

# Award Restructuring: Possibilities and Portents

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## Abstract

*The major focus of contemporary industrial relations is award restructuring. This restructuring, with its potential to facilitate a better skilled, more flexible and more efficient workforce is integrally related to the National Wage determining process and the ACTU-ALP Accord. It is also a key to international competitiveness and the wellbeing of the manufacturing sector. In recent years the wage determination process has attempted to reduce those normative forces which industrial tribunals have institutionalized - in particular comparative wage justice and real wage maintenance. This attempt has created a number of tensions: control versus flexibility; cost of living versus productivity; centralism versus decentralism; paid rates versus minimum rates; supplementary payments versus over award payments; equity versus efficiency. The system's capacity to resolve these tensions without merely returning to established wage settlement practices will determine the efficacy of the restructuring exercise. It will also shape the contours of industrial relations for the next decade.*

## 1. Introduction

In 1967 the Commission ushered in a new era of wage determination, that of the Total Wage. Discarding the bifurcated system which had operated since 1907, it moved to "work value" the benchmark Metal Trades Award with a view to establishing appropriate relativities between awards and award classifications for total wage determining purposes. The work value exercise degenerated into an absorption exercise - the absorption of over award payments into award rates.

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The outcome was the breakdown of the Commission's authority, the move to "collective negotiations", and wage anomie; developments which led one commentator (since appointed to the Commission) to predict the "demise of a notable experiment in the art of government" (Hancock 1975). The Commission's demise did not eventuate. Its actions of 1967, however, and in particular its appallingly executed restructuring work value exercise, led to an era of cost-push inflation and industrial relations conflicts.

The 1967 experience is recalled because of its parallels with contemporary wage developments. Since 1987 the Commission has sought to introduce an era of administered flexibility. The Efficiency and Restructuring Principle has increasingly become the modern-day counterpart of the 1967 attempt to establish "appropriate" relativities between awards and award classifications. National wage determination has increasingly moved in the direction of bifurcation and absorption, issues of importance in the 1967 experiment.

As with the movement to the Total Wage, the current developments have the potential to confer enormous benefits on the Australian economy. Conversely, they may presage another lost opportunity for bringing about an award system relevant to contemporary needs. In the final analysis whether the efficiency and restructuring exercise facilitates award structures compatible with a more flexible and competitive workforce or results in one set of institutional rigidities replacing another; in competitive wage outcomes or another demise of wages policy; will be determined by the way in which a number of conflicting tensions are resolved. These include:

- a. administrative control versus wage flexibility considerations;
- b. equity versus efficiency considerations;
- c. cost of living versus productivity considerations;
- d. time served versus skills acquired considerations;
- e. the harmonizing of wage outcomes between cost-plus industries and competitive industries;
- f. the harmonizing of wage outcomes between paid rate and minimum rates awards;
- g. the system's capacity to devolve negotiations to the enterprise level;
- h. the capacity to develop mechanisms to counter comparative wage justice in its new "national framework or blueprint" guise;
- i. the system's capacity to minimize the cost impact of non-wage outcomes;
- j. the system's capacity to minimize wage costs associated with the "suspender" effect.

In the following discussion a number of these related issues are treated under the one heading.

## 2. Administrative Control and Wage Flexibility

Australia has a wages system which is predisposed towards centralism. This has been recognized as a source of wages and labour market inflexibility (Blandy and Sloane, 1986). Labour market inflexibility, in turn, has been seen as an impediment to economic growth (Hawke, 1986; OEDC, 1986). Thus, on economic grounds, it could be argued that the removal of the forces for centralism (in particular the Industrial Relations Commission (the Commission)) has merit.

From a labour relations perspective, however, wages do more than allocate labour between competing groups. Particularly in an environment where comparative wage justice is an important normative force in wage determination, complete wage flexibility carries with it the risk of wage rates outstripping productivity, engendering inflation and/or unemployment, and creating major problems for fiscal, monetary and external policies. The experience of the mid-1960s to mid-1970s, and the period July 1981 to December 1982 lend some support to the notion that, for one reason or another, the Australian system does not operate well in a decentralized regime. In the last of these periods the government of the day sought the abolition of the centralized system, yet within a short period was advocating the imposition of a wages freeze, the most centralized of all wage arrangements. During this period of "decentralism" the large wage gains and reduced working hours negotiated in the metal industry flowed on to other industries, despite the Commission's actions to ensure it did not act as a transmission belt for flows.

The experiences with "decentralism" has led some to argue that complete wage flexibility would be an impediment to growth and economic well-being. Thus, the former Department of Employment and Industrial Relations argued that restraint through centralism is a key ingredient to economic growth:

... restraint in prices and incomes is a fundamental prerequisite to transition and sustained economic growth ... the necessary process of sustained economic growth requires a commitment by all groups to a fair sharing of the burdens of restraint. (DEIR, 1985, p. 239)

At the National Wage Case decision of June 1986 the Commission rejected calls for the abandonment of its centralist approach in favour of award-by-award bargaining in the following terms:

We base this conclusion partly on the absence of any convincing material which would indicate how any alternative system would operate, and partly and more positively on our understanding of labour market institutions in this country. ... The decentralized, award-by-award system proposed ... ignores important practical considerations. First, the institutional framework within which industrial relations is conducted which includes a multiplicity of awards within each industry, many of them extending to a number of industries; the operation of Federal and State tribunals in particular industries; the occupational structure of unions; and a multiplicity of employer groups. These institutional characteristics which operate in Australian labour markets are a far cry from the simple enterprise-oriented industrial relations systems on which the submissions for decentralized wage fixing appear to be premised. Second, the decentralized approach gives little weight to the high probability that firms or industries, each acting independently in accordance with its own perceived interest, in conjunction with trade unions doing likewise, can result in a general wage increase greatly in excess of the capacity of the economy. The pressure of comparative wage justice is a real force in industrial relations. The strength of this concept, the place it holds in the thinking of employers and employees, even with high unemployment, together with the institutional characteristics of the labour market to which we have referred, would ensure that across-the-board wage increases of similar amount would occur, and not varying increases based on capacity of individual industries and establishments. Thus, for example, a local or sectional settlement agreed to in a strategic industry, based on its ability to absorb or to pass on wage increases, would flow generally regardless of the economic capacity of individual firms or industries ... The perceived advantages of a decentralised system so eloquently argued by its proponents on the basis of the experience of selected countries, is illusory and at best transient in the context of the current Australian labour market. This is so clearly exposed in the experiences of the late 1960s and more recently during 1981/82, that it is surprising that the proponents of decentralisation should continue to ignore the lessons of history and their underlying institutional basis. (ACAC, 1986a, p. 4)

