# WAGE INDEXATION: CATCH 22 AND INDUSTRIAL RELATIONS

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## WAGE INDEXATION AND INDUSTRIAL DISPUTES

The Wage Indexation Package was inaugurated on April 30th, 1975. It has proved to be a bold and successful attempt to centralise the process of wage fixation. The package allowed wage increases on three grounds:

(1) general wage increases to compensate for price increases;
(2) general wage increases to reflect increased national productivity;
(3) individual award increases for work value changes and special circumstances.

The granting of wage increases was conditional upon 'substantial compliance' by the union movement with the wage fixation principles enunciated by the Commission. Substantial compliance refers to the level of industrial disputation and the extent of wage increases outside national wage increases.

The package therefore combined a carrot and stick approach. The carrot was the promise of the maintenance of the purchasing power of wage and salaries in a period of rapid inflation. The stick was the threat that widespread industrial action or a significant level of wage increases occurring outside National Wage Cases could lead to the Commission withholding part or all of the increase.

The stick has been applied twice. National wage increases have been reduced — discounted — on two occasions, when the Government and the private employers have successfully argued that the union movement has not 'substantially complied' with the indexation package. In other words, the Commission has twice decided that the level of industrial action has provided grounds for reducing the purchasing power of wage and salaries.

The stick has also been applied to an individual industry. The general quarterly increase granted to all employees was withheld from Builders Labourers because of the campaign of industrial action around a claim, not pursued within the Commission, for a substantial wage increase. The quarterly increases were restored when the Builders Labourers Fedération assured the Commission that the campaign had ceased.

The Arbitration Commission relates the application of the indexation package to their principal statutory and constitutional role which is to 'prevent and settle' industrial disputes. In national wage cases and other full bench hearings, this primary responsibility is subject to the impact of any decision on the economy, with particular reference to inflation and unemployment.

The promise of the package is that reduced industrial action, or substantial compliance, will be rewarded by full indexation — full compensation for price increases in the preceding quarter. The threat is that widespread industrial action will be punished by a reduced wage increase, or no increase, for all or part of the work force.

## CATCH 22

If, for industrial or economic reasons, the Commission decides, as they have done in seven out of the last nine decisions, to award less than full compensation for price increases, the unions may respond in two ways. They can simply accept it as they have generally done in the past. Alternatively they can respond with industrial action designed, firstly, to protest the cut in real wages, secondly, to apply pressure for increases in over-award payments from individual employers; or, thirdly, to apply pressure on employers and employer organisations to agree to the incorporation of increased allowances in the award.

If there is no industrial action as a result of partial indexation decisions, the Commission will read the lack of response as an acceptance of the decision. In the March Quarter 1978 hearing, Arbitration Commission President Sir John Moore asked ACTU advocate Rob Jolly whether the evidence he had submitted showing 'substantial compliance' — reduced industrial action — demonstrated widespread support for partial indexation.

If, on the other hand, there is industrial action in response to Commission-induced cuts in the purchasing power of wages and salaries, the logic of the indexation package is that there should be further cuts in order to punish the work force for not 'substantially complying' with the system.

In short, you are damned if you do and you are damned if you don't.

This situation can only be understood within the perverse logic of Catch 22 — Joseph Heller's novel about World War II. The main character in the novel, Yossarian, is an American bombadier who wants to survive the war. Desperate to be grounded he is continually defeated by regulations — Catch 22.

The only basis on which Yossarian can be grounded is if he is insane. To be grounded he must make an application on grounds of insanity. However, only the insane would actually want to keep risking their lives in dangerous bombing missions. Hence those who apply to be grounded must be sane. There is only one way to avoid flying, but if Yossarian made an application on that basis — the basis that he was insane — he only served to prove his sanity. Yossarian had to keep flying.

The same logic governs the indexation package — with perverse but similar success.

To understand why the package is successful it is necessary to understand the economic and industrial context which led to the introduction, operation and application of the indexation package. This paper examines the conditions under which wage indexation was introduced and then examines the institutional interests which serve to maintain it. The operation of the package cannot be divorced from current economic conditions since neither the Commission nor the indexation package operates in an economic vacuum. The analysis provides a guide to future union strategies.

## WAGE INDEXATION — WHO GAINS AND WHO LOSES

In April 1975 the Commission introduced the Wage Indexation Package which focussed the process of wage determination and wage increases on the Commission-controlled National Wage Case. The package included a number of elements crucial to its subsequent success.

(1) Quarterly hearings to determine wage increases based on movements in the CPI.
(2) Annual hearings to determine productivity increases.
(3) Wage increases additional to the above are only granted for:

- (i) Changes in work value, closely defined;
- (ii) Catch-up in community movements confined to groups that missed out on major increases in award rates in 1974;
- (iii) Anomalies and extraordinary problems.

