INTRODUCTION

INTERNATIONAL ECONOMIC CHANGE AND DOMESTIC INSTITUTIONS OF INDUSTRIAL RELATIONS

THE BACKGROUND: CHANGES IN THE INTERNATIONAL ECONOMY AND CHANGES IN NATIONAL PATTERNS OF INDUSTRIAL RELATIONS

This thesis is concerned with the effect of international economic change on the domestic institutions of industrial relations. This has become a central issue in contemporary industrial relations research. In most developed countries during the 1980s and 1990s there were considerable pressures for change in industrial relations institutions. These pressures for change are intimately connected with changes in the international economy, which, among other things, produced increased competition across a broad range of industries and sectors. In many countries, these economic changes have resulted in a reassessment of the role that industrial relations institutions play in the economy and the outcomes that they ought to deliver. This created new sets of demands on institutions that in most developed countries had played a key role in cementing the terms of the post war social contract.

It has been predicted that changes in the international economy have created the conditions for widespread decentralisation of bargaining and deregulation of labour markets across the developed market economies. As Kume and Thelen put it:

… the argument is that “globalisation”- frequently understood in terms of capital mobility or the threat of exit- has shifted the balance of power decisively towards employers. Unions are seen as the main defenders of traditional practices, but their power to resist decentralisation and deregulation is sapped by ongoing struggles with employers and, in many countries, also undermined by high unemployment.¹

As a result, there have been predictions in both the popular press and the academic literature that changes in the international economy will produce a universal “race to the

¹ Thelen and Kume 1999 p 478
The Importance of Small Differences

bottom” and a convergence of national institutions of industrial relations towards a radically deregulated and decentralised neo-liberal model.²

Nevertheless while there is evidence of considerable pressures for change in national industrial relations institutions in response to changes in the international economy, it is also evident that national diversity in patterns of labour market regulation has not disappeared. Indeed, in some regards, national diversity can be said to have increased. Thus while some have argued that there has been a general trend towards decentralisation of bargaining across a range of developed countries,³ others have noted that there continue to be important differences between labour market institutions across countries. Traxler, for example, argues that

[evidence] of collective bargaining developments illustrates that it is not convergence but rather divergence that has been the prevailing trend in industrial relations. This continued divergence of labour market institutions- despite increasing economic internationalisation- underlines that it is not possible to mechanically derive propositions on the development of labour market institutions from changes in their economic context. If changes in the environment are not simply mirrored in corresponding changes in industrial relations systems, there must be some intervening variable at work.⁴

Evidence of both change and continuity in national patterns of industrial has raised questions about how to understand the relationship between international economic change and the domestic institutions of industrial relations. This has focused attention on the factors which account for persistence of national diversity in industrial relations institutions and policies, on the one hand, and change in those institutions, on the other.

KEY QUESTIONS
A focus on the relationship between international economic change and the domestic institutions of industrial relations raises broader questions about the factors which shape national patterns of industrial relations and the relationship between these factors. In particular it raises the following questions: Which factors explain similarities and differences in national patterns of labour market regulation? Which factors explain continuity and change in national patterns of industrial relations? What role does

² for versions of this argument from a variety of different perspectives see Reich 1991, Marshall 1994 and Broad 1995
³ See, for example, Katz 1993
⁴ Traxler 1995 p 9
international economic change play in shaping the domestic institutions of industrial relations? Is international economic change only associated with pressures for convergence and change, or does international economic change also play a role in producing patterns of divergence and continuity in national patterns of industrial relations? How ought we to conceive of the relationship between the international and the domestic? What is the relationship between interests and institutions in producing national patterns of industrial relations? What is the relative balance between international economic imperatives, material interests, political configurations and institutional constraints in determining patterns of labour market regulation?

THEORETICAL APPROACHES
There are a number of theoretical frameworks and approaches which may be used to address the issue of the relationship of international economic change to domestic institutions of industrial relations. Three broad approaches may be distinguished - the globalisation thesis; an institutionalist approach and an interaction approach. These approaches conceptualise the relationship between similarity and difference, continuity and change, international and domestic, interest and institution, and economy and polity in different ways.

The traditional approach to the question of the relationship between international economic factors and national patterns of industrial relations in comparative industrial relations has been to treat it as an issue of establishing the relative convergence or divergence in industrial relations systems across countries. This debate was originally couched in terms of the effects of the logic of industrialism on the development of industrial relations systems in different countries. Developments in the international economy have once again resulted in predictions of convergence in national patterns of industrial relations. The globalisation thesis refers to the view that there has been a qualitative change in the nature of the international economy which has produced significant pressures for convergence in, amongst other things, patterns of labour market regulation across all countries. At its extreme, the globalisation thesis predicts a universal “race to the bottom” in terms of labour standards across all economies. This leaves little room for nationally specific institutional forms of labour market organisation.

5 Kerr et al. 1960a; Kerr et al. 1960b
The Importance of Small Differences

which may provide for trade union security or encourage the pursuit of equity as well as efficiency. Versions of the globalisation thesis have been used to explain common changes and pressures for change in industrial relations institutions across a broad range of economies.\(^6\)

A second approach, to the relationship between international economic change and the domestic institutions of industrial relations, stems from a critique of the globalisation thesis. *Institutionalist* approaches to comparative industrial relations stress the importance of national level institutions in mediating and refracting common economic pressures. For institutionalists, the mediating role of institutions explains persistent cross-national difference across a range of variables, including patterns of labour market regulation, despite significant common pressures emanating from the international economy. This suggests that the relationship between international economic change and the domestic institutions of industrial relations is not as simplistic as implied by the globalisation thesis. It also suggests that many important variables that explain differences in national patterns of industrial relations are domestic and institutional in character, rather international and economic in character.

While institutionalist arguments provide a useful corrective to the convergence logic of the globalisation thesis and have focussed attention on a range of important explanations for national differences in industrial relations institutions, there are a number of limitations to these types of arguments. Whereas arguments based on the globalisation thesis focus on similarities between cases, institutionalist approaches are able to explain differences between cases but have difficulty accounting for similarities. Thus, institutionalist arguments have difficulty accounting for similarities and differences between cases within the same conceptual framework and, therefore, leave the convergence logic of the globalisation thesis more or less intact. As a consequence they tend to treat economic factors as separate from political factors, regarding international economic factors as the source of pressures for convergence and domestic political factors as factors which produce divergence. The result is that analyses of the relationship between international economic change and the domestic institutions of

\(^6\) see, for example, Aspinwall 1996 and Broad 1995;
industrial relations rarely goes beyond attempts to establish whether convergence or divergence is more prevalent.

This thesis develops and tests an interaction approach to the relationship between international economic change and the domestic institutions of industrial relations. The interaction approach draws on the insights of the political economy tradition in industrial relations and concepts from the broader international political economy literature. A political economy approach suggests that institutional arrangements reflect, although are not completely determined by, material interests.\(^7\) The distinguishing feature of an international political economy approach is rather than seeing these material interests as solely shaped by domestic factors, it sees national processes as embedded in an international structure of accumulation. As Giles and Murray note whereas “mainstream [industrial relations] researchers see a series of exogenous changes, political economists see patterns rooted in the dynamics of international and national social structures of accumulation”.\(^8\)

This thesis argues that an analytical model that focuses on the interaction between interests and institutions in the context of international economic change allows comparative analysis to explain both continuity and change in industrial relations institutions within countries and also similarities and differences across countries. Thus the interaction approach overcomes the limitations of both the globalisation and institutionalist approaches to the relationship between international economic change and the domestic institutions of industrial relations.