Despite this rejection of a decentralized award-by-award approach, the Commission has been forced by economic circumstances to turn away from past National Wage Case practices. The new indexation guidelines adopted in June 1986 were jettisoned six months later and since March 1987 the

Commission has attempted to implement what has been termed a system of "administered flexibility" (Plowman and Niland, 1990). This system imposes an institutionally determined wages ceiling; provides some generalized wage increases; but also requires union/employee changes to work practices as cost offsets for further wage increases. The institutionally determined ceiling takes account of comparative wages justice and ensures that the ceiling to which wages adjust is not established by unions with the best bargaining powers. The generalized wage increases ensure some real wage maintenance for lower income earners and enhances union support and commitment. The trade-off element assists in reducing unit labour costs. It also plays an important educative role. National wage cases are not longer merely concerned with the distribution of income, but also with its generation. The current accent on efficiency and restructuring is one outcome of this new approach.

At the National Wage Case which concluded in December 1986 the major parties supported "provisions which would encourage unions, employees and employers to work together to improve efficiency, to deal with issues of restrictive work practices and to develop more productive ways of organizing work and labour utilization" (ACAC, 1986, p. 7).

These provisions were operationalized in March 1987 when the National Wage Bench introduced the two-tiered wages system. The first tier was a flat increase of \$10.00 per week. The second tier had a ceiling of four per cent and represented a marked departure from other National Wage increases. It was not automatic and required justification "as a result of measures implemented to improve efficiency".

The National Wage Case of August 1988 built on this two-tiered wages system and attempted to direct attention "to the more fundamental institutionalized elements that operate to reduce the potential for increased productivity and efficiency". The Commission introduced a Structural Efficiency Principle as the key element in a new system of fixation. The new principle was designed to provide incentive and scope for parties to examine their awards with a view to:

- \* establishing skill-related career paths which provide an incentive for workers to continue to participate in skill formation;
- \* eliminating impediments to multi-skilling and broadening the range of tasks which a worker may be required to perform;
- \* creating appropriate relativities between different categories of workers within the award and at enterprise level;
- \* ensuring that working patterns and arrangements enhance flexibility and meet the competitive requirements of the industry;

- \* including properly fixed minimum rates for classifications in awards, related appropriately to one another, with any amounts in excess of these properly fixed minimum rates being expressed as supplementary payments
- \* updating and/or rationalizing the list of respondents to awards
- \* addressing any cases where award provisions discriminate against sections of the workforce. (ACAC, 1988, p. 11)

The decision provided for a three per cent wage increase where unions formally agreed to co-operate in a review of awards to give effect to the structural efficiency principle. A flat \$10 increase was to follow six months after the three per cent increase.

In February 1989 the Commission conducted a Review of the restructuring exercise. It noted that

the material indicated that progress is uneven and varies from industry to industry and enterprise to enterprise. It also showed that negotiations are proceeding at different levels and that, in some cases, progress is slow because of disagreement over the agenda and the procedure. Preparedness to consider change also appears to vary widely. Progress in some areas is considerable but in the majority is minimal. Notwithstanding that, we are satisfied that the principle as framed in the August 1988 decision can and should facilitate negotiations over a wide range of issues and award areas. (AIRC, 1989a, p. 2)

At this Review the ACTU argued for a ‘‘blueprint’’ for award restructuring which it considered would ‘‘facilitate a major and sustainable award reform on a general basis, with a clear understanding of award relationships one to another’’. The blueprint proposed three steps: the raising of the minimum rate in minimum rates awards ‘‘to ensure that restructuring is on an equitable base’’; broadbanding by establishing across industry six to eight skill levels; the provision of career structures by upward mobility through education, training and service. The Commission endorsed this blueprint in principle.

The Commission decided to sit again in June 1989 to determine ‘‘whether any wage adjustment should be made having regard to the progress of award restructuring, the tax changes that have been announced, the state of the economy and the extent to which unions are prepared to make the necessary commitments’’ (ibid, p. 11). This National Wage Case considered two major issues: ‘‘the quantum, timing and basis of any wage increase to be made

available for effective structural efficiency exercises; ... and how the approach endorsed in principle by the Commission for ensuring stable relationships between awards and their relevance to industry is best translated into practice'' (AIRC 1989b, p. 2).

On the first issue the Commission awarded two increases of equal amounts and to be paid within six months of each other. The increases ranged from \$10 to \$15 per week depending on skill level. The first increase depended on the awards in question being varied to reflect structural changes. The second increase was to be the subject of Commission scrutiny. The Bench further determined that the Commission would conduct a review of the progress of both the structural efficiency and minimum rates adjustment exercises in May 1990.

The Commission's adoption of the ACTU "blueprint" marks a victory for administrative control over flexibility. There is the capacity to bring all adjustments to some common denominator; to perpetuate the emphasis on cost of living adjustments and comparative wage justice; to frustrate more dramatic structural and efficiency adjustments; to continue the highly centralized nature of adjustments; to convert the structural adjustment principle into one facilitating a generalized wage increase (in much the same way as the work value principle led to generalized wage increases under indexation); and to reduce the adjustment mechanism to a once-off exercise rather than to provide the scope and opportunity for continuous adjustments. Some of these issues are taken up below.

### 3. Equity and Efficiency Considerations

Administrative control aims at ensuring an orderly adjustment which does not result in relativity-leapfrogging wage increases outstripping productivity. It does this by attempting to average wage increases, bringing up the rates for some, reducing wage gains for others. Flexibility considers inputs rather than outputs: not the wages paid to employees but rather their bargaining power; their preparedness to accept new forms of work organization, to be more flexible, to remove restrictive work practices, to be more productive. Administrative control ensures equity but at the expense of efficiency.