(4) Increases may be withheld if there is not 'substantial compliance' with the package. Substantial compliance is determined by the Commission's judgement on the level of industrial disputes and the degree to which increases in earnings are based upon increases in award rates granted in National Wage Cases.

The package was a bold and successful bid to re-establish the authority of the Commission in wage fixation in private and public employment and to bring trade unions back into the arbitration system. It was successful in its aim to:

(i) establish a rigid wage structure with all elements (wages, hours, conditions) under the Commission's control;
(ii) ensure minimal disturbances of existing relativities except changes that flowed directly from the Commission's decisions;
(iii) limit increases to those approved by the Commission, thus forcing unions to turn from collective bargaining to arbitrated decisions;
(iv) exert an implicit control on 'over-award' payments;
(v) reduce industrial disputes.

The 1975 indexation package followed the wages and salaries 'explosion' of 1974 which saw record increases in wages and salaries and a substantial shift in the wages and salaries share of national income.

These increases were generally won 'in the field' by negotiations and were subsequently the subject of consent awards. The vast majority of increases in 1974 were therefore outside the control of the Commission. Some, including people within the union movement, argue that wages moved too far and too fast in 1974.

Throughout the 1950's and 1960's wages and salaries increased in line with prices and productivity. The substantial increase in 1974, won outside the Commission as a result of economic and political considerations at the time, substantially shifted the wages and salaries share of national income. The 'too far, too fast' line of thought would accept that the current reverses and reductions in real wages and in the wages share of national income are a necessary consequence of the 1974 'explosion'. It is certainly Government strategy to restore the pre-1974 wages-profits relativities. This strategy is succeeding.

The indexation package developed from a conference convened by Sir John Moore in August 1974 to examine wage fixation and wage indexation. The Australian Labor Government proposed the introduction of wage indexation based on the Consumer Price Index, the elimination of the cost of living element from union claims and that union demands be limited to productivity claims and changes in work value. From this conference the Commission developed the package through which it regained control of the wage fixation process.

The Commission, with Sir John Moore presiding, had made a similar attempt in the 1969 National Wage Case. That decision sought to impose general increases through the National Wage Case with work value cases as the medium for increases in particular awards.

The 1969 attempt did not succeed because union bargaining power was enhanced by the economic boom and full employment. Further, the trade unions had rendered the penal powers of the Arbitration system ineffective in 1969 following the widespread industrial action resulting from the imprisonment of Tramway Union official, Clarrie O'Shea.

By contrast, the 1975 indexation package has succeeded perhaps beyond the Commission's expectations. The success of the package has been contingent upon the economic and political environment. Increased unemployment has weakened union bargaining power and strengthened labour discipline, especially in areas of employment for semi-skilled and unskilled workers. The last four years has witnessed the loss of 200,000 jobs in the manufacturing sector as a result of 'export', substitution of capital equipment and the persistence of the economic recession. The reasons

TABLE I
FORM AND OPERATIVE DATE OF WAGE INDEXATION INCREASES

| Quarter | CPI % | Decision | Description | Operative date of decision |
|---|---|---|---|---|
| March 1975 | 3.6 | 3.6% | Full indexation | May 15, 1975 |
| June 1975 | 3.5 | 3.5% | Full indexation | September 18, 1975 |
| September 1975<br>December 1975 | 0.8<br>5.6 } | 6.4% | Full indexation | February 15, 1976<br>February 15, 1976 |
| March 1976 | 3.0 | 3% to $125 per week then flat $3.80 | Plateau at level of average award rate for males | May 15, 1976 |
| June 1976 | 2.5 | $2.50 up to $166 per week then 1.5% | Flat amount based on $100 per week (lowest wage in Metal Industry Award in Melbourne) up to $166 per week then partial indexation thereafter (60%) | August 15, 1976 |
| September 1976 | 2.2 | 2.2% | Full indexation | November 22, 1976 |
| December 1976 | 6.0 | $5.70 | Flat amount based on the $2.90 per week maximum compulsory contribution payable by a single person for basic medical and hospital care plus 2.8% of the minimum wage ($2.80) | March 31, 1977 |
| March 1977 | 2.3 | 1.9% up to $200 per week then $3.80 | Partial indexation up to average weekly earnings (82.6%) and plateau of $3.80 thereafter | May 24, 1977 |
| June 1977 | 2.4 | 2% | Partial indexation (83%) | August 22, 1977 |
| September 1977 | 2.0 | 1.5% | Partial indexation (75%) | December 12, 1977 |
| December 1977 | 2.3 | 1.5% then flat $2.60 | Partial indexation to $170 then plateau $2.60 (55%) | February 28, 1978 |
| March 1978 | 1.3 | 1.3% | Full indexation | June 7, 1978 |
| June 1978 | 2.1 | -- | -- | -- |

*NOTE:* The decisions apply to award rates only. With one exception the Commission has not recommended the indexation of over-award payments.

for the decline in manufacturing employment are too complex to be explored here except to state that they are both cyclical and structural and therefore this decline is not a temporary phenomenon. Manufacturing industry faces a continuing decline and this will focus union strategies on job security and defensive strategies.