**THE AUSTRALIA NEW ZEALAND COMPARISON**

This thesis explores the issue of the relationship between international economic change and the domestic institutions of industrial relations, and tests the three theoretical approaches outline above, by comparing industrial relations developments in Australia and New Zealand. There are a number of reasons why the comparison of these two cases provides a good framework within which to address issues at the heart of this thesis.

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\(^7\) Giles and Murray 1997 p 84  
\(^8\) Giles and Murray 1997 p 85
First, both Australia and New Zealand are highly dependent on trade and their domestic economies have long been directly affected by developments in the international economy. Because of their dependence on international trade and the relatively small size of their domestic economies, the Australian and New Zealand cases allow the analysis to focus directly on the relationship between international economic factors and domestic institutional arrangements. Moreover, not only are New Zealand and Australia heavily reliant on trade but they are also highly dependent on trade in primary products. The theoretical literature suggests that economic shocks associated with changes in the international economy are likely to affect commodity and primary product producers more dramatically than those that trade in manufactured goods.9 Since at least the mid 1970s, the Australian and New Zealand economies have manifest, in extreme fashion, many of the economic problems which the literature associates with the current wave of globalisation. For example, both Australia and New Zealand have experienced increases in the ratio of trade to gross domestic product (GDP) and have been dramatically impacted by changes in international financial markets. Unlike large countries, with large domestic economies, the comparison of Australia and New Zealand provides the opportunity to isolate the impact of international on the domestic institutions of industrial relations. Therefore, Australia and New Zealand represent extreme cases of the potential effects of international economic change on the domestic institutions of industrial relations.

Second, Australia and New Zealand share the same distinctive institutional heritage in industrial relations. They are both countries that have regulated wage determination and bargaining through a national system of voluntary conciliation and compulsory arbitration. This form of regulation created distinct institutional arrangements such as industrial tribunals and industrial awards in the two countries. Furthermore this institutional distinctiveness is long standing. The arbitration systems in both Australia and New Zealand date from the turn of the twentieth century. The distinctiveness and longevity of these institutional arrangements make the cases of Australia and New Zealand particularly interesting for those concerned with questions of the relationship between international economic change and the domestic institutions of industrial relations.

9 Wade 1996 p 67
During the 1980s and 1990s there were significant changes across almost all aspects of economic policy in Australia and New Zealand, including industrial relations policy. While there were a number of similarities in overall direction of these changes, there were significant differences in the development of industrial relations policy in Australia and New Zealand. This apparent divergence between two countries, faced with apparently similar economic pressures and with broadly similar historical and institutional backgrounds, constitutes a third reason why comparison of Australia and New Zealand provides a useful context within which to examine the relationship between the international economic change and the domestic institutions of industrial relations.

This apparent divergence in industrial relations policy direction attracted comparative attention. The combination of a significant number of historical similarities, which appeared to be based on a common set of economic imperatives and divergent policy outcomes, provided the opportunity to deploy a most similar research design. The resulting literature identified a number of variables that can be used to explain diversity in national patterns of industrial relations. The conclusions of this comparative study provide empirical support for an institutionalist approach to the relationship between international economic change and the domestic institutions of industrial relations. Thus, there are a number of reasons why the comparison between Australia and New Zealand provides an ideal framework within which to explore the relationship between international economic change and the domestic institutions of industrial relations.

**OUTLINE OF THE THESIS**
The thesis is structured as follows. The theoretical arguments of the chapter are developed in the first three chapters. Chapter one reviews the main approaches to the relationship between international economic change and the domestic institutions of industrial relations in the literature- the globalisation thesis and the institutionalist approach. It argues that the institutionalist approach represents an important advance over the globalisation thesis. However, while the institutionalist approach has become increasingly dominant in the comparative industrial relations literature, there have been few attempts to explain why or how institutions matter. Chapter two examines the intellectual origins of the institutionalist approach in comparative politics. It argues that because of the assumptions on which it is based there are fundamental limitations to an
institutionalist approach to international economic change and the domestic institutions of
industrial relations. Chapter three outlines the main elements of an interaction approach
to the relationship between international economic change and the domestic institutions
of industrial relations. In particular, it reviews interest-based models in the international
political economy literature, which explain cross-national differences in terms of the
effects of international economic change on policy coalitions, and assesses the extent to
which concepts from this literature can be used to explain the relationship between
international economic change and the domestic institutions of industrial relations.

The remainder of the thesis sets out to test these competing theoretical approaches by
examining their ability to account for similarities and differences in patterns of industrial
relations reform in Australia and New Zealand. Chapter four examines the benefits of a
most similar case research design for testing theoretical frameworks and the extent to
Australia and New Zealand can be regarded as most similar cases for the purposes of
comparative analysis. Chapter five critically reviews the comparative literature on
industrial relations reform in Australia and New Zealand during the 1980s and 1990s. It
demonstrates that the conclusions of the comparative literature both raise serious doubts
about the validity of the globalisation thesis and also seem to provide strong empirical
support for an institutionalist approach to the relationship between international economic
change and the domestic institutions of industrial relations. However it also shows that
this comparative literature has a number of limitations which are consistent with the flaws
identified in the institutionalist approach in chapter two.

One of tests of the robustness of a theoretical explanation is its ability to explain more
than one example of a phenomenon. The chapters six, seven and eight evaluate the
ability of the interaction model to explain the relationship between international
economic change and the domestic institutions of industrial relations in the cases of
Australia and New Zealand in three distinct periods of significant international economic
change. These three periods are: first, the end of the nineteenth century; second, the
immediate post-World War Two period; and, finally, the end of the post war boom which
began in the late 1960s. In each of these periods there were significant changes in the
international economy, which impacted on both Australia and the New Zealand, and there
were also important changes to the domestic institutions of industrial relations in the two
countries. The aim of each of the chapters is to examine whether an analysis which concentrates on the nature and pattern of interaction between international economic change, the material interests of social actors and the institutional and political context in which these factors operated in the two countries in each of these time periods is able to account for both similarities and differences between the two countries over time, and thus overcome the major weaknesses of the existing theoretical approaches to this issue.

In addition to providing a testing ground for testing the explanatory power of the interaction approach, chapters six, seven and eight are also designed to question the assumptions that underpin the contemporary literature on industrial relations reform Australia and New Zealand. This literature rests on three assumptions. These are: first, that arbitration was adopted in the two countries for the same reasons and had the same affects on the subsequent development of industrial relations; second, that the institutions of arbitration and their impact were constant throughout the twentieth century; and third, that the economic situation facing the two countries throughout the twentieth century has been broadly similar. Chapters six, seven and eight suggest that these apparently small differences between the cases are more significant that the comparative literature has been prepared to admit.

Chapter six is concerned with the extent to which the origins and consequences of arbitration in Australia and New Zealand were identical. Chapter seven examines whether the reconstruction of the international economy in the immediate aftermath of World War two resulted in changes in the operation of the arbitration systems in two countries. Chapter eight explores the extent to which differences in the economies of the two countries meant that changes in the international economy associated with the end of the long boom in the late 1960s produced differential changes in the patterns of industrial relations in Australia and New Zealand prior to the 1980s.