The Commission's approach to administered flexibility under the two-tiered system steered a reasonable course between equity and efficiency considerations. The tribunal-imposed wage ceiling ensured that, at the end of the day, there was some capacity to maintain relativities. The requirement that unions offset the four per cent second tier wage increases gave enterprises the capacity to seek work changes which best suited their situation. In certain industries, including the metal industry, unions were directed to negotiate at the enterprise level.

The efficiency and restructuring exercise has reduced the enterprise

focus. This is so because the influential awards are not enterprise-based but are multi-employer awards. Thus, achieving efficiency and restructuring through award changes has necessarily resulted in attempting to provide framework awards which may, but also may not, be then tailored to individual enterprise requirements. The recent reformulation of the Metal Industry Award (see below) may provide a framework for more innovative enterprise interaction between employers and their employees. It may also be used to provide a uniform blueprint for the 13,000 respondent establishments.

At the macro or national level the Commission may convert a blue print into a framework by the replication of the metal industry decision to other industries. This is not the most appropriate approach to award restructuring although it has some merits. At the micro or enterprise level the application of a framework or a blue-print approach will have a critical bearing on restructuring outcomes. The former will provide guidelines within which enterprises will develop those accommodative arrangements which best suit their situations. The blueprint approach seeks to replicate standard conditions across enterprises.

The elevation of structural efficiency adjustments to the industry level has also led to the revitalization of comparative wage justice. Since the introduction of the original wage indexation guidelines in 1975 the Commission has been at pains to reduce unions' capacity to resort to comparative wage justice as a criterion for wage increases. There have been covert breaches of this policy. The averaging concept used in work valuing the metal industry award in 1979 was a blatant resort to comparative wage justice. The four per cent work value round of 1978-79 was a subtler approach. The anomalies provisions which have accompanied wage guidelines since May 1976 represent a constrained form of comparative wage justice. As already noted, a major reason for the Commission maintaining a centralized, rather than award-by-award approach, has been its recognition that "the pressure of comparative wage justice is a real force in industrial relations". Notwithstanding this, the Commission has performed an important educative role in attempting to reduce the impact of this normative force.

The Commission's acceptance, (even if only in principle) of the ACTU's blueprint will reverse this trend. The blueprint or "national framework" is little more than an exercise in comparative wage justice. It is concerned with comparable outcomes in both minimum and over award rates. It is concerned to impose a limited number of skill levels with comparable skill accreditation across industries. It is not concerned with inputs, which may vary considerably from sector to sector, industry to industry, establishment to establishment. This would not be so bad if the blueprint was restricted to

minimum rates. As developed further, it is also concerned with over award payments by way of supplementary payments.

Concern with wage outcomes rather than inputs was evident in the August 1988 National Wage Case when the Commission stated: "We are not prepared to allow the restructuring of some awards without regard to the relationship of the restructured awards one to another and the overall cost impact". The ACTU has taken this a step further by insisting on "consistent, coherent award structures". A major concern of the August 1989 National Wage Case was to develop a means by which the Commission could ensure "stable relationships between awards". This reinforces the Commission's previously stated concern "to ensure that classification rates and supplementary payments in an award bear a proper relationship to classification rates and supplementary payments in other minimum rates awards" (ACAC, 1988a, p. 7). The logical development of this train of thought is the development of an award classification grid across industries and occupations. This approach formed part of the ACTU's submission in the June-August National Wage Case. It sought Commission endorsement of the following classification rates and supplementary payments:

*Table 1: Proposed ACTU Classification and Supplementary Pay Rates, June-August National Wage Case 1989*

Classification	Minimum Classification Rate	Supplementary Rate
	\$	\$
Building industry tradesperson	356.30	50.70
Metal industry tradesperson	356.30	50.70
Metal industry worker, grade 4	341.90	48.80
Metal industry worker, grade 3	320.50	45.80
Metal industry worker, grade 2	302.90	43.10
Metal industry worker, grade 1	285.00	40.60
Storeperson	325.50	46.50
Driver, 3-6 tonnes	325.50	46.50
Filing clerk - first year	337.00	28.00
Filing clerk - second year	337.00	38.00
Filing clerk - third year	337.00	48.00
General clerk - first year	354.40	30.60
General clerk - second year	354.40	40.60
General clerk - third year	354.40	50.60

Source: AIRC 1989b, p. 11

It will be seen that the ACTU submission sought to establish recognized and accepted relativities between occupational groups in the construction, metal trades, warehousing, transport and clerical industries. Accepted relationships between these and other industries would have the potential to establish a national "wages grid". Though the Commission did not accept this particular set of relationships, its "in principle" acceptance of the blueprint approach commits it to some other relationship with similar potential for rigidity. The net result of the structural efficiency adjustments could be more rigid wage structures than currently exist. The Commission complained that "inequitable relationships among various classifications of employees" have been tolerated for too long (AIRC 1989a, pp. 6-7). This complaint has been made without any attempt to relate wage outcomes to different work inputs. The Commission has stated that "as part of (the) future we envisage that minimum classification rates will not alter their relative position one to another unless warranted on work value grounds" (AIRC 1989b, p. 14). The Commission considers that any wage adjustments can be facilitated by way of supplementary payments: "On the other hand it is our expectation that supplementary payments might vary between industries, industry sectors, individual employers or on a geographic or some other basis" (*ibid.*). It is not clear from the ACTU's schema, or from the Accord Mark IV (see below), that supplementary payments would be variable. Indeed, in an earlier decision the Commission noted the need to review award classifications and supplementary payments to ensure that "classification rates and supplementary payments in an award bear a proper relationship to classification rates and supplementary payments in other minimum rates awards" (AIRC, 1989b, p. 7). It should be noted that the Commission has accepted the ACTU proposed pay rates for tradespersons in the building and metal industries, including the common supplementary payments (*ibid.*, p. 12). The Commission has also established a "relativity range" for the non-clerical grades. It is not easy at this stage to assess whether or not we have returned to a bifurcated wages system by stealth, or whether supplementary payments are a proxy for over award payments. It is also clear from the clerical grades that supplementary payments may take on the role of service increments, irrespective of skills acquired.