Additionally, the climate of public opinion holds wage rises responsible for inflation and unemployment. Even in the Labor Party there is general acceptance of the simplistic slogan 'One man's increase is another man's job'. Unions are similarly regarded as being too powerful. In this climate union bashing legislation in Queensland, Western Australia and Victoria is enacted with apparent public support. The Fraser Government has similarly enacted legislation designed to weaken the union movement.

The 1975 indexation package was substantially accepted by unions because it contained the promise of holding the 1974 gains through indexation for price increases and further contained the prospect of consolidating those gains through productivity-linked increases. Acceptance of price indexation and productivity-linked increases is a 'defensive strategy' in that it maintains the prevailing wage share of national income. It is a successful strategy to the extent to which the wages and salaries share of national income remains constant through wage increases determined within the package or won outside it.

As is evident from the analysis thus far, the promise of the indexation package is the maintenance of the purchasing power of wages through the granting of full percentage indexation increases to compensate for price increases as reflected in the quarterly Consumer Price Index. This promise is contained in Principle 1 of the indexation guidelines.

The rapid adjustment of wages for price increases is reflected in Principle 3 which states that increases should operate from the 15th of the month following the publication of the quarterly CPI.

The extent to which these principles have been honoured more in the breach than the observance is reflected in Table I which lists the CPI increase, the consequent wage increase and the operative date. It is evident from the table that seven of the last nine decisions have awarded partial indexation increases. Further, seven of the last nine increases have been delayed. (If a 1% increase is delayed one week the loss to wage and salary earners totals $12 million. The Commission, during the Wage Inquiry, described as 'silly' the observation by ACSPA that there was a strong incentive to prolong the quarterly hearings. The employers' gains from even a *one*-week delay provides that incentive.)

The importance of the quarterly indexation hearings in determining wage increases is evident when the extent to which national wage decisions determine award increases is considered. In the pre-indexation years, non-national wage increases accounted for half and at times more than half of total award wage increases. As the following figures published by the Australian Bureau of Statistics indicate, non-national wage increases have almost disappeared as an element in award wage increases.

TABLE II
WAGE INDEXATION INCREASES AS A PERCENTAGE OF TOTAL AWARD RATES

| Year ended | Male | Female |
|---|---|---|
| August 1976 | 92 | 94 |
| November 1976 | 95 | 93 |
| May 1977 | 94 | 93 |
| August 1977 | 94 | 96 |
| December 1977 | 94 | 97 |
| February 1978 | 97 | 99 |
| June 1978 | 98 | 99 |

The indexation package has also had an impact on the level of industrial disputes. The number of working days lost due to industrial disputes has fallen to the levels of the 1960's, as indicated by Tables III and IV.

TABLE III
INDUSTRIAL DISPUTES

| Year | Working days lost (millions) |
|---|---|
| 1968 | 1.08 |
| 1969 | 1.96 |
| 1970 | 2.39 |
| 1971 | 3.07 |
| 1972 | 2.01 |
| 1973 | 2.64 |
| 1974 | 6.29 |
| 1975 | 3.51 |
| 1976 | 1.74* |
| 1977 | 1.66 |

* Excluding Medibank strike

TABLE IV
INDUSTRIAL DISPUTES

| Quarter | Working days lost | Lowest since |
|---|---|---|
| June 1977 | 410,800 | 1968 |
| September 1977 | 658,600 | 1969 |
| December 1977 | 278,200 | 1968 |
| March 1978 | 183,700 | 1967 |

There are, however, a number of difficulties confronting a simple analysis of these figures. The obvious conclusion that the operation of the Wage Indexation Package, itself, is responsible for reduced 'wage drift' and industrial action should not be drawn. The thrust of this analysis of wage indexation is that one must look beyond the formula of words in the guidelines and beyond the Commission's decision to the economic and political climate.

Secondly, the greater sophistication of industrial action involving work bans, availability bans, over-time bans, etc. make a simple comparison of days lost due to industrial action an incomplete analysis.

Further, while the trend of industrial action and wage drift indicates decline in both areas the more recent indicators are in the opposite direction. The preliminary figures for the June Quarter 1978 show 791,000 days lost due to industrial disputes — almost half the annual total for the previous two years. Additionally, in their 1978 Wage Inquiry Decision the Commission referred to the re-emergence of a wage drift arising from increased over-award payments.

These indicators may prove to be no more than temporary fluctuations. On the other hand, they may reflect the fact that high unemployment does not inhibit

sections of the work force in which there is considerable industrial or economic power from pursuing industrial action in order to achieve wage gains. The dissatisfaction of these employees with an indexation system which fails to protect the purchasing power of their wages and salaries is expressed through industrial action which aims to achieve that objective outside national wage hearings.

