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Conference Discussion Relating to the Paper

THE AUSTRALIAN LABOUR MARKET

Daniel J.B. Mitchell

DISCUSSION PAPER NO. B2

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DISCUSSION PAPER SERIES B

THE BROOKINGS SURVEY OF THE AUSTRALIAN ECONOMY

Proceedings of the Conference held on
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Conference Discussion Relating to the Paper

THE AUSTRALIAN LABOUR MARKET*

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* The papers delivered to the Brookings Survey Conference were subsequently revised and have now been published in: The Australian Economy - A View From The North (Eds. Richard E. Caves and Lawrence B. Krause), published by The Brookings Institution, Washington DC, and George Allen & Unwin, Sydney, 1984.

This paper contains the comments prepared by two discussants for the Conference Session on the Mitchell paper, together with the edited proceedings. The comments and discussion refer to the paper now published as CEPR Discussion Paper No. B1, which is an extended version of the paper appearing in the Brookings Survey Volume.

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THE AUSTRALIAN LABOUR MARKET

Daniel B. Mitchell

CONFERENCE DISCUSSION

FIRST DISCUSSANT: DR DAVID HARRISON, Dept of Treasury

Professor Mitchell's paper provides a comprehensive and well balanced review of the major labour market issues in Australia. It contains several insights which are not readily apparent in the Australian literature, and draws some interesting parallels and contrasts with the US labour market.

I cannot hope to do justice to such a comprehensive paper in the space of a few pages, and therefore must restrict my comments to a limited number of the issues raised by Professor Mitchell.

Women in the Labour Force

Over the course of the 1970s both Australia and the US experienced considerable growth in female labour force participation and employment. Professor Mitchell notes that in Australia this growth in female employment occurred despite a dramatic increase in the relative wages of females; the average hourly earnings of females rose from 65 per cent of male earnings in 1970 to about 86 per cent in the late 1970s. By way of contrast, female/male wage ratios remained roughly constant in the US.

Mitchell attributes this growth of the female/male wage ratio in Australia to the considerable influence that the Arbitration Commission exerts on relative wages. But this leaves him somewhat puzzled that female employment failed to decline in response to the increase in the relative wages of females.

As economists, we are (correctly) prone to the belief that an **imposed** (i.e. by the Arbitration Commission) increase in the relative wages of females should cause a decline in the employment of female labour. This belief should cause us to scrutinise the evidence a little more closely. Was the increase in female wages **entirely** attributable to the Arbitration Commission, or was it at least partly attributable to rising demand for female labour? Is there any evidence that female employment did decline, relative to what it would otherwise have been, as a result of the increase in the relative wages of females?

With regard to the first question, Mitchell documents (in Table 1, p.3) that the 1970s witnessed relatively rapid expansion of the service industries - especially 'community services' - and professional and clerical occupations. These are the very industries and occupations in which employment is relatively female-intensive, and so there is evidence of a rising demand for female labour as a result of this changing industry structure. This point has been well documented by Sandra Eccles.[1]

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[1] Sandra Eccles, "Female Employment: Real and Apparent Gains", **Australian Bulletin of Labour**, vol.6 (June 1980), pp.172-185.

Further Mitchell's Table 13 (p.70) provides evidence that the initial upswing in female wages in the early 1970s **preceded** decisions taken by the Arbitration Commission. In the twelve months to October 1972, female average hourly earnings rose from 66 per cent of male earnings to 74 per cent, a rise of 8 percentage points in one year. By comparison, the minimum award wages (set by the Federal and State arbitration authorities) of females rose from 75 per cent of male award wages in 1971 to 80 per cent in 1973, a rise of 5 percentage points over a two year period. After 1973, however, award wages and hourly earnings rose in unison, with award wages rising slightly faster than hourly earnings, perhaps indicating that increases awarded by the Arbitration Commission became the driving force toward higher relative wages for females from 1974 onwards.

With regard to the second question, the evidence in Mitchell's Table 2 (p.5) suggests that the previously rapid **growth** in female participation (and, by implication, employment) came to a halt roughly in 1974, at about the time when the Arbitration Commission appears to have gained ascendancy as the driving force behind female wage rises. Indeed, when allowance is made for the fact that female part-time participation increased, but that female full-time particiption declined, the halt in the growth of female participation after 1974 was more abrupt than it appears in Table 2.

The changes in industry structure which contributed to increased demand for female labour persisted throughout the 1970s and have continued into the 1980s. The fact that the rapid expansion of female employment came to an end about 1974, despite a continued underlying increase in demand for female labour, does indeed suggest that increases in female wage rates did take their toll on female employment in the later 1970s (relative to the employment growth that would otherwise have occurred).

Wages and Inflation

Professor Mitchell contrasts the relatively low inflation and high employment growth of the late 1960s with the growth of inflation and unemployment since 1973. In his analysis of the causes of this deterioration in economic performance, he lays the blame squarely with "a real wage push - and subsequent pressure to keep real wages too high - (which) led the government to keep the economy in a greater degree of slackness than existed in the earlier period". (pp.23).

As evidence that the real wage push of the early 1970s provided the underlying cause of subsequent unemployment growth, he cites the following:

- the jump in real wages occurred suddenly, being concentrated in 1974, and preceded the growth in unemployment;
- this jump coincided with an upsurge in strike activity, indicating increased union militancy;
- soon after the jump, real wages were "locked in" at their new plateau level by a return to wage indexation in 1975; and
- although there was some subsequent decline in real unit

labour costs (because of productivity growth and some "partial indexation" decisions), there was never a return to pre-1973 levels.

Some Australian economists have attributed the growth of unemployment in the 1970s to "restrictive" fiscal and monetary policies pursued by the government. One of the major insights provided in Professor Mitchell's paper is that such "restrictive" policies were a **necessary policy response** to the real wage push which preceded them. Labour cannot increase its **share** of national product unless the non-wage share is reduced correspondingly, and this requires increased slackness in the economy (since the non-wage share rises with economic expansion and falls with recession. See Mitchell's paper, pp.3133, for an insightfull presentation on this point). Although macroeconomic policies pursued in the later 1970s were "restrictive" in the sense that slackness in the economy was maintained, they were not sufficient to keep inflation below double-digit levels. More expansionary policies, in a situation where competing claims for shares of the national product sum to more than 100 per cent, would inevitably have fuelled an inflationary spiral. The "blame" for unemployment must, therefore, reside with the real wage push that made such "restrictive" policies inevitable.

Just as the real wage gains of 1974 were "locked in" by a return to wage indexation in 1975, condemning us to a decade of "restrictive" policies in order to avert accelerating inflation, so too in 1983 we returned to wage indexation with the effect of "locking in" a part of the real wage gains of 1981 and 1982. One must wonder if the unemployment growth history of the 1975 to 1983 period is now to be repeated over the coming nine years, starting from a higher base level of unemployment. Although real wages were permitted to retreat from their peak levels over the course of the "wages pause" period, they have once again been "locked in" with indexation at a level which implies a wages **share** that has proved to be inconsistent with full employmment over the past nine years.

What is the magnitude of the effect of an increased real wage push on unemployment? By comparing scenarios B and C presented to the 1983 Economic Summit, Professor Mitchell calculates that "an extra real wage push of about 3 per cent raises the unemployment rate by 2.5 percentage points" (p.33). One should be aware that there is a causation problem in drawing such conclusions from the Summit scenarios; that is, the numbers generated in those scenarios are such **because** the model on which they are based assumes such a real wage-unemployment relationship. However, a similar conclusion can also be reached by reviewing the data for the actual economy over the post-1973 period. From September 1973 to September 1982, real unit labour costs (which basically reflect the wage **share** of national product) rose by an average 0.7 per cent per year and the unemployment rate rose by an average two-thirds of a percentage point per year, which roughly confirms the Summit figuring that an additional 1 per cent "push" on real wages (in excess of increased productivity) has the effect of increasing unemployment by just under 1 percentage point.

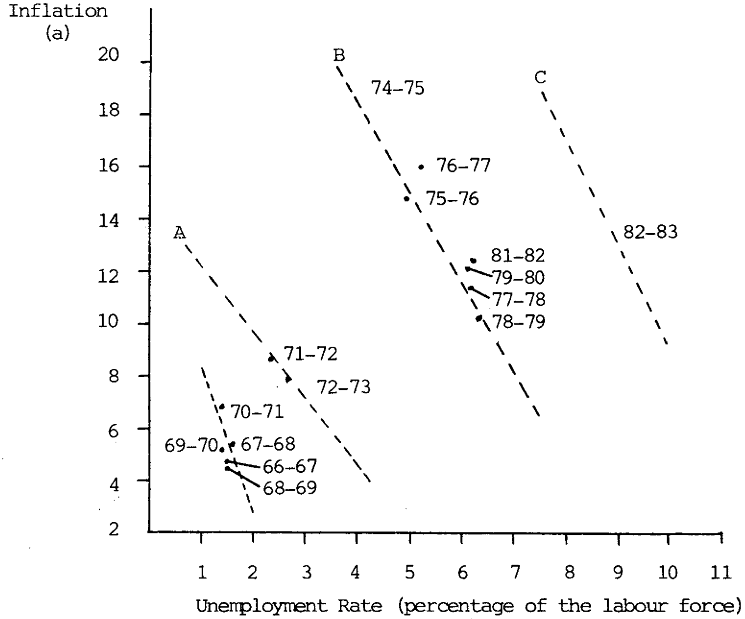
The Natural Rate of Unemployment

Throughout his paper, Professor Mitchell makes several references to shifting short-run Phillips curves and changes in the "natural rate" of unemployment. He notes that Increases in the real wage pressed (effectively) by militant unions can raise the natural rate (p.21) and that "the natural rate was higher after indexation returned in the mid-1970s than before, a result that might have been expected due to the locking in of the previous effects of the wage explosion" (p.42).

