

WAGE INDEXATION — THE AUSTRALIAN EXPERIENCE

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THE SETTING

Wage indexation, a process whereby "wages (or significant elements of them) are regularly adjusted to movements of a prices index"¹ was introduced into Australia as a form of incomes policy. The perceived need for such a policy emanated from economic and political realities. Inflation, running at 2.4% per annum in 1969 gradually increased to 7.1% in 1972, the year in which Labour gained office. Thereafter it rapidly moved into double digit figures and by the end of 1974 was running at nearly 20%. Cost push factors were seen by many as the key catalysts in bringing about this economic disequilibrium. This reflected poorly on the government's ability to control such costs, particularly labour costs which increased spectacularly. In the year ending July 1974 male award rates rose by a record 27.3% while female rates, propelled by the phasing-in of equal pay, increased by 39.2%.²

On other counts the economy showed signs which electorally were ominous. Unemployment reached its highest post war level in 1974, private consumption slumped while private investment fell sharply. Productivity growth was negative and the balance of payments position deteriorated. New records were set for the number of industrial disputes and working days lost. Above all inflation, the highest recorded since the Korean War, showed no signs of abating. Its control was seen as a prerequisite to containing the other economic ailments.

In trying to combat cost push inflation the Whitlam government was severely handicapped by its lack of constitutional powers in the areas of prices and incomes, and by its inability to gain these powers by way of referendum. This inevitably threw the responsibility for wage management upon the Conciliation and Arbitration Com-

mission and the government quickly made a virtue out of necessity. Not only was the Commission in a position to depoliticise any form of incomes policy to a degree not found in overseas experiments, but the control of such a policy by this tribunal largely took away the responsibility for success from the government. Through its Minister for Labour the government canvassed the feasibility of indexation.³ The government was also instrumental in focusing the Commission's interest on indexation. It was the Commission, however, which was left with the responsibility for the system's implementation and operation.

Several factors made indexation a natural choice. It was a system with which Australians had some familiarity under automatic quarterly cost-of-living adjustments. This system of indexing the basic wage⁴ operated between 1923 and 1953. Trade unions had repeatedly demanded the re-

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1—Department of Labour, *Wage Indexation for Australia? A Discussion Paper*, Australian Government Publishing Service, Canberra, 1974, p. iii.

2—See Sheehan P., "Wage Indexation: Solution or Stimulus to Inflation?" *Australian Bulletin of Labour*, Vol. 1, No. 2, December 1974, p. 42.

3—Including the publishing of *Wage Indexation for Australia*, op. cit., and several exchanges in the *Australian Financial Review* between February and March 1974.

4—From 1907 to 1967 a bifurcated wage system operated in Australia. This consisted of a "needs" component (the Basic Wage) which, in theory, was the minimum payment for workers on federal awards. The second component (Margins) were additions to the Basic Wage to compensate for skills, training, experience, etc. In 1967 the Total Wage system removed this bifurcation.

Introduction of this system and thus union support — a very necessary element in any "social contract" — was rendered easier. The creation of the Prices Justification Tribunal which placed constraints on prices (and by implication profits) further enhanced union support. Wage indexation could be more readily seen as part of an incomes, rather than merely wages, control policy. The fact that indexation linked wage movements to price variations rather than productivity levels as attempted in overseas experiments was a further attraction for unions. So too was the Total Wage concept introduced in 1967. This implied the possibility, and, in the context of 1974 the very high probability, of a form of Indexation which applied to the margins as well as to the needs component of award wages. High levels of unemployment, desire for a respite from the wage "leap frogging" treadmill, and the ability of some to read the writing on the economic wall were other facilitating factors among some unions.

As with any other form of wage determination, however, support for the principle of indexation was far from unanimous. Even less consensus was found concerning its method of operation. Areas of conflict regarding indexation are apparent from its definition. Disagreement could be expected concerning the wage base to be indexed, the regularity of adjustments and the index to be adopted as the appropriate measure of cost-of-living changes. Such conflict was further heightened by the placing of greater value on differing attributes of indexation by different parties. Unions saw in indexation a mechanism whereby the wage gains made in 1974 could be maintained in real terms without the financial and energy expenditure then necessary and the degree of uncertainty prevailing. The government saw in indexation a method of bringing orderliness, stability and restraint in union demands and thereby an aid to putting its economic house in order. To employers indexation had merit only if in restraining union demands it helped restore the profit share to its historical level.⁵ The fall in profit share was seen by employers as a major source of the investment and economic decline. Restoring profitability could

provide the mechanism of redress and recovery. Indexation's threat to "lock-in" wage and profit shares at their existing unacceptable proportions implied it could be an impediment to recovery. The Commission itself had to re-assess an all too common problem. Would its economic role conflict with and reduce its major duty under the Act — the prevention and settlement of industrial disputes?

In implementing wage indexation several forms were available to the Commission according to its manipulation of the wages, frequency and index variables. In the matter of the level of wages indexed the Commission could have resorted to the pre-1953 indexing of the "needs" component of wages. This would have resulted in Minimum Wage indexation. Alternatively the Commission could have adopted some other cut-off point such as average award rates, average weekly earnings, median award rates and so on. In such forms of plateau indexation only wage earners on or below the cut-off point receive full compensation for price movement, with wage earners above the plateau receiving flat pay increases equal to the amount paid to those at the plateau. The Commission could have chosen full indexation whereby all award wages were fully adjusted to changes of the price index. The movement to "paid" or "going rates" in some industries by the addition of award and over award earnings gave rise to the possibility of indexing over award payments as well.

