What Enterprise? Whose Bargain? Politicians Face Their Principals

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Abstract

The introduction of enterprise bargaining poses a fascinating dilemma : with whom should politicians negotiate about their wages and conditions? The question has different implications for Labor and the Coalition. The form of enterprise bargaining proposed by the Government can accommodate current arrangements for MP salaries, though not without some special pleading. The more radical proposals of the Coalition, which emphasise a principal–agent relationship between employer and employee, pose greater challenges. This paper explores the dilemma of salaries for MPs under enterprise bargaining, and suggests a policy solution which ensures that politicians are subject to the rules they propose for others.

Journalist : How will you set pay rates for politicians, and avoid the accusation that it's one rule for everyone else and a different one for you?

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John Howard : I would love to find a device whereby you could negotiate with representatives of the electorate. The problem is we're the representatives of the electorate, and if we are seen to be negotiating with ourselves, everybody says that that's a fix. Um, I think probably relating salaries to movements in community levels, which is in a sense what we have now, is about the best you are going to get.

Journalist : Isn't that comparative wage justice which you are ruling out for other people?

John Howard : No, I don't think so. We're in an unusual position, because we are the governors as well as the supplicants, if I can put it that way. I state the principle. I am perfectly happy to have our pay governed by the policy that I am proposing for the Australian population. And if someone can divine an effective workable way of doing that, I will grab it with both hands.

(John Howard, Shadow Minister for Industrial Relations, interviewed on *Meet the Press*, Network Ten, Sunday November 1, 1992 11.25 pm)

In 1992 Shadow Minister for Industrial Relations John Howard offered the electorate a radical reshaping of Australia's employment relations. The Coalition policy document *Jobsback!* argued for an end to compulsory arbitration. It would be replaced by enterprise bargaining in which employers and employees negotiate directly, documenting their agreement in an employment contract. Industrial relations would become the province of the 'ordinary courts' (Coalition, 1992, v), with little further role for trade unions acting as representatives of groups of employees. Despite a subsequent poll loss, *Jobsback!* remains Coalition policy.

In the months after the 1993 federal election Minister for Industrial Relations Laurie Brereton also offered a reshaping of Australia's industrial relations. Like the Liberals, Labor supports enterprise bargaining, though the Labor package does not share all features of the Coalition offering. It retains industrial awards and some protec-

tion against damages claims for industrial action. Trade unions can continue to represent workers, in workplaces and through a restructured Australian Industrial Relations Commission (AIRC). Legislation will support minimum wages, equal pay, parental leave and protection against unfair dismissal (Brereton, 1993, 1).

The differences are important, since they point to contending philosophical bases for industrial relations. The Coalition version of enterprise bargaining stresses that employment is essentially a relationship between individuals, subject to some statutory protections including a minimum hourly rate of pay. In this model there is no place for 'third parties' to interfere in private contractual arrangements, whether that third party is an arbitration body or a trade union. *Jobsback!* is explicit; the policy requires that 'workplace agreements can be concluded only between individual employers and one, some or all of their employees. Unions or employer organisations – or any other agent of the signatories – cannot be parties to a workplace agreement' (Coalition, 1992, 10–11). While the Parliament would set parameters for contract terms – as it does for many other contractual relationships – and provide a court system to resolve disputes, there would be no further role for the state in employment relations.

The Liberal proposal is clear about its underpinning : employment is a contract arrangement between consenting parties reached in private. The Labor response, while apparently gesturing toward that logic, is based on a different philosophy. Labor supports collective, not individual bargaining in which unions and employers jointly determine agreements and 'consequently share responsibility for their contents and observance' (Flanders 1968, 8). The new Labor proposals nevertheless share with the Coalition an inclination to reduce the role of arbitration tribunals.

Contracts reached at an enterprise level are to be the basis for wages and conditions, but within the framework of minimum award conditions. While *Jobsback!* seeks to remove legislative support for unions, the proposed Brereton amendments to the *Industrial Relations Act* retain a representative role for organised labour, and a central forum for negotiation over the 'safety net' expressed in awards. Enterprise bargaining becomes only part of the employment equation, in a system which mixes local initiative with a continuing role for the state.

