THE FEDERAL ARBITRATION SYSTEM AND AUSTRALIAN ECONOMIC PERFORMANCE

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Has the Federal arbitration system been a facilitator, a barrier or irrelevant in the twentieth century growth record of Australia? To consider this question, the present review considers the role of wage setting institutions in the growth process. It then goes on to consider the contribution of the arbitration system to Australian economic performance. A number of criteria will be addressed, including inflation, unemployment, allocation of labour, productivity growth and responsiveness to economic shocks. The evidence is inconclusive in terms of a direct relationship between the wage setting decisions of the arbitration system and macroeconomic performance. Nevertheless, there are important institutional features of the arbitration system that are important in shaping the growth path of the Australian economy over the past century.

INTRODUCTION

One of Australia's enduring institutional characteristics is its system of conciliation and arbitration. It has a historical foundation in Australian federation and in the peculiarities of the Australian constitution, the consequences of the depression and industrial confrontation of the 1890s, the emergence of a fledgling labour movement, the industrialisation of Australia and the imposed imperial system of international trade and finance. Arbitration cannot be viewed in isolation from the fabric of the emerging national economy with its tensions and conflicts, its insecurity and its relationship with empire. For a century, the Federal arbitration system has endured the disintegration of empire, the diminution in importance of rural and manufacturing production, the transformation in the demography and ethnicity of the workforce, the rise and subsequent decline in the trade union density, the dismantling of tariff protection and the considerable expansion and centralisation of Federal political and economic power. Despite fundamental shifts in the underlying economic, political and social factors associated with the development of the arbitration system, it has maintained its existence, and notwithstanding considerable legislative change and the transformation of the role and functions of the institution over the past century.

The core issue of the present article is the link between arbitration and Australia's economic performance over the past century. Specifically, the focus is on macroeconomic performance. The arbitration system was not established as a wage setting authority; this role evolved and developed within its first decade of operations. This was not the intent, but it was the consequence of having a

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national institution established to ensure industrial relations harmony that, in order to fulfil this function, adjudicated on wage adjustment questions. On the whole, arbitration has played a supporting role in shaping the growth record and its wage fixing functions were exercised with consideration for their economic consequences and, of course, for maintaining the relevance of the institution and the authority of the presiding justices. This is not to say that the growth record could not have been better under other wage setting arrangements, or that questionable decisions (in terms of their economic implications) were not made over the past century. However, there are a number of important institutional features of the arbitration system that should not be overlooked when considering Australian economic performance over the twentieth century.

The present article is organised as follows. First, the nature of the forces shaping the arbitration system and its key institutional characteristics are outlined. Second, the discussion turns to whether there are a priori reasons for linking wage settlement processes to economic performance. The question 'How crucial are wages and wage setting processes to determining economic performance?' is discussed. Third, the impact of the arbitration system on Australian economic performance is discussed. Core economic issues are considered, such as inflation and unemployment, as well as direct labour market questions, such as the allocation of labour and the impact on productivity growth. The article then considers the enduring strengths and weaknesses of arbitration in terms of the development of the economy.

There are a number of caveats supporting the analysis. First, it is by necessity a broad-brush approach to history and omits many details of the operations of the arbitration system, Australian economic development and supporting macroeconomic policies. Second, it leaves out some central issues that are assumed to be included in other contributions to this volume, notably equity aspects of the wage setting process that have to different degrees always been present (Isaac 1982). Third, it only considers the national wage determination function of the Commission (the Federal Conciliation and Arbitration Commission); there is no reference to non-wage employment conditions, which also have an economic impact. There is no consideration of the other functions assigned to the Federal system, such as a harmonious and sustainable industrial relations environment. Fourth, there is no consideration of the counterfactual, the analysis is in terms of the wage decisions and criteria used to reach them. Finally, the arbitration system itself was organic and undergoing its own development and changes throughout this period. While the Australian system possessed several 'unique' features, including awards, centralised wage determination and arbitration (EPAC 1996, p. 5), the system underwent a process of ongoing evolution. Wage determination encompassed many different principles over the course of the past century.

DEVELOPMENT AND EVOLUTION OF THE ARBITRATION SYSTEM: ITS ENDURING FEATURES

The development of the arbitration system and pre-arbitral state industrial relations systems in Australia has been discussed by Hawke (1975); Quinlan (1989) and Mitchell (1989). The Australian and New Zealand development was by no means unique (Brosnan *et al.* 1992), but it did evolve into a national system enshrined by the constitution. What was unique was the compulsion attached to the Australian system (Mitchell 1989). How Australia arrived at arbitration can be seen as the outcome of the convergence of a number of forces, including federation, the legacy of the 1890s depression and prior intense industrial conflict in the maritime and pastoral sectors, the liberal reaction to the concentration of economic and political power in Australia, the emergence of political labour in the context of an extended franchise and the precedent developments in State legislatures with arbitration (notably South Australia) (Hawke 1975). The inclusion of compulsory arbitration in the constitution was contested and was narrowly passed at the Melbourne Constitutional Convention (Hawke 1975, p. 19).