However, for the majority, the National Wage Case remains the principal avenue for protecting wages from price increases. The equity consideration of extending increases to all the work force at the same time has much to commend it.

The fact that the defensive strategy has seen an erosion of the 1974 gains does not, however, mean that the strategy was wrong since similar, or worse, losses could have occurred in the absence of indexation. Without indexation the movements in wages would certainly have been more haphazard. Thus the package contains a significant degree of horizontal equity in that all wage and salary earners receive an increase at the same time.

The package has effectively contained the unions while allowing the Commission to adjust the strings. In the past three years, a series of partial indexation decisions and the lack of any wage increase to reflect increased productivity has effected a reduction in the wages share of national income. The Australian Bureau of Statistics estimates that wage increases are almost completely the product of the Commission's quarterly decisions. The level of industrial disputes (the 1976 Medibank strike excluded) has returned to the level prevailing in the 1960's. The Commission has, in general, had little difficulty in finding that, from the union viewpoint, there has been 'substantial compliance' with the package.

The Arbitration Commission, the employers and the Government have not been similarly fettered. There have been no productivity-linked wage increases and the wages and salaries share of national income has been eroded. Similarly, the freedom of the 'price-fixers' has increased as the powers of the Prices Justification Tribunal have been eroded. Despite cuts in real wage levels inflation remains high, unemployment continues to increase and the recession persists.

## THE ARBITRATION COMMISSION AND WAGE INDEXATION

Why, given the success and apparent stability of indexation, did the Commission initiate a major review of the indexation package in 1977? The Commission initiated the inquiry because they anticipated the breakdown of the indexation package and because they wanted to maintain a centralised system of wage fixation. Members of the Commission are naturally concerned with the power, influence and survival of their organisation and they see this enhanced through the operations of the indexation package and, conversely, weakened through collective bargaining and consent awards.

They are also conscious of their constitutional responsibility to prevent and settle industrial disputes and believe, correctly, that a breakdown of the package would exacerbate industrial disputation.

The Commission anticipated a breakdown of the package when they announced the inquiry in their March 1977 quarterly national wage decision. The anticipation appeared correct in light of the strikes by transport workers and air traffic controllers and in view of the announced intentions of the building industry unions and Amalgamated Metal Workers and Shipwrights Union to seek increases outside indexation in their 1977 wage campaigns.

The Commission's interest in initiating the inquiry therefore lay in their aim to maintain centralised control of the wage fixation process. Faced with criticisms from the Government and many academics that the Commission's failure to more rapidly reduce wages was a major cause of unemployment, on the one hand, and the threat of industrial action on the other, the Commission proposed a wide-ranging inquiry which included a review of the indexation package. As the inquiry developed throughout 1977 and 1978, and particularly in the arbitrated hearing on the inquiry

which commenced in June 1978, the focus narrowed to a review of the indexation system.

In September 1978 the Commission brought down its decision with the revised principles of wage fixation. In the President's statement accompanying the decision Sir John Moore indicated that some areas had been tightened and other relaxed. The reality is that the barriers confronting wage increases were raised while only two elements of flexibility were introduced.

The principal changes are:

(1) The Commission will adjust award wages and salaries every six months with sittings in October and April — a measure which will reduce the purchasing power of wages and salaries.
(2) There will be no productivity hearing until October 1979 — this will further reduce the wage share of national income.
(3) The provision for the creation and extension of allowances is intended to close off avenues for wage increases by imposing work value requirements in this area.
(4) The establishment of first awards and the extension of existing awards will be related to existing rates and conditions, thus denying another avenue for wage increases.
(5) The only areas of flexibility are:

    (i) The provision for the resolution of inequities through an Anomalies Conference procedure. However, the flexibility is limited since the increase will be a one-only matter, must not involve flow-on, and must have negligible economic cost.
    (ii) The creation of new allowances.

The Commission's revised 'Principles of Wage Fixation' and the reasons advanced in the decision which formulated those principles reflects the Arbitration Commission's determination to maintain strict control of the wage fixation process through a centralised system of wage indexation. The principles also reflect the Commission's responsiveness to the extraordinary pressure applied by the Australian Government in recent months.

The Commission's assessment of the industrial and economic realities differs significantly from the views expressed by the Australian Government throughout the 1978 wage inquiry. The unrealistic attitudes expressed by the Australian Government is evidenced by their advocacy of annual wage hearings and real wage cuts based upon the 'capacity of the economy to pay' are comprehensible either as an ambit claim or as the result of the distortions imposed by Canberra's isolation from Australian reality.

The Commission's reasons advanced in support of their decision specifically take issue with some of the proposals, assertions and views advanced by the Australian Government. Some proposals from the Australian Government were described as industrially unrealistic, inconsistent with the continued centralisation of the wage fixation process and specifically inconsistent with existing wage indexation guidelines.