The reporter who quizzed John Howard pointed to a dilemma for both proposed wage systems : how can salaries for politicians be decided in a manner consistent with the new ethos of enterprise bargaining? This is significant for two reasons. First, although parliamentarians are outside the mainstream of Australian wage fixation systems, their salaries are now set in ways linking them directly to federal wage determination. Second, as the reporter implied, there is a moral responsibility for politicians to demonstrate by example rather than exhortation their commitment to major policy changes.

The question has, however, a different force for each side of politics, since they disagree on their own employment circumstances and on the most appropriate form of enterprise bargaining. The system proposed by Labor envisages either direct negotiations, subject to relevant award conditions, or reliance on an independent tribunal such as the AIRC. As it happens, current wage fixing practice for MPs uses neither direct negotiation nor an arbiter, relying instead on relativities between politicians and senior public servants. When public servants win pay rises cases before the AIRC, politicians benefit from the outcome. This convenient arrangement could meet difficulties under Laurie Brereton's legislation, since the idea of a uniform rate of pay for public servants will disappear as each 'enterprise' within the public sector negotiates its own wage settlement. No doubt another proxy can be found, such as average public service earnings, but setting MP salaries through relativities does not meet the spirit of enterprise bargaining. Though it can endure because the necessary institutions survive, Labor would be hard pressed to describe wage fixing arrangements for politicians as consistent with its proclaimed industrial relations objectives.

For the Opposition the problem is more acute. A Coalition government would wind back current arbitral institutions, and reliance on relativities without reference to a specific enterprise as a valid wage fixing system. It would be necessary, therefore, to devise a replacement system which introduces enterprise bargaining to the political realm. The difficulty stems from the theoretical basis which underpins the idea of contracts made between the employer and employee without reference to third parties. *Jobsback!* derives its direction and coherence from an application of the principal–agent model to industrial relations. The principal–agent theorem seeks to

take into account the conflicting interests of two players in a negotiation, and then to specify pay-offs for each in a contract (Arrow, 1985; Hart, 1990, 155–156; Perrow, 1986; Pratt and Zeckhauser, 1985). Each player is assumed to pursue their self-interest, with exchanges governed by competition between those interests. Because both sides can state their expectations precisely, and make these binding, maximum return to each is ensured if a contract is reached. The principal, the employer, can hire agents on terms appropriate to the enterprise. The market should then clear at a freely determined price of labour, rather than following the dictates of a centralised arbitration body.

For this logic to prevail, the Coalition must ensure that employment becomes a private, contractual arrangement between two parties, rather than a regulated exchange conducted by representative organisations with a state instrumentality as the final arbiter. A principal–agent relationships requires clear identification of the employer and employee, definition of the tasks which are the basis of the contract and agreement on indicators to use when monitoring performance and, on expiry, renegotiating the contract. As John Howard acknowledged on *Meet the Press,* politicians do not easily meet this test. In Howard's assessment the distinction between principal and agent is blurred. Politicians both work to a salary and define that income. If asked to sign a contract they would be 'negotiating with themselves'. Their tasks are not well defined, and few performance indicators exist for Members of Parliament. There are, of course, proxy measures such as local reputation, but in a party-dominated parliamentary system elected representatives largely stand or fall with the fortunes of their party.

Clearly, if an industrial relations policy premised on individual contracts rather than collective performance is to be contemplated, a system of enterprise bargaining for MPs is required. A Labor government can avoid the difficulty only by relying on an unsatisfactory system of flow-on determined on the basis of public sector enterprise agreements. This still avoids the whole notion of collective responsibilities inherent in Labor's version of enterprise bargaining.

That luxury will not be available to the Coalition if it attains office. *Jobsback!*, if implemented, would remove the current mechanism for flow-ons. MPs must then find a way to negotiate directly with their principals. If the predicament cannot be resolved, critics may sug-

gest the case of politicians presents a gap in principal–agent theory, since it suggests that at least one group – and therefore perhaps others – cannot be encompassed within the model.