The conclusion outlines the main findings of the thesis. The central argument of this thesis is that meaningful comparative analysis of the effects of international economic change on patterns of industrial relations needs to go beyond the approaches which dominate the existing literature.
CHAPTER 1

BETWEEN CONVERGENCE AND DIVERGENCE:
APPROACHES TO THE IMPACT OF GLOBALISATION ON INDUSTRIAL RELATIONS

1.1 INTRODUCTION
Since the early 1990s comparative industrial relations scholarship has increasingly focussed on the impact of changes in international economy for national patterns of employment relations. In line with predictions that the pressures associated with globalisation make it impossible for national governments to maintain different policy stances, it has been argued that changes in the international economy have produced pressures for convergence in the domestic institutions of industrial relations towards a deregulated and individualised pattern of employment relations. Many comparative industrial relations scholars have responded to this prediction by pointing to evidence of continued diversity, and indeed growing divergence, in national institutions of industrial relations despite common international economic pressures. These scholars have stressed the importance of national institutional patterns in explaining the cross national patterns of difference and divergence. The debate about globalisation and industrial relations has thus led to arguments about convergence and divergence- arguments which have a long history in comparative industrial relations scholarship. This chapter reviews these two approaches to globalisation and industrial relations. It argues that the current debate, and particularly the focus on whether pressures for convergence or divergence are more prevalent, is too limited to account for the complex pattern of continuity and change evident in cross national comparisons of industrial relations.

This chapter is structured as follows. Section 1.2 provides a brief overview of the traditional debate about convergence and divergence in mainstream industrial relations, and examines its enduring influence on assessments of the relationship between international economic change and domestic institutions of industrial relations. Section 1.3 summarises the main features of the globalisation thesis. Section 1.4 reviews the main features of the institutionalist approach to the relationship between international
1.2 CONVERGENCE AND “THE LOGIC OF INDUSTRIALISM”
This thesis is interested in the relationship of international economic change to the domestic institutions of industrial relations. The dominant approach to this issue in comparative industrial relations scholarship has been to treat it as an issue of establishing the relative convergence or divergence in industrial relations systems across countries. This debate was originally couched in terms of the effects of the logic of industrialism on the development of industrial relations systems in different countries. Although the logic of industrialism thesis was strongly contested during the 1970s, the convergence-divergence dichotomy has continued to dominate thinking about the relationship between international economic change and the domestic institutions of industrial relations. Recent developments in the international economy have resulted in a re-emergence of convergence and divergence arguments in industrial relations. It is therefore important to review the original debates about convergence and divergence in industrial relations systems as a basis for assessing current approaches to these questions.

The original convergence thesis in industrial relations has its origins in the Kerr, Dunlop, Harbison and Myer’s book Industrialism and Industrial Man published in 1960. Kerr et al argued that there was increasing pressure for convergence of national industrial relations systems on the model of pluralistic industrialism – the archetype of which was the system of industrial relations that had developed in the United States under the 1935 National Labour Relations Act. This conclusion is based on the view that there was a logic of industrialism and as more and more societies adopted industrial forms of production and organisation, this logic would create “common characteristics and imperatives” across these societies. In order to accommodate these imperatives, Kerr et al postulated that industrial societies had to develop a means of developing a consensus and industrial relations systems which embodied the “principles of pluralistic industrialism” played a central role in establishing this consensus. Goldthorpe describes

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1 Kerr et al. 1960a
2 Kerr et al. 1960b p 384 & pp 386-92
this as a model of “evolutionary convergence of all modern and ‘modernising’ societies on one particular form of industrialism: namely, ‘pluralist industrialism’”.

Therefore, the underlying argument made by Kerr et al is that international economic change (in this case, the universal adoption of production systems based on industrialism) would have a direct and homogenous impact on the domestic institutions of industrial relations. While the authors acknowledged that there were a number of factors that could mediate the relationship between industrialism and the particular industrial relations institutions that developed, including the timing of development and the nature of the modernising elite, they also argued that the logic of industrialism tended to override these sources of difference and would produce convergence on a particular set of institutional arrangements of labour market regulation.

The convergence hypothesis based on the logic of industrialism has been widely contested with many authors arguing that the theory lacked either foundation in fact or explanatory value and should therefore be discredited. In the aftermath of the publication of Industrialism and Industrial Man, there was an explosion of empirical research which set out to test the extent of convergence in industrial relations systems. While some claimed to show evidence of convergence, most of the empirical evidence showed persistent difference in national industrial relations systems. As Katz and Darbishire note:

The thrust of … much of the comparative industrial relations literature… was that there was wide and persistent variation in industrial relations across countries in part due to the influence of nationally specific institutional factors.

On the basis of this evidence, a number of authors questioned the assumption that pressures associated with industrialism were likely to produce convergence in the institutions of industrial relations. One group argued that even though there may have been strong pressures associated with industrialism and modernisation, this did not necessarily imply that there would be convergence on a single set of societal institutions, much less on a single set of institutions that resembled those that had developed in the US. Many of these authors accused Kerr et al of technological determinism. In line

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3 Goldthorpe 1984 p 316
4 Katz and Darbishire 2000 p 8
5 for overviews of this literature see Bamber and Lansbury 1998 pp 13-17; Berger 1996 pp 2-4 and Katz and Darbishire 2000 p 8
with this criticism, Kerr later revisited the convergence hypothesis and argued that the logic of industrialism resulted in tendency towards convergence which may be counteracted by a range of institutional factors.6

A second line of critique went further to question the notion of industrialism itself. It was suggested that what Kerr et al referred to as industrialism was itself a normative concept. *Industrialism and Industrial Man* was one of number of books which set out to present the American social, political and economic system as a superior form of social organisation which provided the basis for stable development of the all countries. To this extent the links drawn between industrialism and a particular set of social and political institutions were prescriptive. The implication was that countries needed to adopt social and political institutions like those of the United States (US) to be able to benefit from modernisation and industrialism.7 Empirical developments in the late 1960s and 1970s seemed to confirm this line of critique. In the third world economic development came to an abrupt halt and in Western Europe there was a re-emergence of class conflict.8

Nevertheless, despite the widespread rejection of the industrialism thesis on which the this convergence hypothesis was based, Kerr et al’s conceptual framework has continued to shape subsequent debates about the relationship between international economic change and the domestic institutions in industrial relations scholarship. Since *Industrialism and Industrial Man* comparative assessments of industrial relations change have tended to look for evidence of either convergence or divergence. For example, in a recent book by Katz and Darbishire, entitled *Converging Divergence*, the authors argue that there is a shared pattern of increased diversity of employment practices across a range of countries which are otherwise dissimilar in a number of respects. They call this pattern converging on divergence. The implication is that a common set of pressures are creating tendencies towards a common distribution of employment practices across a range of countries.9

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6 Kerr 1983
7 Goldthorpe 1984. Other major works in this tradition include and Bell 1962 and Rostow 1971
8 Crouch and Pizzorno 1978; Cammack 1997
9 Katz and Darbishire 2000 pp 9-12. They also argue that differences in national institutional arrangements have resulted in different distributions of these employment practices across different countries. In this regard Katz and Darbishire’s argument is consistent with the institutionalist approach outlined below and demonstrates the extent to which institutionalist arguments leave the convergence logic of globalisation largely intact.
While a concentration on the extent of convergence remains a central aspect of contemporary industrial relations scholarship, in industrial relations as in other social sciences there has little attention what exactly convergence is and how it can be measured. As Seeliger notes:

Considering the convergence hypothesis’ increasing prominence in the literature, it is surprising that much more space and thought has been devoted to the presentation of ‘results’ than to the rigorous conceptualisation of hypotheses, the design of appropriate research strategies, and the discussion of its potential to advance our general understanding of comparative public policy…. Advancement of convergence research has been hampered by the vagueness of its underlying concepts, particularly the concept of similarity…. Calling objects similar and in its consequence the determination of convergence, is no more than a subjective opinion about the magnitude of their differences.  