Nonetheless, the Commission took steps along the path advocated by the Australian Government. The move to six-monthly hearings and the tightening of the guidelines reflect the views advanced by the Australian Government and the Confederation of Australian Industry. Those changes also reflect the Commission's aim to maintain near-total control of wage fixation, an objective which is reinforced by the two additional areas of flexibility introduced.

While the logic of the Commission's rationale in support of their decision rejects the Government's assertion that real wages must be reduced, the Commission's attitudes will be expressed in their decisions in future wage indexation hearings. Part decisions give little cause for optimism. These decisions, clearly, will reflect the Commission's perception of the industrial consequences of those

decisions, subject to the pressure from the Australian Government to reduce real earnings. The challenge for the union movement is the maintenance of industrial pressure in a context of increasing economic uncertainty.

The Government has clearly announced its economic objective of further reducing the purchasing power of wages and salaries. The Commission's revised principles will make the task of real wage reduction somewhat easier.

It is now more important than ever for the union movement to confront the myths upon which Government policy is based. In particular we must convince our members and the general public that further wage cuts will increase unemployment and will prolong the economic recession. While we have lost this battle, the war of attrition for wage justice and the restoration of sanity to economic policy formulation continues.

## UNION PEAK COUNCILS AND INDEXATION

Prior to indexation the ACTU had the principal role in the annual (or less frequent) National Wage Case. However, prior to 1975 the National Wage Case had not been the principal source of increases in wages and salaries. These had been won through individual cases, work value cases and collective bargaining followed by consent awards.

Since 1975 the quarterly hearings have provided considerable exposure to the role of the ACTU and, as observed previously, 95% of wage increases are attributable to National Wage Case decisions. Thus the ACTU has been thrust into the principal role in wage negotiations and individual unions have been relegated to a secondary role. (Few unions have used the opportunity that the freedom from the pursuit of wage increases has accorded to take up other issues of employment conditions, industrial democracy, job security, trade union education, etc. However that requires a separate discussion.)

While some workers may begin to question what their union does for them under indexation most would believe that the ACTU has won regular money increases in wages for all workers over the last three years. Alternatively, workers could be forgiven for believing that wage increases are part of the arbitration system and are independent of union action.

The ACTU, and other union peak councils, therefore, have a considerable stake in the indexation package. It is in their interests to see the package continue.

The belief that the economic recession will continue would also lead the ACTU to support indexation since indexation increases may be higher than would be won in the absence of indexation. The ACTU is not alone in the belief that indexation has meant higher increases for most workers than could have been obtained in a decentralised wage determination system. Small and industrially weak unions have benefited from indexation since in a poor economic climate they would have difficulty securing increases in the field. The interests of these unions are therefore reflected in the ACTU's attitude.

Thus, the ACTU's support for indexation can be motivated by two fundamental interests. On rational grounds they can argue that indexation at best preserves the 1974 gains and at worst slows the rate of their erosion. Indexation thereby serves the interests of most workers, especially the industrially weak, by achieving higher increases than would otherwise be won.

The rational, and public, explanation for the ACTU's support of indexation is buttressed by their organisational interests. Indexation projects the ACTU onto centre stage. The ACTU is regularly and publicly seen to 'win' money increases for all Australian workers.

## EMPLOYERS AND INDEXATION

The support of private employers for indexation is motivated by the real benefits that they have experienced in the past two years. These benefits are not solely attributable to indexation but they are associated with them.

The major private employers who have most influence over the attitudes of employer organisations have experienced substantial and continuing increases in profit levels. They have been able to reduce, or stabilise, their work force and are cushioned from the impact of wage increases while using these increases as a rationale for price increases. Smaller employers, some of whom have 'gone to the wall', generally recognise it was not wage increases but the inability to sell their goods that caused the demise.

(Two hundred thousand jobs have been lost from the manufacturing sector of the economy in the last four years. Their disappearance is not attributable to wage increases in that time since real wages have fallen while profits, and the profits share of national income, have consistently increased. The decline in employment in manufacturing industry is a product of competition from Southeast Asia, the continued international economic recession, technological change and government policy — the exploration of these causes cannot be taken up here.)

The support of private employers for wage indexation is attributable to a number of factors:

(i) the operation of the package has reduced real wages;
(ii) the application for a productivity increase has not been made and employers have therefore benefited from increased productivity;
(iii) employers have the support of the Commission and the indexation package in resisting wage claims, claims for reduced hours and other claims which increase labour costs;
(iv) the uncertainty associated with decentralised wage fixing has been replaced by increases in wage costs which can be anticipated and planned for;
(v) the operation of wage indexation is associated with a reduction in the level and the cost of industrial disputes;
(vi) restraints on wage increases and the use of industrial action have been imposed on militant unions;
(vii) indexation has been associated with increased real profit levels;
(viii) indexation strengthens the authority of the Commission and employer organisations are committed to bolstering the authority of the State.