If this gap is to be plugged, the Coalition must define the enterprise of being a Member of Parliament, and the principal who is qualified to sign a contract. The issue is not just of philosophical interest. The Kennett Government in Victoria has made MP salaries of political salience. Some of Premier Kennett's first actions were of immediate benefit to politicians. These included a substantial wage increase in some Coalition MP salaries, introduced in a *Parliamentary Salaries and Superannuation Bill 1992.* Media comment focused on the apparent incongruity of Industrial Relations Minister Phil Gude being awarded an annual $8,900 increase in the same week Parliament was asked to abolish the 17.5 per cent holiday loading and weekend penalty rates for Victorian workers under State awards (Henry, 1992). Minister Gude defended his windfall as part of a new 'career structure for MPs' (Messina & Metherell, 1992) but, recognising the political damage, quickly announced he would not accept the salary increase. Premier Kennett conceded it had been 'wrong' to push the pay rises through Parliament (Kelly, 1992), and the issue appeared over.

Yet the real question is not the merit of particular wage settlements, but that of acceptable process. By repudiating the rises, Kennett has only deferred the problem. Victoria was only the first jurisdiction to face the conundrum which follows necessarily from Coalition policy : how, in an age of principal–agent contracts, should the salary of MPs be set? If parliamentarians 'negotiate with themselves', the public may be less than impressed, yet other mechanisms, such as an independent tribunal, offend against the principal–agent model by allowing a third party to intervene, at the cost of flexibility and the loss of real market rates. Any Federal Coalition ministry now faces the same dilemma of how to increase their own salaries without apparently violating the rules imposed on the rest of the community. Finding a way to extend thorough-going enterprise bargaining to Members of Parliament is likely to remain a difficult political issue until policy and practice can be brought into harmony.

Current Wage Fixing Arrangements for Parliamentarians

Australia was among the first democracies to insist on payment of its parliamentarians; ss. 48 and 66 of the Constitution *of the Commonwealth of Australia* provide an explicit authority for salaries and allowances to MPs and Ministers. The issue, thereafter, has been how such remuneration should be determined.

At first the process was relatively ad hoc. Parliament would simply pass legislation setting salaries and allowances, often following agitation from government MPs. From 1952 such legislation usually followed the report of an independent committee of inquiry. Only in 1971 did such an inquiry propose a three person tribunal to recommend on future allowances for parliamentarians. The inquiry report noted the importance of getting such salaries right

That the Parliamentary salary should not be so low as to constitute an entry barrier to gifted and highly–qualified people is beyond argument. The salary level at which this barrier may be created for an increasing number of well–educated and experienced persons in the professions and in technological and business pursuits is a matter of judgement. We deem it of special importance that the Parliament attract as Members sufficient numbers of able persons to ensure that in the ministries of the future the breadth of expertise and experience required to meet the demands of government. (quoted in Browning, 1989, 182)

Here the inquiry panel advanced a familiar argument about MP salaries: while an unregulated market might leave parliamentary salaries low, there is a public interest in paying MPs sufficiently to ensure a reasonable cross–section of talent and qualifications. The panel suggested an independent tribunal as an appropriate mechanism to address this collective action problem, by creating an independent umpire would could take politician's pay outside the gift of parliamentarians. MPs could be suitably compensated without the accusation of looking after themselves.

The Remuneration Tribunal began operations in December 1973, making annual determinations for members of Parliament, judges and public office holders. The Tribunal established a basic parliamentary allowance for MPs, with a detailed schedule of loadings for chairing a parliamentary committee, being Opposition Whip in the Senate, or occupying posts such as Speaker, Minister or Prime

Minister. The Tribunal also determined all other allowances for parliamentarians, including money for travel, vehicles and electorate expenses. The formula varied depending on the size of electorate, nights spent in Canberra while Parliament was sitting, travel as a committee member and so on. Generally governments accepted the recommendations, though on several occasions Cabinet, for reasons of public presentation, resolved to reduce entitlements proposed by the Tribunal.