#### **4. Cost of Living and Productivity**

There have been attempts in recent years to reduce the preoccupation and influence, not only of comparative wage justice, but also cost of living adjustments. The Hawke Labor Government was committed by the Accord Mark I to a system of wage indexation. This was introduced in September 1983 and provided for full indexation until 1986. Because of the adverse balance of

payments, the government was successful in having the ACTU move away from its declared position of full indexation. It conceded the merits of removing the links between imported inflation and wage determination and accepted CPI discounting. Tax concessions assisted in the acceptance of discounting.

Since then, national wage cases have not overtly concerned themselves with the maintenance of real wages. This situation may be reversed at the next National Wage Case if the Accord partners have their way. Accord VI provides for five major elements:

- a. A wage increase of 1.5 per cent during the December quarter followed by a flat \$12 a week increase six months later.
- b. A tax cut from January 1991 resulting in a saving of \$7.50 per week for those on average weekly earnings. As the Treasurer has been keen to point out that this savings equates to a \$12.00 pre-tax wage supplement.
- c. The possibility for agreements at the enterprise level for over award payments based on improvements in productivity and profitability.
- d. A target rate of growth in earnings of seven per cent for the 1990-91 financial year compared with a predicted inflation rate of six per cent.
- e. A further three per cent "award" superannuation round, phased in over two years from May 1991.

For a person on average weekly earnings (\$28,000 per year or \$540 per week) the package is imputed to result in a wage increase of \$36 per week. Together with a tax cut of \$7.50 per week, there is provision for a total increase of \$43.50, or in the Treasurer's words, an increase of \$50 per week in pre-tax terms. It could be added that in post-tax terms (i.e. when the "tax bite" is applied to the \$36 per week increase) the net increase will be only \$29.82 per week.

The Treasurer's announcement of the latest Government-ACTU agreement formed part of a wider Economic Statement. This Statement echoed the hallmark of the Accord approach: tax cuts in return for wage restraint. The new personal income tax rates to apply from the beginning of January 1991 are shown in Table 2.

Table 2: Proposed and Existing Personal Income Tax Rate Scales

Income (\$pa)	Marginal Rate (%)	
	Existing	New
0-5,100	0	0
5,100-5,400	21	0
5,400-17,650	21	21
17,650-20,600	29	21
20,600-20,700	39	21
20,700-35,000	39	38
35,000-36,000	47	38
36,000-50,000	47	46
Over 50,000	47	47

Source: Statement by Treasurer, February 1990, Attachment B

The gains, pre-tax, of both the tax cuts and the proposed pay increases for different income groups, are indicated in Table 3.

Table 3: Benefits of Tax Cut and Wage Package

Annual Income (\$pa)	Tax Cut (\$pw)	Wage Increases			Total Increase (\$pw)
		(a) (\$pw)	(b) (\$pw)	(c) (\$pw)	
6,000	1.20	3.45	1.80	12.00	18.45
10,000	1.20	3.75	2.99	12.00	19.94
15,000	1.20	8.35	4.45	12.00	26.00
20,000	4.80	11.50	6.95	12.00	35.25
25,000	6.90	14.40	7.40	12.00	40.70
30,000	7.85	17.25	8.90	12.00	46.00
35,000	8.80	20.15	10.35	12.00	51.30
40,000	11.30	23.00	11.85	12.00	58.15
45,000	12.25	23.90	13.35	12.00	61.50
50,000	13.25	28.75	14.30	12.00	68.30
55,000	13.25	31.85	16.30	12.00	73.40
60,000	13.25	34.50	17.80	12.00	77.55
65,000	13.25	37.40	19.25	12.00	81.90
70,000	13.25	40.30	20.75	12.00	86.30
75,000	13.25	43.15	22.20	12.00	90.60

Source: Calculated from Economic Statement by Treasurer, February 1990, Attachment B

There is a strong likelihood that the Industrial Relations Commission will formulate wage guidelines which reflect the major elements of this Accord at the next National Wage Case.

To date the Accord wage-tax trade-offs have been successful in bringing about wage restraint. Tax cuts have been the inducement offered unions to agree to real wage reductions and not seeking full indexation adjustments. The Accord VI reverses this trend. The 1.5 per cent first instalment is to 'maintain the real value of wages in the September quarter 1990'. The figure represents the Government's forecast of the rise in the Consumer Price Index over that quarter. The flat \$12 wage increase is also determined with an eye to the maintenance of real wages. It is based on the expected rate of inflation for 1990-91. The Accord provides that 'in the event that the annualised rate of inflation is expected to exceed that figure, the parties will review the second adjustment with the objective of at least maintaining real disposable income and to meet the agreed aggregate wage target.' It is to be hoped that in the event of any haggling over this wage component that the government seeks to maintain real disposable income via taxation rather than seeking the adjustment of wage rates to CPI increases. It is also to be hoped that the Commission minimizes any assent to indexation.

## 5. Award Consolidation and Fragmentation

As noted above, since the March 1987 National Wage decision award restructuring has been a major concern of national wages policy. The process of award restructuring will continue over the next 18 months and is an explicit component of Accord VI. An important influence on the shape and development of restructuring will be the recent Structural Efficiency Adjustments in the Metal Industry Award. This award can be expected to continue its traditional benchmark role. Two factors will determine whether or not award restructuring will lead to a permanent enhancement of labour. The first is the nature of changes to awards and to the structure of awards. The second relates to award responsiveness: whether multi-employer or single employer awards become the dominant vehicle for determining employees' conditions of employment.