Casual observation certainly suggests that the natural rate of unemployment increased after the wages surge of 1974 - neither real unit labour costs nor the rate of unemployment have yet returned to their pre-1974 levels. It also suggests "something like a short-run Phillips curve, but with a rightward shift in the 1970s" (p.44). The attached Phillips curve diagram displays such a rightward shift, and also reveals a further rightward shift (not mentioned by Mitchell after the wages surge of 1981 and 1982).

As noted earlier, if the return to wage indexation in 1983 has again locked in "the previous effects of the (1981-82) wage explosion", then this latest rightward shift in the short-run Phillips curve, and the associated increase in the level of unemployment, could well be locked in by the same mechanisms that were used in the 1970s.

INFLATION AND UNEMPLOYMENT



(a) Percentage increase in the CPI in the year shown.

Can There Be An Incomes Policy?

As Professor Mitchell notes, the "existence of a centralized wage arbitration system has long suggested to some observers that Australia has a ready-made incomes policy, or at least the institutions to implement one. Moreover, there appears to be significant support for the arbitration system itself". (p.62)

There is also cosiderable evidence (presented at pages 63-71) to suggest that the Arbitration Commission has been effective in making wages behave differently than they otherwise would - "a necessary, but not sufficient, condition for the Arbitration Commission to function as an incomes policy instrument" (p.71). This evidence, however, indicates that the arbitration system has mainly been effective in "compressing" wage distributions by pushing up wages at the lower ends of these distributions. This should come as no surprise in a system which has the power to impose legal minimum award wages.

However, in seeking to implement an incomes policy, the key question is whether the Arbitration Commission has the ability to **restrain** wages. On this question, Professor Mitchell raises two serious misgivings.

First, the Arbitration Commission has the power to set minimum, but not maximum, wages. As such, it is not designed to be an instrument for effecting wage restraint. I would add that on those occasions when the Commission has endeavoured to restrain wages (e.g. partial indexation decisions, 1976 to 1980), the eventual result has been growth of over-award payments - such payments have subsequently been absorbed into awards to avert the risk that award wages, and the Commission which determines them, may become irrelevant to the wage-setting process.

Second, the principle of "comparative wage justice", embedded so deeply in the arbitration system, causes wage increases gained in the context of one award to spread rapidly to other awards. If one significant group obtains a benefit which violates the incomes policy guidelines, then the institutional structure of the arbitration system is such that it almost inevitably will be passed on to others. "A minor break in the dam can quickly become a torrent under such arrangements". (p.75)

I would add that the test of our incomes policy lies ahead in 1984. So far, the Arbitration Commission has been able to offer wage indexation, at a time when a lower wage outcome would probably have been forthcoming in the market place, in exchange for union agreement not to press for further claims. However, once economic recovery proceeds to the point where unions can obtain such wage rises from employers without the need to agree to this no-extra-claims provision (and the Food Preserver's Union is already having some success at this), the Arbitration Commission will no longer have anything tangible to offer the unions in exchange for wages "restraint".

Professor Mitchell appears to be relatively optimistic about the prospects for restraining wages through the arbitration system in the mid-1980s, "given the government's projections of higher unemployment" (p.72). Further, he feels that there seems "little prospect of an incomes policy crumbling in the face of excess demand" (p.57, refer to footnote 2).[2] These views are indeed optimistic, if not complacent and dangerous, in view of the experience of the early 1980s when a wages surge occurred despite the existence of historically high levels of unemployment (about 6 per cent, compared with about 2 per cent prior to 1974).

Indeed, Mitchell's views in this regard appear to conflict with some points made earlier in his paper. He noted, for example, that unions are unlikely to restrain their wage demands until the employment of core union members is threatened. This would require that unemployment is not only higher, but also **rising**, since the employed are not usually threatened while the unemployment rate is static (even if it is relatively high).[3]

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[2] This quote appears on p.57 of the paper presented to the Brookings Survey Conference. In the paper now published as CEPR Discussion Paper No. 81 this now reads "the prospect of an incomes policy crumbling in the face of excess demand would diminish in the face of unemployment that exceeded even the relatively high levels of the late 1970s and early 1980s" (DP.No.81, p.74).

[3] See R.G. Gregory, "Work and Welfare in the Years Ahead", Joseph Fisher Lecture 1981. (Discussion Paper No. 47, Centre for Economic Policy Research, ANU, 1981).

Further, in examining the Summit scenarios, he concluded that unions would benefit from adopting the high-wage scenario B, since "labour's **absolute** share grows more rapidly under B than under the other two options" (p.33), despite the increased unemployment that would occur under B. Hence, we cannot expect wage restraint on the part of unions, unless they choose to behave altruistically.

While Professor Mitchell is perhaps unduly optimistic about the prospects for the incomes policy currently being pursued by the government, he nevertheless makes it clear that there is a need for contingency planning for the possibility that the incomes policy may break down. "In an area as uncertain as incomes policy, the consideration of such a contingency is important and obvious". (p.74)

SECOND DISCUSSANT: DR JOE ISAAC, Australian Conciliation & Arbitration Commissio

One learns a great deal about the behaviour of one's own institutions by comparing them with those of other countries. One learns even more when that comparison is undertaken by an analyst from another country. So it is with this paper.

If I refrain from making repeated approving noises about different parts of the paper it is only because of the limited time at my disposal. I shall confine myself to suggesting qualifications and making mild criticisms on certain points in the paper. I commence with the discussion on real wages, unemployment and the overhang which, in the light of Professor Mitchell's international exposure, might have benefitted from a more positive judgement on the issue.

Real Wages, Unemployment and the Overhang

It is generally accepted that a decline in economic activity is accompanied by a rise in the share of labour. This is, as Professor Mitchell points out, another way of saying that real unit labour costs rise under declining activity because productivity slips behind real wages.

Since 1973/74, real unit labour costs in Australia have been at a significantly higher level than in the preceding ten years. Professor Mitchell poses two alternative hypotheses to explain this development (p.23). One is that labour's relative share has increased because of deliberate Government policy to depress demand. The other is that a real wage push and its maintenance by indexation, led the Government to keep the economy at "a greater degree of slackness" than existed in earlier years. He finds, rightly in my view, that the second hypothesis is more plausible. The big jump in real wages in 1974/75, which was well in advance of productivity, was partly the result of an overheated economy but also of a wage push in which inflationary expectations and a significant income tax claw-back were built into wage demands. The leading wage settlements were arrived at by collective bargaining, a process much encouraged by the Federal Government at the time.

However, there is a further issue which was at the centre of the debate on wage policy and which, with the benefit of hindsight, deserves to be considered. The issue is whether the degree of slackness was warranted and whether a lesser deree of slackness might have conduced to less unemployment and inflation. Much of the discussion on this issue centered on the "real wage overhang". Leaving aside the proper statistical measure of the overhang, about which there was much controversy, and whether the overhang would have encouraged capital/labour substitution, a point properly disposed of by Professor Mitchell, the burning issue was how to deal with the overhang. It was this issue which was presented squarely to the Arbitration Commission in the argument for partial indexation.

The view espoused by the Commonwealth Government and supported by many economists (though interestingly not by the employers) was that the real wage level needed to be brought down or allowed to slip down progressively to remove the overhang before sustained economic recovery could be expected to take place. This approach is in accord with neo-classical theory and seems intuitively plausible.

The alternative approach, a lifting-oneself-by-one's-own-bootstraps type approach, received less support or was damned outright as crude-Keynesian. This approach argued that given the degree of excess capital capacity and comparatively high unemployment (which could not all be structural) a more expansionary policy generated say, by reduced taxation, may have allowed a faster growth of productivity and thus reduced the overhang. Conceding that the overhang was caused in the first place by the large real wage push, it was argued that the overhang had a substantial cyclical component which could be removed by a more expansionary Government economic policy. Further, instead of increasing payroll and other indirect taxes, which is what happened, a reduction in these taxes would have allowed full indexation to be sustained at a lower level of money wages and inflation. Alternatively, a serious attempt should have been made to obtain a wage-income tax trade-off. This was not done although the opportunity for such a deal presented itself.

With hindsight, if this reasoning is accepted, the collapse of the indexation system, which was largely due to union resentment to persistent partial indexation, might have been averted and the degree of wage acceleration of 1981 avoided. For the period as a whole, employment and growth could have been at a higher level.

Against this conclusion, it could be said that the greater budget deficit implicit in this approach would have resulted in increased inflationary expectations in financial markets, in crowding out, higher interest rates and a discouragement to investment. The expansionary policy would have resulted in higher inflation and little else. But can we be so sure? The Germans and Japanese managed substantially greater budget deficits relative to GDP successfully. Moreover, even if there were risks on the financial side, would they not have been worth taking in order to enhance the prospects of achieving lower money wages and prices? Would reduced cost inflation bought in this way not have assuaged the inflationary expectations (in so far as they were significant) in the financial market?

In retrospect, could it be said that the "realities" of the financial market were given greater weight than they deserved at the expense of the "realities" of the labour market? While not denying that from the point of view of promoting economic recovery, wage indexation was not an ideal policy (and which country is blessed with the ability to implement ideal policies?) could there have been a more sympathetic accommodation to it from fiscal and monetary policies with advantage to the economy?

