

governments during the 1980s and early 1990s, few cuts are now possible without reducing service levels. The services targeted for cuts by the Howard government are not those where spending has been profligate. The cries of alarm raised by particularly badly affected parties, such as those in higher education, were very loud in the post-August 1996 Budget period, as well as before when the cuts were first mooted. Business lobby groups, the social welfare lobby and the arts community (including the ABC) joined higher education in its protest at Budget cuts. However, political clout with the government, as in the case of the diesel fuel excise rebate where lobbying by primary producers induced a government reversal on its decision to cut the rebate, counted for more than the principles of economic rationalism. Overall, the 1996–97 Budget intends reducing Commonwealth outlays relative to GDP from 27.2 per cent in 1995–96 to 25.4 per cent in 1997–98, the type of proportion which prevailed in the mid-1970s.

### Summary

The discussion above provides an introduction to the nature of the data required and, perhaps more importantly, a warning that solutions to such problems are often elusive. Despite this shortcoming, public expenditure analysis can be seen as both an important and an exciting part of the study of the Australian economy and society. After all, not only the incomes of a significant proportion of Australians but the civilisation of our country depends to a significant degree on the spending decisions made by its several governments.

### Recommended reading

- Commonwealth Budget Paper no. 1, *Budget Statements*, AGPS, Canberra. (Issued annually as part of the Budget.)  
 Evatt Foundation, 1996 *The State of Australia*, Sydney. (An annual overview of the Australian public sector.)  
 Groenewegen P, 1990, *Public Finance in Australia: Theory and Practice* third edition, Prentice-Hall, Sydney. (Chapters 2–5, 20)

## 9 The Accord, trade unions and the Australian labour market

*Roy Green, William Mitchell and Martin Watts*

Through the Accord I believe we have developed close unity of purpose. If we can continue that unity of purpose I believe the Accord will come to be seen as a milestone in our economic and political history. Never before in our history have the two arms of the Labor Movement been so closely related. Never before in our history have we had such need for each other.

Ralph Willis (1983)

There's a new government in town . . .

Peter Reith (1996)

This chapter looks at the Accord between the former Australian Labor Government and trade unions in the broader environment of macroeconomic, labour market and industrial relations developments. While the Accord does not lend itself to exact definition, partly because its objectives have changed over time, its fundamental character was clearly determined from the outset. The Accord was established in 1983 both as a formal expression of the historic relationship between the political and industrial wings of the Australian labour movement and as a new, more cooperative approach to economic management and policy formation.

Although the Accord began as a prescriptive document, it owes its success as a governing formula to the capacity of the Accord partners to accommodate, and even to anticipate, changing ideologies and circumstances. Initially, the Accord was devised as a macroeconomic instrument for the control of inflation in the context



of a demand-led recovery strategy. Previous attempts to deal with inflation had relied on the blunt weapon of unemployment to weaken trade unions and, in the process, to reduce pay pressures. The Accord, however, promoted voluntary agreement on wage restraint as part of a package of industrial policy measures, tax reform, and improvements in the 'social wage', including better health and social security provision. At its centre was the Australian Conciliation and Arbitration Commission (now the Industrial Relations Commission, or AIRC), which readily assumed the role of delivery mechanism for the agreement.

By the mid-1980s the focus of the Accord had begun to shift from macroeconomic policy, which had delivered relatively low inflation, record employment growth and a fall in industrial disputes, to 'microeconomic reform'. As a result, Australia's traditional system of centralised wage-fixing was gradually replaced by more decentralised enterprise and workplace bargaining, which was seen as a way of encouraging firms, trade unions and workers to address the economy's comparatively poor productivity performance. How was this major policy shift brought about? How was it meant to operate? What were its effects in practice? Is there any role in the new system for fairness and comparability in wage bargaining? These are some of the issues to be explored here.

We begin with a broad overview of the economy and labour market during the Accord period, providing a history and analysis of that period. We then trace the evolution of Australian wages policy, including the shift to enterprise bargaining and the prospects under a new Coalition Government, before continuing with an examination of the Accord in the context of key macroeconomic and labour market issues. Finally, we turn to the implications of the Accord for efficiency and equity at the workplace, briefly assessing the Accord and the proposed future direction of labour market reform in those terms.

#### Overview of the economy and the labour market

The Accord period was associated with strong employment and gross domestic product (GDP) growth from 1983/84 to 1989/90, negative growth during the recession, and then a strengthening recovery after 1993/94. For the period 1984/85 to 1994/95, Australia's total employment growth per annum averaged 2.19%, while the corresponding growth per annum for the OECD countries in total was 1.05%. For the 1984/85 to 1989/90 period of expansion, the Australian figure was 3.43% compared with 1.65% for the OECD. Over the recession of 1990/91 to 1994/95, Australia's

Table 9.1 A summary of major economic aggregates, 1980/81 to 1994/95

	Employment				Output per hour (index)	Private INV (%Δ)	Private CON. (%Δ)	Real wage			ANZ job index
	UR %	FT %Δ	PT %Δ	ALL %Δ				%Δ	RULC Index	index	
	1	2	3	4	5	6	7	8	9	10	11
1980/81	5.8	2.2	5.6	2.7	94.1	15.5	4.1	3.3	96.9	101.9	13.2
1981/82	6.1	1.2	1.3	1.2	96.1	13.2	4.1	3.6	100.4	103.6	-5.0
1982/83	9.3	-2.9	4.2	-1.7	96.8	-13.2	1.2	1.9	102.4	104.9	-42.4
1983/84	9.9	0.7	1.8	0.9	100.0	-1.3	2.4	-2.3	100.0	100.0	34.4
1984/85	8.8	2.5	5.5	3.0	102.6	13.5	3.9	1.2	101.2	99.3	32.5
1985/86	7.9	3.5	6.8	4.1	103.4	5.3	3.7	-1.6	99.6	98.4	33.2
1986/87	8.5	1.5	5.3	2.2	103.1	3.3	0.9	-1.5	98.1	98.1	-8.8
1987/88	7.8	2.4	5.8	3.0	104.0	12.5	3.9	-0.7	97.3	96.2	11.1
1988/89	6.6	3.7	5.7	4.1	104.4	11.3	4.6	0.1	97.4	94.2	24.3
1989/90	6.2	2.7	8.2	3.8	103.8	-0.9	4.5	0.6	98.1	95.2	-22.2
1990/91	8.4	-1.3	3.1	-0.4	104.7	-14.6	0.7	-0.2	97.9	95.8	-48.7
1991/92	10.4	-3.4	3.7	-1.9	107.6	-11.1	2.7	1.9	99.8	96.3	-19.6
1992/93	11.0	-0.8	2.5	0.0	110.3	2.2	2.7	2.5	102.2	95.9	6.8
1993/94	10.5	1.6	3.0	1.7	112.3	7.6	2.6	0.5	102.7	95.3	33.5
1994/95	8.9	3.2	6.6	4.0	113.0	20.9	5.1	0.2	102.9	95.1	29.2

Abbreviations: CON = Consumption, ANZ = Australian and New Zealand Bank; ALL = Total; INV = Investment; FT = full-time; PT = part-time; RULC = real unit labour costs; UR = unemployment rate.

Notes: Numbers refer to columns above.

- 1 Aggregate unemployment rate from ABS, Labour Force Australia, cat. no. 6203.0.
- 2-4 Annual change in employment: full-time, part-time, total from ABS, Labour Force Australia, cat. no. 6203.0.
- 5 Australian Treasury, Economic Round Up, various editions.
- 6 RBA *Bulletin*, Annual change in total private non-dwelling and equipment investment, 1989/90 prices.
- 7 RBA, Annual Change in Total Private Consumption Expenditure, 1989/90 prices.
- 8 RBA, Annual Change in Real Earnings Index, 1989/90 prices.
- 9 RBA, Real Earnings Index, 1989/90 prices.
- 10 RBA, Non-Farm Real Unit Labour Cost Index.
- 11 ANZ Bank job advertisement series, from Treasury of Australia, Economic Round Up.

employment growth was 0.70% per annum compared with the OECD outcome of 0.33%.

