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INEQUALITY AND ARBITRATION OF WAGES IN AUSTRALIA; AN HISTORICAL PERSPECTIVE

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This paper evaluates the debate in the literature on the extent to which a concern for egalitarianism has been a feature of Australia's wage-fixing system during the current century. An alternative interpretation of the historical record is proposed, along with an alternative concept of egalitarianism. A new conclusion about the degree of concern for egalitarianism follows.
INEQUALITY AND ARBITRATION OF WAGES IN AUSTRALIA
AN HISTORICAL PERSPECTIVE

I. Introduction

There has been extensive debate about the egalitarian aspects of Australia's system of wage fixing. In addition, there has been considerable analysis of the statistical features of Australia's wage structure, where summary statistics of wage dispersion have been employed in an attempt to reach conclusions about the degree of inequality exhibited in the Australian data as compared with similar data from other countries. Although these two issues are interrelated they are still distinct, a fact which was not adequately recognized by the participants in the debate. In particular, studies which involved statistical analysis of the wage structure tended to draw conclusions which went beyond the limits set by the nature of the statistical examinations which they undertook.

The debate is far from being settled. The positions which have been embraced range from a belief that the Australian system of wage fixing is more egalitarian [Laffer (1958), Wheelwright (1960) and Portus (1971)] to a strict rejection of the propositions that egalitarianism characterizes the Australian system any more than it characterizes the system in the UK or the US [Hughes (1973), Brown et al. (1978) and Norris (1980)].

There is also a view which maintains that the historical structure of wages in Australia is dominated by the arbitrators' commitment to
maintaining a constant structure of relativities, [Phelps-Brown (1977)].
This obviously implies that the emphasis in the Australian system has been
on the maintenance of the status quo, with a reluctance to either enhance
or reduce the inequality of wages. This view, indeed, is the conventional
wisdom on the matter, but it has yet to withstand a detailed analysis of
the historical record of wage determination in Australia.

No amount of debate, whether purely theoretical or aided by empirical
analysis, could ensure elimination of such disagreements. However,
ill-defined terms of debate have served to maintain a large and lasting
gap. The various authors have failed to spell out satisfactorily the
concept of egalitarianism which they entertain.

Propositions about the unique egalitarian impact of the Australian
system have often taken the form of a suggestion that the system 'protects
the weak'. For instance,

"... compulsory arbitration acts as an umbrella, under
which both weak and strong can expect more equality of
treatment than if they remained outside the umbrella."
-Wheelwright, 1960 p.50.

More specific suggestions have also been offered:

"...the difference between the wages paid to weak and
strong unions is likely to be smaller [in Australia] than in
countries with collective bargaining" -Portus, 1971, p.113.

Wheelwright, who incidentally does not see the dividing line as being
between collective bargaining and centralized wage fixing, but rather in
the specific ideological commitment of the trade union movement, suggest that in Australia (as well as in the UK) wages are more uniformly structured:

"The British and Australian systems, however, [in comparison with the US] have the effect of making labour costs more uniform throughout the economy." -Wheelwright, 1960, p.51.

Presumably, the smaller differences or uniformity of wages are to hold in a secular, long-term sense except for small, short-lived, aberrations.

While these two statements which have been cited are potentially amenable to empirical verification, the more general idea that the Australian system of wage fixing protects the weak is much more difficult to pin down. It is evocative, it offers connotations, but it cannot easily be translated into more tangible terms, unless the concept of the 'protection of the weak' is more fully stated. Further, I propose that the specific propositions about the structure of relativities have been hastily, or at least too intuitively, drawn from the more fundamentally held view, that the system offers protection to the weak.

Consequently, while statements such as those made by Portus and Wheelwright about relativities can legitimately be challenged by a comparative analysis of the wage structures of different countries, this cannot be said about the more general proposition on the protection offered to the weak. In other words, the general question of the relative degree of egalitarianism which is exhibited by a given system of wage fixing
cannot be settled by a simple comparison of static profiles of wage structures of a group of countries.