## THE GOVERNMENT AND INDEXATION

The Australian Government's position is a little more complex. The dominant view is that the indexation package should continue but that the Commission should reduce wages at a faster rate. There is another view, prominent in the Australian Treasury and among those influenced by Friedman's economics, which holds that a return to the pre-indexation situation would lead to a more rapid erosion in real wages. However, this view ignores some economic, industrial and political realities and, as a result, that view is largely confined to the inner committees of the bureaucracy.

The order imposed by the Arbitration Commission on the wage fixation process is supported by the Government. The unions' dependence on quasi-Governmental institutions and the quasi-legal control over the wage fixation process has an appeal to those who uphold conservative institutions.

Thus the Government is committed to the maintenance of the package even if their actions appear to undermine the package. That support is, as I have said, predicated on the understandable view that indexation will lead to wage cuts. In the 1978 Budget Speech and subsequently, the Treasurer and the Prime Minister have stated that the average level of real earnings needs to be reduced by a further 8%.

A reduction in the purchasing power, or real value, of wages and salaries has already occurred through a series of Commission decisions which have imposed a ceiling, or plateau, on percentage increases and, more importantly, have discounted or reduced the Consumer Price Index increase for the purpose of wage fixation.

These mechanisms have been used in seven of the last nine decisions to reduce the real value of wages and to reduce the wages and salaries share of national income.

The discounting of the CPI increase simply results in the reduction in the purchasing power of wages. Generally the cut in real wages has been accompanied by an apparent economic rationale. Recently the reasons advanced for discounting have been increasingly specious.

The Commission has discounted the Consumer Price Index increase for a number of factors:

- devaluation,
- industrial disputes,
- health charges,
- tax cuts, and
- petrol price increases.

Even the private employers have had some difficulty in accepting the rationale for discounting, although they welcome the result. There is little by way of rational economic argument that supports discounting for all of these factors. It is almost impossible for the Commission to be even-handed. Unions certainly have no expectation that the Commission will suddenly give more than is asked for because of increased taxes or a revaluation of the exchange rate.

With the continual discounting of the CPI increase the Commission is accepting the Government's economic analysis of the economy. Theoretically, the Australian Government merely intervenes in an argument that is essentially between the unions and the employers. In fact, the argument on economic matters lies between the unions and the Australian Government.

The Government has had the best of the Commission decisions — even if their argument has been contradictory, inconsistent and unconvincing. Despite their protestations to the contrary the Commission listens to the Government not because of what they have to say but simply because they are the Government. The Commission accepts the view that the Government has received an electoral mandate for their economic policies. The Government's expenditure policies, monetary policies and exchange rate policies are policies of restraint. The Government submits that the Commission should apply similar restraint to wages. It is evident that although some members of the Commission believe the Government's economic policies to be wrong they nonetheless trim their sails to the course established by the Government.

Each quarterly hearing separate economic analyses and descriptions are advanced by the unions, the employers, the Australian Government and, for reasons best known to themselves, the Victorian Government. Under the Conciliation and Arbitration Act the Bench is required to consider the impact of its decision on the level of inflation and unemployment.

The Commission accepts that reduced real wages will reduce the rate of inflation — despite heroic attempts by ACSPA to demonstrate that reduced wages can contribute to inflation. The major argument therefore revolves around the causes of unemployment. The unions argue that less than full indexation reduces the purchasing power of wages. As a direct result consumer demand will be depressed, production will decrease and unemployment will increase. ACSPA has, with a marked lack of success, attempted to direct the Commission's attention to other causes of unemployment — government policy, technological change and structural change.

The forces arrayed against the unions argue that 'one man's increase is another man's job'. That is, increased money wages increases the cost of employing labour and leads to increased unemployment.

One view looks at wages as a source of income and expenditure. The other considers wages as a cost to employers, a cost which must be ranked against the cost of capital equipment.

This summary of the competing arguments does not reflect the complexities of what actually occurs in the quarterly cases. While there is a regular pattern to the arguments advanced and the evidence introduced by the contending parties each hearing involves new arguments or old views dressed up in new guises. The arguments, the economic evidence, the underlying theories and the implicit assumptions involve competing economic analyses of considerable complexity. I doubt whether all members of the Bench understand, or care to understand, the arguments and their implications. However, ten days of mind-numbing economic debate would test the enthusiasm and interest of the keenest member of the Bench.

The National Wage Case is the only forum in which the Australian Government, the State Governments, the Private employers and the trade union movement outline their separate analyses of the economy and voice their views on economic policy. Yet the debate is conducted according to a formula, the arguments do not engage and the ten-day ritual is enacted before a generally uncomprehending Bench.

The media reports are equally repetitive and ritualistic. They make no attempt to explain the arguments or the issues to the public which is affected by the final decision. The journalists themselves understand the issues less than the Commission.

It would appear that the only forum which brings the central characters in the economic debate together has as much life as Monday Conference. The formula adopted by the Moores who preside over the respective proceedings ensures that the shadow rather than the substance of the issues are debated.

