"Jobsback" and the Future of Wages Policy

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Abstract

The implications of the Liberal-National Party Coalition's policy with regard to wage determination in Australia are assessed in relation to appropriate goals for wages policy. Although the current Accord-based system has shifted its focus over the last decade, from generally applied wage determination principles aimed at inflation control to an enterprise based system aimed at productivity enhancement, the Coalition's policy should not be seen as merely an extension of the current system. This is because, in pursuit of faster productivity gains, the Coalition policy aims at the permanent exclusion from the wage determination process of the two institutional elements which provide the scope for an anti-inflation incomes policy in Australia - the Industrial Relations Commission and the Australian Council of Trade Unions.

1. Introduction

The aim of this paper is to provide a framework for the assessment of the Coalition's "Jobsback" policy[1], in terms of its implications for Wages Policy.For this purpose, a sufficiently broad definition of the concept of Wages Policy is taken so as to include all policy initiatives which are aimed at influencing the relative and general levels of wages and their rates of growth. This broad definition thus can include not only direct forms of control over wage setting behaviour (interventionist policy), but also policies aimed at merely providing the framework within which "market forces" operate. (non-interventionist policy).

Therefore, although the "Jobsback" document is presented as Industrial

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Relations policy, its implementation will determine the institutional and legal context in which wage outcomes will be determined - it seems fair to assess it as a Wages Policy statement.

The structure of the paper is as follows:

Part 2 provides a general framework for the assessment of wages policy in terms of alternative primary goals; Part 3 considers broader economic and social goals, in relation to which wages policy can make a supportive contribution; Part 4 summarise the main characteristics of the "Jobsback" policy compared to those of recent and current wages policy; Part 5 presents some conclusions on the implications of "Jobsback" for employment and inflation prospects.

2. The Primary Goals of Wages Policy

In distinguishing between alternative approaches to Wages Policy, it is useful to contrast two conflicting schools of thought with regard to the primary or proximate goals of policy - that is, those objectives to which Wages Policy is assigned prime responsibility and which thus determine the characteristics of the framework for implementation.

For proponents of interventionist type policies the primary goal is control of inflation: In this view, "cost push" inflationary wage pressures require a degree of centralised control to ensure that wage outcomes are consistent with macroeconomic circumstances. Centralised policies seek to use the constraints of generally applied principles to the determination of wages, to ensure a non inflationary macroeconomic wage outcome.Proponents of centralised wages policy do not deny the importance of appropriate demand management policies in containing excess demand inflationary pressures - they argue that direct intervention in the wage setting process is a preferable method of containing wage based cost push inflation, rather than the use of contractionary demand management policies and increasing unemployment.

In contrast to this macroeconomic emphasis, the alternative view sees Wages Policy's primary objective in terms of microeconomic efficiency. For non-interventionists the appropriate goal for wages policy is seen as the achievement of an environment in which market forces induce the efficient allocation of resources, via relative wage levels which are responsive to the signals of demand and supply.In this view, centralised wage fixation, with generally applied criteria, freezes or compresses relativities. Flexibility in wage relativities, at the industry level and at the enterprise level, and ultimately at the individual employee level, is seen as necessary to reflect differences and changes in demand, supply and productivity conditions.

With respect to the general level of wages, its relationship to the general level of prices (i.e. the level of "real wages") and the control of inflation, non-interventionist decentralised policy relies on the discipline of the market and the threat of unemployment and business recession.According to the theoretical basis for this approach, general wage and price increases without resultant falls in output and employment are only possible if monetary policy is "accommodating". Conservative monetary policy (for which conservative fiscal policy is needed), and the responsiveness of labour and product markets prices to demand and supply conditions, are the requirements for controlling domestically generated inflation.

Beyond the reliance on the allocative efficiency gains implied by the competitive model of orthodox theory, a more practical and convincing argument for decentralised wage determination is based on operational efficiency. That is, productivity gains and cost efficiencies achieved through the adoption of efficient work practices and organisational structures. Efficiency gains in this sense, and the reform of workplace practices to meet changing structural and technological circumstances, can only be won at the enterprise level. If the wages system is to play a role in providing the signals and incentives for operational efficiency gains, then wage relativities must to some extent reflect differing workplace conditions.