The contention of the present paper is that a more dynamic perspective is essential. Specifically, instead of simply comparing wage dispersions at a given point of time, it may be considerably more productive to ask how the system distributes both the hardships of economic recessions and the fruits of booming economic conditions across the rungs of the wage ladder. Conclusions, based on such a dynamic framework of analysis could well be markedly different from those offered by the comparisons of summary statistics of wage distributions at a given point of time.

Such a dynamic perspective is especially vital for a more complete understanding of the historical experience of wage determination in Australia. The concept of egalitarianism in the Australian wage system, it is argued below, concerns itself with the relationship between the wage structure and the trade cycle. This, however, it does only in a limited sense, since it focuses on the minimization of the hardship which poor economic conditions or inflationary price movements inflict on the unskilled. It does not concern itself, in any direct sense, with overall inequality in the long run, and its overall egalitarian impact ultimately depends on the incidence of economic recessions.

II. Statistical images

Summary statistics of wage dispersions are employed in virtually all
studies which have used statistical data in an attempt to reach conclusions about (a) the empirical question as to what the spread of wages is at a given point of time, (b) the analytical question as to what role has been played by the Tribunal system in determining the structure of wages, (c) the question of the degree of egalitarianism which is reflected by the structure of wages, and (d) the question of what degree of egalitarianism is involved in the principles of the system of wage fixation itself. Typically, the studies operate under the assumption, however implicit, that the method used when dealing with the first answer satisfies the methodological requirements of the remaining questions. Similarly, there tends to be an assumption that the conclusions reached with respect to (a) directly imply the answers to (b), (c) and (d).

The first in this class of studies is Oxnam's (1950), a work frequently referred to. It employs a rather basic statistical measure of dispersion – the skilled/unskilled wage ratio. This is a measure which pays attention to only the two extreme values of the wage scale – the lowest and the highest award wage rate. The value of this measure for the Australian data is then compared with a similar value computed from data for New Zealand, an allegedly 'comparable' country. Having assumed that the two countries are alike in all pertinent aspects, except for the peculiar institutional characteristic of the Australian system of wage fixing, Oxnam unhesitatingly attributes any noticeable differences in the skill differential to the operation of the arbitration system.

Essentially identical methodological procedures are followed by a number of studies which appeared in the '70s and more recently. Hughes
(1973) employs a more sophisticated summary statistic as the yardstick by which wage structures of different countries are compared, but the method of isolating the role of the Australian arbitration system again involves a comparison with a 'comparable' country. This time, however, the choice falls on the UK. The author acknowledges that:

"if one wishes to assess the effect of compulsory arbitration it is necessary to form some judgement as to what would have happened had compulsory arbitration not been instituted" - Hughes, 1973, p.8.

However, the judgement made does not rely on an explicit analytical framework regarding the pattern that would have obtained in the absence of compulsory arbitration. Rather, it consists of the axiomatic supposition that in the absence of arbitration the Australian wage structure would have evolved along English lines.

In this study, and in another closely related paper jointly written with K. Hancock (1973), there is a discussion which has some bearing on the conjecture about the state of affairs that would have obtained in the absence of arbitration. The authors propose that differences between collective bargaining systems and the Australian system of wage fixation have been grossly overstated. They point out that collective bargaining systems, such as those prevailing in the United Kingdom and the United States, are subject to a number of constraints which emanate from norms of social behaviour. The result is, the author propose, that those systems too are not free to respond to market forces or to other factors which might enhance the bargaining power of unions. Specifically, Hughes points out that the principle of 'comparative wage justice' is far from being
unique to Australia. Although the above critique is convincingly stated, it does not at all imply that in the absence of arbitration the Australian economy would have given rise to a British wage structure.

In addition, a comparison of structures of wages which is confined to only one point of time assumes away a number of factors. First, it ignores the effect of random forces upon the wage structure. Secondly, it ignores the possibility of having systematic effects of the trade cycle on the wage structure, where these systematic impacts vary across countries. In contrast, the position of the present paper is that the uniqueness of the Australian wage fixing system, as it existed until recently, lies in the manner in which the wage structure was to behave with respect to the trade cycle. The analysis then must involve the profile of the wage structure over the cycle as a whole.

A study by Norris (1980) follows essentially the same methodology as Hughes' (1973). His finding is that, as far as the picture portrayed by summary statistical measures is concerned, the profiles of adult males earnings in Australia and the UK were almost identical at three points of time - 1971, 1975 and 1978. Similar results were found when the structure of earnings by industry and skill relativities were compared.