I should note that there is a strongly held view that if it had not been for indexation, wages would have risen less anyway under the pressure of increased unemployment. Others believe equally strongly that indexation may if anything have held the money wage level below that which might otherwise have prevailed. This is a matter of judgement, not something which can be gleaned from theory based on atomistic market operation.

It would be interesting to hear Professor Mitchell's "outsider" assessment of this issue, especially in the light of international experience, because there may be a lesson for the future. As Professor Mitchell points out, most countries have faced macro-economic problems similar to Australia's. A recent study by Grubb, Jackman and Layard[4] suggests that many did not cope better than we did. This and other international studies throw doubt on the proposition currently fashionable in Australia that a more decentralized collective bargaining-oriented wage fixing system would be more sensitive to demand restraint and emphasizes that the "market" under collective bargaining does not seem to operate as the auction-style labour market of the text books. Professor Mitchell further argues that even if we did away with unions, wage stickiness would persist. There would be no change in the slope of the Australian Phillips curve but its location would be shifted. Of course a shift of the curve to the left would be a desirable achievement but the required course of action would be entirely unrealistic. Those who propose to "deregulate" the labour market need to think beyond disposing of arbitration tribunals.

A more fruitful question is whether the Phillips curve could be moved to the left by other means to the real advantage of unions, wage earners, employers and the economy generally. The incomes policy in operation currently is an attempt to do that. Nobody can be absolutely certain how successful it will be. However, the context in which the present wage policy has been introduced is somewhat more favourable to its economic and industrial success

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[4] D.Grubb, R. Jackman and R. Layard, "Wage Rigidity and Unemployment in OECD Countries", **European Economic Review**, Vol.21, March/April 1983, pp.11-39.

than the previous indexation system. The present wage policy was preceded by a wages pause of ten months and for a substantial majority of wage and salary earners, there had been no pay increase for fifteen months - whereas the previous indexation system was introduced at the height of a wage explosion as a result of which real wages rose substantially. The present system is accompanied by an Accord between the Government and the unions, the terms of which were overwhelmingly endorsed by the unions. These terms include a commitment by the Government to appropriate taxation and social welfare policies in return for a commitment of wage restraint from the unions. This includes acceptance by the unions of the effect of Medicare on the CPI resulting in a fall in real wages of nearly 3 per cent. The earlier indexation system was not sustained by such a coherent compact. Moreover it faced a change of Government shortly after the system came into operation, with a different commitment to the requirements of the system. Finally, the new wage principles were introduced at the trough of a recession with reasonable prospects of world economic recovery in sight; whereas the previous system came in the middle of a world economic downswing. I note that Professor Mitchell believes (p.38) that if indexation had been introduced much earlier as part of an incomes policy, it is possible that the real wage dilemma might not have occurred. Paradoxically, of course, at that stage the then Labor Government was encouraging collective bargaining and the realization of the need for wage restraint came rather late in the day.

Professor Mitchell refers to what he regards as two potential weaknesses in the present incomes policy which deserve comment.

The first is that legally award rates are minima and there are over-award payments. This raises the question he argues, of whether the arbitration system is "really" influencing wages at all. The answer depends on the extent to which over-award payments are increasing. The mere existence of over-award payments is not in itself a threat to incomes policy nor does it mean that the arbitration system does not or cannot have full control over the course of total wages. Under the present principles, on the recommendation of tribunals over-award payments may rise proportionately to national wage increases to prevent wage structure distortions. Actual wage rates thus move in line with award rates. The undertaking given by unions not to press for any extra claims applies to overaward as well as award claims. Subject to this undertaking being honoured, I do not see the success of incomes policy being impaired by the existence of overaward payments. In any case, I do not believe that incomes policy would be more secure if award rates were legal maxima.

The second factor regarded by Professor Mitchell as a potential threat to incomes policy is the applicaton of the doctrine of comparative wage justice i.e. equal pay for equal work or consistency in setting arbitrated wages. In practice the doctrine applies more in relation to wage movements rather than to the absolute wages. This is evident in the very concept of national wage adjustments. But I would not agree with the proposition that the pressure for comparative wage justice emanates from the arbitration system itself. The doctrine was well entrenched before tribunals came on to the scene and it is not confined to Australia. The craft structure of Australian unions, the high rate of union membership and the high concentration of workers in a few cities, give particular force to coercive comparisons. Tribunals gave formal recognition to it in their task of preventing and settling disputes. In that sense they may be said to reinforce the doctrine. A tangible reflection of the Commission's acceptance of the force of the doctrine is inherent in the practice of national wage adjustment which in effect extends wage increases to all its awards simultaneously rather than on an award-by-award flow-on basis. If flow-on from certain pattern setting awards is inevitable, as it appears to have been, simultaneity provides the opportunity for the macro-economic impact of a potential general wage increase to be more effectively assessed. The rationale of national wage adjustment is there to establish greater control over the pressure for comparative wage justice. In the present system the use of comparative wage justice (beyond the national wage) is severely limited through the operation of the Anomalies and Inequities Principle.

Nevertheless, it must be conceded that if a significant group succeeds in violating the Principles (not a minor break as suggested by Professor Mitchell), the viability of the system as a whole would be threatened. Hence the emphasis on the no extra claims and the other main terms of the Accord. But the threat will come not from the formalization of comparative wage justice but from a substantial breach of the Principles and/or the terms of the Accord. We will have to wait and see what happens but it should be clear that without firm trade union, government and employer commitment to the incomes policy, the tribunals may have difficulty holding it.

Because of the threat from comparative wage justice, Professor Mitchell suggests the need for a "safety valve" to allow sectional pressures to be relieved in ways other than wages and conditions which are readily identified and create pressure for flow-on. In this connection, he suggests fringe benefits of the kind which can be differentiated and confined - such as superannuation schemes, job security guarantees, quality of worklife arrangements. This proposal is certainly worth exploring. I suspect that this tendency already exists. However, I see some difficulty in profit sharing schemes at the micro level as a safety valve. It is easily identified as a cash payment and can create flow-on pressures. As for sharing profits at a national level, the measurement of profits and profitability and the delay involved in the publication of such data would add greatly to existing union opposition to profit sharing on doctrinal grounds. Despite these sceptical remarks, I believe that the idea of profit sharing is worth canvassing and consideration by the Hancock Committee.

There is no denying that inherent in a centralized system is a large degree of structural inflexibility in pay and conditions. This is a necessary cost of the system in return hopefully for lower overall labour cost and price movements. But the cost of inflexibility should not be exaggerated because Australia's experience with less formal centralization shows tht sectional improvements in pay and conditions have tended to be generalized. In other words, flexibility has been only transient because of coercive comparisons.

Undue Credit and Debit to the Arbitration System

Professor Mitchell gives undue credit to the arbitration system's ability to affect the wage structure by attributing the compression of wage differentials to it (pp.68-71). It would be difficult to disagree with him so far as female/male differentials are concerned. Here the Commission only fairly recently and in economic circumstances favourable to such action, extended the doctrine of comparative wage justice to the determination of female wages. But for the rest, there is evidence to suggest that the arbitration system has allowed economic and industrial forces to behave in a way little different from wht happened in a number of other Western countries. Granted that wage dispersion in America and Japan was greater than in Australia, it is difficult to attribute the compression to Australian arbitration when comparisons are made with European countries.[5] Professor Mitchell virtually neutralises his conclusion by conceding that factors other than the arbitration system might have been at work. I myself would hesitate to regard Table 11 as showing that when collective bargaining is in sway dispersion widens, just on the strength of the dispersion figures for 1969-70. Nor would I regard the unweighted figures of Table 10 as suggesting that there is a "clear cut tendency for the over-award premium to be higher in percentage terms at higher pay levels" (p.65).

Professor Mitchell also somewhat overstates the power of the Australian Arbitration Commission when he says (p.47) that the Commission has broad discretion in determining the relevant criteria for national wage decisions and that "in effect, the Commission can write a desired Phillips curve slope into its award wage rates". While the Commission has discretion in formulating the principles of wage fixation, it would be futile for it to set down principles which will clearly not work. There are deeply entrenched norms of "fairness" in the labour market

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[5] M. Keating, "Australian Wage Determination", **Economic Papers**, The Economic Society of Australia, 1,3, Nov. 1982, pp.68-73; Charles Mulvey, "Australian Collective Bargaining and the Wage Structure, **Growth 33**, CEDA, Sept. 1983, pp.53-65; G. Withers, "Wage Determination and Labour Market Adjustment: The Lessons of Alternative Wage-Fixing Systems", paper presented to the Australian Wage Determination Conference, Little Bay, Sydney 23-25 November 1983.

which must be largely satisfied and to which the principles must conform broadly if they are to work. The task of the Commission is to formulate and operate the principles in such a way that they do not do undue violence to these norms of fairness while minimising damage to the economy.

It should not be inferred from this that the Commission is an entirely passive agent simply conforming to industrial and economic forces and that it cannot make a positive contribution to wage restraint in an incomes policy regime. One must agree with Professor Mitchell that an "arbitration system which was merely a show would be an unlikely candidate to implement a wages policy" (p.71). The contribution which the Commission can make must be viewed at two levels. One relates to the formulation of principles or rules. This may be likened to a legislative process. For laws to be generally observed, they must be broadly acceptable to the community. Similarly, to be workable, the rules of wage fixation cannot stray too far from the norms of fairness of the labour market. Furthermore, unlike laws generally, the rules of wage fixation are subject to organized group coercive action. Wage policy is the art of the possible and at this level the Commission's function is one of quasi arbitration. The second level of contribution which the Commission and other wage tribunals can make concerns the implementation of the rules. By ensuring strict adherence to the rules and consistency of treatment to all, tribunals will enhance the acceptability of the principles. It follows that even agreement between unions and employers should not violate the rules. Thus Professor Mitchell's statement that arbitration authorities essentially "bless" the terms of the agreement by incorporating them into an award needs to be qualified by the discretion available to tribunals that they may refuse to ratify agreements which are not in the public interest i.e. which are inconsistent with the rules.