From Table 9.1, the business cycle swings over the 14-year period are clearly evident. The unemployment rate rose sharply in 1982/83 as the change in private investment in non-dwellings and equipment became negative, and the real wage showed strong growth with the breakdown of the centralised wage determination system and the 'mineral resources boom' rhetoric of the Fraser Government. With the election of the Hawke Government and a concerted growth in private and public spending, the labour market improved considerably, although the decline in the unemployment rate was slow. Total employment growth was strong, with part-time



employment growth outstripping full-time employment growth. During the period 1983/84 to 1989/90 investment growth was strong, real wages were falling or static, and productivity growth was moderately strong.

Apart from the minor interruption to these trends by the sharp terms of trade decline in the mid-1980s, Australia experienced above-average OECD employment growth. Unfortunately, the combination of the strong domestic spending growth (Table 9.1, col 6 and 7) of the second half of the 1980s and the terms of trade problems, which had an impact on export income, led to a severe current account deficit which was met with sharp rises in interest rates as the government tightened monetary policy. The recession, which really began in the second half of 1990, was a consequence of maintaining the high interest rate regimen for too long. The unemployment rate rose sharply as investment and employment growth became negative. Private consumption demand became subdued.

Since 1992/93, with the strengthening of investment and private consumption growth, employment prospects have again improved. The data for the entire period suggest that demand conditions and employment growth are strongly related. However, they do not provide any unambiguous relationship between real wage movements, real unit labour costs (RULC) and employment. A key feature of the entire period has been the behaviour of the unemployment rate, which appears to move in an asymmetrical fashion, rising quickly when demand conditions are restrained and then falling slowly some time after employment growth has resumed in earnest. We discuss this behaviour in the section on the *non-accelerating inflation rate of unemployment* (NAIRU).

Figure 9.1 shows the movements between three interrelated macroeconomic variables: real average weekly earnings, labour productivity, and non-farm RULCs. The link between the three series arises because RULCs are the ratio of the real wage to labour productivity.<sup>1</sup> The data show that the period of the Accord has coincided with a rising labour productivity trend. Two cyclical downturns are evident, which coincide with the slowdown in the mid-1980s and the early 1990s recession. The three noticeable segments of labour productivity growth over the Accord period broadly coincide with the three distinct phases of wage-setting under the Accord described above. There does not seem to be any clear evidence that the more recent 'flexible' labour market arrangements for wage-setting deliver stronger productivity growth than the relatively 'rigid' period of full indexation. It is more likely that productivity growth is heavily influenced by the rate of investment

Figure 9.1 Labour cost and productivity index movements, 1983-94



Source: Reserve Bank *Bulletin*, various issues. Labour productivity = GDP per person; Real earnings = average weekly earnings; RULC = real unit labour costs.

growth, which maps the movement of labour productivity closely over this period (Table 9.1).

Real unit labour costs have fallen over the entire period due initially to both falling real earnings and growing labour productivity, and since 1988 due to labour productivity growing faster than real earnings. The Accord period was associated with a continuing shift in real income to the profit share.

#### Workplace bargaining

In Accord mark V, the process of award restructuring was continued, with an increasing emphasis in the February and August 1989 national wage decisions on the implementation of the new award framework at the workplace, including 'minimum rates adjustments' for low-paid workers. (It also encompassed another wage-tax trade-off, which had become a regular feature of Accord negotiations.) However, Accord mark VI, agreed just prior to the 1990 election, was the occasion for the ACTU and Federal Government to call the Business Council of Australia's (BCA) bluff and register a more fundamental break with centralised wage-fixing. This agreement stated that 'the no extra claims commitment in Minimum Rates Awards needs to be varied to provide the opportunity for claims based on achieved increases in productivity . . .' (Australian Gov-



Table 9.2 Accord wages policy

Year	Accord stage	wage principles	wage decisions
1983	Mark I	full indexation	4.3% 4.1%
1984		full indexation	deferred 2.6%
1985	Mark II	partial indexation	3.8% 2.3%
1987	Mark III	restructuring and efficiency principle	\$10 (1st tier) 4.0% (2nd tier)
1988	Mark IV	structural efficiency principle	3.0% \$10
1989	Mark V	structural efficiency principle	\$20-30 (2 instalments)
1991		structural efficiency principle	2.5%
	Mark VI	enterprise bargaining principle	(no wage limit)
1993	Mark VII	enterprise awards principle	(no wage limit)
		safety net adjustment	\$8
1994		safety net adjustment	\$24 (3 instalments)

ernment/ACTU 1990, p. 5). In other words, it was prepared to embrace enterprise bargaining and dispense finally with formal pay limits, while retaining awards as a 'safety net'. The problem for the Accord partners was that, after much deliberation, the AIRC refused in its decision of April 1991 to be persuaded of the merits of the proposal. It shared the view of the Metal Trades Industry Association (MTIA) that the award restructuring agenda was by no means exhausted, and that the evidence so far suggested that the parties still lacked the 'maturity' to take full advantage of any immediate shift to enterprise bargaining (AIRC 1991a, p. 38).

After much heated controversy, the AIRC reversed its decision in a further national wage case in October, by which time rising unemployment had allayed fears that enterprise bargaining might release uncontrollable wage pressures. Under a new *enterprise bargaining principle* the parties would have to satisfy the Commission that a number of criteria had been met, including the 'actual implementation of efficiency measures designed to effect real gains in productivity' (AIRC 1991b, p. 16). With this decision, Australia entered the era of fully decentralised bargaining—although *not* deregulated bargaining, given the clear scope for involvement by tribunals and trade unions. However, the slow progress of enterprise negotiations convinced the government to further amend its industrial relations legislation in 1992, replacing the public interest test

for certified agreements with a 'no-disadvantage' test. The effect was substantially to remove such agreements from the scrutiny of tribunals except to the extent required to ensure no disadvantage in relation to existing awards and agreements, and hence to step up the pace of bargaining and the numbers of employees covered by federally registered agreements.

The Accord mark VII agreement of 1993, *Putting Jobs First*, again concluded in the run-up to a federal election, was the most comprehensive and detailed since the original Accord document a decade earlier. As in 1983 the central challenge was to promote recovery from a deep recession, and the latest Accord sought to meet this challenge with a commitment to 'a minimum 500,000 net additional jobs over three years' while 'maintaining an inflation rate comparable with those of our main trading partners' (Australian Government/ACTU 1993, pp. 1, 5). By contrast with the 1983 document, these employment and inflation objectives were to be delivered not with formal national pay limits or guidelines but with the continued 'devolution of wage fixation' and further development of productivity-based workplace bargaining.<sup>2</sup> In addition, the equity aspects of the Accord would be pursued through 'access to arbitrated safety net award adjustments', 'increasing equity in pay and conditions of employment for women workers', 'measures designed to assist workers with family responsibilities' and 'further improvements in the social wage, including substantial tax cuts, child care improvements [and] education and training'. Yet wages and budgetary policies were to prove less controversial, following Labor's fifth successive election victory, than the reform of industrial relations legislation.

In April 1993 Prime Minister Keating announced his intention (i) to 'extend the coverage of [enterprise] agreements from being add-ons to awards . . . to being full substitutes for awards' (Keating 1993, p. 12), and (ii) to provide formal access to agreements for the non-union sector. This came as a shock to the union movement, now less than 40% of the workforce, which had campaigned strongly for the government's re-election. Ultimately, after considerable debate, the *Industrial Relations Reform Act 1994* reinforced Australia's commitment to a relevant and secure award system, but created a new channel of *enterprise flexibility agreements* (EFAs) for non-union workplaces. The Act also implemented a number of international labour conventions on minimum wages, equal pay, unfair dismissal and parental leave, and provided workers for the first time in Australia with a legal, but heavily circumscribed, right to strike (Green 1994). On its own terms, Accord mark VII was a success. The employment target of 500 000 new jobs was achieved within two years (although many were part-time), inflation rose and



Table 9.3 Survey evidence on enterprise bargaining agreements

Issues	Impact on employees* (last 12 months)		
	Higher (%)	No change (%)	Lower (%)
Work effort	57	38	4
Range of tasks performed	64	32	5
Amount of stress in job	59	35	5
Opportunities for promotion	15	56	28
Ability to influence hours	16	70	13
Work/family balance	13	60	28
Use of full range of skills	34	45	21
Say in decisions	23	57	19
Job security	12	57	31
Satisfaction with job	27	38	35
Satisfaction with management	14	44	42

Source: DIR Workplace Bargaining survey 1995.