In its August 1989 National Wage decision the Commission noted that many awards had scope 'for a less prescriptive approach'. Without limiting the opportunity for innovation, the Commission suggested the following as measures for consideration:

- \* averaging penalty rates and expressing them as flat amount
- \* compensating overtime with time off
- \* flexibility in the arrangement of hours of work - wider daily span or

ordinary hours, changes to shift work, ordinary hours on week-ends, job sharing

- \* greater flexibility in taking annual leave
- \* rationalizing taking of leave to maximize production
- \* payment of all wages by electronic funds transfer
- \* extending weekly pay periods to fortnightly or monthly periods
- \* changes in manning requirements
- \* reviewing sick leave provisions
- \* developing appropriate consultative procedures to deal with day to day matters of concern to employers and workers (AIRC, 1989b, p. 10)

The recent Structural Efficiency Adjustment draft order for the Metal Industry Award indicates the likely structure of future awards. These changes provide scope for greater employment flexibility; for the broadbanding of award classifications; for ongoing skill formation; for the establishment of plant level consultative mechanisms and dispute settlement procedures; for an agreed new wage and classification structure; for the establishment of agreed competency standards in conjunction with TAFE; and for the provision of an Implementation Manual containing procedures for testing and validating an employee's claims for reclassification. They also provide for greater flexibility in (non-penalty) working hours and during periods of annual holidays.

The new Clause 6C of the award lays down training requirements. In this the parties have committed themselves to "developing a more highly skilled and flexible workforce; providing employees with career opportunities through appropriate training to acquire additional skills; and removing barriers to the utilisation of skills acquired". Employers are required to develop training programs consistent with existing and future skills needs of the enterprise. Training committees are to be established which will tailor training needs to each enterprise.

The Structural Efficiency Adjustment broadbands the existing 349 award classifications into 14 wage levels. These are grouped around the C10 classification (the Tradesperson) as shown in Table 4.

The link between formal qualifications and pay level classifications in the above schema is apparent. It can be seen, for example, that each Production Certificate in the C12 to C10 range is worth, on average, a six per cent wage increment. It is also reflected in payments to apprentices. During their first year apprentices are to be paid 42 per cent of the tradespersons' rate. This

Table 4: Wage Classification Structure: Metal Industry Award

Wage Group	Classification Title	Minimum Training Requirement	Wage Relativity to CIO
C1	Professional Engineer/ Professional Scientist	Degree	n/a
C2(b)	Principal Technical Officer	Diploma*	160%
C2(a)	Leading Technical Officer Prin. Engineer Supervisor Trainer/Co-ordinator	5th year Diploma*	150%
C3	Engineering Assoc. Level II	Associate Diploma*	145%
C4	Engineering Assoc. Level I	3rd Year Assoc. Dip.*	135%
C5	Engineering Tech. Level V Adv.Eng. Tradesperson Level II	Advanced Certificate	130%
C6	Engineering Tech. Level IV Adv.Eng. Tradesperson Level I	1st yr Advanced Cert.*	125%
C7	Engineering Tech. Level III Eng. Tradesperson Special Class II	Post Trade Certificate*	115%
C8	Engineering Tech. Level II Eng. Tradesperson Special Class I	66% Post Trade Cert.	110%
C9	Engineering Tech. Level I Eng. Tradesperson Level II	33% Post Trade Cert	105%
C10	Eng. Tradesperson Level I Production System Employee	Trade/Certificate Production/Eng.Cert.III	100%
C11	Eng./Production Employee Level IV	Production/Eng.Cert II	92.4%
C12	Eng./Production Employee Level III	Production/Eng.Cert I	87.4%
C13	Eng./Production Employee Level II	In House Training	82%
C14	Eng./Production Employee Level I	Induction Training (up to 38 hours)	78%

\* or formal equivalent

Source: Australian Industrial Relations Commission, Draft Order, Metal Industry Award, 19 Mar 1990

Increases to 55 per cent, 75 per cent and 88 per cent in the second to fourth years of training.

Unlike the existing situation in which discrete occupational classifications are defined in fine detail, each of the wage groups is broadly defined to indicate levels of competence, in a range of operations, which would be appropriate to that wage group. Presumably each of these wage groups will include a number of increments to provide for a degree of differentiation between workers in each class and to provide for the career mobility which is intended.

There can be no disputing that this schema represents a marked improvement on the prevailing situation. Whether or not, however, this is a once off benefit, or whether it facilitates continuous change will depend on how the award is applied. If it is used as a ‘framework’ award, leaving it to different establishments to sort out many of the details, the chances of on-going change will be higher than if attempts are made to apply it uniformly. If the award is used as a ‘blueprint’ for other awards, the potential for meaningful and necessary changes could be reduced.

The provisions of ‘framework’ awards which provide benchmarks for enterprise-based awards is one method of providing for flexibility. Indeed, award fragmentation has been an important vehicle for flexibility and restructuring for a number of years. This has been particularly so in the aircraft industry, in aluminium, chemical and vehicle manufacturing, and for occupational groups such as professional engineers.

It is possible to posit that single-employer awards are more likely to be flexible and suited to the needs of individual enterprises than multi-employer awards. Between these extremes it is possible to suggest a continuum such as the following:

- A. General Awards or Multi-Employer Awards  
(for example the Clothing Trades Award, Pastoral Industry Award, Rope and Cordage Award)
- B. General Multi-Employer Regional Awards  
(for example the Electrical Contracting Industry (South Australia) Award, Plumbing Industry (New South Wales) Award, Pulp and Paper Manufacturing (Western Australia) Award)
- C. Multi-Employer Single Union/Occupation Awards  
(for example, Pursars’ Award, Air Pilots’ Agreement, Engine Drivers and Firemen (General) Award)
- D. Multi-Employer Single Union/Occupation Regional/Sub-Industry Awards  
(for example, Engine Drivers and Firemen (Breweries) Award,

Engine Drivers and Firemen (South Australia) Award, Clerks (Oil Companies) Award)

- E. Single-Employer Single Union/Occupation Awards  
(for example, Engine Drivers and Firemen (Shell Refining) Agreement, Marine Stewards (Burns Philp Co. Ltd) Agreement, Bank Officials (The Savings Bank of South Australia) Agreement)
- F. Company Awards  
(for example, Albany (Borthwick) Meat Works Award, Aluminium Extrusions Division of Metalex Pty Ltd (Huntingdale) Enterprise Agreement, Amdel Ltd Industries Award)

Each of these award arrangements is associated with different potentials for flexibility. It would appear that the most restrictive structure is that of general awards which standardize employment conditions across a range of occupations and a potentially large number of employers. Single-union-multi-employer awards have the capacity to provide for greater flexibility than general multi-employer awards, but only in respect to specific classifications of employees.