Clearly, significant light is being shed on the empirical question as to what the wage structure looked like at various specific times. To the extent that claims are made that the relative degree of dispersion in the Australian wage structure is always markedly smaller than in the British wage structure, such claims indeed are effectively dispelled by these
findings.

However, Norris also states that:

"In general, given the overall similarity of wage relativities in the two countries, the author concludes that the evidence does not support the claim of egalitarianism made for compulsory arbitration" —Norris, 1980, p.249.

This conclusion goes too far. First, even if a statistical measure of dispersion registered a much lower value for Australia as compared with the UK, this still would not refute the proposition that compulsory arbitration makes a positive contribution to narrowing wage dispersion in Australia. Secondly, Norris' conclusion also bypasses an extensive economic literature where it has been clearly established that summary statistics do not provide unambiguous measures of "egalitarianism". (See Atkinson, 1970).

III. Myths abide

The conventional wisdom about the impact of the Tribunal system on the wage structure in Australia is echoed in Phelps-Brown's authoritative book where, upon observing a comparative absence of change in the Australian [wage] differential [for skill] from 1921 onward..."

in the statistical trend line, he proposes to attribute this to "...the working of the system of public regulation [where] arbitrators were explicitly concerned with and generally accepted the claim that it [the skilled/unskilled
wage differential) should be maintained percentagewise."

-Phelps-Brown, 1977, p.77.

Oxnam's (1950) and Hancock's (1969) studies are invoked in support of the above proposition (Phelps-Brown, 1977, p.77). Yet, strictly speaking, it cannot be said that such support is present in their work.

Oxnam's study does state that:

"In determining secondary wages the court has endeavoured, having due regard to the capacity of the industry to pay, to maintain as far as possible the old margins between skilled and unskilled rates". -Oxnam, 1950, p.116.

However, in interpreting this statement one must bear in mind that at the very outset Oxnam poses the question as to why Australian skill differentials have not narrowed down at the same pace as in some other countries. He attributes this to the supposed refusal of the Court to allow such change. However, the question of a commitment on the part of the court to constant relativities as such was never raised.

There is no evidence, either in Oxnam's or in Hancock's account, to suggest that the Court (and later the Commission) was anxious to raise the basic wage following increases in the margins for skill. Possibly this was not clearly visible in 1950, when Oxnam analysed the Australian picture, but it certainly becomes patently clear on reading Hancock's account where the period 1914-1967 is taken as a whole.⁴

Hancock's (1969) seminal study addresses the question of the temporal
pattern of skill relativities in its entirety. This contrasts with the more frequently encountered practice where analysts either focus their attention on a derivation of a trend-line e.g. Phelps-Brown (1977), discarding the remainder of the data, or base their conclusions on an observation made at one point of time e.g. Hughes (1973). Hancock's contribution was to emphasize the importance of the historical dimension of the question at hand.

The historical account which is provided in that study does not assign a dominant role to an attempt to maintain constant relativities. Rather, a conclusion which emerges is the central role which is played by the interaction between the cyclical fortunes of the economy and the Tribunal's commitment to the provision of a fairly constant minimum real wage. (See Appendix).

A practice of adjusting the nominal value of the basic wage according to the rate of increase registered by the "A" Series Price Index had gradually evolved between 1907 and 1921. In 1922 this was more firmly institutionalised when the Commonwealth Court of Conciliation and Arbitration (hereinafter referred to as the "Court") adopted the practice of an automatic quarterly adjustment of the basic wage in accordance with retail price increases - a practice which lasted until September 19535.

Thus the Court was obliged, regardless of prevailing sentiment or notion of comparative justice, to change relativities in favour of the unskilled whenever prices moved upwards, whilst a more general wage change was perceived to be beyond the capacity of the
economy. Prior to the 1950s inflationary price movements occurred in times of economic duress, primarily during the two world wars. Consequently, the tribunal found itself ensuring the minimum level of the real wage without being able to redress the consequent effect on the structure of relativities. The nominal level of margins was kept constant during World War I, as well as during the depressed 1920s and through most of the 1930s. It was ultimately increased only in 1937.