In practice the Tribunal followed the procedures of other specialised arbitral bodies, hearing cases and setting uniform salaries for MPs, with loadings for additional duties. The tribunal mechanism appeared to reduce, though it did not eliminate, criticism of politicians' pay increases. Indeed in 1990 John Howard complained to the Parliament that MP salaries 'lag significantly behind what on any objective analysis would be remuneration that the officers in question are entitled to receive'. The problem, Howard seemed to suggest, is that even with an independent Tribunal, parliamentarians still shy from the publicity which accompanies a pay rise. 'The measure of self-imposed salary restraint by members of the Parliament', Howard noted, 'at the behest of governments of both political persuasions, has been very considerable and has been greater than that exercised by other sections of the community' (CPD, H of R 31 May 1990, 1016).

This pattern of tribunal deliberations and Cabinet nervousness continued until the High Court of Australia unexpectedly ruled that the government did not have power to supplement a determination of the Tribunal by providing a postal entitlement to MPs. With that decision, the High Court threw into doubt the validity of payments to politicians not explicitly authorised by an Act of Parliament. Accordingly, the government felt compelled to legislate for new remuneration arrangements. Henceforth the income for all parliamentarians would be determined by the *Remuneration and Allowances Act 1990*. Instead of separately determining an MP's income, the 1990 Act directly ties the annual base salary of a federal member of Parliament to the maximum annual salary of a band 1 Senior Executive Service Officer in the Australian Public Service. The Act then specifies the loadings payable for higher office, along with electoral allowances. Other expenses, such as travel, photocopying

and postage are covered by the complementary *Parliamentary Entitlements Act 1990*.

The patterns for State Parliaments vary slightly, but most jurisdictions simply link local salaries to those paid in Canberra. In New South Wales, for example, the *Parliamentary Remuneration Act 1989* defines the basic salary of an MP as $500 per annum less than that of a federal member, with loadings for higher office expressed as a percentage of the basic salary. Similar arrangements prevail in Queensland, under the *Parliamentary Members Salary Act 1988* and in Victoria, until recently, under the *Parliamentary Salaries and Remuneration Act 1968*. In South Australia the *Parliamentary Remuneration Act 1990* establishes the basic salary as $1,000 less than that awarded to a federal member. Only in Western Australia is pay still in the hands of an independent Salaries and Allowances Tribunal, while in Tasmania the wonderfully titled *Parliamentary Salaries and Allowances (Doubts Removal and Amendments) Act 1988* ties the salary of an MP to that of a State employee working under the Clerical Employees Award who was earning $40,102 per annum on 1st April 1988.

New South Wales, Queensland, Victoria and South Australia all avoid stating any contestable principle for determining wage rates by relying on the Commonwealth; a rise in federal MP salaries automatically triggers an increase at State level. While this is a convenient mechanism for local politicians to avoid the opprobrium of voting themselves more pay, it does not resolve the central issue of how federal MP rates should be set. The alternative of linking salaries to the public service does not overcome the blurring of principal and agent. On the contrary, it provides MPs in Canberra and Hobart with a direct incentive to increase the remuneration of a particular rank of public servants – for in negotiating with their employees, parliamentarians effectively are negotiating with themselves.

Hence current practice, at both federal and State levels, provides no mechanism consistent with the objectives of enterprise bargaining and, in particular, consistent with the principal–agent model adopted by the Coalition. Parliamentary salaries everywhere are set either by proxy, through public service relativities, or by the surviving remuneration tribunal in Western Australia. There are no direct negotiations between a principal and the parliamentarian as agent. Further,

there is no flexibility in the current system. All MPs are paid the same basic salary, with higher office bringing returns only on a fixed scale for position, with no reflection for performance. Such arrangements exhibit no capacity for individual bargaining, and no opportunity to test prevailing market rates or reward improved productivity. Finally, there is no binding contract – an MP can resign at any time, without penalty for failing to see through the parliamentary term. If the new world of enterprise bargaining is to apply to this important area of endeavour, a new system of employment relations for MPs is required.