Single-employer awards have greater potential for flexibility than multi-employer awards. Company awards are less limiting than single-employer-single-union awards and therefore provide the greatest potential for flexibility.

Table 5 classifies federal awards for the period 1960 to 1989 according to the categories identified in the above continuum.

*Table 5. Federal (Private Sector) Awards: By Respondency 1960-1989*

Award Type	1960	1965	1970	1975	1980	1985	1989
<b>Multi-employer</b>							
A	42	43	74	74	70	92	117
B	11	6	6	11	12	12	19
C	43	5	46	51	68	69	109
D	69	85	93	128	163	176	218
<b>Single-employer</b>							
E	42	59	96	150	217	289	345
F	5	11	20	64	65	132	202
Total	212	259	335	478	595	775	1010

*Source: Compiled from Award Lists, Industrial Registry, ACAC/AIRC. It is appreciated that a search of each of the awards in question would be necessary to give greater definiteness to the above classifications. Such a search has been beyond the author's resources.*

*Note: This table excludes ACT and NT awards (because of common rule considerations). It also excludes public sector and local government awards. Also excluded are single issue awards (see below).*

It is apparent from Table 5 that there has been a five-fold increase in the number of private sector federal awards between 1965 and 1989. The Table also indicates that there have been relatively few first-in-the-industry multi-employer awards. The major reasons for the increase in the number of awards have been the fragmentation of awards, and the increase in single employer awards. Single employer awards constituted 22 per cent of federal awards in 1960. In 1989 they accounted for 54 per cent of private sector federal awards. Though the number of multi-employer awards increased by 36 per cent over the period, the number of single employer awards increased by over one thousand per cent. Single company awards grew the fastest, by nearly 4,000 per cent.

As Rimmer has noted, single employer awards provide for a flexibility on three fronts: wage flexibility, functional flexibility and numerical flexibility (Rimmer 1989, pp. 17-18). The above analysis would therefore suggest that, over time, the increase in the number of single-employer awards has been an avenue of increased award flexibility.

Some further observations could be made regarding the above analysis. Single issue awards have been removed from consideration. These awards are concerned solely with one of the following issues: job protection, redundancy and redeployment, hours of work, shift work, traineeship systems, retrenchments, demarcations, seniority, meal intervals, annual leave, severance pay, stand-downs, grievance procedures, transport allowances, technological change, and disability allowances. As these provide added flexibility, albeit in only one area, they would strengthen the case for increased flexibility by way of the growth of single employer awards. It might also be added that there has been a fragmentation of awards in the public sector as well. The predominance of these awards fall into the E Category - i.e. single-employer-single-union category.

Countering this potential for flexibility is the fact that many single-employer awards reflect, in great measure, parent awards. Further, though there has been a mushrooming in single-employer awards, the majority of workers continue to come under the provisions of multi-employer awards. Rimmer considers that the number of private sector employees covered by single-employer awards is less than 20 per cent of that sector's employment (*ibid*). A further caveat is that the growth in single-employer awards has been accompanied by a continuous (though much slower) growth in multi-employer awards. The number of multi-employer awards increased from 165 to 463 between 1960 and 1989, and the number of general multi-employer awards nearly trebled over the period. In addition, the influence of multi-employer awards has been increased by way of roping-in awards and

award consolidation. The former increases the number of employer respondents, the latter can reduce the number of awards. Major industries in which award consolidation (as opposed to fragmentation) has taken place are the construction and road transport industries (Plowman, 1985).

The awards processed by the Commission in the period February 1989 to February 1990 indicate the relative incidence of multi-employer, single-employer and roping-in awards. Over the thirteen month period, 347 awards were varied or agreements certified. Of these 78 were multi-employer awards, 131 single employer awards (including 25 Section 115 agreements) and 138 were roping-in awards. As a general observation it would appear that award fragmentation is occurring in industries subject to external competition. Award consolidation is the province of cost-plus industries which are not subject to overseas competition. This would indicate a potential problem for harmonizing wage outcomes between the competitive and cost-plus sectors of the economy.

## **6. Harmonizing Wage Outcomes**

Historically wage determination in Australia has taken place within the panopoly of New Protection - the linking of arbitrated wages with tariff protection. This, in effect generated cost-plus industries which were essentially price fixers. In the manufacturing sector institutional mechanisms provided the necessary wage-price adjustment mechanism. Companies could compensate for wage increases by collectively raising prices and then seeking increased levels of protection. The high degree of concentration in other industries (e.g. road transport, civil aviation, building and construction and essential services) lead to these industries also being price fixers.

The deprotection of the manufacturing sector means that that sector has to determine wage and other costs with an eye to international competitiveness. This factor will become more and more prominent as levels of tariff protection fall. Product prices in this sector are determined in the light of external competition. In other sectors the cost-plus approach continues to prevail. If, under comparative wage justice pressures, the cost-plus sectors generate wage movements which flow into the competitive sectors, the viability of Australian manufacturing will be further threatened. There is the need to develop mechanisms which avert this problem. Several mechanisms have potential value.

The first of these is to try and reduce the overt forces of comparative wage justice. This is not likely to be totally successful, and is likely to be a longer, rather than term remedy. However, comparative wage justice pressures can be minimized and there are some institutional factors which do have a bearing and which are amenable to change. One of these has already been alluded to. The Commission, over the years, has tried to reduce unions' access to what it once termed "the doctrine" of comparative wage justice. It has also been

suggested that the Commission seems to have retreated from this position. A second institutional factor is the composition of trade unions and employer associations. As Peter McClaughlin points out in his paper in this volume, the occupational basis of unions, and the multiplicity of unions in large establishments, results in a ready made transmission belt for wage increases between groups, between occupational unions, between enterprises and across industries. In this context, as McClaughlin notes, comparative wage justice has made uniformity of outcomes a necessary way of keeping the peace and keeping wage pressures under control. In the event of the cost-plus sector setting the pace, however, the price of peace may be too high.