Arriving at arbitration was only the first step in the process of the development, evolution and sustainability of the Federal arbitration system. The arbitration system was established to settle inter-state industrial disputes, and the formation of a national wage fixing body was not the intent behind its formation. It was founded at a time when trade union density was relatively low, most workers belonged to state-based trade unions and disputes were largely resolved within state jurisdictions. The Federal system coexisted with functioning state industrial tribunals and wage boards. Commencing with the *Harvester* judgement, the court assumed the role of determining wages that enshrined the fundamental principle of a living wage—based on a notional minimum standard of living for a given family structure. Even prior to Federation there was an attempt to address the issue of 'sweated' labour exploitation in sectors such as clothing and textiles—the consequence being state wages boards being established to regulate wages and working conditions (Boehm 1993, p. 281). Much has been written about *Harvester* and Justice Higgins (Macarthy 1969; Evans 1985), but for the purposes of the present analysis, the significance of the decision is that it pushed wage determination to the centre of the Commission's functions and tied the industrial relations function of arbitration to wage determination. It established the importance of a standard or minimum that would have standing across the community. It also can be viewed in a wider context as an important component of what has been referred to as the Australian settlement: tariff protection in exchange for union recognition and regulated wages and industrial relations (ACIRRT 1999, ch. 2).

The wage determination function emerged and evolved after 1907 as the coverage of the Federal Commission expanded, trade union density increased and state tribunals began to follow the decisions of the Federal Commission (Withers 1987). In conjunction with tariffs, the wage determination process gave predictability to wage outcomes and allowed for the sustainability of living standards of urban-based populations who were employed in manufacturing and ancillary services. The nature of the award system introduced a measure of equity into the wage determination process and operated as a mechanism for distributing national productivity gains across occupations and workplaces irrespective of union membership and individual productivity contributions (Boehm 1993). Forster (1990) points to the gradual evolution of a national wage system that did not become national until WW1 and then subsequently developed in a piecemeal fashion. He points to the influence of the growing union density among the workforce and the emergence of national wage norms or standards. Indexation was introduced in 1913 to maintain the real purchasing power of the minimum wage. This heralded the first of many periods in which indexation was the prime method of national wage adjustment.

Over the course of a 100 years an array of wage determination principles have been applied by the Commission from needs through to the capacity of industry to pay and to real wage maintenance (Hancock 1975). The first 50 years of the Commission was dominated by adjustments to the basic wage, largely through wage indexation, and with the determination of margins for skill beyond the basic wage, and to this end, work value inquires were commissioned. An elaborate and complex system of reference criteria for national wage adjustments applied in the 1950s and 1960s (Plowman 1981). The differences between the basic wage and skill margins were subsumed into the total wage in 1967. The 1970s saw various forms of wage indexation implemented in the face of stagflation, while in the 1980s the wage determination process was subsumed into a broader incomes policy. At various periods the centralised wage determination functions of the Commission were either downgraded or abandoned. Examples of this process occurring include the 1960s, the early 1970s and the early 1980s (Indecs Economics 1995, ch. 3). Finally, in the 1990s, the centralised wage determination function of the Commission was relegated to periodic safety net adjustments with workplace bargaining being accorded primacy in wage determination (Burgess & Macdonald 2003).

Withers (1987, p. 254), in his review of the first 80 years of the Commission, claims that there were three distinct phases associated with the evolution of the Commission from its inception through to the 1980s Prices and Incomes Accord:

a) a facilitator of social justice—through the needs principle and the basic wage, and the subsequent attempts to maintain its real value, largely though indexation;
b) an independent body for economic policy making, especially as the macroeconomic impact of wage adjustments were considered, the 1931 decision to cut nominal wages heralded this era; and
c) a reluctant partner in a corporatist arrangement between unions and government, from the mid 1980s

A fourth phase to the evolution of the Commission can be added since Withers' analysis. From the early 1990s its centralised wage fixing functions have diminished, the role of awards has been reduced to a safety net and a more market- and workplace-oriented approach has been taken with respect to wage determination (Burgess & Macdonald 2003).