Who Do Parliamentarians Work For?

A viable principal–agent relationship must begin with clarity about who precisely is the employer – which organisation, group or individual has the right, even duty, to negotiate a contract with a parliamentarian? Any enterprise bargain, whether individual or collective, must resolve this issue. For MPs it can be argued variously that the employer is the institution of Parliament, a political party or the electorate. If the right of hire and fire is taken as definitional for an employer, then the Parliament itself is quickly ruled out as the principal. Rather, Parliament is a workplace, an industrial site with office space and set of rules for agents chosen elsewhere. Deciding whether parties or the electorate should sign the contract, however, is not so easily resolved. Here ancient conflicting views about the nature of representative government come into play. The role of an MP – and, by implication, the identification of the employer – has always been a contested issue in Australian politics, a matter of fundamental division between the Australian Labor Party (ALP) and the Liberal Party, not to mention the minor parties and any independent Members of Parliament.

Debate has turned around the 'Labor pledge'. Though organised political parties were beginning to emerge in the colonial parliaments of the latter nineteenth century, ministries still tended to be fluid and issue based; if pressed most MPs might profess to follow their conscience on any particular vote. When Labor MPs first entered the NSW Legislative Assembly in 1891, and found themselves holding the balance of power, they immediately realised that success in

achieving the objectives of a minority party depended on discipline and solidarity. If Labor MPs hung together they could make or break majorities in the Assembly. To this end these Labor parliamentarians signed the first 'pledge' guaranteeing to vote 'as a majority of the party may agree' (Crisp, 1978, 191; McMullin, 1991). In effect the Labor MPs fashioned themselves as delegates of a political party, rather than as individual representatives of various electorates. The pledge ensured solidarity; voting against the party meant expulsion, and so a loss of official Labor endorsement.

Crisp (1978, 192) identifies two sources for the party pledge – the tactical necessities of early parliamentary years, and the influence of trade unions in emphasising solidarity once a decision had been democratically reached. For non–Labor politicians, however, the pledge was a challenge to the very sovereignty of Parliament. As Joseph Cook, briefly a NSW Labor MP but subsequently a Liberal Prime Minister argued, 'the pledge destroys the representative character of a Member and abrogates the electoral privileges of a constituency' (quoted in Crisp 1978, 195). The charge that Labor parliamentarians were not their own masters, but simply agents of a shadowy external organisation would be levelled at the ALP throughout most of this century.

Non–Labor MPs point to a different, older tradition. They emphasise two aspects of their job – one the responsibility to represent their electorate, but the other duty to their conscience. If these interests clash, conscience is to prevail. Typically this philosophy is attributed to the English parliamentarian Edmund Burke, who declared that a Member of Parliament owed the electors 'his [sic] unbiased opinion, his mature judgement, his enlightened conscience' but not the slavish following of their wishes (quoted in Catlin, 1950, 325). Burke suggests a complex relationship between the elected and the electorate – MPs must strive to advance the values they espoused at the polls, regardless of the fickle views of voters. Thus the electorate is clearly the principal, but it selects an agent who cannot be expected meekly to take its every instruction. The contract made on polling day must override other, later considerations.

Echoes of this commitment to electorate and conscience have long been heard on the non–Labor side of politics. Menzies, for example, stressed the different understanding of a parliamentarian's role held by the non–Labor parties. His speeches to the October 1944 Can–

berra meeting which created the Liberal Party balanced the need for an effective national party organisation with the importance of the Liberals not becoming the captive of any external group. Indeed Starr (1978, 40) argues this difference in belief about representation is linked fundamentally to the origins of the various Australian political parties. While Labor and the Country Party represented incursions into Parliament by organised interests, 'the Liberal Party was conceived as a parliamentary group in need of organisational support, rather than as an extra–parliamentary body seeking legislative representation'. In his admiration for the technical efficiency of the ALP, but his distaste for the cage of the pledge, Menzies might have been paraphrasing Burke who advocated the party system on the principle that 'when bad men combine, the good must associate' (quoted in Catlin, 1950, 325).