The lack of conceptual clarity surrounding the concept of convergence in contemporary industrial relations debates is evident in Katz and Darbishire’s work and illustrates the limitations of treating the relationship between international economic change and the domestic institutions of industrial relations within a simplistic convergence-divergence framework. The convergence criteria established by Katz and Darbishire are so broad that it makes it possible to conclude that the United States and Sweden share the same pattern. However there are a lot of important differences between the two countries which are subsequently ignored. Therefore such an approach potentially masks significant differences between cases, which nonetheless meet the convergence criteria. This has consequences for theory development. Katz and Darbishire’s presentation suggests that convergence of employment patterns in Sweden and the US need to be explained in the same terms. This may help explain why they do not put forward any systematic explanation for the empirical pattern they identify.  

1.3 THE GLOBALISATION THESIS
Recent developments in the international economy have resulted in renewed predictions of convergence of national industrial relations institutions and outcomes. As Berger notes:

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10 Seelinger 1996 p 287
11 Katz and Darbishire 2000 p 266
12 for a more detailed critique see Wailes 2000b
… new controversies over trade have … returned to ideas about the convergence of national models that were first systematically articulated in post-war writings about industrial societies …the renewal and persistence of the theory of convergence draws today not on technological determinism but on conceptions of the impact of international competition, globalisation, rapid integration, and the deregulation of domestic economies on national structures.\textsuperscript{13}

These predictions of convergence reflect the view that forces associated with \textit{globalisation} are the prime factors driving change in domestic institutions of industrial relations in the contemporary period. This section briefly outlines the globalisation thesis and the implications that have been drawn from this thesis for understanding the relationship between international economic change and the domestic institutions of industrial relations.\textsuperscript{14}

Globalisation theorists assert that, since the 1960s, there has been a \textit{qualitative} shift in the nature of the international economy and that this has implications for domestic level institutional arrangements, including industrial relations. This qualitative shift has been brought about, it is argued, by three related developments- increased levels of international trade, increased locational mobility of long run productive capital, and hyper-mobility of short run speculative capital. All three developments, the argument goes, have resulted in a level of interdependence between national economies not seen before.\textsuperscript{15}

While there are a number of competing accounts of the factors which have driven these changes in the international economy, globalisation theorists agree that the consequence of this increased interdependence has been a profound change in the pattern of international economic activity with significant increases in the levels of competition in virtually all markets. Thus it has been suggested that “firms all over the world [now face] a common market for products and factors”.\textsuperscript{16} This increase in competitive pressure, it is

\textsuperscript{13} Berger 1996 p 2 & 4
\textsuperscript{14} The literature on globalisation is vast and expanding at an exponential rate. The presentation here focuses on what has been called variously \textit{hyper-globalisation} (Held et al. 1999 pp 3-4); \textit{the business school model of globalisation} (Radice 1997) and the \textit{strong globalisation hypothesis} (Weiss 1998 p 169), because this has been the approach that has been most widely cited in the debate about industrial relations reform.
\textsuperscript{16} Nelson and Wright 1992 cited Wade 1996 p 61, no page reference given
argued, has reduced the scope for national policy autonomy and eroded the factors which sustained institutional diversity between countries. As Boyer puts it:

In its most extreme, this model predicts that the law of one price will hold everywhere. Interest rates, profit rates, wage rates and commodity prices will equalise across borders. A country deviates from the logic of the world market at its peril. If its workers demand high wages, they will lose their jobs as capital flows to places with cheaper labour. If the state enacts ‘green’ policies to protect the environment, capital will again flee, searching out locales where it will not be forced to internalise social costs. In financial markets, global competition will force deregulation, proliferation or financial instruments, and uniform rates of return.

Therefore the globalisation thesis predicts convergence. In fact, Boyer distinguishes three separate convergence hypotheses in the globalisation literature. At the most basic level one of the assumptions of the globalisation thesis is that macroeconomic performance of different countries will converge. It is important to note that these changes do not require capital or labour mobility but are greatly enhanced if mobility is increased.

The second convergence hypothesis that is associated with the globalisation thesis relates to the relationship between markets and the constitutional form of the state. One of the streams within the globalisation literature has equated increased interdependence in the international economy with a free market oriented liberal democratic form of state organisation. Globalisation therefore implies not only and end of geography but also an “end of history”.

Boyer notes a third convergence hypothesis embedded in the globalisation thesis. Globalisation theorists assume not only that there will be a convergence of aggregate economic performance but also a convergence on single set of institutional and organisational forms in all national economies. This, it is argued, occurs at the micro level where firms faced by the same optimising problems find the same solution in terms

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17 for characterisations of this view see, for example, Schor 1992 p 4, and Weiss 1998 pp 167-8.
18 Boyer 1996 p 30-1
19 Boyer 1996
20 It is interesting to note the similarities between the end of ideology views that surrounded industrialism (see Bell 1962) and the end of history views associated with globalisation (see Fukuyama 1992). Both can be read as historically determined forms of liberal triumphalism. See Rustin 1992
of technology, markets and products. This form of convergence, it is argued, is made possible by the way in which globalisation has removed impediments to the free functioning of markets. Thus, Schor refers to the globalisation thesis as “global neoclassicism”.\(^{21}\)

Industrial relations and labour market institutions have varied markedly between countries and have also shown persistent divergence over time. The implication of the globalisation thesis is that changes in the world economy have set in place pressures which will reduce and eliminate these differences. The next section focuses more closely on the implications for industrial relations that can be drawn from the globalisation thesis.

**GLOBALISATION AND INDUSTRIAL RELATIONS**

Campbell provides a good summary of the potential effects globalisation may have for national industrial relations institutions and outcomes.\(^{22}\) The most obvious effect of increased interdependence in the world economy on industrial relations institutions and outcomes stems from the effect of the labour market changes on the bargaining power of organised labour. Increased trade flows have and continue to have labour market effects which undermine the traditional bases of union strength. Thus Jacoby argues that:

> In the advanced nations, globalisation has had mostly a negative impact on organised labour’s bargaining power. Competition from lower cost producers is exerting downward pressure on wages and employment in many unionised industries from steel to textiles to apparel. To secure a competitive advantage farther up the value chain, employers are shifting toward the production of more technology-intensive goods and services. This step, however, has harmful consequences for unions, at least in the short term. It reduces the demand for manual workers— who form a large portion of most labour movements— while boosting employment of non manual employees, a group in which rates of unionisation tend to be lower.\(^{23}\)

A second potential effect of globalisation on the labour market power of organised labour is related to the increased locational mobility of capital investment. Firms can move production from one country to another, and undermine the market power of organised labour in this way. Campbell regards these two effects as *shallow* globalisation effects connected to increases in trade openness.\(^{24}\)

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\(^{21}\) Schor 1992 pp 3-4

\(^{22}\) Campbell, D 1996; Campbell, D 1997

\(^{23}\) Jacoby 1995 p 8

\(^{24}\) Campbell, D 1996 pp 3-4
He argues that there may also be deep globalisation effects on industrial relations institutions associated with the interplay between increased potential mobility of productive capital and the hyper-mobility of short run speculative capital. The interaction of these factors may place limits on the industrial relations outcomes and force institutional change by reducing the power of the state over capital, while at the same time making the state more dependent on private economic activity for macroeconomic performance. This has potentially significant implications for the diversity of outcomes and structure of industrial relations institutions in national economies, irrespective of the relative labour market power of organised labour.