Throughout the last 100 years the Commission has had to operate within different economic contexts. In the 1930s it was depression and deflation in the national and international economy. The post World War II period was one of high capacity, labour shortage and strong growth. The 1970s saw the advent of stagflation with wage increases being linked to both inflation and unemployment. The 1980s saw the deregulation of the financial system and the shift towards a floating exchange rate, with strong pressure developing for real and relative wage flexibility. Income policies were instituted as a way of facilitating social legislation and cushioning the economy from external adjustments in this period. Along with the different economic contexts there were different norms in the setting of macroeconomic policy—classical policy dictums were influential up until World War II, a form of Keynesianism applied until the early 1970s, Monetarism and neo-classical economic policy principles held sway in the 1970s and 1980s, and the 1990s can be regarded as a form of fiscal conservatism allied with an inflation first strategy. It is difficult to segment the period into particular policy epochs, since, at any one time there were competing policy agendas with macroeconomic policy settings being divergent, not convergent (Indecs Economics 1995, ch. 1). Indeed, the study of the wage decisions of the Commission encompasses the history of economic thought over the course of the twentieth century and the various reviews of the economics profession and the wage determination process in Australia offer an insight into the different theoretical and analytical approaches used to evaluate wage decisions (Groenewegen & McFarlane 1990, pp. 139–40; Niewenhuysen & Sloan 1978; Hancock Report 1985, ch. 4).

THE ROLE OF WAGE FIXING INSTITUTIONS IN DETERMINING ECONOMIC PERFORMANCE

The theory of economic growth reduces the explanation of growth to what Maddison calls a number of proximate causes for purposes of identification and measurement (Maddison 1991). In this process, the system of wage determination does not figure, though in the more recent analyses of economic growth there is an attempt to measure and capture institutional features such as political stability (Barro & Sala-I-Martin 1995). To understand the ultimate causality of growth is, according to Maddison, largely the work of historians since it encompasses policies, institutions, accidents, interest groups, conflict and ideology (Maddison 1991).

Institutional economics may offer some insights into the relationship between wage setting institutions and economic growth. Samuels (1998, p. 865) argues that institutional economics is embedded in understanding the impact of institutions on economic performance; systems of control and organisation in the economy; the economic function of government in the economy; and the role of habits, beliefs and social organisations in shaping economic activity. For institutional economists you need to go beyond supply, demand and abstract constructions, such as equilibria, to understand why such issues as unemployment arise and persist. Much growth theory is concerned with paths around an equilibria. The Organisation of Economic Cooperation and Development (OECD) Jobs Study (1994) itself gave a central role to institutions in determining unemployment differences across economies, but the analysis was largely constrained within a neoclassical paradigm. Institutions were largely identified as different forms of market imperfections that impeded market clearing and were therefore potential explanations for disequilibria, such as unemployment. In contrast to the OECD, Rowthorn and Glyn (1991), in their review of unemployment performance across OECD countries argued that extensive intervention and coordination by government coupled with forms of social consensus was characteristic of the better performing OECD economies.

Contemporary institutional studies (Hall & Soskice 2001; Whitely 1999) attempt to identify the different forms of capitalism and apply such typologies across countries to better understand an array of questions concerning the evolution of individual country systems and to facilitate comparisons across systems. How firms are organised, the relationship between business and government, whether wage setting is coordinated, the relationship between finance capital and production etc. enable some classification of the 'system' of regulation, coordination and control. The point of these attempts to develop a typology of capitalism is to highlight both the diversity and the similarity in institutional arrangements across countries. An important theme is that of the adaptability and transformation of institutions through time in response to crisis, shocks and structural developments in countries. In short, in this context institutions do matter, but not on their own—they have to be seen within the context of broader national systems of coordination and control. Also, institutions do undergo transformation and adapt to changing circumstances, and it is within this context that the arbitration system can be viewed. In this context, institutions, such as wage setting processes do matter, but they cannot be viewed in isolation and they in turn are organic.

A seminal study by Calmfors and Driffil (1988) highlighted the link between wage setting processes and macroeconomic performance. The authors suggested that highly decentralised bargaining arrangements and highly centralised bargaining arrangements were capable of delivering favourable macroeconomic outcomes relative to the intermediate or hybrid case (neither highly centralised or decentralised). In a simple plot of the unemployment outcomes of countries cross-ranked along a 'bargaining structure' continuum (with highly decentralised at one end and highly centralised at the other), Calmfors and Driffil found a hump-shaped relationship. Unemployment tended to be lowest in countries which were either more decentralised or more centralised. Unemployment was highest in countries where the bargaining structures were neither highly centralised nor highly decentralised.