3. Broader Economic and Social Goals

While it is useful, as an analytical device, to characterise the issue of incomes policy goals as a choice between responsibility for the macroeconomic goal of inflation control and responsibility for the microeconomic goals of allocative and operational efficiency, there are other indirect and broader economic and social goals in relation to which wages policy should be assessed. These goals are not less important for wages policy than the primary goals - indeed the achievement of these goals may be seen as the intermediate targets required for the achievement of the broader goals. They are indirect or secondary goals for Wages Policy in the sense that a successful Wages Policy plays a supportive (rather than principal) role in their achievement. These goals relate to: employment and economic growth; external balance; income distribution; and industrial and social harmony.

(a) Employment and Growth

While the proposition that inappropriate levels or rates of change in money or real wages can result in unemployment is not controversial, the mecha-

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nisms of the relationship between general wage levels and unemployment has long been, and still is, a matter of unresolved debate in macroeconomic theory.Similarly unresolved is the microeconomic debate concerning the role of relative wages in "explaining" relative employment and unemployment between groups. (e.g. between adult and youth employees, or between male and female employees).Consideration of the detail of these debates and the implications for wages policy are beyond the scope of this paper.

For the purposes here it is sufficient to recognise that, whatever the contribution of wages to structural problems in Australian labour markets, the major cause of the current unacceptably high level of unemployment is a monetary policy induced recession in aggregate economic activity and economic growth.The application of a contractionary monetary policy was seen as necessary in the face of the failure of the current account on the balance of payments to support the rates of GDP growth of the middle and late 1980s. This is the traditional balance of payments constraint on domestic growth: The inability of a national economy, with an inflexible propensity to import, to sustain high domestic growth without commensurate growth in the value of its exports.

At the current level of depressed activity, any re-alignment of relative wages will merely shift the incidence of unemployment between groups (this may be a desirable objective).At the current level of economic activity, any productivity gains will be mainly reflected in increased unemployment.The "awful arithmetic" of unemployment implies that the Australian economy needs a minimum GDP growth rate of around 3 1/2 - 4 % p.a. to make any reduction in aggregate unemployment. This is the minimum growth rate necessary to provide for the increase in the size of the Labour Force, and to ensure that increases in output per worker are used to produce more output rather than save on the number of jobs. Whatever the source of the stimulus to achieving the required GDP growth rate, growth can only be sustained if the external constraint is lifted.

The main test of Wages Policy then, in regard to its contribution to achieving employment growth and reductions in unemployment, in the context of Australia's current economic circumstances, is the extent to which it contributes to an easing of the external constraint.

(b) External Balance

There is general agreement as to the requirements for a solution to Australia's external constraint problem: the maintenance and improvement of Australia's international competitiveness, and a restructuring of Australia's production in favour of new and more diversified export markets and (more controversially) in favour of import replacement.

International competitiveness requires low inflation and productivity improvements.[2] In terms of their primary goals both centralised and decentralised wages policy proponents make claims for a contribution in these respects. Decentralists make additional claims based on faith in the efficiency of market forces, for additional contributions from wages policy in terms of providing appropriate signals for restructuring.

However with regard to Australia's current external problems the contribution of wages policy should be kept in perspective.The failure of the current account to improve as a result of the substantial gain in international competitiveness from the currency depreciation of 1985, is evidence that international competitiveness is but one element in determining trade flows. And more important than wages in providing productivity gains, and essential for the achievement of a restructuring of aggregate production, is an appropriate level and composition of aggregate investment.This is something wages policy of any form cannot by itself deliver.The centralised policy of the mid 1980's provided general levels of real wages which in relation to labour productivity, resulted in high corporate profitability and an historically high profit share of national income. It is significant that this was unable to generate either an appropriate level or composition of real capital formation for Australia (see Stegman 1990). Healthy corporate profitability is a necessary but not sufficient condition for high levels of structurally appropriate capital expenditure. Centralised Wages Policy is no substitute for an investment policy.

On the other hand, if an unregulated decentralised approach to wage determination, based on enterprise-level capacity to pay, allows low-productivity, inefficient firms to survive by paying lower wages than higher productivity, efficient firms, then the system works against desirable restructuring.(See Salter 1966)

(c) Income Distribution

In addition to the implications for the aggregate wage share - profit share distribution of the national income cake discussed above, Wages Policy must be assessed in terms of consequences for the interpersonal distribution of wage incomes.