The non–Labor tradition thus identifies the electorate as the employer, with the parliamentarian obliged to serve its interests as determined by his or her conscience. Publick & Southey (1980, 98) see Liberal Party philosophy as supporting 'a party system in which the maximum freedom of individual expression, conscience and action is encouraged. This means a rejection of iron laws of party discipline in favour of responsible individual initiative'. Should conflict arise, the Liberal MP votes according to principle, then submits to the discipline of the polls.

This consensus among Liberal MPs about the identity of their employers is central to the successful implementation of a principal–agent model. If Labor proposed a thorough going enterprise bargain, based exclusively on agreements between employers and employees, it should be the ALP which pays Labor MPs, since they act as its delegates. The Liberal Party, though, operates within a tradition of more direct accountability links between a parliamentarian and voters. Here, clearly, MPs are employed by their electorates. This heritage may prove unexpectedly useful in reshaping employment relations since, at least for those on the Coalition side, it settles any ambiguity about the nature of the enterprise. It now remains only to identify a mechanism by which MPs as agents can meaningfully negotiate contracts with their electorates as principals.

A Contract for Parliamentarians

Within days of the Coalition announcing *Jobsback!* on 20 October 1992, correspondents to major newspapers were expressing concern about consistency. As Henry Haszler from Eltham in Victoria told the *Australian Financial Review* on 29 October :

I agree we need a more flexible labour market, so I do support the general thrust of the policies announced by Mr Howard. But to convince me I would like Mr Howard, and Mr Kennett, to tell me what system they propose for setting their own salaries ... Who will act as the 'employer' in their case ... will there be different rates of pay for individual backbenchers ... what criteria will apply in setting salaries of individual MPs ... will MPs be sackable at short notice on the same basis as other people? If, in the end, MP's salaries and perks continue to be set by some tribunal or arbitrator, why is that not also good enough for the rest of us?

Other correspondents suggested answers to these challenges. L.G. Norman of Naremburn in New South Wales told the *Sydney Morning Herald*, in a letter published on 10 November, that a committee of electors should negotiate an individual contract with any successful electoral candidate. This would almost certainly lead to differential rates for MPs doing the same job – 'unfair, perhaps, but such are the joys of the marketplace' noted Norman. The proposal included productivity bonuses for intelligent contributions to public policy debates, and penalties for early resignation. In the same edition of the *Sydney Morning Herald* G.J.R. Seeger of Port Macquarie New South Wales also urged that parliamentarians be required to negotiate with their constituents, and be answerable for honouring their election promises. 'Politicians' suggested Seeger, should not 'be exempt from their own radical legislation'.

These are promising starts, since each proposal seeks to fulfil the conditions of the principal–agent model : an individual employment contract with specified expectations, a performance monitoring system and sanctions for failing to meet the terms reached in negotiation. More problematic is how the electorate should express its will as the principal. A representative committee of voters does not resolve that difficulty since such a committee would constitute a third party negotiating on behalf of the parties to an agreement. What is needed is a procedure which offers the electorate clear options so that, in

selecting a candidate, the voters are also nominating the terms of a binding contract. While a number of such arrangements are feasible, the following rules could satisfy the requirements of the most rigorous proposals for enterprise bargaining with minimum additional cost or regulation.

The key is the *Commonwealth Electoral Act 1918* and its many successors, which already include disclosure requirements for candidates, albeit only in terms of name, address, party affiliation, solvency and so forth. The legislation could be extended so that candidates present the full terms of the contract they offer the electorate. This would include the real costs of electing that person (salary, entitlements, electorate office expenses) plus the additional increments they would expect if elected to a party leadership or ministry position. Would-be MPs could pitch their bid to the capacity of the particular electorate to pay, so that Australia's distribution of incomes would be broadly reflected inside the Parliament.