The finding was explained in terms that wage increases secured at the industry or sector level are more likely to highlight the trade-off between wage increases and job losses. A number of negative externalities may be associated with the wage bargain secured by a group of well organised workers (OECD 1997, p. 65). Such organised workers may be able to secure relatively large wage increases, but at the cost of higher inflation, job losses for some workers, and a reduced ability of the unemployed to secure jobs. Overall, the consequence will be higher rates of inflation and unemployment. In a centralised wage determination system with strong coordination, the national parties would set wages that were compatible with national macroeconomic policy objectives. The negative externalities associated with industry and sector wage bargains can be internalised to generate more moderate wage outcomes since the interests of both well organised and poorly organised workers, and high and low productivity sectors can all be taken into account in the wage bargain. Union power could be counterbalanced through wage caps and a strong degree of equity in the wage structure and wage outcomes could be ensured. Through either competitive pressures or centralised coordination, lower wage outcomes are generated in either decentralised wage determination systems or in centralised wage determination systems. Intermediate wage determination systems lack both the counterveiling competitive pressure or the counterveiling centralised coordination. In turn, the model assumes that lower wage outcomes are associated with improved macroeconomic performance.

However, in a review and empirical assessment of the Calmfors and Driffill model, the OECD (1997) was critical of both its theoretical and empirical content. The OECD regarded centralisation as being only one of many key characteristics of bargaining. Other features include the degree of unionisation, the coverage of bargaining and the degree of coordination. The statistical analysis across countries classified according to different bargaining systems provided no consistent or significant outcomes between bargaining and labour market outcomes. Carlin and Soskice (1990) highlight that the adjustment process, and the relationship between wage changes and unemployment does differ across countries. In particular, it is the adjustment process following supply side shocks that is influenced by institutional structures. One important feature the OECD highlight is an important coordinating role associated with strong and centralised employer associations.

What all this suggests is that there is not a simple relationship between wage setting institutions and economic performance. The relationship is confounded by other variables, including union coverage and systems of policy coordination. In part, the process of wage setting has to be related to other conditions present within the economy and linked to other arrangements that mediate between business and government, and processes for distribution and welfare support. The wage fixing function of the Commission evolved along with the Commission; to some extent this reflected the development of the national economy and national policy making institutions.

ECONOMIC CONSEQUENCES OF ARBITRATION

How do you evaluate the economic impact of arbitration over the past century? On this question there are no easy answers. Attempting to empirically prove a direct link between the decisions of the Commission and economic performance is difficult. First, it is difficult to assign wage outcomes to those due to institutional decisions as opposed to market forces. This gets back to the problem of the counter-factual. While cross-country comparisons have tended to be used, they also have limitations (OECD 1997). Second, the industrial relations system was and remains a 'hybrid' of different forms and processes of wage determination; the Federal Commission is only one component of this hybrid (Dabscheck 1986).

In the discussion in the present paper the analysis proceeds in a pragmatic fashion through examining the links between centralised wage determination, inflation, unemployment, the wage structure and productivity growth. This is similar in approach to the type of issues addressed by the Hancock Report (1985, ch. 4) on the relationship between the arbitration system and economic performance. At various stages of its history the national wage determination function of the Commission have been held responsible for a combination of increasing inflation, a rising unemployment rate, a compressed wage structure and poor productivity performance (see various contributions in Hyde & Nurick 1985). There are other aspects of arbitration that should also be examined, namely whether a national wages policy in itself was of any relevance in the community and whether Australia's long run economic performance was unusual over the past century, perhaps in part because it possessed an unusual wage setting institution. By necessity the analysis is brief.

Overall growth record for Australia is not remarkable

The overall growth record in Australia is similar to that in many other OECD economies over the twentieth century (Boehm 1993; Maddock & McLean 1987; Maddison 1991). The record is one of ongoing growth in output, ouput per unit of labour input and ouput per person. Similarly, average real wages have grown steadily as in other OECD economies (Wilkinson 1988). The composition of output has successively shifted from agriculture to secondary industry to services. The share of the public sector gradually expanded and has either retreated or stabilised over the past two decades. Australia differs in that it has had relatively high population growth throughout the twentieth century through its immigration program. If arbitration has had a negative impact on economic performance then proponents of this view would have to argue that Australia's growth record would have to be higher, and remarkable, within an international context. What this suggests is that arbitration, or more precisely national wage fixing, was accommodating to the growth process in Australia. In particular, and as argued below, the national wage fixing function played an important role in offering a national policy response mechanism to economic crisis.