Note: \*Responses from 11 000 employees across industries and services.

then stabilised to just over 5%, and labour productivity, after stagnating in the 1980s, showed signs of a sustained upswing from 1991 (Green 1996; Hughes 1994; Lowe 1995). Yet survey evidence also suggested that while in some cases enterprise agreements facilitated the introduction of 'best practice' management and work organisation, in others they led to work intensification, de-skilling, job insecurity and personal stress (Table 9.3).

#### *End of the Accord*

Accord mark VIII, *Sustaining Growth, Low Inflation and Fairness*, was released in June 1995 in the most favourable economic circumstances for the government in years. The economic recovery was continuing, job growth was among the fastest in the OECD, long-term unemployment was falling, partly as a result of labour market programs, 4500 enterprise agreements had been ratified (covering 60% of the federal award workforce), and a series of safety-net adjustments awarded by the AIRC in October 1993 and September 1994 were taking effect for workers unable to conclude agreements.

While the warning note sounded by the Commission in its 1993 decision had largely been heeded, it pointed up an ever-present danger in the new wage-fixing system (AIRC 1993, p. 14):

The award system that currently exists is arguably based on considerations of equity and the public interest. Any enterprise bargaining system must, of its very nature, lead to differing outcomes. In our view, the only way that they can be reconciled is if within the award system there are awards which provide equitable minimum standards of wage rates and ultimately conditions upon which enterprise bargaining is anchored. To that

extent, the two can be complementary. But the stability and viability of those awards can be undermined if the disparate outcomes of enterprise bargaining flow back into them.

A further danger was highlighted by the dispute over individual contracts at CRA's Weipa operation in late 1995. While the spread of EFAs themselves, which were subject to the no-disadvantage test, was limited, the signal received by employers was that union avoidance was now an acceptable workforce strategy. This signal was reinforced by the failure of many unions to adapt effectively to the new bargaining environment, having been reliant in the past on union preference clauses and arbitrated wage settlements. The Commission ruled against blatant discrimination by the company against its award workers, but recognised that individual contracts were now a legitimate component of the industrial relations system. The Accord mark VIII agreement committed the government to an ambitious employment target of 600 000 additional jobs by 1999, together with an unemployment rate of 5%, as foreshadowed in the 'Working nation' statement of May 1994, and an underlying inflation rate of 2%–3% 'on average over the cycle' (Australian Government/ACTU 1995, p. 2). However, it was indicative of the concerns of the Accord partners that most of the agreement was taken up with discussion of the shape of the new bargaining system. In sum, the main source of future wage increases would be workplace agreements, including through industry 'framework agreements', and comparability pressures would be accommodated through regular safety-net adjustments and award reviews.

The defeat of the government in the March 1996 election reflected, among other things, the discomfort of Labor's traditional supporters with the pace of change and its personal impact. It was not the government that suffered from 'reform fatigue', as some business groups had claimed, but ordinary Australians in the workplace. Returning to the evidence in Table 9.3, the widespread disaffection with management had spilled over to unions to the extent that they secured cooperation in change, and ultimately to the government itself, as the Accord was seen, rightly or not, as the source of the problem. The opposition parties had meanwhile replaced their unpopular industrial relations policy of the previous election with a more 'gradualist' version. Instead of abolishing the award system, the opposition now declared a commitment to retain it, and instead of providing employers with the opportunity to cut wages they pledged that 'no worker would be worse off' under the policy of a Coalition Government. However, they also made clear their determination to reduce the role of trade unions in wage bargaining through a new *Australian workplace agreements* (AWA)



system, which would remove non-union agreements from the jurisdiction of the AIRC. In its place, an employment advocate would be established—not to apply a no-disadvantage test to these agreements, as the AIRC is required to do under the 1993 Act, but to pursue any individual employee grievances in the courts.

Once elected, the Coalition Government lost no time in releasing a new discussion paper, 'The reform of workplace relations' (1996). This paper, while continuing to support safety-net adjustments through the AIRC, also indicated an intention to strip down awards to minimum rates of pay and a set of 'core' conditions, as well as to place additional legislative restrictions on union activity, including the right to strike. This may adversely affect those workers currently on paid rates awards, and it could 'lower the hurdle' for the no-disadvantage test as it applies to certified agreements with unions. It also begs the question of the extent to which awards and unions are real impediments to flexibility in Australian workplaces, or are impediments only in the imagined world of market orthodoxy. In a recent DIR survey of enterprise bargaining, less than 3% of managers cited union resistance as causing difficulty in the design or implementation of agreements (DIR 1995); earlier surveys had already demonstrated the preference of small business for award regulation (Isaac 1993) and, more generally, the scope for flexibility in the award system itself (Green & Macdonald 1992). We can only speculate at this stage how Coalition policies will affect wages growth, but it seems likely that strongly organised groups in the workforce will take the opportunity to lodge higher claims while less-well-placed groups, including many women workers, will have to be content with minimal safety-net increases.

The Reserve Bank Governor moved swiftly to make public the mounting concern in financial markets about the prospect of excessive pay rises, and indicated that, in the absence of an Accord agreement with the unions, monetary policy would return to centre stage as the instrument to enforce restraint. Yet this concern may be exaggerated, given fundamental changes in the environment affecting wage determination in Australia. First, the decentralisation of bargaining has shifted the emphasis from the traditional system of 'comparative wage justice', whereby the AIRC awarded 'flow-on' increases according to historically established relativities, to one based on the individual employer's capacity to pay. Second, this capacity has been influenced in turn by tariff reductions and micro-economic reform generally, which has exposed firms, and hence pay settlements, to more competitive product markets. Finally, firms have the option of transferring production offshore to lower-cost labour markets, either as a complete operation or through 'outsourcing' labour-intensive processes, although this may cut across high-skill,

high-productivity strategies. On the other hand, these moderating factors may be offset by a desire to test the new environment, especially with growth in executive salaries far exceeding the rise in average earnings. With higher interest rates on the horizon, economic commentator Ross Gittins predicts that 'the day may come when we regret the demise of the Accord and wish we'd valued it more when we had it' (Gittins 1996).

### Macroeconomics of the labour market

We can view the Accord in the context of three major macroeconomic issues of the 1980s and 1990s: the concept of the real wage overhang; the trade-off between inflation and unemployment; and the concept of the NAIRU. The Accord was built on a model of the labour market far removed from the textbook neoclassical account of market clearing, individualistic wage bargaining. Underlying the Accord was a view that wage-setting and employment decisions occurred in an environment of large-scale corporatism, with power being held by large trade union blocs, large companies being represented by employer associations, and an interventionist government which had pursued social democratic policies to different degrees over the post-World War II period.

With inflation and unemployment both near 10% by the time the Hawke Government took power, the imperative, as indicated above, was to increase demand and employment in the economy while keeping control over nominal wages growth, as an essential precondition for controlling inflation. So the first aim of the Accord was to serve as an anti-inflation tool to give the economy more room to grow, and thus to reduce the unacceptably high unemployment rate.

However, a second major role was specified for the Accord. During the 1970s the distribution of income shifted sharply in favour of the wages share. At the same time, unemployment rose and this was attributed to the distributional shift. The concept of the real wage overhang was used to describe a situation where real wages growth outstripped labour productivity growth (an essential element of the increasing wage share). The real wage overhang concept had its roots in the simple marginal productivity model of labour demand that prevailed in the orthodox neoclassical labour market model. Accordingly, it was argued that the overhang, measured crudely by the concept developed by the Australian Treasury during the 1970s, the RULC, had to be redressed to encourage a faster growth rate of private capital formation. The latter was seen as being essential to providing the demand conditions necessary to reduce the unemployment rate, but also to redirect resources into



export-oriented industries which would form the basis of a new internationally oriented economy. Behind this reasoning was the ever-present fear that any growth phase would be stalled by current account problems. The stop-go nature of Australian economic development was sourced in the failure of the economy to become export-oriented. The Accord, thus, was also seen as an integral aspect of this process of modernisation.