The overall purpose of these quasi-legislative and administrative activities is to keep long term money wages (though not necessarily real wages) at lower levels than would otherwise be the case. The extent of their success in this direction would depend materially on the support given to wage fixation by fiscal and other instruments of economic and social policy. Incomes policy in Australia is in a comparatively early stage of experimentation. It is an alternative to an unstructured approach to wage fixing and complete reliance on tight demand management to deal with wage push inflation. The evidence appears to be that the cost of this alternative approach is very high. We need more experience with incomes policy to decide whether it can be made to work at a more acceptable social cost.

There will no doubt be changes in principles and procedures in the light of experience. Professor Mitchell refers to the "real wage insurance" scheme to assist the Commission in its fight for wage restraint as an alternative to the present incomes policy package. He seems to suggest that the real wage insurance scheme cannot be part of an incomes policy accord. This is by no means clear but assuming that it is an alternative to some of the main

terms of the present compact, I am not sure that his pessimism about the capacity of the arbitration machinery to be a useful administrative adjunct of the scheme is entirely warranted.[6] General and particular wage adjustments could be formulated by arbitration tribunals with the real wage insurance provision in mind. Those wage and other adjustments which are covered by the scheme can be identified in awards for purposes of administering the scheme. Some 90 per cent of employees are covered by awards which provide identifiable reference points for taxation returns to be checked. This contrasts with the position in the United States, for example, where collective bargaining agreements cover a much smaller proportion of employees and where the problems of certification of wage movements and administration of the scheme might be rather more difficult.
I am not suggesting that the real wage insurance scheme would be an acceptable proposition in Australia, but if it were, the arbitration system could very likely facilitate its operation.

May I now refer briefly to two unwarranted debits charged against the arbitration system. One is in connection with the wages of teenagers after 1974. Professor Mitchell says (p.15, see footnote

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[6] B.J.Chapman, "The Wages-Taxes Nexus: An Examination of Tax Based Incomes Policies in Australia". Paper presented to the Australian Wage Determintion Conference, Little Bay, Sydney, 23-25 November 1983.

7) [7] that these wages relative to other wages "were pushed up by the arbitration system". I think I am right in saying that the question of junior wages as such were not brought to arbitration in the few years before 1974 or thereafter. The relative increase in junior wages before 1974 came about by agreement, first in the metal industry and later elsewhere. The Equal Pay decision of 1972 affected junior and adult female wages and in a indirect way raised the average rate of junior wages. To this limited extent and indirect way only did arbitration contribute to the rise in junior wages. The relative rise after 1974 came about because junior wage rates are traditionally linked to he lower levels of adult rates. As a result of a number of plateau indexation decisions, junior rates rose faster than average rates. But at no stage during the period of rising unemployment among teenagers was a claim for a relative reduction in junior wages made. It may well be that given the low elasticity of supply and demand of youth employment,[8] such a reduction would not have made much difference to the overall level of unemployment and might have resulted merely in a rearrangement of the unemployment queue.

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[7] this page number refers to the paper delivered to the Brookings Survey Conference, January 1984. The sentence in that paper read "wages for this group were pushed up by the arbitration system relative to other workers...". In the paper now published as CEPR Discussion Paper No.B1, this now reads "Award wages for this group were increased by the arbitration system relative to other workers" (p.15, DP. No.B1).

[8] Bureau of Labour Market Research, **Youth Wages, Employment and the Labour Force**, Research Report No.3, AGPS, Canberra 1983, p.84.

The other unwarranted debit is in relation to the flow from the metal industry agreement of December 1981. Professor Mitchell (p.21, see footnote 9)[9] says that this agreement was spread to other workers "by the arbitration system". In fact the flow-on in nearly all cases was by agreement and in a few cases the Commission refused to ratify the increase agreed upon by the parties.

Maybe I am making too fine a point there. But in view of the tendency for some people to heap the blame for all our wages problems on "the arbitration system", it is necessary to distinguish between settlements reached in the so-called "market place" and the arbitrated decisions of tribunals.

Arbitration and the Industrial Relations System

Professor Mitchell gives an excellent summary of the main features of the Australian industrial relations system. Perhaps, for purposes of completeness, he might have devoted a paragraph to the systems of the States which are independent of the Federal

[9] This page number refers to the paper delivered to the Brookings Survey Conference, January 1984, where this sentence read "A key settlement in the Metal Trades was endorsed in late 1981 - and then spread to other workers - by the arbitration system". In the paper published as CEPR Discussion Paper No. 81 this sentence now reads "A key settlement in the metal industry was endorsed by the Arbitration Commission in late 1981 and its terms quickly spread to other workers" (p.27, DP.No.81).

Commission. I am pleased to see his cautionary note about overstatements of the bad effects of centralization and legalism, both currently fashionable criticisms of the arbitration system. (Incidentally, strikes in the Federal and some State jurisdictions are not illegal per se or theoretically banned as suggested by Professor Mitchell (p.40, see footnote 10).[10] But he raises a few points about the impact of arbitration which could be misleading.

First, the charge that the arbitration system tends to compartmentalize the settlement of claims: certain claims are granted and others are considered in "isolated fashion". This contrasts with collective bargaining agreements in America where all the terms in an employment relationship are settled for a defined period as a package involving trade-offs. Thus in return for the willingness of the employer to recognize the union effectively and to sign a contract with it, the union undertakes to use a dispute settling procedure. This will ensure that grievances arising from the terms of the contract are resolved, if necessary by arbitration, without any strikes during the life

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[10] This page number refers to the paper delivered to the Brookings Survey Conference, January 1984, which reads "strikes are theoretically banned, but penalties for striking have not been enforced since the late 1960s". In the paper published as CEPR Discussion Paper No. 81 this reads " Tribunal awards are supposed to substitute for strikes as a method of dispute settlement, but penalties for striking have not been applied since the late 1960s" (DP. No.81, p.48).

of the contract.

Compartmentalization under the arbitration system is blamed for the inability of the system "to improve local level industrial relations and grievance handling". In Australia, says Professor Mitchell, recognition comes from the arbitration system and not from the employer, therefore there is little incentive in this process to establish an ongoing, detailed relationship between union and employer with adverse effect on productivity. Compartmentalization is said also to affect overall wage determination (p.55) in the sense that claims may be processed separately although they are closely connected in cost terms.

Dealing with the latter point, it is true that certain claims can be and often are presented for resolution in a piecemeal fashion. This is so even though the claims may be part of a comprehensive log of claims on which a dispute has been formally found to exist. It does not follow, however, that arbitration tribunals are not made aware of the cost implications of subsequent claims. "Incapacity to pay" is almost invariably invoked by employers in opposing claims. The present indexation principles provide a comprehensive code on the basis of which all types of claims can be determined to ensure that total labour cost increases are kept within bounds. I therefore fail to see the significance of the point concerning compartmentalization and overall wage determination.

I also have difficulty in following the point that compartmentalization impairs day to day industrial relations and that this is reflected in the effectiveness or absence of grievance procedures. Similar charges have been made by other writers. For example, a recent issue of the Australian Bulletin of Labour blames the remoteness of the "award" system of the tribunals for the poor relations at the work place. It says that employees do not comprehend the relationship between their pay and conditions of work and the economic circumstances of their employers. "The Commission" appears to be the real source of their actual well being".[11]

I am not aware that these opinions are based on any systematic study of industrial relations at the place of work. Indeed, this is one of the most serious gaps in our knowledge of Australian industrial relations and it leads to opinions being expressed based on a priori reasoning and casual obserations. It is to be hoped that the Hancock Committee does something to close this gap. My own experience suggests that these opinions have little substance. The poor state of shop floor industrial relations and the lack of grievance procedures is not confined to Australia. It was remarked upon by the Donovan Commission in relation to the United Kingdom where, as in Australia, the distinction in practice between interest disputes and right disputes is

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[11] **Australian Bulletin of Labour**, Vol.10, No.1, Dec. 1983, pp.12-13.

blurred. This may be a factor in the unwillingness of unions and those in the shopfloor to give up the right to strike in protest against unresolved issues. The multiplicity of unions covering a plant may reinforce this factor. Australian unions may have drawn philosophically on their British counterparts in this connection independently of the arbitration system. In fact, from the very early days of arbitration the need for some sort of grievance processing was recognized and provision was made for the setting up of Boards of Reference to deal with disputes arising from the application of awards. These Boards are in effect local tripartite arbitration tribunals and in relation to some awards they have been fairly successful. In others they are not resorted to.

In recent years, often at the instigation of the Commission, many awards have included a step-by-step settlement of disputes procedure similar in format to the Amercan grievance procedure. Whenever this procedure has been by-passed, arbitration tribunals have reminded the parties of its purpose and urged its use. Failure of the dispute settlement and Board of Reference procedures is an attitudinal problem, a reluctance on the part of the shopfloor to forego the right to strike, to protest, in the face of a strongly felt grievance and sometimes a reflection of lack of union control of the shopfloor. More often than not, a return to work takes place without the matter having been resolved, tension having been relieved by the protest. It is difficult to attribute this behaviour to the arbitration system or to the alleged remoteness of the system from the shopfloor.