Further, candidates could be required to list the services they would offer the electorate if selected. These must be services directly in the candidate's control, and paid from the total cost package put before the electorate. Items might include electorate office locations, opening hours, turn-around on electoral enquires, guaranteed annual attendance at community organisation meetings and so on. Excluded would be benefits beyond the direct gift (and budget) of an individual MP, such as a new school or hospital for the electorate.

The objective of these minimum contract terms, which should be required by electoral legislation, is to quantify the costs and returns to the principal if they select a particular employee. If they wish, candidates could go beyond these minima, and commit themselves to any level of detail on services or substantial policy. They could, for example, pledge themselves to the ALP platform as interpreted by caucus, or promise only to follow their conscience. One stricture only would apply : in principal-agent relationships contracts specify property rights, and are enforceable in the courts. The more detailed the commitment to provide particular services to the electorate, or to take specific policy positions, the more scope for successful legal challenge if contract provisions remain unfulfilled.

The *Electoral Act*, as amended, could also include penalties should an MP break their contract by not seeing out its term, which would be synonymous with the term of Parliament. Mitigating

circumstances might include death, grave illness or criminal conviction. Otherwise an appropriate sanction would be the cost of conducting a by-election to replace the errant parliamentarian.

Information is the key to a mutually beneficial contract, and so the offers of candidates would be collated and distributed to electors before polling day, just as the cases for and against a referendum proposal are circulated at present. Indeed it may even be possible to print the total cost of the contract on offer against each name on the ballot paper, just as party affiliations appear at present for federal elections, so that voters can be reminded of the 'bottom-line' as they make their choice.

Performance information on an MP would be provided by rival candidates, just as American aspirants for higher office devote much of their campaign to exploring each other's record, so no additional public expense need be incurred in monitoring contract compliance. Overall then, this proposal should establish a viable contractual relationship between employers and parliamentarians. Because each candidate would negotiate an individual contract with the electorate there would be flexibility, with differential salaries reflecting market estimations of value. Contracts would regulate the employment relationship, obviating the need for an external tribunal or for politicians to 'negotiate with themselves'. The principals, on the other hand, would get only those services they wished to pay for. Administratively this would require little more than a minor modification to the tax system, so that electors who hired a relatively cheap MP would receive an appropriate tax rebate. A similar State-wide rebate, or charge, could accommodate the character of Senate representation. As agents of their electorate, politicians need no longer worry about applying one standard to the community, and another to themselves.

Those committed to older systems of employment regulation may object on a range of grounds. They could note the relative complexity of procedures required to achieve a meaningful contract. They might dislike the notion of differential pay for people performing the same tasks. They may be concerned about the expense of using the courts to enforce contract conditions. And they may, above all, worry that a public auction for parliamentary seats, subject only to a minimum hourly rate, will drive the price down until, as the 1971 inquiry noted, politics ceases to attract 'the breadth of expertise and experience

required to meet the demands of government'. Such is the price of policy consistency.

Conclusions

There is, in my opinion, no perfect system for adjusting members of Parliament's salaries and remunerations. I have a view that it is something of an impossible dream to imagine that we can ever take politics out of parliamentarian's pay rises no matter what system we adopt, no matter what time of the year or political cycle it is and no matter who happens to be in power. (John Howard, CPD, H of R 31 May 1990, 1016).

The Shadow Minister for Industrial Relations points to a fundamental problem for politicians. Theirs is an unpopular profession, whose salaries are always resented. If allowed simply to float to a market-set level, parliamentary incomes (along with those of other unpopular public officials such as judges, bailiffs and commissioners of taxation) may become very low indeed. The traditional response has been to use non-market mechanisms for setting such salaries, as insurance that a suitable range of talent will entertain politics as a career and so that poorly paid politicians are not tempted to corrupt practices.