Centralised wages policy involving the application of across-the-board criteria for wage increases, implies a "flatter", more egalitarian wage distribution (see Norris 1986). Indeed critics of the Australian system of centrally determined awards view the compression of relativities as one of its main faults (see Sloan 1992) Proponents of a deregulated, decentralised approach see a need for larger wage differentials to provide the signals and incentives for higher levels of skills acquisition and investment in "human capital".

However Human Capital Theory has long emphasised the importance of structural factors and institutional arrangements in providing the opportunities and incentives for on-the-job training. US labour market analysts prefer the "Internal Labour Market" and "Dual Labour Market" models in characterising unregulated labour markets, to the wage-competition models of orthodox theory.[3] In the former models, workers are divided into two broad classifications: those with primary sector jobs (high productivity, high wage jobs, with low turnover and high levels of on the jobs training, and hierarchical career paths); those with secondary sector jobs (low productivity, low wage jobs, with short tenure and little on the job training). The relative size of the two broad sectors, and hence the proportion of total jobs that provide on-the-job training, depends in these models, not on the relative wages differentials between the two sectors, but on the structure of the economy and the cyclical level of activity.

In contrasting the decentralised, largely deregulated wage structure of the US, with that of Australia (with an award structure which in the main over recent years has reflected centrally determined across-the-board adjustments and supplementary payments to protect low paid workers from being left behind), teachers of Labour Market Economics have often made use of the cliche: In Australia if you are poor it is probably because you do not have a job; in the US large numbers of poor people do have jobs - but they are low paid, high turnover jobs.

(d) Social and Industrial Harmony

Clearly one of the tests for Wages Policy is whether the resultant distribution of income is socially and politically acceptable, as well as appropriate on economic criteria.

The unacceptability of the distributional consequences is cited as the main reason for the failure of some of the experiments with anti-inflationary incomes policy undertaken by many countries in the 1970s and 1980's (see Hughes 1982).

Furthermore both overseas and domestic experience suggest that labour market adjustments to external shocks, and structural reform, can be achieved under consensus based centralised procedures with the involvement of peak representative councils (the "concerted action" approaches of Germany and Austria in the 1980's, and the Australian "Accord" process), without industrial disharmony and disruption. The contrast is with the bitter confrontations in the UK over the 1980's.

Critics of this "corporatist" approach to wages and incomes policies, point to the vested interests that must be satisfied, and the consequent slow pace of adjustment and reform. Nevertheless, whatever the long run benefits of the reformed market "equilibrium", they might well be largely offset by the costs of industrial disputation and conflict which arise from forced change.

4. "Jobsback" Versus the Accord

There is an extensive literature providing the detail of the history of Wages Policy in Australia over the last decade under the Accord process (see for example Stegman 1991). There is a wide variety of views on how beneficial or otherwise the Accord has been for the Australian economy (see for example Chapman and Gruen 1990).For the purposes of this paper, it is useful to characterise the history of the Accord through its various stages, in terms of a increasing shift in the priorities for the primary goals of Wages Policy - from the macroeconomic goal of inflation control to the goal of microeconomic efficiency.

The initial forms (Accords I, II), based on regular, across-the-board indexation of wages in return for "no extra claims" commitments from the union movement, sought to achieve non-inflationary economic growth without the risk of a wage "break-out".As the external constraint on growth became identified as the main economic problem, Wages Policy was required to bear an increasing burden of responsibility for providing productivity growth and industry reform and restructuring.Accords III, IV and V incorporated award restructuring and structural efficiency criteria into National Wage decisions, and sought to tie wage increases to the achievement of productivity gains and cost-saving efficiencies at the industry and enterprise level.

Accord VI and the National Wage Case deliberations of 1990-1 represented something of a watershed in the Accord process, with the IRC struggling to find a way of endorsing enterprise level wage bargains while still maintaining some control over the general level of wages. (See Stegman 1991). In 1992 the Labour Government legislated to remove the "public interest" test for the IRC in certifying enterprise agreements, and thus virtually abandoned any direct role for the IRC and Wages Policy in inflation control. With recession and high unemployment acting to remove inflation as an immediate concern, the Government felt able to focus Wages Policy on providing faster productivity gains and reform through unfettered enterprise bargaining.