#### *Factor share movements and the Accord*

Table 9.4 shows the movements in factor shares in Australia. The data are taken from the ABS, Australian National Accounts. The respective shares were calculated by subtracting from GDP the sum of the *gross operating surplus* of public enterprises and financial enterprises, the imputed bank service charge, and the gross operating surplus from dwelling owners. The wage share numerator is the National Accounts-based wages, salaries and supplements; the corporate share numerator is the gross operating surplus of incorporated trading enterprises; and the unincorporated numerator is the corresponding gross operating surplus for non-corporate enterprises.

The wage share shows distinct counter-cyclical patterns over the entire period as well as a modest long-term rising trend up to the beginning of the Accord. Two notable rises occurred, in the mid-1970s and in 1982/83. Over the Accord period, the wage share showed a downward trend until the strength of the 1990s recession countered it.

The correlation between the rising wage share and rising unemployment in the 1970s and the early 1980s seemed to conform with the predictions of neoclassical employment theory. King (1990, p.168) says that:

Many neoclassical economists argue that this is what occurred in the mid-1970s, and again in 1980-82. In both cases, it is suggested, trade union wage pressure led to a reduced profit share, lower investment and increased unemployment, making the elimination of this so-called *real wage overhang* the chief target of macroeconomic policy.

The 'real wage overhang' debate dominated labour market discourse in the 1970s, polarising the economics profession and leaving little common ground (Covick 1984; Gruen 1978). At one end of the divide stood the 'neoclassical' economists, who held that real wages growth in excess of labour productivity growth created an overhang which resulted in unemployment. Yet, using this logic, it was hard to explain how an overhang could persist, given that the unemploy-

**Table 9.4 Shares of national income: Australia, 1959/60 to 1994/95 (%)**

	Wage share of GDP	Corporate share of GDP	Unincorporated share of GDP
1959/60	0.52	0.14	0.21
1960/61	0.53	0.14	0.21
1961/62	0.54	0.14	0.20
1962/63	0.53	0.15	0.20
1963/64	0.52	0.15	0.21
1964/65	0.53	0.15	0.20
1965/66	0.55	0.15	0.18
1966/67	0.54	0.15	0.19
1967/68	0.56	0.16	0.16
1968/69	0.55	0.16	0.17
1969/70	0.56	0.17	0.15
1970/71	0.58	0.16	0.14
1971/72	0.58	0.15	0.14
1972/73	0.57	0.16	0.15
1973/74	0.58	0.14	0.16
1974/75	0.61	0.13	0.14
1975/76	0.60	0.13	0.14
1976/77	0.59	0.13	0.14
1977/78	0.60	0.13	0.14
1978/79	0.57	0.13	0.16
1979/80	0.56	0.14	0.15
1980/81	0.57	0.14	0.14
1981/82	0.59	0.14	0.13
1982/83	0.60	0.13	0.11
1983/84	0.56	0.16	0.13
1984/85	0.56	0.17	0.12
1985/86	0.56	0.16	0.12
1986/87	0.56	0.16	0.12
1987/88	0.55	0.17	0.13
1988/89	0.54	0.17	0.13
1989/90	0.55	0.17	0.13
1990/91	0.57	0.16	0.12
1991/92	0.57	0.16	0.12
1992/93	0.57	0.16	0.12
1993/94	0.56	0.17	0.12
1994/95	0.55	0.17	0.12

Source: ABS National Accounts, various editions.

Note: Definitions are explained in the text.

ment would increase the (marginal) productivity of the existing employed labour force to match the higher than 'full employment' real wage.

At the other end stood the non-neoclassical economists, who held that the marginal productivity link between the real wage and employment was flawed and, particularly, failed to account for the role of aggregate demand. The latter, it was argued, could simultaneously create unemployment due to a deficiency of sales volume, and the real wage overhang (measured as a rise in the wage share)



due to the pro-cyclical nature of productivity (the denominator in the real wage overhang measure).

The Accord was conceived, therefore, as part of the prevailing overhang logic, and clearly aimed to redistribute or realign factor shares so that they might resemble 1960s levels. The 1960s period of low inflation and low unemployment and steady GDP growth was seen as the benchmark for economic wellbeing, despite the fact that supply conditions in the world economy, principally as a result of the oil shocks, had changed irrevocably. According to Chapman (1990, p. 33):

The 'real wage overhang' argument of the 1970s has all but disappeared with the overhang itself, the debating points probably not going to either of the extreme positions. As well, there is an emerging consensus that, at least in the Australian institutional environment, an incomes policy has the potential to deliver propitious aggregate, but not necessarily microeconomic, labour market outcomes.

In the distributional sense, the Accord was spectacularly successful, especially in the early years when the wage share fell sharply throughout the period of rapid employment expansion. The rise again in the early 1990s was recession-driven. The fact that employment growth and falling wage share were correlated gave strength to the real wage overhang arguments. However, as Table 9.1 shows, the picture is far from straightforward. Real wages fell over most of the Accord period, while productivity has largely risen. Combined, the result has been a declining wage share (or RULC). Employment change has exhibited three phases: strong growth, sharp decline, and strong growth again; but over this period the cycles in investment and private consumption spending have closely matched the phases of employment growth.

#### *The Phillips curve perspective*

In 1972 Australia's inflation rate was 6.2%, but after the first OPEC oil shock in 1974 and aided by some large wage rises, the inflation rate reached 15.4% in 1974 and 17% in 1975. By the end of the 1970s, despite a period of subdued activity and rising unemployment, the inflation rate was still high in relation to our trading partners, at 9.2%. The wage rises that followed the breakdown of the period of wage indexation pushed the inflation rate, once again, above 10.4%, and provided a background for the introduction of the Accord in 1983. At that time, the unemployment and the inflation rates were at around 10% due to the sluggish economy.

In order to understand some of the early Accord design we have

to relate it to the concept of an inflation and unemployment trade-off, popularly called the Phillips curve. The Phillips curve (the relationship between unemployment and inflation) was an integral part of explaining how the economy reacted to changes in aggregate demand along with Okun's Law (the relationship between output and unemployment discussed in Chapter 4). As unemployment declined, according to the Phillips curve, inflation rose. Thus, the two relationships can be combined to yield a relationship between changes in the output gap and movements in inflation.<sup>3</sup>

The Phillips relationship was quickly absorbed into conventional macroeconomic theory because it provided a simplistic dynamic explanation of price changes in terms of the level of activity in the economy. Prior to this development, inflation and unemployment were largely considered to be dichotomous states, a perspective at odds with the observed data.

The problem was that the Phillips curve was 'an empirical generalisation in search of a theory' (Tobin 1972). Lipsey explained the Phillips curve using simple excess demand theory, where unemployment was the inverse and empirically observable manifestation of excess demand, which in turn led to an increase in the speed of money wage changes (Lipsey 1960). By the late 1960s, the theory sat uncomfortably with the observed relationship between unemployment and inflation. The data appeared to be in two distinct sets—a cluster of observations that seemed to concur with the Phillips-Lipsey relationship, and a cluster to the right of the former which seemed to indicate that the Phillips curve had shifted in favour of higher unemployment rates for each inflation rate. It was this lack of empirical correspondence that led to the next major theoretical development: the Friedman-Phelps *expectations-augmented Phillips curve* (EAPC) (Friedman 1968; Phelps 1967).

The EAPC was based on the idea that wage inflation (or price inflation) could change without any need for the state of excess demand to change. Accordingly it was argued that, while nominal wage bargains are made between employers and workers, the underlying demands and offers reflect real wage outcomes. Thus workers and firms have to form expectations of the price level that will prevail over the entire course of the contract: if workers expect the rate of inflation to rise over the period of the contract they will, other things being equal, demand a rise in nominal wages in line with their target or desired real wage.

The expectations aspect of the theory introduced a new dynamic element, because an inflationary period tends to generate expectations of inflation which then feed back into even higher inflation rates with unchanged demand conditions. The EAPC seemed to explain the apparent breakdown in the relationship between infla-



tion and unemployment in the late 1960s and early 1970s around the world. It seemed that higher inflation rates became associated with rising unemployment rates, thus clouding the notion of a stable trade-off. One explanation was that the Phillips curve shifted outwards as expectations of inflation became entrenched and drove the wage-price spiral. By the time the Accord was introduced Australia had experienced several supply-side shocks, beginning with the rural commodity price rises in 1973, followed by the first OPEC oil price hike in late 1973, and later another oil shock in 1978/79. This experience had revealed the inflationary bias in Western economies, with large power blocs in the economy concerned with protecting their respective real income shares.