Clearly disagreements on the equity and stability fronts could be expected in relation to the wage level chosen as an indexation base. Unions contended that any system which required them to surrender legitimate wage gaining activities should guarantee the maintenance in real terms of all forms of payments. Thus, if indexation necessitated a diminution in the level of over award bargaining, then the indexing of over award payments was a reasonable quid pro quo. Full indexation to maintain the real purchasing power of award rates was the only form of indexation likely to bring about wage restraint in the area of award rates.

Private employers saw full indexation,

5—The proportion of G.D.P. going to company profits and unincorporated profits for the years 1963-1972 ranged from 16 to 17% and 15 to 21% respectively. The wage and salary share ranged from 55 to 61%. In the first quarter of the 1974/75 financial year the company profits share was 11% of G.D.P., unincorporated business profits 11% while wages and salaries accounted for 68%. Rent and government enterprise profits accounted for the residue.

and more particularly the indexing of paid rates, as locking into the economic system the prevailing cost structures which were militating against recovery and the containment of inflation. Only less than full indexation was economically feasible while the indexing of over awards flew in the face of recognized procedures. Over award payments found their legitimacy in their ability to ensure that employers with adequate capacity to pay were not restricted by the use of award rates as maxima. Since award rates applied to many employers with differing productivity characteristics, awards were of necessity in the nature of a "capacity to pay lower common denominator" and, as such, were regarded as minimum payments. It was not unreasonable for more profitable firms to supplement these awards by way of over award payments. The indexing of over awards assumed that the capacity to pay characteristics of different firms remained constant, an untenable assumption. The prevailing unemployment and bankruptcy figures suggested that assumptions concerning the level of award rates themselves could stand some enquiry.

Disagreement likewise surrounded the regularity of wage adjustments and the index to be used. Unions argued for automatic quarterly adjustment of wages to the Consumer Price Index. Employers both private and public, balked at such an approach. Automaticity, it was argued, would merely add a fourth tier to the wage determining system.⁶ It would place no restraints or obligations upon unions, nor require any assurances that wage activities would be curtailed in other areas. Automatic indexation would effectively provide a guaranteed base for further union conquests. The compounding effects of quarterly adjustments were seen as inflationary. Employers argued for annual or half yearly reviews.

In relation to the index to be used employers pointed out that using the Consumer Price Index without discarding certain elements made poor sense. For example, price rises attributable to overseas factors did not increase the capacity of the domestic economy to sustain wage

increases. Thus such price increases should be discounted for wage determination purposes. Consideration also had to be given to the effects of the indirect tax component of the C.P.I. The increase in excise tax to reduce consumption of, say, cigarettes was doubly defeating if the Commission granted corresponding wage increases. In the first place such wage increases could frustrate fiscal policy by compensating income recipients for the excise tax increase. Cigarette consumption was thus less likely to be reduced. A more critical factor for employers was that the rising of indirect taxes in no way assisted them to meet an increased wages bill. Thus while in the absence of consensus the C.P.I. appeared the best index to use the discounting of certain elements within that index made for good economics. In suggesting such discounting employers presented the Commission with yet another form of indexation — partial indexation. Under partial indexation all wages are increased uniformly but by a proportion less than the proportionate increase in the price index.

THE INDEXATION PACKAGE

Prior to the introduction of indexation conferences were called by the Commission in an attempt to formulate a wage determination system based on consensus. No consensus was reached and the Commission was required to arbitrate on the matter. It decided to implement indexation on a trial basis with the continuation of the system dependent upon union acquiescence with the guidelines or principles surrounding the indexation package. Only "substantial compliance" with these guidelines would ensure the continuation of indexation. The trial period would also give all parties a chance to review the system in operation before permanency was given to it. In summarised form the major elements of the guidelines which operated between April 1975 and June 1978 spelt out the following format for wage determination:⁷

The Index

Wage adjustments were to take place in relation to the six-capitals Consumer Price Index (Principle 1). Using the weighted

6—The three tiered system consisted of national wage variations, industry award variations and over award payments.

7—These principles or guidelines were introduced in the 1975 April National Wage Case (hereafter N.W.C.) and slightly amended in the 1976 May N.W.C. The Commission has announced that the June 1978 N.W.C. would be the last hearing conducted under the principles.

six-capitals C.P.I. ensured that regional differentials would not be upset.

Regularity

The Commission resolved to sit in April, July, October and January following the publication of the latest C.P.I. (Principle 1). Thus quarterly hearings were to be the norm. This, however, in no way amounted to automatic quarterly wage adjustments. The Commission undertook that "no wage adjustment on account of the C.P.I. (would) be made in any quarter unless the movement in that quarter was at least 1 per cent" (Principle 5). In such an event the C.P.I. movement was to be carried forward to the following quarter. Automaticity was further precluded by the rider that award wages and salaries would be varied "unless the Commission was persuaded to the contrary by those seeking to oppose the adjustment" (Principle 1). The one area of automaticity contained in the 1975 guidelines — that C.P.I. increases of less than 2% would be applied fully to award rates — was removed in the 1976 review.