The Accord system of IRC determined awards and certification of agreements (supported by consistent state and industry tribunal determined awards) still remains, in principle, capable of re-asserting some degree of control over the macroeconomic wage outcome. All that is required, assuming that the standing of the IRC in the community and its ability to work with peak union representation has not been irreparably damaged by the controversies of 1990 and 1991, is legislation to re-impose some public interest test (based on macroeconomic criteria) for award determination and agreement certification.It is for this reason that the system of deregulated, decentralised wage determination, envisaged under "Jobsback", should not be seen as merely an extension of the current enterprise based system.

The ultimate aim of Jobsback is to replace the system of awards and enterprise agreements subject to IRC supervision and regulation, with a system of common law labour contracts. This is to be achieved by legislating for the termination of all awards (Jobsback P12), and their replacement by workplace agreements, except where individual employers and groups of their employees elect in writing to remain under the auspices of the IRC and its awards.

In contrast to the Coalition's tax policy, the Jobsback statement is short on detail, and, at the time of writing, the nature of the necessary legislation for the implementation of the policy has not been made public. However the intent is clear.

As far as can be gleaned from the Jobsback statement, the new system would have the following characteristics with respect to its main elements.

(a) The nature of workplace agreements:

Since unions and employer organisations can act as "bargaining agents", but cannot be "parties" to a workplace agreement, such agreements are to have the legal status of individual employer - individual employee contracts. They are to be subject to certain minimum conditions, based on elements of the relevant pre-existing award with regard to ordinary time hourly wage rates and leave entitlements, for adult workers. For youth there is to be a general minimum rate. There are no arrangements for the adjustment over time of these minima.

Workplace agreements must contain no-strike clauses and specify dispute settlement procedures. It is not clear who is to supervise agreements and enforce the inclusion of these conditions. An industrial advocacy office is to be established to provide "advice" to individual employees, presumably about the prospects of civil action under contract law. The stated aim is to place industrial relations under common law jurisdiction and to eliminate special industrial law.

(b) Freedom of choice

It is clear that under Jobsback proposals, only the employer has the choice between workplace agreement and IRC determined award. Only if the employer agrees, can employees, or the union to which they belong, elect to remain within the award system. If the employer wishes a workplace agreement, but no agreement is possible because employees wish to remain under an award, the award will be terminated. In such cases, legislation will provide the continuance of the pre-existing award conditions for as long as the relationship between employer and employee continues. There is no process for adjustment to these conditions. New employees or employees changing jobs will have no opportunity for award coverage if their employer wishes a workplace agreement.

(c) The Role of Awards

Because the decision to remain under the jurisdiction of the IRC in regard to dispute settlement and the determination of wages and conditions, must be taken on a workplace by workplace basis, awards under the new system will be, in effect, enterprise based awards. The scope for upward adjustment in awards will be limited by legislation "to ensure that there is no flow-on from workplace agreements into awards" (Jobsback P16), and the IRC will be directed to have regard to objectives which include the need for "the eradication of restrictive work practices" and "the need for maximum flexibility in the workplace" (Jobsback P22) in determining awards.

Any action seeking to incorporate any workplace agreement benefits into an award is to be deemed automatic grounds for suspension or cancellation of the award. The stated intent is to provide incentives for parties to negotiate voluntary workplace agreements outside the award system, rather than to submit to what will be, in effect, imposed workplace agreements.

(d) The Role of Unions

The Jobsback policy aims to remove the privileges unions enjoy under industrial law, and to remove the authority of peak union councils and hence their role in accepting responsibility for the macroeconomic effects of their constituents' wage demands. It is proposed that unions become enterprise based bargaining agents (preferably on a fee for service basis). The Jobsback policy seeks to encourage the development of enterprise unions by the removal of the current 10,000 member minimum for registration, and the removal of the "conveniently belong" criterion and other protection for existing unions. It explicitly seeks to encourage competition between existing unions and "new entrant" unions. The Jobsback statement is silent on the potential for "muscle-flexing" and demarcation disputes, provided by such competition between unions to represent particular groups of workers.