Increased potential locational mobility of capital, as a result of globalisation, can also result in considerable pressure being placed on national industrial relations systems. Campbell suggests that it is the perception of the ability of capital to move offshore which is more important than the move itself. For example:

Union wage premia are driven down by the openness of the world financial system and the ability of capital to move offshore. This really does pose limits on the wage setting or wage bargaining strategies of trade unions which are restrained in their wage demands by the higher elasticity of labour demand.\textsuperscript{25}

The plausible impact of the threat of relocation of productive capital is not just limited to union wage premia but the full range of labour market regulations because increased capital mobility shifts the balance of power in domestic bargaining both between management and labour and also between capital and the state. Because firms have the power to exit, they have voice.\textsuperscript{26} This shift of bargaining power is independent of changes in trade union density.

In addition, increased short-term capital mobility associated with the globalisation of financial markets can have a number of impacts on industrial relations institutions. If increased short-run, speculative capital flows undermine the independence of monetary and fiscal policy, as many globalisation theorists claim, then the ability of governments to ratify the outcomes of collective bargaining through accommodating economic policy is

\textsuperscript{25} Sachs, 1996 cited in Campbell, D 1996
\textsuperscript{26} Cohen 1996 pp 283
Chapter 1: Between Convergence and Divergence

severely limited.\textsuperscript{27} It also places severe limitations on the type of bargaining outcomes that are possible in the public sector because of the pressure placed on fiscal deficits by reliance on investor confidence. As Epstein notes:

The essential problem posed by international capital mobility is that short-term capital mobility undermines a country’s ability to undertake policies that threaten investor confidence in its economy. Countries which undertake macroeconomic policies, such as expansionary monetary or fiscal policy, or dramatic changes in tax or welfare policy, might find that investors react strongly by moving finance out of the country to invest in short term assets abroad. When this occurs, this short term capital flight can cause a precipitous decline in the exchange rate as well as a sharp rise in short term interest rates as the central bank raises interest rates to try to prevent the depreciation of the currency.\textsuperscript{28}

Campbell places particular emphasis on the combined effect of short-term and long-term mobility of capital on industrial relations outcomes and institutions. Both factors potentially result in increased corporate power relative to labour, labour market institutions and to national policymakers. The erosion of economic policy autonomy potentially makes governments more reliant on investment by companies for job growth, revenue collection and economic performance while at the same time companies have become less reliant on the state for guaranteeing profit levels. This means that governments are less inclined to impose burdens on companies and financial markets which are likely to exercise their exit options.

While increased mobility enhances the power of the corporate sector \textit{vis-à-vis} the state and labour, the “labour market itself remains squarely and relatively more thoroughly within the bounds of national policy”.\textsuperscript{29} Campbell, therefore, argues that there is a connection between labour market deregulation and globalisation, because:

...if mobile factors escape or weaken the impact of national regulation, a country’s labour market policies may be among the sole remaining ‘levers’ that policymakers can pull in their bid to attract and retain mobile capital and to encourage job creation ... If countries [are] locked into deflationary macroeconomic policies, a policy aiming at ‘pricing labour into jobs’ is among the few remaining options for attempting to create jobs. Removing regulations has no direct cost to governments.... In this sense, irrespective of whether labour market rules and institutions [are] the ‘real’ or ‘major’

\textsuperscript{27}see Goodman and Pauly 1993 and Pauly 1995
\textsuperscript{28}Epstein, 1995 cited in Campbell, D 1997 p 7
\textsuperscript{29}Campbell, D 1996 p 12
impediments to job growth that some argue them to be, they [become] virtually the only domain on which national governments [can] act. 30

Campbell’s conclusion is that the main impact of globalisation on industrial relations may be to make national labour market adjustment contingent on what other countries do to adjust to rising interdependence because of the effect of increased capital mobility on national policy autonomy. While Campbell raises a number of qualifications and caveats to this broad conclusion, which to some extent moderate this conclusion, it is important to note that his argument implies a trend towards convergence of national labour standards and institutional arrangements in the labour market which is intimately connected to the loss of national policy autonomy associated with globalisation. 31

1.4 COMMON PRESSURE, DIVERGENT RESPONSE: THE INSTITUTIONALIST APPROACH TO GLOBALISATION AND INDUSTRIAL RELATIONS

The globalisation thesis, which broadly holds that international economic change will produce convergence amongst domestic institutions of industrial relations, has been broadly criticised for a number of reasons. Criticisms of the globalisation thesis have stressed the limited character of evidence that supports the globalisation thesis and the continued importance of nation states and national institutions. These criticisms point to an alternative set of arguments about the relationship between international economic change and the domestic institutions of industrial relations. This section reviews some of the main criticisms of the globalisation thesis and outlines the alternative explanation of the relationship between international economic change and the domestic institutions of industrial relations that has emerged from these criticisms.

There are a number of distinct strands to the literature which criticises the globalisation thesis. There are a number of accounts that are sceptical about the extent to which markets are, or are becoming, global in character. For example, Wade argues that the

30 Campbell, D 1996 p 12
31 A similar argument is made by Tilly 1995. He believes that globalisation threatens the established rights of labour because it undermines the capacity of the national state to guarantee those rights. His argument can be summarised as follows. The whole range of workers’ rights that have developed in the period after 1850 have been heavily dependent on the state’s capacity and propensity to discipline capital. Globalisation has undermined the ability of states to discipline capital and therefore labour rights, which are embedded in states, are threatened by globalisation. This is because capital have recognised and taken advantage of the shifts associated with globalisation more effectively than labour. Tilly concludes by arguing that reestablishment of labour rights depends on the development of trans-national strategies but is pessimistic about the possibilities for such a development.
case for globalisation rests on a set of stylised facts and that a fuller evaluation of the empirical evidence suggests that the international economy is still structured by national boundaries.\textsuperscript{32} Similarly, Hirst and Thompson argue “that globalisation has not taken place and is unlikely to do so”.\textsuperscript{33} Rather they suggest that national economies have become more “internationalised”.\textsuperscript{34} Of particular significance, a number of authors have argued that many of the changes associated with globalisation mean that the international economy is returning to levels of interdependence that obtained in the period before 1914.\textsuperscript{35} Thus many conclude that the evidence for globalisation has been greatly exaggerated.\textsuperscript{36}

One implication that can be drawn from this line of critique is that there is unlikely to be convergence of industrial relations institutions and outcomes because the pressures associated with globalisation are not as strong as has been claimed. However these criticisms of the globalisation thesis do not necessarily question the view that international economic change can have a direct and homogenising impact on the domestic institutions of industrial relations.

There is a second line of criticism of the globalisation thesis which does challenge the notion of a simple link between international economic change and changes in domestic institutions. Like Garrett, this approach “accept(s) the more cautious proposition that markets have globalised…. and focus(es) on the second key question about globalisation: does increased market pressure exert lowest common denominator pressure on national economic policies?”\textsuperscript{37} In effect, this question relates to whether nation states retain policy autonomy and capacity in the face of the pressures associated with globalisation.\textsuperscript{38}

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{32} Wade 1996
\item \textsuperscript{33} Hirst and Thompson 1997 p 358
\item \textsuperscript{34} Hirst and Thompson 1996
\item \textsuperscript{35} see for example Hirst and Thompson 1996 chapter 2; Thompson 1997; Verdier 1998
\item \textsuperscript{36} for overviews and further references see Weiss 1998 chapter 6 and Garrett 1998 pp 790- 1 cf Perraton et al. 1997
\item \textsuperscript{37} Garrett 1998 p 791
\item \textsuperscript{38} This includes much of the industrial relations literature which questions globalisation, with industrial relations policies, and even institutions, being treated as a product of national policy autonomy. Hyman demonstrates this clearly when he argues that “the relative autonomy of the national polity and the economy was the context of distinctive national systems of employment regulation”, and suggests that the important questions for industrial relations scholars are whether “this autonomy has been dissipated; and if so, can national industrial relations systems persist?” Hyman 1999 p 91
\end{itemize}
\end{footnotesize}
In this strand, many point to evidence that governments can and do sustain different monetary and fiscal policies.\textsuperscript{39} Often this is connected to the view that because of their institutional structures, some states are better equipped to accommodate the demands associated with globalisation and are not forced to adopt radical deregulation.\textsuperscript{40} This, in turn, is often connected to the notion that there are a range of forms of national “capitalisms” associated with different patterns of institutional arrangements.\textsuperscript{41} Others note that many of the policy changes associated with globalisation have been chosen by governments.\textsuperscript{42} While some argue that having made these policy choices, governments have effectively abandoned national policy autonomy, others suggest that governments still have the power (and the incentives) to choose different policy frameworks and can therefore reclaim their autonomy.\textsuperscript{43}