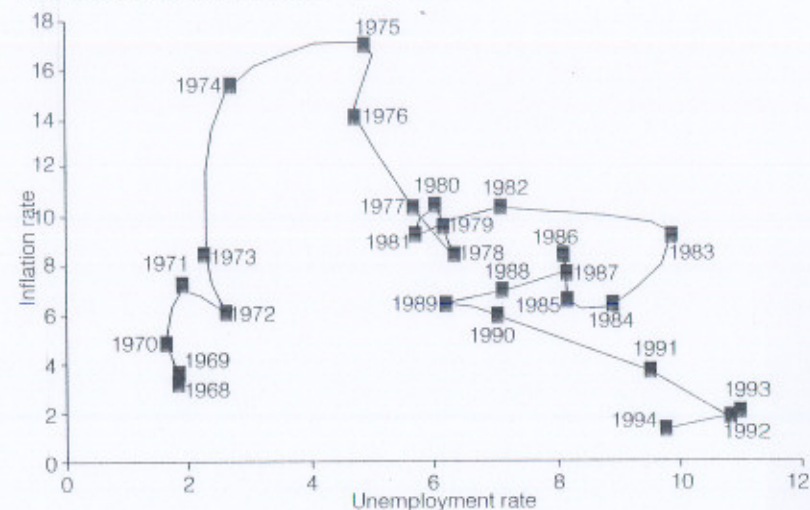
The previous period of incomes policy in Australia had begun in April 1975 as part of an anti-inflation strategy, with average weekly earnings rising by 28% in 1974. The shift in factor shares away from profits was unprecedented. The period of indexation was finally concluded in July 1981, under pressure from the Fraser Government to liberalise industrial relations and a realisation by the Arbitration Commission that it could no longer keep wage outcomes under its control. After indexation collapsed, several large wage bargains were successfully negotiated which put paid to the claim by the Fraser Government that a return to collective bargaining would moderate inflation.

For Australia, the experience of the 1970s seemed to mimic the Friedman-Phelps story. Inflation, then stagflation (simultaneous rising prices and unemployment), led to the Fraser Government adopting the deflationary policy suggested by the EAPC model, which was the flavour of the times in the USA, the UK, Canada and many other industrialised countries. The basis of the policy was that inflation was due to an excessive demand, which was being accommodated by an excessive money supply growth. The data are also consistent with an entirely different account of stagflation based on the conflict theory of inflation (Rowthorn 1977). Accordingly, the cost shock induced by the OPEC oil price hikes led to a distributional struggle between wage and profit recipients over who should bear the real costs of the oil price rises. The resulting wage-price spiral took on a life of its own and persisted, even though sharp contractions in aggregate demand were pushing unemployment up.

For the period 1975/76 to 1981/82, the budget deficit was cut dramatically and targets were announced for money supply growth. In terms of the data, the Phillips curve appeared to remain stable until 1982.

Figure 9.2 shows the Australian Phillips curve for the period 1968-94. It is broadly possible to fit two Phillips curves, the first

Figure 9.2 Australian Phillips curve, 1968-94



coinciding with the period up to around 1975, and the second representing the data points after that time—excluding 1983, which appears to be an outlier. The observation for 1983 suggests that, following the rapid rise in wages in 1982/83 and the rising unemployment and inflation that accompanied the wages explosion, the Phillips curve was undergoing a second shift outwards. The Accord largely prevented that shift from occurring and allowed the economy to grow without further wages outbreaks.

The consensual approach to wage determination that marked the Accord period was clearly associated with reductions in unemployment and inflation. For evidence that the Accord was effective in controlling wages growth and inflation, see Mitchell (1987a; 1996) and Watts and Mitchell (1990a). However, from Figure 9.2 it can be seen that, while the Phillips curve was moved leftwards by the introduction of the Accord, the cost has been in terms of a flatter Phillips curve. The flatter curve suggests that the trade-off between inflation and unemployment is now less favourable because reductions in inflation now appear to be more costly in terms of rising unemployment.

Table 9.5 gives the data for the unemployment rate and the annual inflation rate over the Accord period. Even though the Accord was responsible for rather sharp declines in the annual growth rate of average weekly earnings, the annual inflation rate persisted at relatively high levels throughout the 1980s. In part, this is because the Accord was never an incomes policy in the general



Table 9.5 Annual inflation and unemployment rates, 1982-94 (%)

	Unemployment rate	Annual price inflation	Annual growth in average earnings
1982	7.1	10.4	16.2
1983	9.9	9.3	5.5
1984	8.9	6.4	8.1
1985	8.2	6.7	5.8
1986	8.1	8.5	7.1
1987	8.2	7.8	5.8
1988	7.1	7.0	6.7
1989	6.2	6.6	7.2
1990	7.0	6.0	6.9
1991	9.5	3.7	3.7
1992	10.8	1.8	3.9
1993	11.0	2.1	4.3
1994	9.8	1.4	1.6

Source: RBA Bulletin.

sense of the word but rather a wages policy. It certainly controlled the aggregate wages outcome throughout its history. The rate of price inflation really only dropped as the recession choked off product market opportunities in the early 1990s and strongly reasserted the Phillips curve dynamics.

We can conclude that, while the Accord moderated inflation due to its impact on wage outcomes, it did not bring about a low inflation regimen. The latter occurred in response to the harsh recession in 1990. This suggests that the combination of a successful labour cost policy and a lengthy period of buoyant product market conditions allowed business firms to reap strong profit margins, and this corresponded with record profit levels in the second half of the 1980s. The Accord did not successfully deliver a low inflation regimen to Australia precisely because it was only partial in its application. The Accord may have broken the workers' expectations of high inflation, but ultimately only the high-cost strategy of over 10% unemployment hardened the product market and the profit push by the business sector.

#### *The Accord and the NAIRU*

A central part of the EAPC account of the shift in the Phillips curve in the 1970s is the *natural rate (of unemployment) hypothesis* (NRH). The natural rate of unemployment is a concept grounded in perfect competitive labour market theory and is the level of unemployment at which the real wage is fully anticipated and the labour market is cleared, which is also the only unemployment rate consistent with stable inflation. With no intervention from the public sector in the form of demand expansion, designed to reduce the

unemployment rate, the economy will according to the NRH converge on the natural level of activity and sustain a natural rate of unemployment.

The link between the natural rate of unemployment and stable inflation is more explicitly captured in the term *non-accelerating inflation rate of unemployment* (NAIRU), which is a broader term than the natural rate of unemployment because it recognises that structural rigidities can be present in the labour market. Accordingly, the NAIRU can rise if structural imbalances worsen. The NAIRU is the sum of frictional and structural unemployment. *Frictional unemployment* exists when there are appropriate vacancies available at the same location as the unemployed. It arises due to the constant movement across labour force categories as people retire, leave school, or seek new job opportunities. It takes time for employers and workers to find each other; in the interregnum, some unemployment always exists. *Structural unemployment*, however, presents the economy with a problem. It arises when changes in product demand or industry output generate vacancies in different skills or in different locations from the skills or locations of the unemployed workers. Economists say this is a mismatch between labour demand and labour supply. The solution, according to the traditional view of structural unemployment, is either retraining or relocation, or both.

When total unemployment equals the NAIRU it is claimed that the labour market is in equilibrium and there is no pressure on wages or prices. If policy-makers tried to reduce the unemployment rate below this level there would be upward pressure on wages. This might occur because employers, perceiving higher sales potential, were prepared to pay higher wages to overcome the labour market bottle-neck due to the mismatch. The orthodox NAIRU model thus considers unemployment to be cyclically insensitive and therefore not amenable to aggregate demand manipulation.