A second mechanism, one which has been employed with a high degree of success under the Accord, has been to establish an institutional wage ceiling which applies to all sectors. To be successful this mechanism has to establish safety valves which overtly or covertly permit those with stronger bargaining power (usually unions in the regulated and cost-plus sectors) to get wage increases which are insulated from general wage movements. Site allowances in the construction industry is but one example of this safety valve at work. This mechanism presupposes that unions in cost-plus industries will be prepared to accept lower wage increases than could be obtained through sectional bargaining. In the long haul this may not be possible, if for no other reason than the process converts union officials from poachers to game keepers. Further, over time, employees in the competitive sector will make comparisons with supposedly non-comparables. This has been evidenced by the problems of comparing minimum rates and paid rates awards. Employers will be less likely to exercise constraint in periods of labour shortage and are likely to increase wages to obtain and maintain labour.

A third mechanism is to try and induce greater competition in the cost-plus sector. The deregulation of the airline industry may result in greater price competition. Over time, it could result in the current duopoly becoming a monopoly. There is little evidence to suggest that the deregulation of the financial sector has resulted in greater price competition and less attention to uniform wage rates in the banking sector. There is also evidence of a high degree of owner concentration in the deregulated sector (for example road transport) and that employers do not always seek to take wages out of competition. Thus, this third mechanism may have greater theoretical than practical application.

Another mechanism is to restore the role of over award payments in the system, an approach hinted at in Accord V1. Historically over award payments have been the mechanism for adjustments from company to company. The evidence suggests little flow-on impact, and a non-recognition by industrial tribunals of any comparative wage justice claims in this area. The major way in which over award payments have impacted upon general wage determination has been the opportunistic use by unions of over award payments to demonstrate capacity to pay.

## 7. Over Awards, Paid Rates, Supplementary Payments

Since the introduction of wage indexation in 1975 the Commission has been at pains to bring over award payments within its guidelines and, in general, to proscribe over award pay increases. The Commission's actions are understandable, but not necessarily to be commended. In circumventing the use of over award payments the Commission has contributed to three problems. In the first instance it has removed a source of attraction wages and thus flexibility. Employers' capacity to attract labour to isolated areas has been hampered. Employers' capacity to pay over award payments in return for changed work practices is also reduced.

The second problem relates to levels and facility in negotiations. The evidence suggests that managers do lack negotiating skills, skills which will be increasingly important if employment matters are devolved to the plant level. By shielding employers from over award negotiations the Commission may have reduced employers' wages bills. It may have also have reduced employers' capacity to negotiate and their interest in acquiring negotiation skills.

The third and most serious problem is the impetus it gave to paid rates awards. By moving to paid rates awards unions in sectors such as banking and construction have been able to have their former over award payments indexed. The movement to paid rates awards has standardized the over award component across employers, thus reducing its flexibility role and inducing "top ups" (for example site allowances). The institutionalizing of the over award component has also given it greater comparative worth prominence. The successful harmonizing of paid rates and minimum rates awards is now a major challenge for the system.

For decades the Commission and its predecessors had a "hands off" approach to over award payments. Since 1915 awards have been recognised as minimum rates awards (21 CAR 44). Union activities to improve upon these minimum standards have been accepted and seldom resulted in resort to arbitration. This approach changed in 1967 in the Total Wage award restructuring attempt. The Commission awarded wage increases of up to 16.5 per cent to tradesmen and hinted that employers should pay the increases by the absorption of over award payments. The absorption struggle left the Commission badly mauled. It also left the metal unions determined not to allow the Commission control over award payments.

The metal unions' resolve backfired with the introduction of indexation. Other unions sought paid rates awards and had their over award component indexed. For metal unions only the minimum rates were indexed. From 1978 on the Commission attempted to provide some remedy by prescribing supplementary payments. These have been defined as "a separate amount in a minimum rates award which is in addition to the minimum rate and which together with the minimum rate becomes the award rate below which no employee may be paid" (ACAC, 1987, p. 18).

The Commission has sought to deal with the problem of minimum and paid rates awards by way of absorption and bifurcation. The over award component is to be gradually absorbed into supplementary payments. As noted, the addition of supplementary payments to minimum rates constitutes the award rates.

In its December 1986 National Wage decision the Commission noted it was prepared

... to consider a principle providing for the inclusion of supplementary payments in Federal awards as part of a carefully controlled process to address the position of lower paid workers in the current economic circumstances ... the inclusion of supplementary payments may assist in diminishing the gap between the treatment of minimum rates and paid rates awards and in reducing the friction between those awards which is a most troublesome feature of wage fixation. (ACAC 1986b, p. 11)

The Commission noted that the very nature of supplementary payments "requires the absorption of existing over award payments up to the level of the particular supplementary payment and almost invariably involves, to some degree, a change in relativities. This would need to be clearly accepted by any union seeking and achieving increased or new supplementary payments" (ibid). The Commission also expressed concern "at the implication of allowing the level of supplementary payments to be fixed as a result of comparative wage justice exercises" (ibid).

In its March 1987 National Wage decision, the Commission determined that supplementary payments could form part of the second tier, and be subject to the second tier ceiling (ACAC 1987, p. 18). At this case the ACTU submitted that in determining the level of supplementary payments, "regard should also be paid to the level and incidence of over award payments outside the award concerned" - that is, by resort to comparisons. Though the Commission did not consider such investigations necessary, it was prepared "to allow the level of supplementary payments to similar classifications of employees in other minimum rates awards to be taken into account both in deciding whether a supplementary payment should be prescribed and to assist in determining the level of any payment" (ibid). As noted in an earlier section, the determination of supplementary payment levels for tradespersons in the building and metal trades industries has been on the basis of comparisons.

The Confederation of Australian Industry has objected to this approach and has argued that the "operation of the supplementary payments principle ... has been an intrusion by the Commission into the area of over award payments. An area which has traditionally been held not to be an area in which

the Commission should be involved''. The CAI considered the principle had, in effect, led to the creation of *de facto* paid rates awards (ACAC, 1988b, p. 27). The Business Council of Australia has sought the provision of a supplementary payment system limited to a single employer and not involving access to arbitration (ibid, p. 24).