The Wage Level Indexed

Apart from stating that C.P.I. increases of less than 1 per cent would not result in wage variations, the Commission left its options open as to the form of indexation to be adopted. The form of indexation was to be "determined by the Commission in the light of circumstances and the submissions of the parties" (Principle 4). Though early in the piece the Commission recognized "that there (was) a cogent argument in justice that at least some over award payments should be indexed" it was not prepared to make any "global order of recommendation."⁸ Since then the statement "it is not in the intention of the Bench that the increase we have awarded be applied to over award payments" has become a common feature of indexation decisions.

The lack of automatic increases, and the uncertainty as to the form of indexation, were seen as useful inducements to the "substantial compliance" required of trade unions.

Other Wage Increases

As well as wage movements to compensate for C.P.I. increases four other grounds existed upon which unions could make wage claims:

- (a) Each year the Commission was to consider what increases in the total wage should be awarded on account of productivity (Principle 6).
- (b) Changes in work value — that is, "changes in the nature of work, skill and responsibility required or the conditions under which the work is performed" — could result in wage increases for those classifications of workers involved (Principle 7a). This principle was suitably enshrouded in conditions so as to make its general use difficult.
- (c) The maintenance of appropriate relationships between awards described in the guidelines as "catch-up of community movements" (Principle 7b). This principle ensured a form of redress to those unions claiming that their award was not at the appropriate level for indexation purposes. Again this principle was surrounded by conditions making its general use difficult.
- (d) Anomalous situations together with special and extraordinary problems concerning wages were to be resolved by conferences established to deal with such problems.

The final principle — Principle 8 — made it clear that any consent agreements entered into by unions and employers would be tested in the light of the above principles. This would "guard against contrived work value agreements and other methods of circumventing (the) indexation plan."

These principles formed the indexation guidelines and, together with the evidence relating to industrial disputes, the basis for adjudging the existence of "substantial compliance." The cautious approach and warning accompanying the introduction of indexation have been frequently re-echoed at quarterly hearings:

"If we appear somewhat over-cautious about introducing indexation, it is because it is a momentous step . . . because we are concerned about the current difficulties which the economy faces and do not wish to add to them; and because indexation can have far-reaching consequences — economic, social and industrial — which may be good for the country but which,

⁸—N.W.C. September 1975, p. 9.

If the conditions we have set down for indexation are violated, will be seriously detrimental to the country. Violation even by a small section of industry whether in the award or non-award area would put at risk the future of indexation for all."⁹

THE SYSTEM IN OPERATION

It is convenient to regard wage indexation as having gone through three major phases: the early tentative trial period in which gaining acceptance and compliance were the Commission's major concerns; the period from May 1976 to June 1978 in which plateau and partial forms of indexation enhanced the deflationary attributes of indexation; the period of review and transformation following the June 1978 National Wage Case leading to different principles of wage-determination. At the time of writing the new guidelines have not been announced. Thus this paper will concentrate on the first two phases.

Phase I

Although for all practical purposes indexation may be viewed as having commenced with the National Wage Case ending on April 30, 1975, it is important to realise that 1975 represented a year in which wage adjustments to movements in the C.P.I. reflected no commitment on the part of the Commission to wage indexation itself. Prior to this National Wage Case conferences had shown varied attitudes to indexation: full commitment from the Australian Government, an ambivalent attitude on the part of unions and opposition from private employers and non-ALP state governments (New South Wales, Queensland, Victoria and Western Australia). Employers concentrated on total opposition, rather than entered into exploratory discussions into workable forms of indexation.

Conscious of the opposition and uncertainties attached to the system the Commission was "not prepared to adopt an integrated wage fixation package which (included) indexation but nevertheless (found) it possible to adjust wages for C.P.I. movement in the March quarter. This course (would) allow the viability of the proposed conditions and the proposed

mechanisms to be observed and (would) also allow the results of such observation to form part of the subsequent debate."¹⁰ This pragmatic approach required no commitments on the part of the Commission, allowed the parties to experience and then debate the formula offered, and effectively forced the union movement as a whole to choose between the promises of a centralised, orderly approach and the uncertainties of the existing wage-fixing wilderness. Full indexation in that quarter sweetened the Commission's overtures.

The Commission's indecision reflected the need for an attitudinal metamorphosis and took cognizance of the obstacles which stood in the path of the successful operation of such a system. In the final analysis federal government support, high and increasing levels of unemployment, rank and file acceptance, and the Commission's own handling of indexation's initial challenges ensured its fragile continuation.

The federal government was an early supporter of indexation as conducive to its "three M" wages policy ("minimal, moderate or modest" increases). The form of indexation advocated by the Treasurer (Dr. Cairns) and strenuously pursued by Clyde Cameron as Minister for Labour was plateau indexation. The espousal of indexation "in such a way as to preserve the value of all wages up to average award earnings and to compensate those who (were) above that plateau with flat monetary amounts equal to the amount paid to those at the plateau"¹¹ was a guaranteed recipe for white collar union opposition. ACSPA¹² keenly sensed plateau indexation's deflationary role would be at the expense of its members. It has consistently opposed anything but "a no strings attached" system.