But it has to be said that the arbitration system does not seem to have solved these spontaneous strikes.

There may be another important reason for the failure of grievance procedures. This arises from the exclusion of certain issues from these procedures. These issues (for example, dismissal, promotion, demotion, forms of work organization) have generally been jealously guarded by Australian employers as being matters of "managerial prerogative" not to be determined by others. In any case, the Australian Commission has no jurisdictional power to deal with these matters. Strike action, sometimes taken in haste, appears to provide a means for such issues to be brought to a head, at which stage the employer may agree to give the Commission authority to deal with the matter. A high proportion of short strikes are in connection with management matters and many of these relate to dismissal cases. Willingness of employers to relax their hold on certain managerial rights before a dispute arises, as American employers effectively have, could eliminate a large proportion of walk-outs. But such a concession may not be without cost to the employer.

The second matter on which a qualification to a point made by Professor Mitchell is called for concerns the structure of Australian unions (p.59). I agree with him that too much can be made of the large number of small unions in Australia. After all, Japan has some 70,000 unions without suffering discomfort. The fact is that about 86 per cent of union membership in Australia is concentrated in 62 unions or 20 per cent of the total number of unions. I agree also that the structure of union representation is much more a source of concern although here again the problem should not be exaggerated. The dominance of the craft or occupational form of union means that the employer has to deal with a multiplicity of unions and this can lead to demarcation problems and other difficulties. But it should be noted that in recent years, barely 1.5 per cent of working days lost were due to demarcation and jurisdictional disputes.[12] Industrial relations at the shopfloor level would be simpler under industrial unionism and everything possible should be done to encourage such a development.

However, I do not understand Professor Mitchell when he says that existing jurisdictions and union institutions have been perpetuated along craft lines because "of the workings of the arbitration system". It is true that the arbitration authorities have protected the jurisdictions of existing unions as they are required to do by Statute. This has allowed demarcation and jurisdictional differences to be resolved in an orderly way. But the arbitration system has never stood in the way of union amalgamation or rationalization. The Commonwealth Conciliation

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12 Senate Select Committee on Industrial Relations Legislation, Final Report, October 1982, Parliamentary Paper No. 251/1982.

and Arbitration Act was changed for a few years in a way which made amalgamations more difficult. This feature has now been remedied. Statutory changes cannot by themselves encourage union amalgamation. This rests essentially on the unions themselves.

Professor Mitchell also says (p.59) that the craft structure of unions poses special problems for incomes policy because the craft form crosses industry lines and a breakthrough in one industry can easily spread to others. This is true as far as it goes. But it seems to me to be more important to emphasize that the very fact of the dominance of craft unionism and its part in coercive comparisons, creates the need for an incomes or a national wage policy. In the absence of such a policy the force of comparative wage justice would tend to generalize settlements made in certain pattern setting awards without adequate regard to the macro-economic consequences of the resulting wage increase. An incomes policy supported by the Federal Government and the trade unions provides an opportunity for a more effective control of the pattern setters than might be the case if they are dealt with separately.

Finally, I would like to say a few words abut strikes. Professor Mitchell's analysis of Australia's strike record is balanced and I have no quarrel with it. But I note that Professor Krause writes about "an incredible number of strikes per worker as compared with countries with similar labour institutions" (p.21, see footnote) and that "Australia has gained the unenviable reputation of being an unreliable supplier" (p.22, see footnote

13).[13] I think this puts the position a little too strongly. First, the Australian statistics, unlike those of most other countries, define strikes so as to include shorter and smaller strikes. Since a large proportion of Australian strikes are in this category and would not be counted in say the United Kingdom or United States of America, the comparative picture may be distorted. Secondly, there is a good measure of rhetoric in the allegation about Australia's unreliability as a supplier. It needs to be estabished how frequently exports have been held up, what the industrial incidence of this problem is and what degree of real inconvenience our overseas buyers suffer as a result. But I have not seen any hard material on this issue. Frequent repetition of this allegation has made it appear as an established fact which may inflict an unwarranted stigma on our export industries. There may be some substance in the allegation in relation to the mining industry but even here more reliable factual information needs to be established. It should be noted incidentally, that pay and conditions are settled by collective bargaining in much of the mining industry and that the strike pattern, such as it is, in this industry cannot be attributed to the workings of the arbitration system.

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[13] The page references p.21 and p.22 in this paragraph refer to the draft of the Introductory Chapter to the Brookings Survey volume, prepared by Professor L. Krause and circulated to the Brookings Survey Conference in January 1984.

DISCUSSION FROM THE FLOOR

REPLY BY PROFESSOR MITCHELL

I would like to thank my discussants, particularly as they were both so very complimentary. I have prepared some comments in reply based on the written drafts that they circulated, and I have outlined six points which come out of both papers that I think are important to comment on. In outlining and selecting the six points I took into consideration the comments sent to me by many other people over the past few months.

Let me start with of the female-male pay differential and some related matters. The reason I got into that area was partly that it was of interest in itself but also to get at the question of whether the arbitration mechanism has a discernible impact on wages. Although many people argue in different ways on that point, it is very hard to look at that wage movement and not conclude that some administered element is present in it. If we in the U.S. had experienced a similar movement in female relative to male wages the kind of explanation that has been put forward here by those who argue that it was caused by market forces could easily have been put forward in the U.S: that is we had an expansion of female using industries relative to male using industries and white collar occupations relative to blue collar occupations. But this did not move our wage differentials and it is hard to move them that fast that quickly. I did not need to look so closely at that differential for the purpose for which I used it, but mainly to try to see whether the arbitration system had any impact. Had Australian data been collected in a more useable fashion this issue might be more readily resolved. The problem is that you have got two wage measures: one is an index of so-called award minimum wage rates and the other is an earnings index and it is left to observers to figure out what the connection is between the two. Given the length and importance of the controversy there are many better ways of collecting that information. Let me suggest an outline.

First you require an index of what I will call true award decisions, that is decisions that were in fact made by the arbitration system and where those wage rates are in effect the effective wage rates. Secondly you need a separate index for another series I will call 'blessed award rates'. These are essentially situations in which a bargaining process has produced a settlement which is then endorsed by the Arbitration authorities. You will then need a third index that will take account of what might be called informal over award payments, i.e. those awards which are negotiated but perhaps not even formally written down, of premiums above either the award or blessed award rates. Finally you require information about the sector which operates outside the system. It is not a large sector but you do have some non-union wage determination particularly at the managerial level and you also have some collective bargaining contracts that are outside the system. We need to keep track of those, too. I think if we had this scheme of data collection a lot of the issues could be settled much more quickly. Connected with the female - male pay issue is the whole area of what we call equal employment opportunity policy and the force of events has overtaken some statements I made in the paper.

It was my impression that apart from the equal pay concerns, and although there was some state legislation in this area, EEO didn't seem to amount to much in terms of actual impact on the policies of firms. On the other hand in the U.S. we have emphasised the non-wage EEO kind of policies that have had a great effect. Since our courts are not wage courts, they were very reluctant to get into pay determination. But in the last few months one federal court has jumped into that area with great enthusiasm and there will be protracted litigation on what we call the comparable worth issue. You can expect hordes of Americans to descend on Australia to study the impact of the change in pay differentials which occurred here in the 1970s.

I also note with interest that with the new change in federalism, you have a bill going through at the present time which promises American style regulation in terms of discrimination in the labour market. I would like to say a little about that in terms of labour markets. Obviously it is a full employment for lawyers Act. At least that is one segment of the work force that need not worry about 10% unemployment. More importantly in terms of labour market institutions EEO policy has had a major impact on the internal structure of authority within American corporations. Personnel Management departments are much stronger now because of EEO policy than they were prior to it. The reason for this is that in order to keep up with EEO interpretations you need a whole body of experts who can keep up with court decisions, interpretations, administrative procedures and so on. You then have to give that body of experts authority over line managers to prevent them from getting you into trouble. You have to give the authority both to veto and to make decisions. So implicit in an EEO policy is a change in a significant internal labour market institution.

I will now turn to the issue of what I call here atomistic wage setting. Yesterday Dick Caves said that you have to choose a particular place to represent utopia and make a comparison to that place. I have in a sense chosen the U.S. as utopia in this case. We have something called decentralised collective bargaining and some believe that if only you could do it here, think of how much better the world would be! But that doesn't square with the American literature on collective bargaining. Our literature on collective bargaining with a much lower unionisation rate suggests that union wages are less flexible than non-union wages. Except in extreme circumstances where you are threatening to close down the whole company or plant, you do not get sensitivity. There is a whole literature which goes under such names as median voter models and so on that is alleged to explain that insensitivity of wages to changes in demand.

I wouldn't say that decentralised collective bargaining is something that is guaranteed to give you a better Phillips curve than you now have. What you have seen in the U.S is a prolonged period in which union wages have outrun non-union wages. Now because of the combination of the general economic slump plus the appreciation of the U.S. dollar, plus deregulation, plus a lot of other such factors, certain industries have become so exposed that they have reached the point of threatening the median voter and therefore you have achieved some wage reactions. Even so, taking the first three-quarters of 1983, union and non-union wages rose at about the same rate and if you take account of fringe benefits, that is total compensation, union wages out-ran non-union wages including those contracts where you got zero change. The average union wage rise still out-ran the non-union rise, as it has done for at least a decade. The other point I would make therefore is that decentralised collective bargaining is not really that near to utopia after all. What is really being advocated by those favouring decentralisation is non-union wage determination. The only thing I would say about that is, yes indeed you probably would shift the location of your Philips curve and the slope of the Philips curve. But I think it is important to remember that the whole implicit contract literature which has been built up in recent years is really an attempt to explain wage rigidity in large non-union companies; that is really the genesis of it. So again the degree of flexibility in wage setting that one could expect from a decentralised system is more limited, I think, than some of the proponents of such a system have suggested.