However, during the 1920s and the 1930s, when prices were declining, margins were maintained constant in nominal terms while the nominal level of the basic wage was continuously trimmed in pace with the decline in the price level. As a result, by 1934 the structure of relativities, as it prevailed prior to World War I, was restored.

The recovery in the latter part of the 1930s bore fruit mainly in the form of real wage increases for the more skilled. The nominal level of margins was increased by a much larger proportion than the nominal value of the basic wage.

The historical account for the thirty years which elapsed between 1937 and 1967 reveals essentially the same general features. Inflationary episodes, such as during World War II and the Korean War, resulted in narrowing of relativities. However, setting aside the 1946 and the 1949-1950 decisions, the increases in the basic wage were virtually limited to an adjustment for the rate of inflation. On the other hand, though margins for skill lost real ground during inflationary episodes which were not accompanied by buoyant economic conditions, they had most of
the real gain accruing to them when real growth in the average wage was permitted. As Hancock reports:

"When the basic wage was abolished in 1967, its real value was less than 2 percent above its level of fourteen years earlier. After 1953 virtually all the growth in the real value of award wages was absorbed by margins." -Hancock, 1969, p.67.

Thus, although the automatic quarterly adjustment of the basic wage was abolished in September 1953, thereby removing the formal commitment to the notion of the 'living' (or 'needs' aspect) of wage and formally opening the door to the principle of 'capacity to pay', changes in the economy's capacity to pay still had very little bearing on the real value of the basic wage. It was a system which insured the real value of the basic wage against the inroads of inflation. However, the premium for this device involved a virtual isolation of the basic wage from the implications of increased capacity to pay, even following the abolition of the automatic adjustment for price rises and the elevation of the 'capacity to pay' principle to a dominant position.

The validity of the above proposition does not depend at all on the members of the tribunals formally stating the existence of such an 'insurance' scheme; neither need they be strictly conscious of the operation of such a principle for such an interpretation to be acceptable.

Hancock's (1969) study does not actually propose the above interpretation, but it is suggested nonetheless by the general trend of the historical profile drawn by him. Hancock only sought to emphasize that most of the change in the structure of relativities can be explained by two
entities: price movements and the cyclical state of the economy. This is true, but the specific historical profile of relativities could not have emerged without the arbitrators' commitment to adjusting the basic wage for inflationary price movements; at the same time, they had to refrain from adjusting the basic wage for the fuller effects of the increased capacity to pay during the economic upswing, even in the aftermath of 1953 when the capacity to pay was formally established as the determinant of the basic wage.

Rhetoric aside, the 1953-1967 period saw the continuation of the insurance principle, albeit with a somewhat reduced degree of commitment to providing a fixed floor for the structure of the real wage. The base of the wage structure was kept at a fairly rigid (real) level, foregoing its share in the fruits of boom.

A further comment must be made about the proposition which was offered by Phelps-Brown. In his 1979 study (p.74), the slope of the trend line of the skilled/unskilled wage ratio which is displayed by the Australian data for the 1900-1960 period is compared with the slopes displayed by data from other Western countries. The discussion ignores altogether the intercept of the trend line, that is the possibility that differences in the initial values of the skilled/unskilled wage ratio may have contributed to the rate at which the latter narrowed, is not raised. The graphed data, however, shows that while it is true that the trend line for the data from the US and Canada is much steeper than the Australian trend line. It is also true, as indicated by a comparison of the initial value of the ratio under discussion, that had Australia moved as rapidly as
the US and Canada, Australia would have reached a strict wage equality by
the 1930s. Similarly, the data from the UK and Australia for the 1914-1951
period indicates a steeper slope in the UK's trend line, but the initial
value was higher in Australia; and while the 1959-1961 value for Australia
stood below that of the UK, it was still above the figure provided for
other countries.

IV. Conclusions

There is no solid evidence that the Court and subsequently the
Conciliation and Arbitration Commission were committed to the maintenance
of constant wage relativities. Rather, the system can be more
appropriately described as an 'insurance-scheme' of sorts, where the
nominal value of the basic wage follows price movements, keeping the real
value of the basic wage virtually constant.