If Cameron's endeavours to compress relativities of higher income groups through plateau indexation dissuaded white collar unions from accepting indexation, his forcefulness in attempting to increase the base rates of blue collar workers unwittingly helped the cause of indexation. Within a week of the April National Wage Case the Metal Trades Federation's¹³ log of claims came before the Commission. The

9—N.W.C. April 1975, p. 22.

10—Ibid, p. 18.

11—Mr C. Cameron reported in *Australian Financial Review*, 4/3/74, p. 3.

12—The Australian Council of Salaried and Professional Associations. This white collar union peak council has 16 affiliates with a combined membership of over 280,000.

13—This consists of a loose confederation of ten unions covering workers in the metal industry.

Federation was seeking a 35 hour week, increases in paid study, maternity and paternity leave, the establishment of child care centres by employers and a \$20 per week wage increase as the appropriate base for indexing purposes. Cameron sought Cabinet support for the metal workers, a move strongly opposed by Senator McClelland. McClelland won the heated debate and shortly afterwards replaced Cameron as Minister for Labour.¹⁴ This helped remove the government's ambivalence towards wage increases and resulted in a firmer approach to union demands by the Australian Government's counsel before the Commission.

The metal trades disputes highlighted a number of critical aspects of implementing any wage systematising scheme: the problem of awards already "in the pipe-line," the cementing of existing wage differentials, the attempts to extract a better indexation base by some and to exploit "loopholes" in the system by others, the use of muscle to test the Commission's resolve.

In the month leading up to the promulgation of the guideline the award "pipe-line" was a voluminous one, not only in terms of the number of applications, but also in terms of the size of claims pressed. Air hostesses were awarded increases ranging from \$30 to \$54 per week, bank officials received a 5% wage increase, Tasmanian owner drivers a 35% increase while the Health Employees (N.T.) and Liquor Industry Awards received \$24 per week increases. Waterside workers were awarded \$25 per week wage rises and federal public service officers (division 2) received 12% pay increases.

This flow encouraged rather than drained demands. Bank officials returned with a further 16% claim, coal-miners a 5% per quarter plus indexation bid and Qantas pilots asked for a 23% wage increase. Vehicle builders claimed a 25% plus indexation rise, insurance employees sought a 12% increase while nurses and non-medical staff pushed for wage increases of 50%. The Postal Workers' Union demanded a \$15 plus 15% increase while metal workers sought a \$20 increase plus indexation. The list is representative rather than exhaust-

ive.¹⁵ After the indexation guidelines were announced a new batch of applicants appeared all seeking redress under the "community catch-up" provisions. The Clothing and Allied Trades Union sought an increase of \$12 per week, railway workers (excluding train drivers) a \$25 per week rise while train drivers' "catch-up" claims varied in amounts greater than \$25 per week. Ship-fitters and marine maintenance carpenters demanded a \$25 per week adjustment and electrical contractors' employees \$36 per week. Victorian television and radio technicians demanded "catch-ups" of \$80 per week, and New South Wales Shop assistants relativity restoration of \$22.50 per week. Numerous other claims of similar ilk were received by industrial tribunals.

The cumulative weight of all of these applications very much questioned the Commission's assertion that award variations in 1974 resulted in "a firm base (being) widely established with appropriate relativities between and within awards on which indexation (could) be applied."¹⁶ Given the "dog-chasing-its-tail" nature of relativities, a serious compromise to any union seeking substantial wage changes could be expected to trigger off a new round of wage applications. In this respect moves by the Metal Trades Federation (MTF) were of paramount importance.

Three factors contributed to the significance of the MTF's bid. Firstly the sheer numbers of workers involved — over 600,000 — made any increased wages bill a large one. Secondly, since the Metal Industries Award had come to be regarded as the dominant benchmark in the federal system, any variations in this award could be expected to lead to flow-on bids. These flow-ons could then lead metal unions to claim that their own position had eroded and thus rekindle the wage spiral.¹⁷ Thirdly, the importance of the metal union's claim was heightened by the fact that it was heard in the week following the indexation announcement. It was the first major challenge to the guidelines. Significantly the claims were heard by the President of the Commission.

Notwithstanding a 24 hour stoppage by

14—See "The Age" 13/5/78, p. 1 and *Australian Financial Review*, 13/5/78, p. 1.

15—See *Industrial Information Bulletin*, Vol. 30, Nos. 3-4 for a comprehensive account of all claims processed during March and April 1975.

16—N.W.C. September 1975, p. 9

17—It is significant that the "catch up" provisions clearly exclude the \$24 awarded to the Metal Industries Award in 1974 as this increase was itself considered "catch up." See Principle 7(b), (ii).

116,000 Victorian Metal employees on the day of the hearing the MTF found the Commission obdurate. The MTF then turned to employers seeking the indexation of paid rates. Employees also held firm.¹⁸ Rank and file meetings refused to endorse the recommendations put forward by the Executives of some unions seeking further stoppages. A major challenge had been overcome.