A national wage determination institution did generate some positive policy consequences

Australian wages policy was important in establishing the infrastructure for the conduct of economic policy in Australia. At federation, there was no central bank and federal finances were limited and dominated by tariff revenue. Without fiscal or monetary policy as it is now understood, it was wages policy that provided the major impetus for the development of a national economy policy agenda. As a result of the *Harvester* case and the subsequent attempts to maintain the living wage, it was wages policy that gave the impetus for the development of national statistical series on the cost of living in order to assist wage setting. In turn, the parties to the proceedings took a national perspective with respect to wage setting and sought professional support in the submission of evidence to the Commission. This gave impetus for the development of labour research in Australia, and for the professionalisation of economics in Australia, surrounding submissions to national wage cases and to the subsequent analysis of the decisions of the Commission. In this context, one of the most influential analysts of national wage cases was Douglas Copland (Groenewegen & McFarlane 1990, p. 139). While the complexity and legalism of the Commission is highlighted as a criticism of its operations (Mulvey 1986, p. 19), the direct and indirect role of the Commission in developing national economic policy and supporting policy infrastructure has largely been neglected.

With a national wage setting process came a national wage system. As trade unionism and the authority and reach of the Commission expanded so too did a national wage system. While independent state tribunals maintained independent authority with respect to state awards and margins, it was national wage cases and key federal margin decisions that created a national wage structure. Wage flow-ons and the principle of comparative wage justice provided an egalitarian mechanism for the national distribution of productivity gains and the delivery of wage justice to all industries and all male occupations in the Commonwealth. The Commission was instrumental in developing and implementing a national wages system that maintained minimum standards (a la *Harvester*) and implementing a mechanism for nationally coordinated wage settlement and the distribution of productivity gains. This was largely accidental, but its significance should not be diminished. Withers (1987, p. 251) states that

> the wage setting processes of the Commission were no longer a response to any particular disputation or industrial relations problem, but rather a routine and, for the most part, mechanical laying down of a wage that applied across a large part of the economy, whether disputation existed or not, and that was determined in clear recognition of economic factors. Moreover, this national wage-fixing process became the focus of the court's interest and of public appreciation of the court's activities . . . .

As a wage fixing tribunal, one enduring characteristic with respect to 100 years of operations is that the system was flexible, malleable and adaptive. There was consideration for the economic impact of decisions and there was a willingness to change principles in the face of changing national economic conditions. Over a 100 years the 'wage' that was reviewed and adjusted by the Commission was in fact a number of different wage concepts basic wage, margins, total wage, social wage. Wages were the only factor income subject to systematic evaluation and debate over their adjustment, and the development of an incomes policy supported by government policy measures did not eventuate until the Prices and Incomes Accord of the 1980s. The principles of adjustment were elastic and pragmatically determined. Even something as straightforward as wage indexation involved a multitude of different forms of measurement and adjustment methods (Plowman 1981).

The Commission was able to respond to economic crisis

Possessing a national wage setting process could be useful in times of economic crisis. The enduring characteristic of crisis is the need to introduce remedial measures that assist the economy in adjusting to the crisis. A national wage setting process provided the means for a nationally coordinated approach that would share the burden of adjustment across wage earners. Economic crisis inevitably requires sacrifice and real wage cuts, and through the major crisis of the past century, the Commission was able to implement a national real wage cut. The speed and extent of the adjustment can be questioned, as indeed can the appropriateness of the real wage response; nevertheless, the Commission was able to deliver in the face of crisis and according to the prevailing economic orthodoxy. The 1931 decision to cut nominal wages heralded the importance of the capacity to pay principle in the Commissions' deliberations. The decision to cancel wage indexation in 1953 was a response to the post-Korean War commodity price boom and subsequent inflationary surge in the economy. The reintroduction of wage indexation in 1975 was preceded by a surge in both inflation and unemployment. The modification of the accord wage determination principles in 1985/86 was in response to the terms of trade crisis and the devaluation of the dollar (Sloan 1993). These decisions required support and input from the parties but they demonstrate that decisions could be made to modify wage principles, and implement national real wage cuts, for the purposes of assisting the economy respond to a significant economic shock. Whenever the economy was confronted with a major shock that required real wage adjustment, such flexibility was sought through the agency of the Commission. To engineer a macroeconomic response that cut real wages would have meant restrictive monetary and/or fiscal policies, higher unemployment rates, and deflationary policies. The Hancock Report (1985, p. 168) highlighted the important point that without a national wages policy instrument the government would be forced to depend more on demand management policies that in turn imposed high costs in terms of lost jobs and lost output when used to respond to crisis. Possessing a national wage setting authority that could implement accommodating real wage cuts reduced the pressure for more draconian macroeconomic policy responses and provided support for national macroeconomic policies. With the exception of the 1930s, which can be said to have introduced nominal as opposed to real wage flexibility (Gregory *et al.* 1988), the other episodes were able to deliver real wage cuts as a response to national economic crisis.