My next point concerns the notion of comparative wage justice and the arbitration system. Perhaps I can rephrase the point that I made in the paper. I agree with Joe Isaac that a feature of all labour markets in all countries is some version of comparative wage justice. If you ran an opinion poll on whether people who do equal work should get equal pay you would get a resounding endorsement of that kind of principle. In the U.S we have different words for it; we call it pattern bargaining or orbits of coercive comparison, something of this type, but it's present everywhere. My comment was that if you have a wage setting mechanism (and we have had some experience with this in the U.S. during war time wage controls), you are faced with a tremendous administrative problem. If you were really to say we are going to decide everybody's wages on a case by case basis we would still be trying to clear the backlog from World War II. There are just too many wages out there to be determined. The only way that you can make the system administratively feasible is to group cases together. I can take this whole block of cases and make one decision and solve a tremendous administrative problem. It is very convenient to have a mechanism for grouping cases based on the sort of community mores about comparative wage justice but in doing so you reinforce those mores. You legitimise them. You say indeed these are true principles. The system tends to reinforce something that is already there.

I turn now to the gain sharing suggestion that I made in the paper. I am glad that Joe Isaac was willing to at least take it seriously. Many people told me that this was a foreign import that just could not be translated into Australian terms. People who are willing to consider other very radical changes in institutional policies seem to think that installation of profit sharing is something that is totally outside political or any other kind of feasibility. On looking at the Australian literature one is struck by the almost cyclical nature of the discussions. Indexation is or is not inflationary; the arbitration does or does not affect wages; incomes policy should or should not be implemented and so on and so forth. This area of the paper is the sort of area that you buy in bringing foreign observers to say something different - to break the cycle and say something else. What is being said is, if you put an element such as profit sharing into the wage structure, you are going to make total compensation more sensitive to the ups and downs of the business cycle because profitability will be more sensitive to the ups and downs of the business cycle. If you think that is a good thing, and everybody does seem to think that it is a good thing, then it ought to be pursued with some serious thought.

Let me turn to something that was mentioned in Joe Isaac's written comments and was also reflected in some of the comments that I got. Namely that I should have taken the so called tax based income policy proposals more seriously. I will explain why I didn't do that and give you some illustration of what would have happened had I taken it seriously. The problem (and this is a problem which is certainly not unique to Australia because it characterises much of the American discussion of this too) is that I don't know what TIP plan to take seriously. We could just say we are going to tax inflation and reward deflation. To my mind this is not a plan at all; it is a nice idea which might be used as the basis for a plan. But it is not a plan that anybody can endorse or implement; it is just too vague an idea. I have not found much in the Australian literature that goes beyond that. In the U.S we did have an episode in which the Carter administration proposed unsuccessfully something called real wage insurance which was a reward TIP wage plan which was a very specific plan. The Administration was forced to come out with a piece of legislation that could be criticised - but nothing like that has happened here. The closest I found is what I'll call the Gregory plan which is expressed in a couple of sentences in a few papers. This says we will get firms to compute average hourly earnings and if those rose by more than some guideline we would impose a tax on them. I will use the Gregory plan (again, this is not a piece of legislation that anyone could propose) to sketch out what some of the problems are. If you followed something along those lines, here are some of the problems that you would get. You would find that in a given firm, changes in the composition of the workforce, in occupations, in product lines - changes in all kinds of things - would mean that there would be substantial diversions between wage rate decisions and earnings movements and you would some how have to come to grips with that. You would find that merit and promotion arrangement progression plans of one type or another, although in theory in the steady state would have no effect on average hourly earnings, in fact have big effects because no firm is in the steady state. Hence you will have very significant effects on average hourly earnings from such arrangements on a firm by firm basis. You will find that fringe benefits (and I'm aware that Australia has a different pattern there) are a significant element in terms of total cost of labour and you would have to make all kinds of detailed decisions, e.g. what are you going to do about changes in clothing allowances, tool allowances, executive pay, etc. You would have to work out, when you say average hourly earnings, whether you mean hours worked or hours paid. All this is going to have to be dealt with and as soon as you make a decision you create a loop hole for somebody to get around it. You are going to have to deal with the fact that Australia has multi-employer bargaining units. Therefore the tax paying unit is not the same thing as the wage decision unit and that will create a great deal of difficulty for you. You will also have to deal with the problems of evaluating changes in work rules and changes in technology that will have some indirect bearing on hourly compensation. For example, technology may have some impact on the use or non-use of overtime and similarly with shift premiums. Remember these things might not create a problem in the absence of a TIP plan but with a TIP plan they create an opportunity to evade the plan and people learn to use these things creatively.

A further problem - and one which employers will quickly raise - is that the arbitration system does set minimum wage rates and so you may have a situation with one arm of government making you do one thing, and another arm of government is penalising you for it and it's not clear how you can reconcile these two. Another thing employers will say is that if an agreement is to be reached on something, they will want to know in advance if they can meet the guidelines. They will not want to wait to the end of the year and have someone come in and calculate the change in their average earnings. You really cannot have a system in which people agree in good faith to something and then it turns out that after the fact that they have committed an offence for which they are penalised financially. Finally you are going to have to make the system capable of being audited. After all you are either in a reward TIP where you are giving away money or you are in a penalty TIP where you are taking money. If you do those things, you have to ensure that some tax audit is possible to determine down to the last penny whether you meet the standards or not.

I have argued that way, because the arbitration system has in effect 'nationalised' a piece of every firm's personnel department, there is less incentive to work out day-to-day employer-employee relations than there would be in a system in which people are left to sort out problems on their own. It's not that the arbitration system actively discourages the working out of day-to-day relations, but there is no a positive incentive to do it either. John Macleod very kindly arranged for me to visit Woodlawn Mines (not far from Canberra) where all kinds of work life experiments have been put into place, that affected the way the compensation structure was put together. The reason I went out there and the question I wanted to ask was: When you went to the arbitration authorities (in this case State arbitration authorities) with this totally unorthodox plan, did they give you any trouble? Did they say you can't do this because it is unlike the arrangements other mining operations have? The answer was that since both the employers and the unions had agreed to it, they (the arbitration authorities) regarded it as an interesting aberration but they didn't raise any difficulties. So I think it is true that if both labour and management agree to something, the arbitration system will not necessarily put blockages in the way of innovative practices. But on the other hand there is a lack of incentives for labour and management to get together and come up with those kinds of proposals.

PROFESSOR PETER KARMEL, Australian National University:

I would like to raise an issue which hasn't received a great deal of attention in Professor Mitchell's paper. It relates to the young end of the labour market. There were some passing references to the problems of transition from school to the labour market and to the relatively low educational participation in this country as compared with North America and Japan. It is important to realise that full time job opportunities at the young end of the labour market have in fact been declining over quite a long period. The number of such jobs has been going down steadily since the mid-sixties; there are structural changes which have been taking place at this end of the market quite separately from cyclical effects. It is usual to say that one can explain high youth unemployment by the cycle; cyclical changes impinge immediately on the market for youth via the demand for new recruits. Of course this is true but it is important to realise that economic recovery will not bring us back to the situation of the 1960's as far as the young end of the market is concerned. Nobody is so optimistic as to believe that we will get rid of 10% unemployment in a matter of a few years. It seems to me therefore that we have to look seriously at structural elements in the young end of the market. That is not to argue that there are no important problems occurring at the older end of the market.

There is a case for raising educational participation for young people if only to keep them off the labour market. This will involve reform of the institutional structures, the curriculum, teaching methods and so on in secondary schools, and in technical and further educational institutions, and possibly in higher education.

It is also important to emphasise that there have been major changes in the skill requirements of the work force in the last decade. There have been, in Australia, in common with many other countries, marked changes in the industrial structure of employment, in the occupational structure and in the skill requirements of the various categories of employment. In particular, people change their occupations several times during their working lives and a workforce that is flexible in its capacity is important. It is also the case that the future employment will tend to be in the service industries and not in manufacturing or in agriculture, and that these industries require a more general education - with specialisation being acquired later on the job. This in itself is a reason for wishing to increase educational participation and raising the level of general education; i.e. not only as a means of providing an acceptable activity for young people but also as a basis for the future employment of the workforce.

There appears to be a significant propportion of young people (it could be as much 20% in this country) who leave school with low attainments and low motivations. They are concentrated in low socio-economic groups, in certain recent migrant groups, among aboriginal people. Under the present circumstances these people are prevented from getting jobs due to high levels of real wages and to rigidities in relative wages. Perhaps the best way of expressing this is to say that their marginal productivity is below what is a socially acceptable minimum level of real wages. The fact that they are unemployed seems to be of little concern to those who are employed and particularly to those in the union movement. For people who are appropriately qualified and are productive workers it is in their interests for real wages to be high. Their marginal productivities are sufficient for them to get employment but many of those less well qualified people are not in this position. If the educational system is not able to raise their productivity (with radical reform it should be able to) they will be a long term drain on the welfare system or on the budget. They will have to be employed under sheltered conditions (that is to say with subsidies) or they will have to suffer the destructive effects of long term unemployment.