Other transitional problems remained including those concerned with co-ordinating the activities of members of wage tribunals both within and outside the Commission's jurisdiction.¹⁹ A uniform approach was desirable if relativity distortions were not to take place. For example, in April 1975 the Victorian Industrial Appeals Court awarded a \$15 per week wage increase to the commercial clerks of that state notwithstanding the views of the Clerks Wages Board which was attempting to implement the indexation guidelines. This decision increased clerks' wages in Victoria to over \$120 per week thereby breaking the nexus with the wages of clerks in other states which ranged from \$100 to \$110 per week. Catch-up claims resulted from clerks in these states some of whom operated under federal awards, others under state determinations.

Within the Commission itself co-ordination was difficult as instanced by the approach taken to the ratification of consent awards by two (federal) commissioners in South Australia. Principle 8 of the indexation package required consent awards to be tested against the guidelines laid down. This was not meant to frustrate "the processes of conciliation, but . . . that the Commission should guard against contrived work value agreements and other methods of circumventing (the) indexation plan."²⁰ In hearing an application for a consent agreement between the Municipal Officers' Association and the Darwin City Council in May 1975, Commissioner Portus (a member of the Full Bench which handed down the indexation decision) made it clear he intended to see indexation adopted to

the letter. He refused to ratify the agreement claiming there was no evidence of a genuine catch-up movement. The following day the same union approached Commissioner Vosti with another consent agreement, this time with the Electricity Trust of South Australia. The agreement, including a \$7.00 per week wage increase, was ratified with no reference made to the guidelines.

While neither of these decisions was of outstanding importance in itself, they indicated the problems likely to be faced in enforcing the restrictions contained in the indexation decision because of the differing interpretations and attitudes of members of the Commission. Members of the Commission not toeing the indexation line were rebuked at the September 1975 National wage case while an increasing number of disputes ordinarily heard by single Commissioners have been referred to Full Benches.

At the September hearing the Commission reviewed the progress during the intervening five months. By then all state governments had pledged their support for indexation and some had even taken necessary legislative action in support of the guidelines.²¹ Most of the state tribunals had also swung in behind the Commission, the only exceptions being the Queensland Industrial Commission which had reserved its position and the Western Australian Industrial Commission which had adopted a policy of full indexation. Progress was also recorded on the union and employer fronts. Total opposition from the latter had disintegrated with support now coming from the Metal Trades Industry Association, the Master Builders' Federation of Australia, CSR and the Australian Public Service Board. Other employers maintained their opposition. On the union front the support of the ACTU and other peak councils was evidenced though the Commission noted "that a considerable number of claims (were) being pressed in the field which (were) inconsistent with the package." The Commission further claimed to possess

18—The Metal Trades Award was, however, subsequently varied and now "recommends" the indexing of over awards.

19—As well as the federal Conciliation and Arbitration Commission each State has its own tribunals for wage determination. In the case of Victoria and Tasmania these consist of Wages Boards. Other States have systems of compulsory arbitration.

20—N.W.C. March 1975, p. 23.

21—In South Australia, for example, the Industrial Commission is required to adjudicate each dispute on the merits of the case ignoring precedent. The Act has been suitably amended to allow for the Industrial Commission to adopt the federal Commission's indexation guidelines and wage determinations.

materials which indicated there were some "who appear(ed) not to be concerned whether (indexation) survived or not. Materials about industrial action, about gains in the field, and about arbitrated decisions (caused) doubts . . . about the future of indexation . . ."22

In view of the foregoing, and notwithstanding its belief in a "widespread and growing community support,"23 the Commission did not think it could responsibly introduce indexation on any permanent or semi-permanent basis. Wages were again fully adjusted to C.P.I. movement.

The C.P.I. increase for the following (September) quarter rose by only 0.8%. This was largely the result of actions by the federal government in establishing Medibank as a Treasury financed form of medical insurance thereby removing the health component from the C.P.I. While the drastic reduction in the C.P.I. (increases in the previous two quarters were 3.5% and 3.6% respectively) reduced unions' hypersensitivity over maintaining real wages, it did produce a minor challenge for the Commission. Since Principle 5 stated that no wage adjustments would take place on account of C.P.I. movements of less than 1%, the Commission had to choose between aiding increasing acceptance for indexation by awarding wage increases, or sticking firm to its own guidelines. It chose the latter.

The hearing for the December quarter (convened in February 1976) marked the coming of age of indexation with the major parties duelling not over indexation itself, but over tactical manoeuvres within the indexation guidelines. Reviews of the state of the economy, argumentation concerning "substantial compliance" and submissions concerning C.P.I. discounting ensued. This has become the familiar pattern of indexation hearings since. Claiming that the Commission had created a full indexation "expectations," the unions won the day. Full indexation of 6.4% (5.6% for the December quarter and the 0.8% September quarter carry-over) was awarded. Adoption of indexation was still delayed until subsequent discussions on wage determination.

In these, although "there were significant differences of opinion as to the structure and content, there was for the first time unanimous support for a system of wage fixation based upon indexation. This degree of consensus (was) in stark contrast to the position (of April 1975)"24

Phase II

This period from May 1976 to June 1978 represents one in which the Commission operated indexation under slightly amended guidelines to those introduced in 1975,25 in which (again) no commitment beyond a quarter by quarter examination was given, and in which the Commission departed from its 1975 practice of awarding full indexation. In 1976 "in order to meet the requirements of equity, and at the same time, make a contribution towards moderating the increase in labour costs,"26 the emphasis was placed on plateau indexation. Increasing concern with, and opposition towards relativity distortion resulted in a preference for partial indexation in the subsequent year.