A study of Figure 9.2 suggests a NAIRU of around 2% in the 1960s to early 1970s, and then a higher rate in the 1970s to 1980s. Some reasons suggested in the literature for this rise in the NAIRU are:

- excessive unemployment and other social transfers, distorting the choice between labour and leisure;
- a rise in the female labour force participation rate, leading to higher representation in the labour force of groups with a higher unemployment rate;
- excessive minimum wage rates promoted by trade unions and government.

There has been little evidence presented to substantiate these effects in any economy in the world. They are largely predictions which emerge from the orthodox competitive model and lack empir-



ical substance. In contrast to the orthodox NAIRU model, the *hysteresis hypothesis* posits that persistent low activity and high unemployment in turn create structural imbalances (Mitchell 1987a). In other words, hysteresis implies that NAIRU may follow, or track, the actual unemployment rate. The factors leading to this hysteresis (or tracking) include the observations that long-term unemployment promotes skill losses, changes attitudes towards state dependence, and generates a pool of people who become detached from the labour market. At the same time, employed workers who are 'inside' firms make wage bargains with firms without regard to any threat from the long-term unemployed (Carlin & Soskice 1990, Ch. 19, for an introduction). The first Australian study was conducted by Mitchell (1987a) and established the presence of hysteresis in the unemployment rate. Mitchell (1987b) also examined the question of structural shifts in the unemployment rate, concluding that the underlying full employment rate had risen to perhaps 3%. Orthodox commentators had suggested that the NAIRU was around 8% (Sloan & Wooden 1987); however, the exact level of the NAIRU defies precise measurement.

The Accord was clearly associated with a change in the relationship between inflation and unemployment, as Figure 9.2 reveals. It provided policy-makers with more room to use non-inflationary expansion. In the period 1983-89 the unemployment rate fell, as did long-term unemployment. Whatever the level of the NAIRU, the increased training opportunities provided both by the firms seeking labour to satisfy the expanding sales and by government allowed previously structurally unemployed workers to resume employment as part of the cyclical upswing. This is precisely what the hysteresis hypothesis would predict. The recession in 1990 probably reversed much of the benefits gained in the first seven years of the Labor Government.

The problem facing the economy without the Accord and with high levels of long-term unemployment is how to create room to reduce unemployment without promoting rising inflation and interest rates. The orthodox approach to inflation is to hold unemployment high. If high unemployment persists, the NAIRU will rise, which will make it subsequently harder to expand. The Accord was a successful wedge between the growth in the real economy and changes in the nominal economy. The new government has the challenge of producing a similar wedge without the Accord.

#### Equity and efficiency

An important consideration in the design of an industrial relations system is whether it promotes equitable and efficient labour market

outcomes. Here we examine the theoretical issues involved in discussions of these concepts before applying them in the examination of recent trends in the Australian economy. Equity requires implementation of equal pay for work of equal value, and equality of access to education and training, all employment, skill-based wages and career paths, overtime and overawards, union membership and participation, and consultative mechanisms in the workplace (DIR 1992, p. 2). A (gender-) biased wages system not only promotes economic inequality but distorts occupational choices for all workers and the selection of employees by employers, thereby undermining economic efficiency. Restrictions on occupational choice and the allocation of labour have an adverse effect on the national skills base and reduce productivity (DIR 1992, p. 2).<sup>4</sup>

#### *Theoretical issues in equity*

Enterprise bargaining has been criticised by some for its potential to generate inequitable outcomes with respect to wages, hours of work and conditions of employment. Other writers argue that, subject to safeguards, enterprise bargaining provides real opportunities for women to improve their pay, career paths, working conditions, skills, long-term job security, the ability to balance work and family commitments, and job satisfaction.

The current AIRC president argues that the *Industrial Relations Reform Act* was designed to achieve equality and freedom from discrimination in employment under enterprise bargaining through a number of provisions, including: the *Award safety net* and the opportunity to review awards on a three-year basis (the section 150A review process); the 'no-disadvantage' test and the fact that all employees have been adequately informed and consulted prior to the certification of agreements; and the capacity of the Commission to reject enterprise flexibility agreements on 'public interest' grounds (O'Connor 1994). She also cites the minimum entitlements based on international conventions in the reform legislation which cover equal remuneration for work of equal value, employment termination, and family and parental leave. Further, *minimum rates adjustment* (MRA) enables the re-evaluation of pay relativities on the basis of the skill, responsibilities and conditions under which work is performed, which could establish fair relativities with respect to minimum rates of pay by comparing of jobs within and between awards against key benchmark classifications in the metals and building industries. MRA should be of particular benefit to women who typically receive little or no overaward pay (DIR 1991, p. 2). Other writers emphasise women's weak bargaining power:



- Women tend to be concentrated in industries where productivity is difficult to measure, in particular the service sector occupations, which include nursing, teaching, librarianship, clerical and community service work (Green 1992).
- Women have a higher incidence of part-time and casual employment, which in the past has left them outside decision-making processes. Women perform more outwork and piecework and are segregated in low-paying occupations and industries and smaller workplaces, in which they have little industrial muscle. Women have fewer work-related benefits than men, and so are less able to trade off benefits if some are collapsed into higher pay (National Pay Equity Coalition 1990, p. 12).
- Women have lower levels of unionisation and less decision-making power in unions. Due to child-rearing responsibilities they have discontinuous career paths and constrained working arrangements, which militate against their attainment of senior positions within unions.
- Women's skills have historically been undervalued, which may affect bargaining outcomes.

Changes to the industrial relations legislation signalled by the new government are likely to further undermine the position of groups with weak bargaining power.

Bennett (1994, p. 205–10) also challenges the claim by O'Connor that the problems associated with decentralised regimens (and individualised regimens under state legislation in Victoria and Tasmania), which are becoming increasingly deregulated, can be dealt with through antidiscrimination or other equity legislation. Such external legislation is conditioned by industrial, economic and social factors. For example, despite comparable-worth legislation in the USA, women have relatively low rates of pay in an industrial system that encourages wide pay variation. Bennett notes that, in the USA, equity is not built on labour law but is achieved by external measures, such as equal employment opportunity (EEO) and anti-discrimination legislation. This approach does not overcome the structural difficulties faced by women.

EEO legislation is focused on intra-firm equity. Bennett (1994, p. 207) cites the Australian Workplace Industrial Relations Survey, which reveals that gender differentials are most pronounced *between* industries and between workplaces in an industry rather than *intra-firm*. If a coherent award system is replaced by enterprise bargaining, there is greater scope for pay rates to vary across workplaces in which workers are undertaking similar tasks. There is even less likelihood that comparable worth can be achieved across workplaces, particularly in light of the Commission's reluctance to pursue

it in the past.<sup>5</sup> Bennett also points to the inherent problems associated with complaints-based legislation, in particular when the complainant is a woman in precarious employment and not a union that is a party to the agreement (Riach & Rich 1987).

Gender equity legislation in Australia is focused on a gender-neutral allocation of labour, so that in a system characterised by inequality the objective is the gender-neutral allocation of inequality. On the other hand, arbitration is designed to achieve social justice across the whole workforce, through providing minimum entitlements and extending gains achieved by well-organised workers to other groups (Bennett 1994, p. 208). Thus there is a fundamental distinction between the objectives of gender equity and the social justice element of industrial relations, which assumes importance with the increase in dispersion of wage distribution in Australia. In principle, the rigorous implementation of the existing external legislation, accompanied by frequent resort to MRA and job evaluation, could redress labour market inequity. However, such active intervention by a central authority would be at odds with the decentralised and increasingly deregulated industrial relations system in Australia.

#### *Theoretical issues in efficiency*

The greater wage flexibility characterising the US labour market is alleged to increase employment opportunities for low-skilled workers through stronger growth and hence higher average levels of employment. This implies larger income gains for the economy as a whole, thereby offsetting the social implications of wider wage differentials through the growth of low-wage jobs (IMF 1994; OECD 1995). There is perceived to be a trade-off between equity and efficiency, so that in a decentralised wages system the former is sacrificed to the pursuit of the latter. In the absence of unions and other market imperfections, the pattern of relative wages is the outcome of the forces of supply and demand according to orthodox economic theory. Relative wages provide signals which influence the allocation of labour, thereby promoting allocative efficiency. Similar jobs attract the same rate of pay, because, subject to costs of mobility, labour is attracted to firms offering the highest rates of pay. Thus intra-occupational wage differentials for homogeneous labour should be a transitory phenomenon.