In addition to the issue of raising educational participation in formal schooling, there is also the question of the training system. It is difficult to understand educational and workforce participation among the young in this country without appreciating the key role that apprenticeship plays among males. Something like 25 to 30% of all 17 to 18 year old boys are indentured. The long term viability of what is an extremely antiquated, restrictive and unsatisfactory system is at issue; in addition the apprenticeship system has a very strong gender bias. In the present environment of attitudes on sex discrimination, the long term future of this system must be regarded as in great doubt. Therefore as well as considering an increase in educational participation in the formal institutions, we ought to be considering a training system which is broader in it's coverage - one which covers all occupations, not merely the traditional English skilled trades but activities in commerce and in the banking industry generally. We need a broader coverage and higher quality in training, and a system which does not suffer from the cyclical disadvantages of the existing apprenticeship system. The apprenticeship system is declining sharply at the moment. Last year there were 30% less new indentures than the year before. My guess is that it will fall by another 20% this year. When there is a recovery there will be a shortage of skilled labour. We should be moving towards a much broader based scheme in which employers are expected to employ a fraction of their workforce as trainees; in which the trainees are not paid junior wages (which are relatively high) but are paid training allowances. Indeed it may be necessary for the government to be prepared to provide training allowances similar to education allowances, as an alternative to providing funds for unemployment benefits or for employment subsidies.

BRUCE CHAPMAN, Australian National University:

I want to take up briefly the issue of real wage insurance. Professor Mitchell's comments on the potential for applying TIPs really comes from an American prospective. There are ways of applying real wage insurance in Australia which are facilitated by the existence of the Arbitration Commission. In particular applying some form of real wage insurance to union awards would make it possible to avoid all the individual wage change measurement issues that Professor Mitchell has been talking about. There has been some work done on this, in fact it was cited by Joe Isaac in his comments. It strikes me, as I think it strikes Joe Isaac, that the existence of arbitration facilitates that sort of institution. One of the things that Professor Mitchell has done this morning is to point out quite extensively the potential for loop holes and the potential of workers for getting out of agreements. Having made the basic point, that is going to be true under any incomes policy - given that incomes policy implies wage restraint. Non-wage costs, fringe benefits, manipulation of hours or whatever, you have got to apply that criticism to incomes policies too. Given that Professor Mitchell is supporting the current Accord, it is strange that he should not be applying the criticism there but specifically only to a TIP incomes policy. It is also important to note that any taxation policy has the potential for evasion and avoidance. This brings me to a fundamental methodological point: it is not sufficient to identify costs of a policy in assessment of that policy; costs per se do not matter, what matters is a comparison of benefits and of costs. The virtue of real wage insurance is that it potentially decreases nominal wage growth cost to employers at the same time as it allows real wage maintenance by employees.

GLENN WITHERS, Australian National University:

I would like to make four brief points. The first is in regard to the question of the uniqueness of the Arbitration Commission. I think that regulation matters a lot in Australian economic performance. This is an issue Helen Hughes, John Macleod and others have taken up at this conference and I think the Brookings people have by and large missed. Deregulation in our services sector, particularly in producers services, might make a big difference to our economic performance and our ability to realise our comparative advantage. But this is not true in the labour market area for the sorts of reasons that Joe Isaac has enunciated for me. There is not an auction market out there waiting, as regards labour.

The second issue I would like to pursue relates to TIPS. Boulding's law says that if it exists it is possible. We do already have a payroll tax and company tax that operate through direct taxation of the company rather than of the employee. Thus administrative structures for taxing payrolls (or changes in payrolls) are in place and can be used. We cannot merely assert administrative problems and pretend that the proposal falls down.

Thirdly, an issue that has not been discussed so far is that of manpower programmes. Dan Mitchell has a fairly pessimistic view of what could be realised in this respect. He refers to such programmes as queue reshuffling and does not see them as employment expanding. Sweden of course has shown as a limiting case that you can actually "cure" your unemployment with manpower programmes. Perhaps this is at some significant productivity cost. If so it becomes a matter of the social welfare function and whether weare pursuing short run versus long run goals. But even Swedish type problems can potentially be overcome with the nature of the training content of manpower programmes. If they are genuinely training oriented then there may be real productivity benefits as well as queue reshuffling benefits. Recent work by Ralph Smith[1] supports this for present Australian programmes and I think Dan Mitchell underestimated that aspect.

Finally, Mitchell's discussion raises a more general point about the Brookings review overall - and the Anglo-American focus on fiscal management, deficit management on money supply and real wage issues and not upon the sort of productivity type issues just discussed. For instance, Mitchell's paper did touch on comparative advantage but it does not really consider the whole training area which Peter Karmel was getting at in his open discussion. And it does not centrally address work place/industrial relations issues, as eloquently pointed out by Joe Isaac in his discussion. Yet these are the sorts of issues that I think that are fairly crucial in the long run for Australia's economic performance and I think the papers presented to this conference to date under-emphasise or neglect the importance of these longer run, supply side productivity issues. We have not been well-served in that regard.

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[1] This work has been published in R.E. Smith, "How Effective Has The SYETP Job Subsidy Really Been?", **Discussion Paper No. 104**, Centre for Economic Policy Research, Australian National University, August 1984.

NED GRAMLICH, University of Michigan

I would like to make two comments. The first involves the macro versus micro impact of administered wages. It seems to me that both sides of the debate on the wage administration system tend to get confused. I find the case that Rudi Dornbusch made on the first day, and that Joe Isaac made today, for at least the short run macro rationale for an incomes policy, to be fairly persuasive. On the other side, I do sense a tendency for Australians to underestimate the importance of the effect of the arbitration system on the micro pattern of relative wages and indeed to not appreciate the point that Mike Porter keeps making. It seems that Dan Mitchell has pretty good evidence that the arbitration system matters in comparing wage patterns here with wage patterns in the U.S.. There is I think fairly good econometric type evidence and anecdotal type evidence that unions matter in the U.S., I assume that one could make some similar comparisons here. I do not find it plausible and I do not think it is very helpful to keep telling yourselves that the wage administration system does not matter here. I think there is probably good evidence that it does matter.

The next question is does that matter? It seems to me that again it is too easy to fall into the Phillips curve mode of thinking - i.e. if you cannot believe that it will shift the Phillips curve very much or change the slope then maybe it does not matter. There is a micro efficiency point here nevertheless. Even if there is no change in the Phillips curve, there might still be a rationale for moving to a more decentralised system. So I see the challenge in the wage area for you as being somehow to preserve the administrative arrangement you have, to try to get rid - at least in the short run - of your problem that has been described variously as the real wage overhang or high real wages or what have you, but at the same time somehow try to get the relativities opened up and more in correspondence with marginal products.

Dan Mitchell gave an impressive list of problems associated with TIP. That does not mean that you should not have TIP but it just means that the cost may be higher than you think. Dan Mitchell is a wage man, he is not a tax man and if you get into the tax side you have got a whole new set of problems as well. Let me just mention one that we talked about yesterday which is that already there seems to be a big problem in Australia of relying heavily on income tax and supposedly a big problem with evasion avoidance and so forth. If you work a TIP programme through the income tax you are just going to increase the problems which that creates. You will have a sector that already is not paying taxes and therefore already not going to be susceptible or as susceptible to wage control. There will be equity problems between the people who do pay their wage or their income tax. Secondly you will have an efficiency problem because you will increase the incentive to get out of paying the payroll tax and the income tax. To my way of thinking at least, to work this through the tax system would present particular problems in this country, given the tax problems that I have heard about.

JOHN HELLIWELL, Univ. of British Columbia

I would like to raise the issue of the influence of the terms of trade on the real wage. In the Australian context that issue is unusually important. What is inexplicable is that it is so under-researched in the Australian context and under-represented in the chapters for this book. I think it has to be picked up somewhere. Basically wages, profits and taxes or royalties are three alternative ways of distributing the rents and quasi-rents that arise from cyclical and trend changes in the terms of trade. There are very important macro and micro implications of these alternative ways of doing the distribution. What is needed first is much better empirical work concerning the extent to which the actual wage bargain responds to the changes in terms of trade with or without allowing for changes in taxes.

TOM VALENTINE, Macquarie University

I think it is important to remember the point that Max Corden made: that what the government can control, potentially at least, is nominal wages and not real wages. The instrument is nominal wages, the target or intermediate target if you like, is real wages. There are probably other instruments apart from nominal wages that can be used to influence real wages. That is not always clear in Dan Mitchell's coverage. For instance there was a nominal wage cut of 10% in the 1930's which might initially have been a real wage cut of 10%, but it certainly didn't continue to be so.

Dan Mitchell is being very kind in not drawing attention to the silliness of the real wage overhang debate. The real wage overhang, as he makes clear, is just another name for the share of labour in the national income. For some reason the authorities decided to invent this new concept as a way of obscuring the debate in the 1970's. I do not think it really merits the serious attention that they have given it. It does obscure the debate in a particularly important way in that it tends to cover up the fact that real wages are an endogeneous variable. It seems to indicate that the real wage is something that can be manipulated. Also of course we are never quite sure if the real wage overhang is an underhang. It really depends on what the share of labour was in the period you choose for your initial period. So the whole terminology is coloured, misleading and unhelpful. I think that rather than taking it seriously it would be better if you helped us to expunge it.

In those terms also I am a little concerned about the serious attention you have given to the projections that were used at the Summit Conference. Most of those projections, as I understand them, were simply invented by the people who prepared them. They do not rely heavily on statistical techniques. I am not at all surprised that they show an employment effect of the real wage overhang. That sort of thing was built into the projections in the first place.

Finally a point on a much more general question. I would like to agree with Dan Mitchell that there is a very serious problem in deregulating the labour market, since a very important source of regulation - namely the unions - cannot be simply deregulated. Hence I would tend to adopt the view which I think Dornbusch and Fischer adopted in the first paper at this conference with respect to problems of dealing with wages policy. I am in favour of some deregulation of the labour market, but probably not enough to qualify me for an Adam Smith tie.