Is unemployment persistence evidence of inappropriate wage decisions?

One defining feature of Australian twentieth century economic development was that of persistent labour surplus. That is, apart from the golden age, 1950–1970, the record is one of relatively high and persistent unemployment. Some economists would assign responsibility of this to the Commission, believing in a classical and neoclassical world where unemployment was symptomatic of real wage rigidity. The required solution for unemployment in this context is real wage reductions. With stagflation in the 1970s and 1980s there was considerable analysis of the Australian real wage overhang (Indecs Economics 1995, ch. 3)—the movement in real wages relative to labour productivity growth from a base period. Estimates varied according to the period reviewed and the methods used, but the implication was clear—the Commission was at least partially responsible for unemployment. The Hancock Report (1985, pp. 163–4) also reviewed the real wage overhang and questioned its operational validity, and highlighted the range of estimates made as to the existence and extent of the overhang. Pope (1980) used econometric techniques to demonstrate a real wage overhang for the period 1910–1930, indicating that the Commission was culpable for unemployment over this period. Withers (1987, pp. 267–8) suggests that there were four clear periods of real wage overhang: the early 1920s; the post World War II period; and the early 1970s and 1981. He claims that the periods of overhang were relatively short, with adjustments to real wages eventually removing the overhang within a few years. Withers argues that apart from the early 1920s, the other episodes were associated with substantial wages drift, earnings growth exceeding the growth in awards. That is, they largely reflect the pressures of labour market conditions in forcing up wages and wage increases being achieved outside of the Commission. In this context Hughes (1980, ch. 6) examines the 'wages explosion' of the early 1970s and finds that the major source of wages growth was through consent arrangements and flow-on/catch-up to individual awards. He suggests that the large wage increase had more to do with relativities and the rigid wage structure than with national wage cases.

On the other hand, reference to Keynesian techniques, such as Okun's Law demonstrates that economic growth was insufficient to generate enough jobs through the 1970s and 1980s (Burgess & Green 2000)—there was insufficient underlying demand for labour throughout this period (Borland 2001; Indecs Economics 1995). In this case, the responsibility lie with the failure in macroeconomic demand management and real wage cuts would do nothing to solve the problem; indeed, they would only exacerbate them through reducing household expenditure and thus further reducing the derived demand for labour. Also, many of the episodes of high and persistent unemployment in the post war period followed episodes in which there were imposed deflationary policy measures introduced in the economy (Indecs Economics 1995, ch. 4). From the periods of recession the recovery in the unemployment rate was extremely slow. Each subsequent recession started out with a higher initial rate of unemployment.

Culpable or victim? The sustained real wage overhang and the culpability of the Commission for unemployment is difficult to support. For the Commission to engineer real wage cuts would undermine one of the founding wage principles of needs. There would also be obvious industrial relations implications, again conflicting with its main function. If wages are insufficient to maintain an acceptable standard of living then does the community want such jobs? The Hancock Report (1985, p. 165) highlighted the point that the Commission could only set nominal wage, not real wage, outcomes. Second, governments by and large did not offer much support to the Commission in alleviating or offsetting any real wage cut. The Accord demonstrated that real wage cuts were possible and sustainable in the face of negotiated offsets associated with improvements in the social wage. However, this is largely the exception in Australian wage fixing, the federal government rarely offered supporting mechanisms to soften the effects of real wage cuts. Third, real wage cuts need to be sustained and binding—if a cut in the real basic wage only results in larger increases in margins, then the exercise is fruitless. Finally, the elasticity of employment with respect to real wage cuts is challengeable, and would still require ongoing growth in concert with a real wage cut for unemployment reduction to be possible (Chapman *et al.* 1991).

In terms of Australia's relative unemployment and macroeconomic performance, like Europe, the yardstick for measuring performance has been the USA. This is in spite of evidence suggesting superior performance during the 1970s and 1980s in Switzerland, Austria and Japan (Rowthorn & Glyn 1991). In a series of publications, Gregory (1993; 1998; 2000) tracked the relative performance of the USA and Australia for the past four decades. Gregory largely sought to highlight the differences in performance in terms of decomposing various identities to compare job creation ability, labour productivity performance, unemployment trends and average living standards. In the early study (1993), Gregory highlighted the impact of a real wage shock in Australia in shifting upwards the unemployment rate in the mid 1970s. Apart from this episode, the USA and Australia achieved similar labour market outcomes over the 1970s and 1980s with both experiencing relatively high unemployment rates and a growing wage dispersion. In turn, these developments placed pressure on the living standards for those at the lower end of the income distribution in both countries.