## THE ECONOMIC CONTEXT OF COMMISSION DECISIONS

For the last two years the adjudicator's decision has clearly favoured the Government. The Commission's acceptance of the Government's analysis is reflected in the reduction in real wages. This should, if the Government is correct, lead to increased employment and reduced unemployment. In fact, the opposite has occurred; in two years of partial indexation unemployment has increased dramatically, and total employment has actually decreased.

Unemployment is not simply a consequence of the Government's economic policies, it is a pre-condition for the success of the Government's wage policies. However, unemployment is not merely a convenient weapon to use against the union movement in National Wage Cases. Its use in the community to reduce industrial unrest, to weaken unions and workers is more important.

This was recognised over thirty years ago by an economist, Michael Kalecki. Writing in 1943, Kalecki observed that most economists were agreed that full employment could be achieved by Government spending. In Australia, thirty-five years later, most economists doubt that a return to full employment is possible and would further argue that attempts by Government to re-establish full employment through increased public expenditure would be irresponsible.

Kalecki's article entitled 'The Political Aspects of Full Employment' (Political Quarterly, vol. 14, 1943, pp. 322-331) indicates why our society has retreated from its post-war commitment to full employment. Before World War II, as now, 'industrial leaders' were opposed to the use of Government spending to create full employment. Their opposition is due

(a) firstly, to their dislike of Government interference in the problem of employment;

(b) secondly, to their dislike of the direction of Government spending; and
(c) finally, to their rejection of the social and political changes arising from the maintenance of full employment.

The private sector is concerned with any expansion of State activity but is particularly opposed to a situation where full employment depends upon Government spending. In the absence of Government intervention the level of employment depends upon what is called the 'state of confidence'. If confidence deteriorates, private investment declines which leads to reduced output and reduced employment. In this situation industry leaders have considerable power and indirect control over Government policy since any Government action which could adversely affect the state of confidence must be avoided.

Businessmen are doubly opposed when they consider that Government expenditure will be directed towards public investment and subsidising mass consumption. Private industry is opposed to public investment in areas which compete with the private sector. For example, in Victoria the establishment of the State Electricity Commission was opposed because it represented state socialism. Increased public investment can lead to the nationalisation of increasing areas of the economy.

The opposition to fostering employment by subsidising mass consumption — that is, by increasing the level of benefits and pensions — is opposed for different reasons. It is felt that increased welfare and unemployment benefits will undermine the work ethic. Hence, in Australia, benefits are generally below the poverty line. Any increase in benefit levels is opposed because, although it would provide a necessary stimulus to demand, it would undermine the pressure to work in the dirtiest, most demanding and degrading jobs.

Finally, businessmen would not welcome a return to full employment because this would alter the balance of power in favour of workers and trade unions. Getting 'the sack' would not have its current force as a disciplinary measure. Strikes for wage increases and improved working conditions would increase. The position of the boss would be undermined and the self-assurance and class consciousness of the working class would grow.

Kalecki insisted that prolonged full employment would place too much power in the hands of the working class and the trade union movement — too much, that is, for the continued dominance of corporate power. Unemployment was in the interests of the maintenance of the free enterprise system because it restricted union power, provided a handy weapon against wage demands and maintained labour discipline. Labour discipline means the employer retains control, management prerogatives are not threatened, industrial action is limited and absenteeism discouraged — all by the threat of dismissal and prospect of prolonged unemployment.

Prolonged periods of high unemployment involve a prolonged economic recession in which depressed sales and depressed production necessarily involve reduced total profits for employers as a whole. Naturally, the impact of the recession is not uniform with some employers experiencing increased profit levels and profit rates while others face bankruptcy, reduced sales and reduced profits. This process itself can contribute to the re-structuring of the economy and increased economic efficiency. It is evident that employers, as a group, are willing to accept the sacrifice of reduced profit levels in order to contain the power of the trade unions, in order to maintain labour discipline and in the hope that increased profit rates leading to increased profit levels will persist in the economic recovery which they anticipate will shortly be coming.

In addition to the differential impact of the recession on profits, workers do not uniformly experience the impact of the recession on employment levels and prospects. Unemployment is highest amongst the young and the unskilled. It is higher in the manufacturing and construction industries. Thus the present level of 6% registered and 10% real unemployment has not uniformly affected the bargaining power of the trade union movement. In areas where shortages of skilled labour

exist; in areas where union discipline is strong; in areas where profits have not been affected by the recession; in areas with a high concentration of economic power which are not subject to market-dictated price levels; and in capital intensive industries the union movement maintains considerable bargaining power despite a high general level of unemployment.

However, it is obvious that high unemployment is a pre-condition for the Government's achievement of its economic and wage policies. It is also evident that unemployment is a consequence of these policies — a circular process of cause, pre-condition and consequence which is convenient for the Government and the employers.