CLIFF WALSH, University of Adelaide:

My first point was partly inspired by some earlier comments. It relates to the question of what makes labour markets different and whether they are or are not auction markets. It seems to me that the irrelevance of the "auction market" issue was made perfectly clear by Glenn Withers who suggested that we could deregulate the service sector and I take it that includes airlines, banking, communications and so on. Now, when I look at airlines, banking and communications, I do not see much in the way of auction markets, yet deregulation has proceeded rapidly. Perhaps Tom Valentine was getting closer to the point when he indicated to us some of the things which do differentiate labour markets from other markets.

The particular point I would like to get to is that, whether or not one is interested in deregulating the labour market, whether or not one wants to get rid of the Arbitration Commission, the question being posed in the literature and I think by Dan Mitchell) doesn't help us very much as by and large it is the wrong question. Most of the literature seems to focus on the question of whether the labour market works as an allocative mechanism or whether comparative wage justice dominates everything. That I think is not the relevant question. It is certainly not the question which the alternative political parties in Australia are interested in when they are tackling the question of what they would like to do to the wages system. The question they are asking is about average wage levels and what effect alternative systems would have on the average wage level. In looking at incomes policy I think Dan Mitchell already pushes us away from that. Having done quite a good job on the more general question of whether the arbitration system matters (in terms of what it does to wage relativities) he gives rather short shrift to the question of what it does to average wage levels. I cannot allow Joe Isaacs' conjecture that the arbitration system might indeed have some restraining influence to go by entirely unchallenged. I will make three simple points about that. It seems to me that even if comparative wage justice is a phenomenon of all wage systems, ours may well propel the changes through the system rather more rapidly: i.e. we get faster transmission of wage changes. Secondly to the extent that the Conciliation and Arbitration commission does affect wages (for example in the case of women) it is essentially, as I understand it, by pushing up those wages in the first place. Even if the groups which gain are able to sustain some improvement in their relative position, others will require wage increases to catch up partially. Thirdly and I think in a sense more fundamentally, in good times the wages mechanism essentially breaks out of indexation. In bad times it drops back in and that seems to me to be a phenomenon which essentially raises the average level of wages over time.

MAX CORDEN, Australian National University:

Dan Mitchell mentioned that there had not been much discussion in Australia of tax based incomes policies. But that is not so if you include in that the proposals to have general tax cuts in exchange for wage restraint. In 1975 a group of Adelaide economists put that forward as the principal sort of left wing solution. It was described in Barry Hughes' book, **Exit for Employment**. The Shadow Treasury (i.e. the Melbourne Institute as it was) made this their principal proposal for all these years (essentially orchestrated by Peter Sheehan who is now the John Stone of the State of Victoria). So it certainly has been an important proposal continuously put forward. Peter Dixon and I analysed it in rigorous terms (using the ORANI model) putting it into a neo classical framework.[2]

RUSSELL MATHEWS, Australian National University:

Apart from this question of the tax based incomes policy there doesn't seem to have been much consideration in the paper or in the discussion of the effects of taxation policies generally on wage bargaining. The structure of taxation - the balance between the direct and indirect taxation - is obviously important to the extent that indirect taxes are reflected in the CPI. But the way in which the personal income tax system works is

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[2] W.M. Corden and P.B. Dixon, "A Tax-Wage Bargain in Australia: Is a Free Lunch Possible?", **The Economic Record**, 56, September 1980, pp.209-221.

also important in all kinds of ways. The personal income tax system discriminates against wage and salary earners. There is some evidence that a response to this on the part of the unions has been to try to maintain after tax incomes in real terms. The absence of any system or any continuing system of tax indexation has probably contributed to this.

MICHAEL KEATING, Dept of Employment and Industrial Relations:

I would like to raise two points. One in relation to wage dispersion and the other in relation to the real wage and unemployment. On wage dispersion I don't really agree with Gramlich. The evidence does show that the dispersion of wage relativities in Australia is less than in the United States. However, it is not less in comparison with most European countries and I don't think you can describe all European countries as having solidaristic wage policies. Secondly, the dispersion of wage relativities in Australia over time does not seem to me to support the notion that the Arbitration Commission has a great deal of influence. I include there the evidence cited by Mitchell in his paper and also other evidence which he has not cited which I will make available to him. I would suggest that the evidence shows that the dispersion of wage relativities widened during the period of indexation, or perhaps more correctly partial indexation, and was closing in the early 1970's when we were allegedly under collective bargaining. The other point in relation to the influence of the Commission (as a number of other speakers have indicated) - is that it would be useful to look at the movement of the aggregate nominal wage. There I would agree that on occasions the Commission has had some influence. Like Joe Isaac, I agree that it is easier for the Commission to exercise an influence in an upward direction than in a downward direction.

With regard to the real wage and its effect on unemployment, I agree with everybody else that it has an effect. I think that you can do reasonable projections of the real unit labour cost index - i.e. the index which we really care about, and often taking account of the wage pause and of Medicare, we can expect a significant reduction in the real unit labour cost index from it's peak back in around 1982. I am rather more pleased with those projections than I suspect David Harrison is. The fall is not as much as one would like but it is nevertheless a significant fall. The concern I have is that I do not believe unemployment will come down to the same degree. If you really believe in an exact relation between this index and unemployment, unemployment would come down by more than we all expect. The real reason for this lack of relation relates to things that Peter Karmel was referring to. One of the unfortunate features of a prolonged recession is that we get a decline in investment. It is not only a decline in investment in physical capital, it is a decline in investment in human capital. This can be depicted as the supply curve for labour shifting so that the equilibrium or clearing wage has also shifted. We cannot go back to where the old equilibrium wage was. The old equilibrium wage will not give us the same rate of unemployment. Alternatively, if you like, the natural rate of unemployment has changed.

The discussion in respect of our employment programmes was pretty fair. I think they can be characterised as mostly about queue shuffling. I would, however, defend queue shuffling when essentially what we are talking about is a group of people who have a very prolonged duration of unemployment. Indeed, we have got to wonder after two years of unemployment whether the person is ever employable again. In that respect we are now not only concerned about youth, which Peter Karmel correctly described as a major problem until this second round of the recession - the post 1981 recession. We have now got to be concerned about a lot of adult males and the extent of their future employability. If queue shuffling in those circumstances maintains their employability I think it can be defended.

RUIDGER DORNBUSCH, MIT:

Briefly I want to make the same point that Michael Keating has just made, namely, that in Europe the wage compression is if anything stronger than in Australia. In Europe the great question is how the United States, in contrast to Europe, has been able to achieve so much employment growth over the last ten years. The argument is always that relative wages are so incredibly dispersed in the U.S. I would suggest that it might be interesting to include Germany in Table 11 as a comparison, since there, of course, they have the moral equivalent of an Arbitration Commission.

HENRY AARON, Brookings Institution:

I have just a brief question to pose: if it is the case that the Arbitration Commission succeeded in raising the relative wages of women by a very substantial fraction without simultaneously producing a very large increase in the unemployment rate of women, what is the meaning of a real wage overhang for the question of unemployment?

DAN MITCHELL, UCLA:

In view of the time constraint let me come back to just one point, the TIP issue. I would reiterate that I am at a disadvantage in that the proponents of TIP have not presented a **plan**. They present an **idea**. Thus, when I raise an objection they say: that is not part of the idea, we have a different kind of idea, and then I have to start all over again. When a plan is presented, I will be happy to make very specific answers to very specific suggestions. I think it is incumbent on the proponents to sit down and go through the exercise of trying to propose a piece of legislation; not an idea, but a piece of legislation.

Max Corden has pointed out that there is a another kind of tax related incomes policy, namely where a deal is worked out: we will do something on the tax side if you will agree to some form of wage restraint. That is a completely different kind of approach and one that bypasses all these other sorts of problems. TIP plans are extremely complicated to administer; if in fact you could get a consensus to introduce a TIP, you could just as easily introduce an incomes policy. It would be much easier to persuade everybody to go along with an incomes policy than with TIP because a TIP raises a host of detailed problems. There would be arguments about stock option plans and tool allowances and so on,and the whole thing would fall apart. It will not be simple, no matter how simple you try to make it. If you make it simple, it will appear to have lots of inequities. If you try to deal with all the inequities it becomes such a complicated arrangement that you will not get agreement for it. So I think that people who propose TIP have to think about it more concretely. Suppose you had a TIP plan with a penalty, suppose you make the penalty very high, then what you have in a sense is a rigid wage control programme because no one will violate it and whatever the rules are they will endeavour to comply 100%. But that is much more rigid than an incomes policy would be and you want an incomes policy to have some flexibility. So that if there is some peculiarity with, for example, tool allowances and that kind of thing, somebody can make a judgement: this matters, this doesn't matter and so on. When you have the tax accountant do it you've got to pay attention to these minutiae. On the other hand you could make the tax penalty very low, then you will avoid that particular problem but then the penalty will be ineffective. The same applies if there is a problem with trying to set the guideline - the guideline has to be put into the legislation and fixed for for some period of time. If by accident the guideline is made very low compared to what wages would otherwise tend to be, then people will tend to violate the rule and just pay the tax, in which case you will have imposed a payroll tax, marked up labour costs and added to inflation. On the other hand if the guideline is set too high and is locked into a piece of tax legislation then you have no effect at all. Incomes policies, including deals with taxes to make them more acceptable, are a much more flexible instrument than a TIP plan can ever be.