In his more recent study (2000), Gregory compared the performance of four Anglo-Saxon economies that have led the way with respect to neoliberal reforms: the USA; Australia; the UK; and New Zealand (Gregory 2000). He examined the relationship between employment and economic growth across the four countries. Key findings of his research included the following: economic growth rates across countries appear to be independent of the timing or the extent of labour market reforms; there is an inverse relationship between productivity growth and employment growth; and unemployment differences are difficult to explain, being independent of reforms and independent of differences in the rates of economic growth. Overall, the Gregory review presents Australia and the USA as being similar: higher job creation in the USA was offset by lower productivity growth; in both countries wage dispersion increased; the USA was better able to generate full-time jobs; and both countries had relatively high labour force growth.

The wages surge in the mid 1970s is attributable to having an enduring real wage overhang effect by Gregory. However, it is debatable whether this was the consequence of national wage case adjustments (Withers 1987). It is also clear that major slow downs in the economy, with a falling derived demand for labour, often engineered through macroeconomic policy (see early 1980s and 1990s), had a lasting impact on the unemployment rate (Borland 2001).

National wage adjustments can lock in inflationary expectations, but on the whole, the Commission was responsive to surges in the inflation rate

Inflation was not a major macroeconomic policy issue until the early 1950s. Over the first 50 years prices, were relatively stable and the major problem was the deflation associated with the 1930s depression. The post-Korean war inflation surge quickly dissipated and inflation did not recur until the mid 1970s. For the next 20 years inflation was a national macroeconomic problem and in concert with high rates of unemployment. The onset of stagflation challenged the implied policy trade-off associated with the Phillips Curve and led to the development of the non-accelerating inflation rate of unemployment world (NAIRU) (Indecs 1995). In this context, conventional Keynesian policy solutions were limited and even counter-productive, and the thrust of policy was towards stabilising inflationary expectations and reducing the 'natural' rate of unemployment (Indecs Economics 1995). From the mid 1970s, successive governments, under the urging of Treasury advice, adopted an 'inflation first' macroeconomic strategy in which unemployment was relegated to an instrument for reducing inflation (Hughes 1980, ch. 15).

Stagflation put enormous pressure on the national wage fixing principles of the Commission. Protecting real wages could only lock in inflationary expectations and perpetuate a high natural rate of unemployment. Cutting real wages placed at risk the Commission's ability to sustain stable industrial relations and control wage setting processes outside of the Commission. Wage indexation was not compatible with an agenda of reducing inflationary expectations. In this context there was considerable analysis of the Commission's role in perpetuating a wage-price spiral (Boehm 1993). However, for the Commission's decisions to be inflationary also required nominal wage increases in excess of average price and average productivity increases, that is, for the Commission to be party to increases in real unit labour costs. For this to occur required wage increases outside of the centralised wage determination process (earnings drift), and this was a situation that was likely to occur if real wage growth was constrained, usually in periods of strong economic growth.

The situation was further complicated with the floating of the exchange rate since this gave the opportunity for exchange rate-induced price shocks to work their way into the inflation system. Given Australia's secular terms of trade decline this placed further pressure on the system of national wage adjustments (Indecs Economics 1995, ch. 3; Sloan 1993). Wage indexation with amended systems of adjustment (e.g. plateau adjustments) offered a partial solution to the problem in the mid-1970s, but it ran into the problem of controlling all wage movements as above. The Commission was mindful of the potentially inflationary consequences of its decisions during this period with only nine of the 15 indexation decisions granting full indexation. A national wage freeze was instituted in the early 1980s after wage adjustments accelerated in the period of the commodity boom and the reversion to collective bargaining. The Accord process offered scope for controlling nominal wage adjustments in an incomes policy context, but it required draconian measures to discipline unions who attempted wage settlements outside of the national wage system (Burgess & Sappey 1992). It also was effective in changing the functional distribution of income in favour of capital (Stilwell 1986, p. 52).

The Commission only had a potential role in perpetuating high inflation and inflationary expectations. The nominal wage surges of the mid-1970s and early 1980s had more to do with collective bargaining outcomes than national wage cases (Indecs Economics 1995, ch. 3). The national wage setting arrangements of the Commission were used to facilitate real wage cuts and a dampening of inflationary expectations in both the 1970s and the 1980s. However, to be effective they required macroeconomic policy support from the government and a mechanism for controlling wage settlements outside of national wage cases.