The C.P.I. increase for the March 1976 quarter was 3.0%. In its first break with full indexation the Commission granted 3% increase to all award and salary rates up to \$125 per week, this plateau "being about the average male award rate."27 Flat increases of \$3.80 were awarded other wage earners. Claiming that this decision had affected relativities for those above \$125, the Commission adopted two cut off points in its hearing for the June quarter. Full indexation of 2.5% was awarded to those on the lowest wage in the Metal Industry Award for Melbourne (\$98 per week). A flat \$2.50 (\$130 per year) was awarded other income earners receiving up to \$166 per week. For those above the \$166 per week plateau, partial indexation of 1.5% was applied. This meant that those whose award rates ranged from \$98 per week to \$166 per week received increases varying from 2.5% to 1.5%. The Commission felt that to award anything less than it had would have put at risk the indexation package.28 No doubt this consideration, coupled with advice from the Bureau of Statistics that the C.P.I. figure for the December

22—N.W.C. September 1975, p. 4.

23—Ibid. p. 3.

24—N.W.C. May 1976, p. 3.

25—The major amendment removed full indexation for C.P.I. increases of between 1% and 2%.

26—N.W.C. May 1976, p. 15.

27—Ibid.

28—N.W.C. August 1976, p. 9.

quarter would be published later than usual, resulted in the full indexation decision for the September quarter.

Wage claims for the December 1976 quarter were not heard until March of the following year. Confronted with a C.P.I. increase of 6.0% the Commission decided to discriminate between components of the index. The price increases had been magnified by the non-Labour government's re-assertion of private health insurance resulting in added costs to the Health and Personal Care Components of the C.P.I. Health costs were considered to have contributed 3.2% to the quarter's C.P.I. increase. The Commission awarded \$2.90 to all wage and salary earners on account of health expenses, \$2.90 "being about the maximum compulsory contribution payable by a single person for basic medical and hospital care."²⁹ A second flat increase of \$2.80 was awarded for the other 2.8% component of the C.P.I. The \$5.70 per week wage increase amounted to full indexation

of 6% for income earners on or below \$95 per week. In effect plateau indexation applied to incomes above this figure while those paying family rates for hospital and medical insurance were discriminated against.

Elements of the C.P.I. were discounted for all hearings relating to 1977 resulting in partial indexation decisions. In two cases (March and December quarters) plateaus also applied as can be seen from Table 1. Devaluation played a major role in the March decision with the Commission discounting for the effects of import prices in order to "minimise as far as possible any action which would reduce the benefits conferred by devaluation on the competitiveness of the Australian economy by feeding back the resulting higher prices into wages."³⁰ Subsequent discounting took account, not only of devaluation, but also the federal government's petrol conservation policy, the lowering of the personal tax structure, the effects of strikes and stop-

TABLE 1
WAGE ADJUSTMENTS UNDER INDEXATION: MARCH 1975 - MARCH 1978

Quarter	Wage Variation	CPI Variation
1975	March	Full 3.6%
	June	Full 3.5%
	September	None
	December	Full (0.8% plus 5.6%)
1976	March	Full 3.0% to \$125 p.w. Flat \$3.80 thereafter
	June	Full 2.5% to \$98 p.w. Flat \$2.50 \$98-\$166 p.w. Partial 1.5% thereafter
	September	Full 2.2%
	December	Flat \$2.90 for Medibank Partial 2.8% to \$100 p.w. Medibank Flat \$2.80 thereafter
	March	Partial 1.9% \$200 p.w. Flat \$2.80 thereafter
	June	Partial 2%
	September	Partial 1.5%
1977	December	Partial 1.5% to \$170 p.w. Flat \$2.60 thereafter
	March	Full 1.3%
	June	Partial 2%
	September	Partial 1.5%
1978	March	Full 1.3%
	June	Full 2.5% to \$98 p.w. Flat \$2.50 \$98-\$166 p.w. Partial 1.5% thereafter
	September	Full 2.2%
	December	Flat \$2.90 for Medibank Partial 2.8% to \$100 p.w. Medibank Flat \$2.80 thereafter
	March	Partial 1.9% \$200 p.w. Flat \$2.80 thereafter
	June	Partial 2%
	September	Partial 1.5%
	December	Partial 1.5% to \$170 p.w. Flat \$2.60 thereafter
	March	Full 1.3%
	June	Full 2.5% to \$98 p.w. Flat \$2.50 \$98-\$166 p.w. Partial 1.5% thereafter

1. Medibank was established by the Labour Government as a Treasury financed form of medical insurance. Private Health Insurance was re-asserted by the Coalition Government resulting in added costs to the Health and Personal Care Component of the C.P.I.
2. D/V equals Devaluation.