As unemployment is being used as a political weapon by Government and employers to undermine the limited power of the trade union movement they are unlikely to disarm themselves and reduce unemployment.

## CONCLUSIONS

This brief survey of the complex history of national wage fixation over the last few years only serves to underline the difficulties which now confront the trade union movement in maintaining the purchasing power of wages and salaries and the wages share of national income.

This analysis does not rest on assumptions about the public interest nor on a belief in the rationality of the system or the procedures of the Arbitration Commission. The situation requires an understanding of competing and conflicting interests and of the different degrees of power held by the separate parties to the conflict. The indexation package is like an extended truce between two warring parties with the Commission as the body responsible for administering the truce.

The court rooms of the Arbitration Commission have always been an industrial no-man's land, however the Commission has rarely enjoyed the importance it has experienced these last three years. That importance cannot be divorced from the economic context of prolonged recession.

In marked contrast to a prolonged post-war period of full employment the operation of the indexation package has occurred in the context of escalating unemployment. Indexation was introduced following record wage and price inflation in 1973-74. In those years, years of economic boom conditions and tight labour markets, real wage levels increased significantly. In order to preserve those gains the union peak councils supported the wage indexation proposal advocated by Labour Minister, Clyde Cameron, on behalf of the Labor Government.

Indexation was the truce between parties in a situation of industrial conflict where all participants saw benefits from a negotiated compromise. The acceptance of the truce involved a trade-off between the competing objectives of the various parties. The Commission administered the truce which contained the promise that, provided unions did not undertake widespread industrial action in pursuit of wage claims, the purchasing power of wages would be maintained.

The employers initially opposed the package because they were confident that with increased unemployment they could restore their profits by increasing prices faster than wages. Employers now support indexation because they have been able to achieve this objective with the support of the Commission. The Commission's support carries the added bonus of limiting and controlling industrial disputes which would, in the absence of the indexation package, occur in the wage negotiation process.

The central element of the truce — the maintenance of the purchasing power of wages — has not been adhered to because the balance of power has shifted. The election of a Liberal-National Party Government in 1975 has given the employers a powerful ally in the quarterly indexation hearings. More importantly, unemployment, which rocketed upwards in 1974, continues to increase.

Thus, although the formal terms of the truce — the indexation guidelines or principles of wage fixation — have remained substantially constant since 1975 the interpretation and application of the package has changed to reflect the altered balance of power. The very acceptance of the truce, the agreement to contain industrial action in pursuit of wage claims, has disarmed the union movement. The process of wage fixation has retreated into the court rooms of the Arbitration Commission. The 'negotiations' are conducted in formalised debates of competing economic analyses which are exclusive of rank and file participation and understanding. This is not to argue that the answer to Commission-imposed wage cuts is to take negotiations out of the court room and into the field. However, real wage reductions are inevitable if there is no industrial action in support of wage claims.

The balance of power is constantly shifting. Following the February 1978 indexation decision — the worst yet as Bob Hawke observed — the ACTU issued a call to arms. Industrial action by militant unions has been rewarded with increased allowances in an award or with increased over-award payments in particular industries and factories.

The tactics, the strategies and the education of union members are more important now than ever. The issues that must be confronted are more complex and extend the competence of union leadership beyond questions of wage demands to an understanding of economic policy, structural change and alternative economic strategies.

It is essential that the union movement involve its members in an understanding of the dimensions of the crisis which we confront. In the absence of that understanding and in the fact of the Government's onslaught on real wage levels it will be difficult for the union movement to maintain and increase real wage levels. The mass media will not convey the union viewpoint on unemployment, wage levels and industrial action. The trade unions must utilise their network of shop stewards, job delegates and office representatives to convey more effectively its analysis of these issues to its members and, through them, to the community. The importance of this process of education through the democratic structures of the trade union movement cannot be over-emphasised. That structure is the only significant weapon against the dominant conservative ideology which, through the mass media, shapes public opinion.

We face a period of economic uncertainty and instability with international and domestic forces indicating continued recession and increased unemployment. We are saddled with a Government committed to policies of economic restraint and industrial confrontation. The Government's policies of cuts in public expenditure and public employment will inevitably increase unemployment and reduce the social wage (health, education and welfare services). The Government's propaganda attempts to shift responsibility for rising unemployment onto the level of real wages yet the evidence does not support the assertion.

The trade union movement and the unemployed have common cause in the maintenance of real wages since the maintenance of consumer purchasing power ensures the demand for goods and the creation of jobs. Similarly, both unemployed and employed have common cause in supporting the extension of public sector activity and expenditure since increased public services both creates jobs and improves the quality of life for all Australians. The process of job creation through increased community services will require the diversions of the benefits of increased national productivity into these areas.

The increased complexity of economic policy-making requires the involvement of all sections of the community. The Government's present divisive and confrontationist attitudes leave Australia ill-equipped to face the challenges of the 1980's.