Withers *et al.* (1986) have shown that relative wages are unresponsive to changes in the pattern of supply and demand. Firms have strategies to deal with, say, labour shortages, in addition to raising wages for entry-level jobs, such as more active recruitment procedures and lower hiring standards. Other studies have shown the persistence of wage differentials in local labour markets.



Under enterprise bargaining, firms are able to tailor the wages and conditions of employees to their specific economic environments, subject to the existing award minima. Persistent wage differentials among homogeneous workers are observed, and are widening. The capacity of inefficient firms to negotiate low wages under enterprise bargaining enables them to enjoy a subsidy, thereby undermining allocative inefficiency (Hancock 1987). Harrison and Bluestone (1990) note that the presence of low-wage labour encourages the adoption by firms of low-productivity, labour-intensive techniques and does not promote investment in employees through training and physical capital investment, thereby inhibiting dynamic efficiency. A vicious circle ensues because workers do not accumulate technical expertise, so that, in an increasingly competitive product market environment, firms continue to compete on the basis of low labour costs rather than technical sophistication. Hence, under a deregulated wages system, there is both static allocative inefficiency and dynamic inefficiency manifested in stagnant productivity growth (see also Buchanan & Callus 1993, pp. 528-9).

A disproportionate rise in the number of low-wage workers over time leads either to an increased incidence of poverty and declining social welfare or to a substantial burden on policy-makers in the form of an increased need for transfers. Also, low real wages are typically associated with low levels of aggregate demand which, in turn, do not generally provide the incentives for sustained capital accumulation and product innovation. The opposing viewpoint is that enterprise bargaining promotes ongoing improvements in labour productivity rather than the growth of low-wage jobs, which reveals contradictory views among the advocates of flexible wages. A flexible, decentralised wages system is alleged to be the means of making workplaces more internationally competitive, both by linking wage adjustments to productivity improvement and, relatedly, by engendering a culture within the workplace compatible with improvements in organisational efficiency.

Many commentators view the imposition of equal pay in its widest sense as undermining economic efficiency: a deregulated wages system is efficient because it enables firms to set wages and conditions according to their individual economic circumstances. An alternative view is that unequal wages for comparable jobs is a manifestation of economic inefficiency because structural change through resource reallocation is inhibited. This process is particularly important, given Australia's balance of payments problems and hence its need to transfer resources to the import competing and export sectors of the economy. The anticipated weakening of external legislation is likely further to undermine both the pursuit of equity and static and dynamic efficiency.

### *The distribution of wages*

Pay equity can be analysed from a number of different perspectives. Here we briefly examine the data depicting the distribution of wages and income. At this stage, it is not possible to evaluate the impact of enterprise bargaining on wage outcomes, although the Department of Industrial Relations provides useful data on the recent round of enterprise agreements (DIR 1995).

Centralised wage fixation has been subject to the criticism that compulsory arbitration inhibits wage-setting, thereby leading to a compressed wage structure, which undermines allocative efficiency. Also the incentive to skill acquisition can be reduced, which limits the supply of highly skilled workers. An examination of a number of international comparative studies over the past 20 years, including Hughes (1973), Norris (1980), Brown *et al.* (1980), Mitchell (1984) and Mulvey (1986), reveals that the Australian wage structure was more compressed than in either the USA or the UK (see also Whitfield & Ross 1995, p. 231). Intercountry comparisons can be misleading, however, when numerous factors impinge on wage outcomes, in addition to the extant wage-setting system and the general macroeconomic environment.

More recent Australian studies, including Watts and Mitchell (1990b), King *et al.* (1992), Gregory (1993), McGuire (1994) and Watts (1996), have revealed an increased polarisation of the wage distribution over the past two decades, where polarisation is defined as a rise in the frequency of wage rates located in the tails of the distribution (giving rise to the expression 'the disappearing middle').

Watts and Mitchell (1990b) show that there has been a widening in the dispersion of full-time male adult (non-managerial) average weekly earnings over the period 1975-88, and that over the period of wage indexation between 1983 and 1986 there was growing intra-industry wage dispersion. Watts and Mitchell speculate that the increased dispersion over this early part of the Accord era could have been the outcome of incremental creep and promotion of incumbent workers, conflated with the distributional effects of rapid employment growth. On the other hand, citing an OECD study (1993) in which countries with decentralised wages systems, notably the USA and the UK, were shown to exhibit the fastest increase in earnings dispersion, McGuire (1994, pp. 47-8) claims that the Accord system has acted as a brake on the rising dispersion of earnings.

King *et al.* (1992) show that the incidence of low-wage and high-wage employment rose over the period 1975-89 for both male and female workers (the 'disappearing middle', where high and low wages are defined as 175% and 75% of the median total weekly earnings, respectively). Using a time series regression analysis, they



**Table 9.6 The wage distribution for full-time adults: incidence of low and high wage employment**

	1986			1990			1993		
	Low	High	Total	Low	High	Total	Low	High	Total
Wage (\$)	295.88	690.38		385.73	900.03		482.98	1010.3	
Total Employment (%)	15.84	7.56	23.40	17.77	7.90	25.67	19.68	8.35	28.03
Employment ('000)	602.8	287.7	890.5	713.4	317.1	1030.5	784.5	332.9	1117.3
Men Employment (%)	11.15	10.41	21.56	12.65	11.00	23.64	15.10	11.80	26.90
Employment ('000)	292.4	273.1	565.6	335.5	291.8	627.3	387.8	303.2	690.9
Women Employment (%)	26.25	1.39	27.64	27.99	1.70	29.69	28.02	2.12	30.14
Employment ('000)	310.7	16.5	327.2	380.9	23.1	404.0	397.1	30.1	427.1

Notes: Low and high wages are defined as 75% and 175% of corresponding median. Slight data inconsistencies account for the incompatibility between the male, female and total figures.

Source: unpublished ABS data, cat. no. 6306.0.

argue that the disappearance of the middle speeded up over the Accord era, but this claim has been challenged.<sup>6</sup> McGuire (1994) confirms the increased dispersion of both male and female wage distributions over the period 1975–92, driven mainly by the increased share of low-paid workers. He concludes that increased dispersion within industries and within and between age groups has contributed to the increased overall dispersion. He argues that the internationalisation of the economy has exposed less-skilled workers in developed countries, including Australia, to more competition from workers in developing countries, with a loss of some jobs and downward pressure on wage rates of the less-skilled; the skilled are generally protected through internal labour markets and are less easy to replace (McGuire 1994, pp. 43–4).

Maintaining continuity with King *et al.* (1992) in their definition of low and high wages, Watts (1996) finds that the dispersion of average weekly earnings distributions for full-time adult employees continued to widen over the business cycle (1986–93) (Table 9.6). Women do not appear to be losing ground to men. Correction for changes in the occupational structure and the distribution of public and private sector jobs makes little difference to the results. Changes in the age composition of employment do not explain the abnormal growth of low-wage employment over the upturn of 1986–90. The

widening wage dispersion over the upturn appears to be a product in part of widening intra-occupational wage distributions. Quantitative comparisons between the different eras of wage-fixing arrangements cannot be made because comparable data by occupation, which would allow adjustments for structural change, are not available.

In summary, the distribution of wages has become increasingly polarised in Australia among relatively homogeneous groups of workers over the past 20 years, despite wage fixation being highly regulated and centralised over the early years of the Accord era. This evolution of the wage distribution is not consistent with a trend towards pay equity, but neither is it clear whether a more centralised system of wage determination over the past decade would have inhibited the trend towards increased polarisation.

#### *Income inequality*

The above studies focus on the distribution of pretax wages, but the original Accord agreement of 1983 (ALP/ACTU 1983) contained a commitment to the achievement of a rise in the social wage, including better health and social security provision. Over the Accord period there have been a number of tax–wage trade-offs, along with improvements in social security provision and superannuation. Saunders (1993a, pp. 30–2) argues that overall income inequality increased in Australia over the period 1981/82 to 1989/90, as did many components of income, including full-time, full-year wage and salary income, which was the main source of the growing inequality. McGuire (1994, p. 33) notes that the low-paid have received considerable protection through tax and social welfare policies since 1983. Saunders (1993b, p.33) claims that market forces, which have been promoted by deregulation, have caused wage inequality to increase. (The issues associated with income inequality are discussed in detail in Chapter 10.)