A clear example of this line of critique, which includes many of elements noted above, is provided by Weiss in a book entitled \textit{The Myth of the Powerless States}. She argues that the notion of state powerlessness as a consequence of globalisation is misleading, not only on empirical grounds, but also on theoretical grounds because “even if economic integration were far more advanced than at present, the predicted emasculation of state powers would not necessarily come about.”\textsuperscript{44} She argues that there is a tendency for globalisation theorists to both overstate the extent of state powerlessness and to over-generalise it. Taking issue with these views, Weiss argues for a broader notion of state capacity and notes that while globalisation might have restricted the power of nation states in some areas there are still a range of other avenues where states exhibit capacity. She uses the example of the role played by the state in the economic development of the East Asian economies to suggest that nation-states have a more direct role to play in the context of globalisation. Similarly, Evans reviews evidence which suggests that the pressures associated with globalisation require greater levels of involvement by the state in economic processes and the economic success in a global era requires what he calls “high stateness”.\textsuperscript{45}

\textsuperscript{39} see Weiss 1998 pp 188-212; Garrett 1998 pp 812-822 and Hirst and Thompson 1996 pp 170-194
\textsuperscript{40} see, for example, Albert 1993
\textsuperscript{41} see, for example, Hollingsworth \textit{et al.} 1994 and Kitschelt \textit{et al.} 1999
\textsuperscript{42} see, for example, Notermans 1993; Notermans 1994; Helleiner 1994; Sobel 1994
\textsuperscript{43} see, for example, Helleiner 1996
\textsuperscript{44} Weiss 1998 p 189
Chapter 1: Between Convergence and Divergence

The implication of this critique of globalisation is that the relationship between international economic change and the domestic institutions of industrial relations may not be as simple and deterministic as the globalisation thesis suggests. Rather it points to a range of important variables—many of which may be national in character—that mediate the relationship between international economic change and the domestic institutions of industrial relations. The most comprehensive attempts to specify the nature, form and operation of these mediating variables can be found in literature associated with the *new institutionalism* in comparative politics. The new institutionalism concentrates on the role that intermediate level institutions play in determining political and economic outcomes. Notwithstanding the breadth and variety of the literature associated with this project, new institutionalist accounts share the view that, despite common pressures, policy outcomes in developed countries can differ significantly because institutional and organisational differences between countries refract these pressures in different ways.

Thelen and Steinmo provide an account of the development of the new institutionalism in comparative politics. They argue that prosperity during the 1950s and 1960s masked the extent of national diversity between developed countries. However, the diversity of responses by policy makers to the economic shocks in the early 1970s caused comparativists to question these theories and led to a search for factors to explain cross-national difference.

> [E]xplaining the persistence of cross-national differences despite common challenges and pressures was a central theme in the work of the early new institutionalists… these

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45 Evans 1997; see also Garrett and Lange 1996
46 There are, in fact, a wide variety of new institutionalisms that have developed in a number of disciplines— including organisational theory and economics. For overviews of their development and attempts to classify see, for example; Thelen and Steinmo 1992; Goodin 1996; and Hall and Taylor 1996. There is considerable debate over whether the different forms of new institutionalism represent distinctive approaches or whether some form of synthesis is possible. For a range of views see, for example, Thelen and Steinmo 1992; Kato 1996; Hall and Taylor 1996; Hay and Wincott 1998; Hall and Taylor 1998; Campbell 1998; and Roberts-Clark 1998.

The term “institutionalism” as it is used in this thesis refers to literature in comparative politics with the features described in Immegrut 1998 and Thelen and Steinmo 1992 and which is also often referred to as *historical institutionalism*. This is the form of new institutionalism that has been the most influential in comparative industrial relations scholarship. Some of the authors who explicitly associate themselves with this version of the new institutionalism include Theda Skocpol, Peter Hall, Peter Katzenstein, Kathy Thelen, Sven Steinmo and Lowell Turner. For overviews and assessments of historical institutionalism see, for example, Thelen and Steinmo 1992; Hall and Taylor 1996; Pontusson 1995b and Immegrut 1998. For a more detailed discussion of the origins, features and assumptions of this form of new institutionalism see Chapter two below. While, it is acknowledged that there are differences between the old and new institutionalism, for the sake of simplicity, the remainder of this thesis uses the terms new institutionalism and institutionalism interchangeably.

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The Importance of Small Differences

Theorists wanted to know why interest groups demanded different policies in different countries and why class interests were manifested differently cross-nationally .... A critical body of work in the late 1970s and early 1980s pointed to intermediate-level institutional factors—corporatist arrangements, policy networks linking economic groups to the state bureaucracy, party structures—and the role that they play in defining the constellations of incentives and constraints faced by political actors in different national contexts.\[^{47}\]

The new institutionalism has become increasingly influential in comparative industrial relations scholarship and has been used to explain the persistence of cross-national differences in industrial relations institutions and outcomes despite the common pressures associated with globalisation. As Hyman notes:

> If there is a dominant analytical premise of recent Anglo-American research it is the principle that ‘institutions matter’. The institutional framework of industrial relations, established either by law or by ‘historic compromises’ between the organisations of workers and employers… generates norms, practices and mutual expectations which acquire considerable inertia… Hence national differences in industrial relations behaviours- or ‘outcomes’- tend to persist, resisting subsequent pressures to convergence.\[^{48}\]

The resultant body of literature has produced an institutionalist approach to globalisation and industrial relations. One prominent example of this approach argues that while international economic developments have created uniform pressures for increased labour market flexibility, the types of flexibility sought and the success with which this has been achieved differs from country to country, reflecting state-societal differences.\[^{49}\] Thus, Locke and Thelen argue that similar pressures created the conditions for the breakdown of centralised bargaining in Sweden and for the significant work reorganisation in the United States. Therefore, they conclude that “international trends are not in fact translated into common pressures in all national economies but rather are mediated by national institutional arrangements and refracted into divergent struggles over particular national practices”.\[^{50}\]

Other explicitly institutionalist accounts argue that the (dualist) institutional structure of bargaining in Germany has allowed it to accommodate pressures for decentralised

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\[^{47}\] Thelen and Steinmo 1992 pp 5-6
\[^{48}\] Hyman 2001 p 7
\[^{49}\] Locke and Thelen 1995
\[^{50}\] Locke and Thelen 1995 p 338
bargaining within its existing institutional configuration. For example, Thelen compares the cases of Germany, which she characterises as having experienced relative stability in traditional industry wide bargaining, and Sweden, where the traditional centralised national bargaining structure was rapidly dismantled in the early 1980s by export sector employers. She argues that the differences between the two can be largely explained by differences in institutional arrangements with affected “the extent to which inter-organisational cleavages at the national level.... were reproduced in the plant level cleavages in interest representation” and in the “intra-organisational relations between central union actors and shop floor representatives”. Thus she argues that in Germany the dual system of industrial relations- with national and industry level bargaining plus separate legally enshrined rights for workers at the workplace level- has allowed pressures for decentralised bargaining to be accommodated within the existing institutional configuration. In Sweden, on the other hand, she argues that the absence of institutionalised rights for workers at the workplace and the divisions created between blue collar and white collar workers, by the centralized bargaining system, have meant that pressures for decentralized bargaining could not be accommodated within the existing structure of bargaining.