(e)The Role of the IRC

"Jobsback" proposes a much diminished role for the IRC, basically limited to arbitrating and settling disputes, and determining and enforcing awards, for those workers whose employer concurs with their wish to remain under the Commission's jurisdiction. There is scope for the IRC's arbitration facilities to be made more widely available on a fee-for-service basis. The extent to which the industrial inspectorate functions will extend beyond the award sphere in monitoring minimum employment conditions is not made clear.

What is clear is that the IRC is to have no role in setting limits to the extent of workplace wage agreements, or in specifying requirements for offsetting cost efficiencies for wage increases. There are to be no more National Wage Cases, no more across the board wage adjustments, and no more certified agreements. Workplace agreements will not need "the approval or intervention of any industrial tribunal" (Jobsback, p 12). Therefore the IRC will have no role in providing a means of policy control over the general level of wages or the rate of wage-based inflation.

5. Conclusions

Although the type of labour market environment Jobsback seeks to create is clear, the experience of financial deregulation in Australia over the 1980s raises doubts about whether this could be achieved quickly and uncertainties about the path of change. The consequences of radical change are unpredictable, particularly if what is sought is a change in well-entrenched power relationships.

Leaving these concerns aside and assuming the successful implementation of the "Jobsback" proposals, an assessment of the policy can be made in terms of goals discussed above.The stated primary goal of the policy is "to lift workplace productivity" (Jobsback P1). In this respect, the benefits of Jobsback over the current system are heavily dependent on the extent to which deregulated enterprise level bargaining provides larger and faster productivity gains and structural reform, than is possible under the Accord system of "managed flexibility". Jobsback provides no empirical evidence to support or quantify the alleged advantages of the proposed new system over the old, in generating larger and faster productivity gains. Neither was the Committee of Enquiry into the Industrial relations system (1985), nor the IRC in assessing National Wage Case submissions on enterprise bargaining (Industrial Relations Commission 1991 P15), provided with any such empirical evidence.

With regard to the broader goals of employment growth and reductions in unemployment, as has been argued above, the test for Jobsback's contribution depends on the extent to which the policy contributes to a lifting of the external constraint to allow faster economic growth. The contribution of any form of wages policy to solving Australia's external balance problems is limited. Australia's performance with regard to an appropriate level and an appropriate structural composition of real capital formation will be the crucial factor.

On the other hand, Jobsback has some unfavourable implications for the prospects for employment growth and reductions in unemployment. Any recovery in economic growth after the recession will inevitably run into bottlenecks and skilled labour shortages, and raise risks of a resurgence in inflation. In pursuit of the unquantified and uncertain productivity benefits of a deregulated labour market, Jobsback seeks to eliminate the two institutional elements of the current system which have provided the scope for anti-inflationary incomes policy in Australia : the IRC in its role of providing general wage adjustment principles; and the ACTU in its role as a peak council which assumes responsibility for the macroeconomic effects of its constituents' wage claims, and has demonstrated that it can deliver compliance with general principles.

Therefore as the Fightback policy documents make clear, Jobsback implies a heavy reliance on monetary policy for inflation control. In the modern financial institutional environment, monetary policy acts through Reserve Bank influence on the level of interest rates, rather than through controls over the volume of credit or the quantity of "money". Therefore anti-inflationary monetary policy involves raising interest rates, which bears down on inflation by reducing domestic demand and appreciating the exchange rate. The consequence is lower domestic activity, and a loss in international competitiveness. Jobsback thus implies an anti-inflation policy which requires restrictions on economic growth and increases in unemployment, whenever inflationary pressures arise.

In conclusion it does not seem unreasonable to assess the Jobsback policy as one where the benefits are uncertain and limited, and the risks of social and economic costs are high.

Notes

1. In this paper references are made to the Liberal Party of Australia - National Party of Australia policy statements: *Jobsback! The Federal Coalition's Industrial Relations Policy* October 1992, referred to as "Jobsback"; and *Fightback! The Way to Rebuild and Reward Australia*, November 1991, referred to as "Fightback".
2. This is so, even with flexible exchange rates,. for two reasons:

In the short to medium term, an exchange rate determined largely by capital flows cannot be relied upon to provide appropriate adjustments;

Competitive gains sought through nominal currency depreciation may be eroded by the inflationary consequences of higher imported input costs.

3. For a coverage of these models see King (1980) especially Chapters 2 and 4.

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