#### *Part-time employment*

One of the most important features of the labour market over the past decade has been a substantial growth in the proportion of part-time employment. For this reason, any attempt at understanding what has happened to the labour market during that time must include an analysis of that phenomenon.<sup>7</sup> Part-time employment, which is defined as 35 hours or less of work per week, is a form of *non-standard employment*, which is defined as all forms of employment other than permanent full-time (Rodgers & Rodgers 1989). Comprehensive data are available only for part-time employment.

The monotonic increase in the part-time share of employment, which is shown in Table 9.7, has been accompanied by a rise in the



**Table 9.7 Part-time employment shares of total employment (%)**

	1978	1983	1985	1986	1990	1993	1995
Total	16	17	18	19	21	24	25
Women	35	36	37	38	40	42	43
Men	5	6	6	7	8	11	11

Note: the figures are for August 1978, 1983, 1993, 1995 and May 1990.  
Source: ABS, Labour Force, cat. no. 6203.0

percentages of male and female part-time employees wanting to work more hours (ABS 6203.0 various issues). Thus the growth of this form of non-standard employment cannot be viewed as the outcome of a coincidence of wants of employers and employees.

Burgess and Campbell (1993) suggest that part-time employment growth is a manifestation of the emergence of new forms of employment relationship, which embrace new forms of production and labour control. Atkinson (1987) has been influential with his model of the flexible firm, in which non-standard (peripheral) employees are viewed as low-skilled, low-productivity and compliant, who are typically employed during periods of peak consumer demand and who represent a flexible reserve to be discarded during downturns. Flexibility is seen as synonymous with greater labour market efficiency through lower employment costs. An alternative perspective emphasises the importance of integrating non-standard employees into enterprises and the long-term efficiency gains from the development of training programs and associated career paths.

Non-standard forms of employment, such as part-time casual and contract employment, can be disadvantaged by the process of enterprise bargaining (Steward 1994). A number of authors, including Bennett (1994) and Hall and Fruin (1994), suggest that enterprise agreements increase the tendency to dichotomise employees between a functionally flexible core, with access to training, career opportunities and job security, and a numerically flexible periphery consisting of people working casually, without access to training or career paths. While the evidence suggests that part-time workers are underrepresented in their coverage by a federal certified or enterprise flexibility agreement (a part VIB agreement) compared with their representation in the workforce (DIR 1995), no definitive conclusions can be drawn at this stage about the impact of enterprise bargaining on the conditions, pay and long-term prospects associated with part-time employment.

#### Concluding assessment

Was the Accord period a success? While there is no unequivocal answer to this question, even the most sceptical economists would

accept that during this period the overall rate of employment growth was higher and inflation lower than might otherwise have been the case. It was also a period of unparalleled restructuring and change in the Australian economy due to a combination of global pressures and domestic policy responses, including the deregulation of financial markets, the reduction of tariffs, and the 'step-by-step' decentralisation of wage bargaining. The Accord partnership ensured that restructuring was pursued in conditions of relative labour harmony, with the rate of industrial disputation falling to its lowest level since World War II. As a result, the economy has become more productive and competitive, as the composition of exports shifts away from the traditional reliance on primary commodities to exports of services and manufactured goods, including elaborately transformed manufactures.

Yet major structural weaknesses persist, reflected in Australia's precarious balance of payments, which set limits to future economic growth. Despite one of the fastest rates of jobs growth in the OECD in the 1980s and (since the recent recession), in the early 1990s, unemployment remains at unacceptably high levels, especially for young people and older men. We also face the prospect of increasing inequity in the labour market. This is not just a consequence of policy miscalculation, but is more fundamentally a failure of much of Australia's management class to invest adequately in new productive capacity, to develop a critical mass in high-quality, value-added goods and services, and to take advantage of global market opportunities. With some noteworthy exceptions, most firms and organisations frittered away the gains from wage restraint in the 1980s, which had substantially boosted profit share, and failed in the 1990s to recognise the potential long-term benefits of transforming the workplace culture, opting instead for short-term cost-cutting strategies through 'downsizing', work intensification and de-skilling.

The irony of Australian economic debate is that it will be trade unions rather than management that are portrayed as the key impediment to 'optimal' market outcomes. There will be a concerted attempt to ignore the fact that, far from being an impediment, unions actively secured the cooperation of the workforce in 13 years of wage moderation, industrial relations reform and organisational change. For this they are now paying the price in falling union density—just as their political allies, the Australian Labor Party, paid the price in votes at the March 1996 election. Inevitably, union representatives at all levels will now review their strategy in the absence of an Accord relationship. Will they seek renewed relevance through cooperation with employers in best-practice strategies in the workplace? Some will see the merit in doing so, but others will



welcome the chance to demonstrate wage militancy in the Coalition Government's 'deregulated' bargaining environment. The danger is that much of the progress made under the Accord will unravel in this new, conflictual environment, and that, while strongly organised groups may extract some immediate gains in collective bargaining, the participation of disadvantaged groups in the labour market, already insecure, will become more tenuous.

#### Notes

- 1 The derivation of real unit labour costs (RULC) is as follows. Define unit labour costs (ULC) as the total wage costs per unit of output. So  $ULC = wL/y$ , where  $w$  is the nominal wage rate,  $L$  is the total level of employment (which can be measured in hours or persons), and  $y$  is the real output level. If we divide this ratio by the price level we get  $RULC = wL/py$ . Two interpretations can be given to this ratio: first, it is clearly identical to the wage share in national income ( $py$ ); second, by rearrangement, we get  $RULC = (w/p)/(y/L)$ , which is the ratio of the real wage ( $w/p$ ) to labour productivity ( $y/L$ ). So RULC can rise because the real wage rises, or because labour productivity falls, or a combination of both.
- 2 By this time the evidence suggested, in common with much of the international literature, that a 'high intensity of collaboration' between management and workforce tended to produce superior performance outcomes (Alexander & Green 1992).
- 3 The original Phillips curve analysis published in 1958 by AW Phillips actually discussed an observed empirical regularity between the rate of change in money wages and the unemployment rate (see Phillips 1958).
- 4 Gender pay inequality in Australia has been a central tenet of the industrial relations system. It was not until 1974 that the Arbitration Commission set one award rate for each job classification so that male and female workers were to be paid the same minimum rate if they did the same work. In the 1985 test case, however, the Commission declined fully to implement this principle by resisting work value comparisons across dissimilar occupations (National Women's Consultative Council 1990 p.11; National Pay Equity Coalition 1989, S341-8).
- 5 Supporters of enterprise bargaining could argue that market forces are strong enough to impose some degree of wage uniformity across workplaces. Such an argument undermines the alleged benefits of enterprise bargaining, through the imposition of enterprise specific wages and conditions.
- 6 Gregory (1993 p. 70) is critical of the use of the May data (ABS 6306.0) in King *et al.*'s regression analysis because it was subject to a major change in the sampling frame in 1983, the beginning of the Accord era (1983-89). It should also be noted that the Accord principles were changed in March 1987 with the introduction of a two-tier system.
- 7 The growing importance of part-time employment is noted in Chapters 2 and 4.

#### Recommended reading

- Bennett L. 1994, 'Women and enterprise bargaining: the legal and institutional framework', *Journal of Industrial Relations*, vol. 36(2), pp. 191-216.
- Chapman B.J. and Gruen F. 1990, 'An analysis of the Australian consensual incomes policy: the prices and income accord', Centre for Economic Policy Research Discussion Paper, no. 221, ANU.
- Dabscheck B. 1995, *The Struggle for Australian Industrial Relations*, Oxford University Press, Melbourne.
- Gregory R.G. 1993, 1993 'Aspects of Australian and US living standards: the disappointing decades 1970-1990', *Economic Record*, vol. 69, pp. 61-76.
- Watts, Martin J. and Mitchell, William F. 1990, 'Australian wage inflation: real wage resistance, hysteresis and incomes policy, 1968(3)-1988(3)', *The Manchester School*, vol. LVIII, no. 2, June, pp. 142-64