The commitment to the maintenance of a floor which is rigid in real
terms has, in turn, had repercussions for the structure of relativities.
Most obvious was the narrowing of relativities which occurred when the
nominal value of the basic wage was lifted (in the wake of inflationary
experience) when economic conditions were deemed too poor to warrant more
general wage increases. As these changes were not sought for their own
sake, it is not surprising that the arbitrators should be anxious to
rectify matters as soon as expediency allowed.

On the face of it, their behaviour appears to reflect a concern for
the maintenance of relativities, but there is, in fact, no evidence to
suggest the presence of a universal commitment to constant relativities. There is no indication that the basic wage was deemed to be in need of an increase following increases in margins. This is especially evident during the period 1953-1967, when the real value of award wages increased at an unprecedented rate, and yet the real value of the basic wage remained virtually unchanged.

In addition, there is no evidence that the system was committed to a 'protection of the relative position of the weak' in a secular sense, but (as mentioned above) it did guard the absolute level of the wage of the lowest paid workers, while allowing for a deterioration in the wages of the better paid, in times of economic duress. Thus, to the extent that Laffer (1958), Wheelwright (1960) and others propose that the tribunal system had a concern for a secular reduction in inequality, this paper's conclusions are more akin to the conclusions reached by the critics of the view e.g. Hughes (1973).

If, however, the proposition made by Laffer and Wheelwright is to be confined to the behaviour of the system in times of economic duress, then different conclusions are reached. This paper argues that the appropriate conceptual framework is a dynamic one, which leads to the conclusion (unlike that of Hughes (1973) and Norris (1980)) that the principles which have guided the Australian system of wage fixing until recently are capable of having a significant egalitarian impact in that they harbour a concern for sheltering the lowest paid against the ravaging effects of inflationary price movements which occur during recessionary periods. However, as mentioned above, such an egalitarian impact would actually occur in a
secular sense only when recessions dominate the historical record. For a society experiencing sustained economic growth, this set of principles collapses into a Victorian concept of charity, where the notion of social minimum wage bears little relation to the standard of living of the better off.
1. In the second (1979) edition of his book Portus expresses a more cautious position on this matter, addressing specifically Hughes (1973) study which compares the Australian and the UK data for 1962-3 finding no striking difference between the two structures (p.145).

2. The authors say that in making this statement they have joined a similar position earlier taken by J. Isaac (1971).

3. An illuminating empirical example is provided in Atkinson's (1970) seminal paper. The same paper also reminds us that different notions of inequality (and hence of egalitarianism) are implicit in different statistical measures of dispersion of income (wages). The core of Atkinson's paper involves an attempt to construct a statistical measure which is flexible enough to offer a number of numerical results, depending upon the premium placed on a reduction in the extent of inequality.

4. The year 1967 is chosen as the terminal point of the analysis, because it saw the abolition of the 'two-tiered' system, where the wage prescribed by an Award consisted of two components, the basic wage and the margin for skill.

5. Automatic Quarterly Adjustment was introduced in the decision made by the President of the Court, Mr Justice Powers, in December 1921 (15 C.A.R., p.193). A disagreement is likely to persist as to whether a
formalization in the form of automatic quarterly adjustment for price increases would have taken place in the absence of the sharp deflationary episode which lasted from the fourth quarter of 1920 (following the sharp inflation of 1919) through the first quarter of 1922. See Forester's (1980) and Hancock's (1979) accounts of the historical evolution of adjustment for price increases and the December 1921 decision. The automatic Quarterly adjustment was abolished in September 1953 by a Bench presided over by Mr Justice Kelly (77 C.A.R. pp.477-538).

6. Although it should be pointed out that during the 1920s the members of the Court were not unanimous in their judgement that margins for skill should not be increased.