The Commission has ignored these submissions. In its February 1989 Review it determined to strengthen the relationship between minimum rates components:

We endorse in principle the approach proposed by the ACTU ... This means that minimum rates awards will be reviewed to ensure that classification rates and supplementary payments in an award bear a proper relationship to classification rates and supplementary payments in other minimum rates awards. (AIRC, 1981a, p. 7)

As already noted, in the June-August 1989 National Wage Case the ACTU sought specific endorsement of classification rates and supplementary payments. In this wage case the Commission also tackled the complex problem of paid rates awards and their interaction with minimum rates awards. The Commission reiterated its view expressed in May 1989 that "on recent experience there are grounds for doubting the wisdom of attempting to maintain paid rates awards in the private sector". The Commission indicated that a Full Bench will be constituted "in due course" for the purpose of hearing further argument about the future of paid rates awards. The Bench will consider, *inter alia*,

- i. whether any new paid rates awards should be made
- ii. whether paid rates awards should be cancelled and replaced by S115 agreements
- iii. the basis on which over award rates of pay should be assessed
- iv. the coverage of paid rates awards
- v. whether paid rates awards within an industry should be reviewed so as to ensure proper attention to internal relativities. (AIRC, 1989b, p. 15)

The Accord VI indicates that the "absorption" of over award payments into supplementary payments will not eliminate the former. It calls for recognition that the no further claims "commitment in Minimum Rates Awards needs to be varied to provide the opportunity for claims based on achieved increases in productivity and profitability." In the event of the Commission institutionalizing over award pay and supplementary payments, the former could provide a continuous source of replenishment for the latter.

## 8. Cost Outcomes and the “Suspender” Principle

The wage restraint of recent years, in the face of buoyant economic demand, highlights the importance of the tax-wage trade offs embedded in the Accord. A critical question is whether or not the Accord VI will help maintain these trends, or lead to a reversal of trends.

Keating’s announcement of Accord VI intimated that “a moderate wage outcome will help maintain competitive exports”. The Accord partners have accepted a target for aggregate average wages growth of seven per cent next financial year compared with a forecast inflation rate of six per cent. The agreed target “encompasses all elements of the pay structure and drift”. It includes the three per cent structural efficiency adjustment already in the pipeline. It also includes the 1.5 per cent increase scheduled for September 1990 and the \$12 (2.2 per cent of average weekly earnings) for March 1991. There is also “the possibility for controlled over award pay adjustments based on achieved improvements in productivity and profitability at the enterprise level”.

On the Treasurer’s own figures, and discounting any over award payments, at average weekly earnings levels the proposed increases sum to \$36.30 or 6.7 per cent. To this has to be added wages drift (currently running in excess of two per cent), the superannuation impost (to be phased in from May 1, 1991 and with the potential to increase labour costs in the order of one per cent of ordinary time earnings in 1991/92), and the proposed over award payments. Thus, there is every likelihood that the figure of seven per cent could be overshoot. Add the “suspender effects” - lower wages being pulled up by higher ones - and the seven per cent figure appears an extremely conservative estimate. The potential exists for several variants of the suspender principle:

- a. the phasing in of minimum rate adjustments to “a more equitable base” will result in the upward adjustment of lower rates;
- b. the nature of supplementary payments is to pull up the rates of lower paid workers. These are adjusted with a view to over award/supplementary payments of higher paid workers;
- c. the Commission’s projection of the absorption of over award payments, together with the Accord VI’s proposal for greater access to over award payments, could result in suspender effects;
- d. the award restructuring exercise is likely to result in the elevation, rather than downgrading, of pay rates for existing classifications;
- e. broadbanding will aggregate a number of award classifications. These are likely to be paid at the highest classification rate;
- f. over award payments on the basis of “achieved increases in productivity and profitability with restructuring” may result in re-

- gional/industry payments gravitating from the most productive enterprise;
- g. the last three National Wage decisions have resulted in flat wage increases thereby compressing the relativities of higher income groups. As well as the pulling up of the rates for lower paid classifications, this approach runs the risk of high income groups seeking to restore relativities - an inverse form of suspension;
  - h. the blueprint formula will result in cost-plus sector industries pulling up rates of competitive sector industries (for example, tradespersons in building and manufacturing);
  - i. Accord VI calls for ‘‘additional increases associated with national benchmark rates for teachers and nurses’’. New South Wales teachers have rejected offers of nine per cent and are seeking increases of 17 per cent. Additions to ‘‘national benchmark’’ rates will assist in pulling up other rates;
  - j. there is evidence of some breakdown in the operation of the Structural Efficiency Principle. The Commission has acknowledged that progress is uneven and varies from industry to industry, enterprise to enterprise. There is the possibility of a generalized wage round irrespective of the appropriate application of the principle. If so, those groups prepared to engage in restructuring and trade offs will help pull up the rates of others not willing or able to engage in such activities.

## 9. Conclusion

Australian industrial relations and wage determination are at the crossroads. The current attempt to restructure awards and induce greater efficiency has the potential to develop a new industrial relations climate and culture and to lead to more appropriate forms of work organization. The new forms of work organization could embody better trained (and multi-skilled) workers, a broadening of the range of tasks which workers are able to perform, career structures, a lessening of the demarcation and jurisdictional disputes, more flexible working structures, more consultative management practices, a more productive and cost efficient workforce.

Australia’s institutional arrangements would suggest that a regime of ‘‘administered flexibility’’ could provide the most appropriate framework to facilitate these changes. The same structures, however, also ensure the potential for a stalling of the existing restructuring momentum, to convert it to a once-off rather than continuous process, to seek to apply a blueprint rather than a framework for change, to replace one rigid wages structure with another. There is the possibility of a reversion to traditional wage criteria

once-off rather than continuous process, to seek to apply a blueprint rather than a framework for change, to replace one rigid wages structure with another. There is the possibility of a reversion to traditional wage criteria which have strong normative value but have little economic rationale. There is evidence of a return to the more uniform, centralised, consistent and regulated approach which has historically been implemented under New Protection. There is also evidence of a return to a bifurcated wages system, of over award absorption, and of increasing assent to comparative wage justice and real wage maintenance considerations. The proposed May 1990 National Wage Review will determine which course the ‘noble experiment in the art of government’ will take, and whether or not it has heeded the lessons of history.

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