Similarly, Turner compares the involvement of unions in industrial restructuring in Germany and the US and places heavy influence on the role that differences in institutional arrangements play in determining the reaction of employers and workers to international economic pressures. Thus, as one of the main theorists in this institutionalist tradition, puts it:

Turner uncovers differences in the ability of American and German unions to participate in industrial restructuring. Because labour’s rights at the shop floor are institutionalized through legislation in Germany, German unions were able to negotiate the introduction of new technologies and the reorganisation of work in their industries. In the absence of these same formal, guaranteed rights, American unions were faced with a more uncertain situation. Although some American unions were able to negotiate the changes underway in their plants, other unions were given no significant voice in the restructuring process.

51 Thelen 1993
52 Thelen 1993 p 37
53 Turner 1991
54 Locke 1995 p182
The same formulation of *common pressure, divergent response* can also be found in the mainstream comparative industrial relations literature. For example, an institutionalist argument plays a central role in the work of the MIT project. Locke and Kochan argue that while there is evidence of common developments across the eleven countries covered by the study, there is also evidence of persistent national differences across a range of variables. They argue that the differences in the patterns of industrial relations change that they identify reflect the importance of national institutional factors in refracting common pressures. For them, this explains why the adoption of the new employment relations has not been universal as their underlying hypotheses suggested:

> it appears that a general process of change or transformation of employment relations is indeed taking place throughout the advanced industrial world. Yet common trends can sometimes be deceiving.... The point is that while employers’ ‘search for flexibility’ may be a general phenomenon emanating from international pressures that are common to all the advanced industrial nations, different institutional arrangements filter these common pressures differently so that the valence of particular issues and changes in practices are quite varied in the different national contexts.

In a recent contribution, Katz and Darbishire make a similar argument on the basis of evidence from six developed market economies (DMEs) and two industries. They argue that there is evidence to suggest that there is a growing diversity of employment patterns across a range of countries. They call this “converging on divergence” and argue that it is characterised by the spread of four employment patterns- a low wage pattern, an HRM pattern, a Japanese oriented model and a joint team based pattern. However, while they identify a shared experience of “convergence on divergence” across their cases, they also note that there are national level differences in the distribution of these employment patterns and the extent of variation within countries. They attribute these variations to differences in national level institutions. In particular, they suggest differences in the distribution of employment patterns reflect the differential impact of national level institutions on the degree of centralisation in bargaining, the extent of commonality in processes at a decentralised level, and the degree of effective coordination between

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55 for details on the MIT project see Kitay 1997 pp 3-6
56 Locke and Kochan 1996 p 365. Hyman 2001 notes the close connections between new institutionalist approaches and the strategic choice model, which forms an important part of the MIT framework.
57 Katz and Darbishire 2000
Chapter 1: Between Convergence and Divergence

decentralised bargaining structures.\textsuperscript{58} Thus, Katz and Darbishire conclude that, despite evidence of “convergence on divergence”:

\ldots the persistence of sizeable country differences in the relative mix of various employment patterns, and the role that national level institutions play in shaping that mix, suggest a continuing influential role for national employment related institutions.\textsuperscript{59}

The importance of differences in national level institutions for explaining differences in national patterns has also figured prominently in recent overviews of industrial relations in Europe. Introducing a major overview on this topic and attempting to explain the pattern of persistent national diversity that emerges from their case studies, despite broadly similar external imperatives, Ferner and Hyman point to the importance of the relatively autonomous character of national politics which they argue can have an independent impact on countries’ responses to cross-national pressures for change:

\[O\]ne way in which political conjunctures or longer term phases leave a concrete ‘residue’ is in the form of industrial relations institutions.....Institutions may be the crystallisation of specific class forces and balances of power, but once established they have a life and a reality of their own, independent of political (or economic) fluctuations or caprices.... This institutional persistence appears to explain much of the variability in countries’ responses to common influences in the 1980s.... Institutions mediate intensifying external pressures with greater or lesser degrees of success.\textsuperscript{60}

The importance attributed to national level institutional effects, as opposed to structural economic differences, is reinforced in their introduction to the second edition of this book. Ferner and Hyman argue that developments during the 1990s confirm their original views about the “complex interactions between cross national forces commonly regarded as the impetus towards convergence, and the persistence of nationally specific institutions, patterns and historical experience, and strategic choices.”\textsuperscript{61} In particular they point to the re-emergence of societal corporatism in some European economies during the

\textsuperscript{58} Katz and Darbishire 2000p 270
\textsuperscript{59} Katz and Darbishire 2000p 281
\textsuperscript{60} Ferner and Hyman 1992 p xxxiii. Ferner and Hyman also argue that while the international economic background has been a common one it can have differential impacts. In particular, they point to variations between countries in terms of their productive base, the sectoral distribution of output and employment, their orientation towards the national economy, and in the extent of foreign and state ownership of industry as important factors in shaping the impact that international economic change has on domestic institutions. However having raised the possible significance of these variables, which figure strongly in the interest based literature outlined in chapter 3 below, they go on to assign analytical primacy to institutional factors in explaining cross-national difference. Ferner and Hyman 1992 p xxxi
\textsuperscript{61} Ferner and Hyman 1998 p xi
1990s as evidence that “states possess a key role in the reconfiguration of the relations between social regulation and markets (including labour markets).” They also further develop the notion that some forms of labour market institutions can adapt to international economic changes better than others. Similar views about the continued importance of national level institutions in producing diverging patterns of industrial relations between European countries are also be found in work by Visser, Traxler and Wever.

Taken together, the critique of globalisation and insights associated with the new institutionalist literature suggest a second major approach to the relationship between international economic change and the domestic institutions of industrial relations. This institutionalist approach is a major advance on the globalisation thesis. The globalisation thesis holds that international economic change will determine the domestic institutions of industrial relations and produce convergence. It, therefore, regards the relationship between the international and the domestic as simplistic and leaves little scope within which to understand differences in national responses to the pressures associated with globalisations. The institutionalist approach directs attention to a range of important factors which mediate the relationship between international economic change and the domestic institutions of industrial relations. It, thus, presents the relationship between international economic change and the domestic institutions of industrial relations not as determined and simplistic but rather as contingent and complex. As such it provides a set of explanations why international economic change will not produce convergence in industrial relations institutions and outcomes. Such an approach can be used to help explain persistent national difference in national patterns of industrial relations and also points to a number of key variables that play a decisive role in determining the distinctiveness of these patterns.

1.5 TRAPPED BETWEEN CONVERGENCE AND DIVERGENCE: LIMITATIONS OF THE DEBATE ABOUT GLOBALISATION IN INDUSTRIAL RELATIONS

As the preceding analysis suggests, assessments of the relationship between international economic change and the domestic institutions of industrial relations tend to produce one
of two conclusions. On the one hand, given evidence of common developments across countries, some have concluded that international economic factors are determinate in shaping the domestic institutions of industrial relations. This is the position adopted by the globalisation theorists. On the other hand, those who identify evidence of continued diversity in national patterns of industrial relations have tended to conclude that the pressures for convergence associated with international economic factors are mediated and refracted in different ways by domestic institutional frameworks, including the institutional arrangements in the labour market. The conclusion is, thus, that international economic change will either produce convergence or divergence in national institutions of industrial relations. As a consequence, much recent debate about the effect of globalisation on national patterns of industrial relations is trapped the same convergence-divergence framework which has dominated comparative industrial relations scholarship for much of the post war period.