29—N.W.C. March 1977, p. 6.
30—N.W.C. May 1977, p. 11.

pages, and the state of the economy.³¹

Not unnaturally the departure from full indexation for a prolonged period has not been gleefully accepted by trade unions. Plateau indexation decisions have assisted indexation's deflationary role by compressing the relativities of (in the main) white collar workers. Partial indexation decisions have been unpopular with an even wider cross-section of the workforce. ACSPA has been joined in its repetitious applications for "catch-up" to compensate for less than full indexation by other peak councils.³² While such claims have been refused, they have been a useful vehicle of protest. Conscious of growing disquietude (including an ACTU resolution to, *inter alia*, "organise on-the-job campaigns designed to demand restoration of amounts lost . . . and the achievement of full wage indexation"³³) the Commission awarded full indexation for the March 1978 quarter and announced the replacement of the guidelines. Future hearings will take place under the new guidelines which the Commission hopes will be formulated with the consensus of all parties. Given the nature and effects of such guidelines it is unlikely that they can be formulated on the basis of agreement by all. Inevitably they will be of the Commission's choosing.

SOME LESSONS

The cessation of automatic quarterly cost-of-living adjustments in 1953 followed by a conservative, indecisive approach on the part of the Commission to wage determination during the succeeding two decades of full employment resulted in a movement away from Arbitration. Over award payments and negotiated agreements (often brought into "the system" by way of ratified consent awards) became an established pattern. The Full Bench gradually lost control over wage fixing to a point where, except in relation to the Minimum Wage, National Wage Case decisions were contributing only a small fraction of the overall wage movement.³⁴ This decentralisation gave rise, not only to a full blooded debate concerning the merits of collective bargaining vis-a-vis compulsory arbitration,³⁵ but also to the view that the

Arbitration Commission itself had been rendered impotent — particularly following the Metal Trades Work Value fiasco of 1967 and the de facto removal of the penal powers following the 1969 O'Shea dispute.

Wage indexation has reversed this decentralising trend and returned the Commission to centre stage. Collective bargaining has not proved a process for all seasons and indexation has shown that under certain economic circumstances the Commission can assert a prime role in wage determination. Whether a return to full employment will result in a new pattern of decentralisation remains to be seen. Arguably a flexible and liberal approach by the Commission could result in the highly centralised system remaining the pivotal centre of Australian wage determination as was the case prior to 1953. Such a centralised system will have many opponents. Its benefits, however, should not be too easily discounted.

Given the Australian institutional milieu, in the final analysis the alternatives are not between a decentralised "market based" wage determination mechanism and an institutional one, but between an orderly and disorderly approach encompassing market and institutional elements. The former seem more pervasive in their effects on unemployment and non-award earnings rather than in their effects on the general wage level as indicated by award rates. These latter have been tremendously influenced by social (rather than economic) forces acted out through the institutions of wage determination. Social concepts of wage determination (such as minimum pay rates and comparative wage justice) have resulted in "sticky" wage relativities. Thus award rates, even if they did represent the operation of market forces at their time of institutionalisation, today represent the rigid codification of "locked-in" differentials with little relation to the current market forces in the appropriate industry. Pressures to maintain such relativities have been an important contributor to the wage hikes of 1974 as less productive sectors used the institutional means available to

31—See in particular N.W.C. February 1978, p. 6, and N.W.C. November 1977, p. 5.

32—See N.W.C. June 1978, p. 2.

33—Ibid.

34—See Bentley, P. and Blandy, R., "The Australian Labour Market June 1975," *Australian Bulletin of Labour*, Vol. 1, No. 4, June 1975, p. 24.

35—See for example, Part IV, Isaac, J. E. and Ford G. W. D., *Australian Labour Relations Readings* (Sun Books, Melbourne 1971).

them to maintain the relativity nexus with more productive sectors. Aubrey Jones has described a similar phenomenon in other countries.³⁶

If the above account has any validity then a centralised system which varies awards uniformly and in an orderly manner would appear less disruptive, costly and conflict prone. This would appear to be the Commission's view:

"... in formulating a set of principles for wage fixation we have tried to approach the question of wage fixing not as the resolution of each dispute as an isolated and independent case but as the determination of inter-related matters within a 'system' in which short term advantages or disadvantages may have to be balanced against long term costs or gains. We have taken this approach in the light of the experience of the self-defeating sectional wage settlements of the last few years culminating in the wage explosion of 1974. We believe that this approach will enable the Commission to perform its task of preventing and settling disputes in a more rational, more orderly and more equitable manner with advantages to the economy and to industrial relations."³⁷

The continuous operation of such a centralised system requires both a general consensus on the part of the major actors in the system and the establishment of rules which while restrictive, possess the safety valves necessary to release explosive pressures. To date indexation has been successful on both these fronts. The guidelines have provided clear parameters for those seeking wage increases but have left the Commission with sufficient flexibility to ensure the system's survival. Work value, community catch-up and anomalies are sufficiently elastic terms to give some credibility to any deadlock diffusing compromise at variance with the general tenet of the guidelines. As such they provide useful safety valves. Productivity reviews, as yet unused, provide further outlets as do frequent reviews of the guidelines themselves enabling these to adjust to the prevailing industrial realities. As in the past strategic-

ally placed work groups have been able to extract from the system the benefits conferred on them by their location. Indexation has been able to minimise the flow-on effects of any pecuniary increases. Industrial relations realities have forced a degree of pragmatic ambivalence on the part of the Commission.