Hood (1992) examines the rewards which attract politicians to public office. Using the 'economics of politics' approach associated with rational choice theory, and which underpins the principal-agent model, an observer might expect rent-seeking behaviour from politicians – that is, bluntly, parliamentarians who are 'opportunistic, calculating and self regarding' and use office to maximise their own income, unless constrained by institutional arrangements (Hood, 1992, 209). However, Hood finds little support in the data for this proposition. Relative to managerial and professional salaries, the income of MPs has declined over the last two decades in both Australia and the United Kingdom. This may reflect the transaction costs for politicians of pursuing their own wage rises. It may also be that politicians structure their returns for maximum tax benefit, or make the job less stressful through increased research and support staff, rather than face controversy over personal income. But it may also be that the essential rewards of political life are non-economic,

relating instead to power, influence and a sense of contribution. Such motives are not easily modelled – and may not be well served by subjecting parliamentary salaries to a market mechanism in the interests of policy consistency.

Indeed, questions can be asked about the appropriateness of the principal–agent model as a guide to much in economic and social life. Certainly understanding interactions between people as a series of contracts is a neat analytical device. As Moe observes :

... the whole of politics can be seen as a chain of principal–agent relationships, from citizen to politician to bureaucratic superior to bureaucratic subordinate and on down the hierarchy of government to the lowest–level bureaucrats who actually deliver services directly to clients. Aside from the ultimate principal and the ultimate agent, each agent in the hierarchy serves a dual role in which he [sic] serves as both principal and as agent. (quoted in Boston, 1991, 5)

Given that all players end up as both principals and agents, the question must be whether this abstraction of political life is of much help in framing policy. The principal–agent model, with its stress on individual contracts, was developed to deal with a quite specific problem, that of companies which separate ownership and management (Boston, 1991, 4). When owners no longer direct operations, but rely instead on a professional hierarchy, they may worry that company executives are pursuing their own interests rather than those of the firm. Indeed much vital information about performance is held by the managers, who can conceal their own benefit from distant owners. A contract is one way of reducing that risk. By specifying expected performance in exchange for rewards, the principal can seek to reduce opportunistic behaviour by agents. Because a contract is enforceable in law it ties managers to an agreement about their actions and so, hopefully, maximises returns for both parties.

Beginning from this narrow base, the principal–agent model has been applied ever more widely, whenever principals need to induce an agent to perform some function. First in New Zealand, and now in Australia, this theory has been imported into industrial relations. Replacing an older model, in which employment was both an economic and social exchange, justifying the participation of a range of interested parties, principal–agent based policies seek to confine employment negotiations to just two actors : an employer and their agent.

The consequences of excluding non-economic considerations from the employment contract become clear in the case of MPs. By forcing parliamentarians to negotiate with the electorate, we establish an unfair relationship. All the advantages reside with the principal, which controls the price, provided one or more candidates will come forward. Voters are under no obligation to reward sustained hard work or achievement, or to recognise past service. They can use the force of the state to penalise their agent should any condition of the contract be broken. This is not a bargain between equal partners. A principal–agent relationship requires the relatively powerless to negotiate with the strong. It does so, as least in the present Liberal version, without the benefits of collective bargaining, since numerous provisions in *Jobsback!* unapologetically diminish the influence of collective organisations and remove the legitimacy of tactics such as strikes and pickets. Would-be MPs must stand alone, each individually negotiating with an impersonal principal concerned only to maximise its own returns.

It is certainly possible to construct systems of enterprise bargaining for MPs which meet either the model proposed by Laurie Brereton or the more radical objectives of John Howard. Both would require a direct relationship between the employer and the parliamentarian, and some way to reach a binding agreement. These expectations are to be imposed on the rest of the community under both versions of enterprise bargaining. Yet we are likely to attract better candidates, and be better served, by MPs with salaries linked to SES grades, or determined by a remuneration tribunal, than by parliamentarians who must engage in a public auction for their seat at the end of each term. Some choices should not be made on price alone, since the consequences go beyond economics. Some employment relationships are necessarily ambiguous. There are important externalities in the employment relationship for politicians which cannot be accommodated within the simple abstraction of an enterprise deal – and this may be as true for the many workplaces where our interest as citizens differ from our interests as individual employers or employees.

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