The evidence for an inflexible wage structure and therefore an inefficient allocation of labour is not convincing

Uniform national wage adjustments have been associated with a rigid wage structure, a narrow range of differentials and by implication, an inefficient allocation of labour (Freebairn 1989, p. 180). In the 1970s there were claims by the Treasury that the Australian wage structure was too compressed and that this prevented an effective allocation of labour (Mulvey 1986, p. 13). Many studies found some constancy in the Australian wage structure through time and across space, and some similarity in relativities with other countries (Hughes 1973; Brown *et al.* 1980). Others pointed to wage-like changes being used by employers to generate flexibility in the structure of labour costs (Blandy & Richardson 1982), In a review of the many studies on the wage structure in Australia, Mulvey (1986; 1989, p. 14) concluded that the difference in the dispersion of the Australian wage structure compared with that of other countries was very modest and could not be taken to indicate that there were severe distortions in the Australian wage structure as a consequence of arbitration. Overall, the evidence regarding the distorted wage structure was not convincing.

The debate over the wage structure was largely confined to the 1970s and early 1980s. From the mid-1970s onwards there is evidence of growing dispersion in the Australian earnings structure (OECD 1996; Watts & Burgess 2000). This coincided with stagflation and various attempts to modify real wage behaviour through indexation and the Prices and Incomes Accord. It is apparent that the earnings structure, as opposed to the award wage structure, was very responsive to changes in economic conditions and in the changed circumstances in particular industries and for particular occupations.

In an extensive cross-country study on wage dispersion and labour market institutions that covered the 1970s and 1980s, Coelli *et al.* (1994) found that Australia exhibited both real wage and relative wage flexibility on par with other OECD economies, and that with respect to wage dispersion the degree of change observed for Australia was on par with that found in the 'flexible' USA. Moreover, the study concluded that movements in Australian wage dispersion were strongly correlated with underlying changes in labour demand.

The evidence for a dampening of labour productivity growth is not convincing

The industrial relations system has also been regarded as a barrier to national productivity growth. Reasons for this include the system of craft unionism, the strict job demarcation system, uniform national wage adjustments and a lack of productivity linked bargaining at the workplace (Freebairn 1989, pp. 177–8). However, apart from the national wage determination decisions, these alleged institutional constraints could just as well be applicable to a more decentralised system of bargaining. If anything the evidence against national wage decisions in retarding productivity growth was relevant during those periods such as 1970s wage indexation and the 1980s Accord when the Commission was constraining real wage growth. In this context there was reduced pressure for capital–labour substitution, capital–labour ratios declined and labour productivity growth declined (Lowe 1995; Indecs Economics 1995, ch. 4). This exposed one dilemma confronting the Commission; to generate jobs growth through real wage constraint could involve a trade-off with productivity growth. Indeed, the simple Okun rule of thumb clearly highlights the trade off between employment and productivity growth (Burgess & Green 2000).

CONCLUSION: THE COMMISSION, THE ECONOMY AND THE BALANCING ACT

It is difficult to establish that the national wage case decisions of the Commission were not conscious of the macroeconomic consequences of its decisions. There is nothing to suggest that the centralised wage decisions of the Commission adversely impacted on Australian economic performance over the last century. It is difficult to discern any great deviation of Australian economic performance with that of many OECD economies over the longer-term. The balance between stable and cooperative industrial relations and the state of the economy was one that the Commission was mindful of. The Commission was the first forum for national economic policy in Australia and a research expertise and supporting statistical services developed around the national wage cases that were conducted by the Commission. The Commission did perform an important institutional function in the embryonic development of a national economy. The offices of the Commission were called upon to respond to situations of crisis in the national economy and the Commission added to the policy flexibility of the Federal government. In most cases, these required real wage cuts even though many crises were precipitated by poor policy making on the part of the Federal government.

While the counterfactual is always problematical it is difficult to establish how real wage cuts could be precipitated in an orderly and equitable fashion. The market solution would have involved higher rates of unemployment and probably more industrial disputation. In the Accord era, the incomes policy potential of the wage fixing function of the Commission was pushed to its limits to orchestrate real wage cuts, improvements in the social wage, a functional redistribution of income and a shift in the process of wage determination (Stilwell 1986). Again, it is difficult to see how similar objectives could be achieved through an alternative scenario that did not involve disruption and conflict, and higher rates of unemployment.

While currently the functions of the Commission are limited and national wage cases have been reduced to safety net wage decisions, its position as a national forum for alternative economic policy advice and analysis persists. However, it is doubtful whether the Commission can once again be called upon to implement national wage case decisions that respond to economic crisis. A low trade union density and a large number of workers who are located outside the writ of the Commission undermine its ability to develop a national wages policy. In today's NAIRU world the de facto role for national wages policy has fallen to the Reserve Bank with its 'inflation first' strategy in which unemployment is the tool to be used in the case of increasing inflation and/or inflationary expectations (Stegman 1997).

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