7. There is little doubt that during the early post-World War II years Mr Justice Foster's unorthodox view, arguing in favour of increasing the basic wage in real terms, held sway with the Bench, while Mr Justice Kelly who argued against any increase during the 1949-1950 Basic Wage Inquiry (and subsequently presided over the abolition of the automatic quarterly adjustment of the basic wage in September 1953) found himself in a minority position (68 C.A.R. pp.712-784). However, it is still an open historical question whether Foster's dominance in the Bench's 1946, 1947 and 1950 decisions reflects much more than the enhanced bargaining power of the less skilled segments of the workforce at the time. The following passage from Colin Clark's article which was published at the time provides corroborating evidence to that effect. In the article Clark urges
the government to adopt contractionary policies, presumably because the labour market was very tight:

"Our primary object is now to reduce the demand for labour wherever we can...our objective is to convert overemployment not into unemployment, but into nicely balanced full employment."  --Clark, 1950, p.180.

The conditions which had given rise to such a statement must have been accompanied by a sharp rise in the bargaining power of the unskilled. Wide spread labour shortage were also documented by the Court itself. For instance, in 1949 Foster, supporting his position that the level of the female basic wage should be increased from 50% to 75% of the male basic wage, made the following statement:

"...the evidence shows that the relatively great shortage of male labor has placed female workers in a uniquely favourable situation in the labor market"  --68 C.A.R., p.818.

Similarly, in 1947 a Conciliation Commissioner, refusing to grant a selective wage increase which was requested on grounds of enabling an industry to attract workers, retorted that labour shortage were too widespread to warrant such a step:

"...I have no right to fix such a high rate that manpower, in its present shortage will dessert other industries."  --64 C.A.R., p.329, cited in Hancock (1979)

Part II, pp.156-7 (emphasis is mine).

8. During the period of sixty years (1907-1967), when the two-tiered wage system prevailed, decisions to increase the basic wage in real terms occurred only three times; 1937, 1946 and 1950. The 1937
decision seems to have been influenced by two distinct factors, one being the eroded confidence in the ability of the 1907 level of the basic wage to satisfy the needs of the 'average' family. This erosion of confidence seems to have been triggered by the findings of the 1919 inquiry conducted by the Royal Commission on the Basic Wage (under the chairmanship of A.B. Piddington, KC) which said that the basic wage was 25 to 30 percent below what they believed the needs of a family of four to be (Hancock, 1979, p.142). Incidentally, the Piddington Commission also recommended a quarterly adjustment of the basic wage. The second factor was the spectre of the 1929-1934 Depression. The Bench, it seems, was swayed somewhat by arguments of professional economists who appeared in its hearings as witnesses warning against a sharp decline in the wage share because of the grave consequences it might have for the level of economic activity through the unfavourable effects a marked decline in the wage share would have on the level of effective demand (Hancock, 1979, p.144).
REFERENCES


4. Commonwealth Arbitration Reports (C.A.R.), Volumes: 15 (1921), 16 (1922), 64 (1947), 68 (1950) and 77 (1953).


APPENDIX

1913 - 1921

A gradual adjustment of the basic wage for price changes.

Price rises had occurred up to the fourth quarter of 1920 and decreases had occurred thereafter.

December 1921

Institution of automatic quarterly adjustment of the basic wage according to the rate of change in the "A" Series Price Index.

The December 1921 decision also contained an increase of the basic wage by 3/−, the so-called the "Powers' 3/−". Forster (1980) argues that this increment had possibly been a result of a computational confusion, while Hancock (1979) maintains that this increase was intended to compensate for loss of purchasing power during the three months which elapse between adjustments. This latter proposition would tend to place little emphasis on the fact that deflation had by then been taking place for more than a year. A third interpretation can be offered: in view of the fact that in December 1921 the unions were opposed to automatic adjustment, and given the findings of the Piddington Commission that the level of the basic wage stood at about 75 percent of what they believed to be the minimum level of cost of living of the average family, the "Powers 3/−" might well have been a gesture of appeasement.

1922 - 1930

AQA

(=Automatic Quarterly Adjustment of the basic wage for price increase).

1931

−10.0% (Represents a reduction in the real value of the basic wage; adopted as an "emergency").

1931 - 1933

AQA

1934

+10.0% (Restoration of the 1931 cut).

1934 - 1936

AQA

1937

+$0.40 a 'non-adjustable' "prosperity loading". (Value of basic wage = $7.30).

1937 - 1945

AQA

1946

+$0.70 an increment to be adjusted for future price increases. (Value of the basic wage = $10.50).

1946 - 1949

AQA