries and into the mining industry GDP will be higher and, in turn, we would all be better off.

But neoclassical economics is a fickle friend. The problem for the mining industry is that the snake has begun to eat its own tail. Having spent a decade poaching the staff from manufacturing, the most profitable mining projects are now recruiting their staff from mines that can't afford to pay high wages.

Similarly, as the exchange rate has risen the export competitiveness of the mining sector has been reduced. After years of listening to the mining industry tell the rest of Australia's exporters to stop whingeing, the junior miners have now joined the chorus of complaint. The irony would be amusing if the social and economic consequences were not so great. In recent weeks thousands of mine workers have suffered the fate that tens of thousands of manufacturing workers have suffered before them. They have lost their jobs, through no fault of their own, and now they and their families are wondering what to do next.

The standard advice for retrenched workers who have lost their jobs through no fault of their own has been to pack up their families and move to the remote parts of Australia but,

perhaps unsurprisingly, the vast majority of Australians have no intention of doing so. Parents typically care about where their kids go to school, just as they often wish to live near, and possibly care for, their own parents. Are such attitudes to be discouraged? Is the modern Australian supposed to put work first and family commitments second?

The most recent mining boom has been the biggest in modern Australian history and the most disruptive. The recent epiphany of some in the mining industry that they might be affected by this only emphasises the coming challenges for our policymakers.

Relying on labour market mobility is one way to smooth out the “two speed economy”, but doing so will create bumps of its own. If large numbers of workers flood into remote regions during the upswing in activity, it follows that large numbers of workers will leave when the downturn begins.

During the GFC the mining industry shed jobs faster than any other industry. According to Treasury if all industries had shed jobs as fast as mining the national unemployment rate would have risen to about 19 per cent.

Mining has always been a volatile industry, and its employment will always mirror commodity prices, but that is one of the reasons its workers get paid a premium. The stockmarket knows that there is a trade-off between risk and return, and the labour market knows the same.

The mining industry is simultaneously arguing that it can't afford to pay a risk premium to workers at precisely the time that the risk of taking such a job appears highest. If they were serious about attracting skilled staff at lower wages maybe they should offer long term contracts.

Large numbers of workers change jobs, and change cities, every year but these changes are among the most significant of people's lives. The miners want more Australians to pack up and leave their families to work in remote areas, but the reality is as long as the miners are free to pack up and exit the industry at a day's notice they are going to have to pay a large wage premium.

Complaining about the way the labour market works might make for good headlines, but it will do nothing to improve their bottom line.

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