The ability to use the guidelines flexibly has been best demonstrated in the Commission's approach to gaining consensus for the indexation package. "Substantial compliance" has been found quarter by quarter notwithstanding the evidence to refute its existence according to the Commission's own criteria.³⁸ The full indexation decisions of 1975 wooed unions, ensuing partial and plateau decisions have appeased governments and mollified employers, occasional returns to full indexation have pacified disconsolate unions. Public support has been enhanced by the apparent success of indexation: inflation has been reduced, real wages maintained at high rates, the wage wilderness has been tamed.³⁹

Wage indexation has accentuated one of the Commission's perennial preoccupations — the economic, social and industrial ramifications of its determinations. This preoccupation has been intensified by the varied expectations placed on indexation, by the income redistribution effects of its decisions, by the frequency of national reviews under indexation and by the way economic, social and industrial considerations impinge upon consensus. A further reinforcing agent has been the dependence of indexation on supportive mechanisms outside the Commission's control. This has been most apparent in co-ordinating the instruments of economic policy so as to maximise indexation's deflationary and stability attributes while minimising industrial discontent.

The federal government has expected the Commission to tailor its wages policy so as to conform with the government's economic strategy. It has consistently argued that the Commission's prime concern ought to be economic stability:

"There are four major arms of economic policy: fiscal, monetary, external and wages policy. The Common-

36—Aubrey Jones, *The New Inflation. The Politics of Prices and Incomes* (Andre Deutsch, London, 1973).

37—N.W.C. May 1976, p. 12.

38—For a fuller review of this point see David Plowman, "Wage Indexation: Theory and Practice," Working Paper Series, Department of Industrial Relations, UNSW.

39—A preliminary exploration of the effects of indexation on price and wage levels is contained in David Plowman, *op. cit.*

wealth largely controls and directs monetary, fiscal and external economic policies. Consistent with the responsibility for the economic well-being of the community, the management of these policies have been directed to slowing the rate of inflation and thereby creating the preconditions for substantial economic recovery. The Commonwealth's direct control of the fourth arm, wages policy, is limited. The reality is that the Commission very largely determines the level of wages paid in Australia.

"It follows that the efforts of the government in the areas of economic policy under its control can be seriously prejudiced unless the Commission's decisions on wage adjustments are consistent with those efforts. We submit it is imperative, therefore, that the Commission accept economic considerations as the prime determinant of the level of any adjustment awarded. We say this in full knowledge of the Commission's responsibility in relation to the settlement of industrial disputes."⁴⁰

The Commission has rejected such a prescription as simplistic: "... While the distinction between economic and industrial arguments is useful for analytical purposes, the economic consequences of any decision which the Commission makes on wages cannot be isolated from industrial consequences because of their interaction ... what may appear the wage decision for economic recovery may turn out to be the wrong decision when industrial considerations are brought to bear on the decision."⁴¹ To refuse any wage increase on economic grounds could be self-defeating if it had the effect of increasing demands in the field.⁴² The Commission sought a prescription which would promote economic recovery in a socially equitable and industrially harmonious way, recognising that "to strike the right balance between economic, social and industrial considerations (was) a difficult task, particularly when important

differences existed on the cause of the economic difficulties."⁴³

For its part the Commission has expressed concern at inadequate support from governments. It had hoped that the economic policies of governments would not be inconsistent with the indexation principles and the objectives which underpinned them. "The course of events has to some extent negated these expectations and increased (the Commission's) difficulties ... It goes without saying that fiscal action which adds to costs and prices (would) have a direct and rapid effect on wage movements through indexation."⁴⁴ The Commission has been critical of the Whitlam Government's budget increases in the excise on beer and cigarettes and the changes made by the Fraser Government in the methods of financing health services. These moves contributed to C.P.I. increases placing the Commission in a difficult position "to meet the economic requirements suggested by the Commonwealth as well as (its) industrial obligations to the Act."⁴⁵

The Commission has partly accommodated wages policy to fiscal and external policy by discounting for the effects of personal taxation reductions, devaluations and excise tax changes, and by applying plateau indexation designed to reduce the cost effects of wage increases. To a lesser degree government policy has been supportive of the Commission's wages policy. Tax indexation, even in its emasculated form, has been a useful supportive mechanism while the 1978 federal budget strategy was one designed to minimise the effects of price increases on components of the C.P.I. The "temporary" increase in personal taxation (rather than an increase in the health levy) to offset increased health costs has prevented such costs from being translated into wage increases via the C.P.I. The reduction of sales tax on motor vehicles is expected to more than compensate for the increased excise on cigarettes, beer, spirits and petrol. Government estimates see the budget as having

40—See N.W.C. March 1977, p. 8.

41—N.W.C. May 1976, p. 11.

42—N.W.C. April 1975, p. 8.

43—N.W.C. November 1977, p. 12.

44—N.W.C. March 1977, p. 9.

45—Ibid.

46—See 'Fraser puts his case for the budget,' *The Sydney Morning Herald*, August 22, 1978, p. 7.

the favourable impact of reducing the December 1978 C.P.I. by half a per cent less than it might otherwise have been.⁴⁶

Such accommodation on the part of a government whose economic platform is opposed to indexation may well reflect the political realities which gave rise to indexation. Its removal may create a damaging void. Given the attainment of single digit

inflation employers' aversion to indexation has been reduced. Given the continuation of high levels of unemployment unions' acceptance of indexation has been enhanced. Given the Commission's spotlight role, it has a vested interest in indexation. Thus, in the foreseeable future, indexation will be an important part of the Australian way of life. ©