It is clear from the preceding review that there are both theoretical and empirical grounds for questioning the globalisation approach. Institutionalists have largely dispelled and disproved the view that pressures associated with globalisation will result in a wholesale race to the bottom in labour standards across the developed world. It can also be argued that the institutionalist approach to the relationship between international economic change and the domestic institutions of industrial relations represents a significant advance on the simplistic globalisation thesis. Institutionalists have also pointed to a range of variables, often national and institutional in character, which are important in shaping national patterns of employment relations.

Nevertheless, while the weight of empirical evidence supports the institutionalist approach, as opposed to the globalisation thesis, there are a number of problems associated with the institutionalist approach which suggest the need for further theoretical development. As a number of recent cross-national studies have concluded patterns of industrial relations across developed market economies can be characterised as exhibiting both similarities and differences. While institutionalist accounts are able to explain differences between cases, they have difficulty in accounting for similarities between the cases. Rather faced with evidence of similarity, they revert the logic behind the

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65 see, for example, Katz 1997; MacDuffie and Pil 1997; Baethge et al. 1999
globalisation. Thus, institutionalist accounts tend to accept the notion central to the globalisation thesis, that international economic change has created pressures for convergence across all developed market economies. They then turn to domestic institutional factors to explain enduring, and in some cases increasing, differences between cases despite these common pressures. Thus, despite an awareness of the profound importance of structural economic change for contemporary changes in industrial relations, comparative studies have adopted an analytical model that treats economic change as both external and as a constant. As a result, economic and material factors are often absent from contemporary comparative industrial relations scholarship.

1.6 CONCLUSION
This thesis is interested in the relationship between international economic change and the domestic institutions of industrial relations. This chapter has compared and contrasted the two main approaches to this issue in the comparative industrial relations literature. It has reviewed the globalisation thesis which suggests that international economic pressures associated with globalisation are so overwhelming that they are likely to erode national differences in the institutions of industrial relations. It also reviewed a competing set of arguments, which can be called the institutionalist approach, which reject the simple convergence argument of the globalisation approach and argue that even though nation states are faced with common pressures associated with international economic change, differences in national level institutional variables are likely to produce divergent responses. It was noted that while the institutionalist approach represents an important advance on the simple globalisation approach, there were limits to the explanatory power of this approach. Most notably, the institutional approach is unable to account for similarities and differences between countries within the same analytical framework and leaves the logic of the globalisation thesis largely intact. As a consequence analyses of the impact of international economic change on the domestic institutions of industrial relations have become trapped in the same convergence/divergence binary that characterised an earlier generation of industrial relations scholarship.
CHAPTER 2
A CRITIQUE OF THE NEW INSTITUTIONALISM IN COMPARATIVE INDUSTRIAL RELATIONS

2.1 INTRODUCTION

The previous chapter reviewed the current debate about globalisation and domestic institutions in industrial relations. It noted that comparative industrial relations scholars have largely rejected the globalisation thesis and have instead concentrated on the role that national level institutional variables in producing divergent responses to common pressures. While this institutionalist approach has become increasingly dominant in the comparative industrial relations literature there have been relatively few explicit attempts in the literature to go beyond stating that institutions are important and to explain why and how institutions matter.\footnote{partial exceptions include Hyman 2001, Traxler et al. 2001 and Gardner 1991} Increased focus on the role national institutional variables play in producing cross national patterns of industrial relations reflect the influence of the new institutionalism on comparative industrial relations scholarship.\footnote{indeed many of the major contributions to the institutionalist approach come from academics who describe themselves interested in labour politics rather than industrial relations. See, in particular, Locke and Thelen 1995} This chapter argues that the new institutionalism in comparative politics is based on a series of assumptions which are likely to distort the analysis of the relationship between international economic change and the domestic institutions of industrial relations and make it unsuitable as a framework for comparative analysis.

The chapter is structured as follows. Section 2.2 reviews the theoretical bases of the new institutionalism in comparative politics. Section 2.3 examines the immediate intellectual origins of, and the assumptions embedded in, this particular understanding of what institutions are and why they matter. Section 2.4 examines the consequences of these assumptions for comparative analysis, in general, and industrial relations, in particular. Section 2.5 considers an alternative approach to the role of institutions in shaping
economic and political outcomes. The final section calls for a re-conceptualisation of the
debate about globalisation and industrial relations based on a political economy approach.

2.2 **Why Institutions Matter? The Theoretical Basis of the New Institutionalism**

Why and how do institutions matter? The influence attributed to national level institutions
in shaping and structuring national patterns of industrial relations is closely associated
with the new institutionalism in comparative politics. The most common statement
associated with this new institutionalism is that “institutions matter”. This implies that
the (institutional) environment in which decisions are made has an impact on the outcome
of those decisions. Therefore, some have defined the new institutionalism as “in its
broadest sense, ... an attempt to illuminate how political struggles are ‘mediated by the
institutional setting in which [they] take place’”.

This definition leaves open the
important issues of what institutions are and how they are supposed to shape or mediate
behaviour.

Thelen and Steinmo note that there is disagreement in new institutionalism about what
exactly an institution is and how broadly it should be defined, but suggest that:

In general, institutionalists are interested in the whole range of state and societal
institutions that shape how political actors define their interests and that structure
their relations of power to other groups. Thus, clearly included in the definition
are such features of the institutional context are the rules of electoral competition,
the structure of party systems, the relations among various branches of
government and the structure and organisation of economic actors like trade
unions.

In fact, institutionalists are interested not in institutions themselves but rather in the
impact of *institutional effects* on decision making. As Immegrut notes:

Since the common research interest is the black box between potential political
demands and ultimate outcomes, it does not make sense to predefine the contents of
this box. A standard definition of ‘institution’ is thus not desirable; the common
research agenda is the study of *institutional effects* wherever, or however, they occur.

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3 Thelen and Steinmo 1992 p 2, including quote from Ikenberry 1988 pp 222-223
4 Thelen and Steinmo 1992 p 2
5 Immegrut 1998 p 25, emphasis added
By institutional effects Immegrut is referring to the tendency for certain arrangements in social life to persist over time and for these institutional arrangements to affect not just the actions and strategies, but also the preference formation, of political actors. Therefore, she argues that the theoretical core of the new institutionalism lies in its view that “the representation of interests is shaped by collective actors and institutions that bear the shape of their own history”.

Similarly, Krasner argues that there are two features of an institutionalist perspective. These are the “the derivative characteristic of individuals and the persistence of something - behavioural patterns, roles, rules, organisational charts, ceremonies - over time.” He argues that institutions can therefore be treated as “both a dependent variable at time \( t \) and an independent variable at time \( t+1 \).” Thus, he regards an institutionalist argument as one which acknowledges that past choices limit or shape future available opportunities. Thus institutionalists argue that institutional effects produce economic and political outcomes that are path dependent.

It is possible to identify four ways in which institutions might matter (or four types of institutional effects). Institutionalists argue that institutions can determine the capacity of governments to legislate and implement policies. Institutions can determine the strategies of political and economic actors by structuring opportunities and constraints. Institutions can also determine the distribution of power among political and economic actors. “Finally… institutions matter in an even more profound sense; they determine who the actors are/or how the actors conceive their interests.”

This final view, that preference formation is endogenous to institutions, is perhaps the most distinctive feature of the new institutionalism in comparative politics. It reflects the view that:

… definitions of interest are viewed as political results that must be analysed and not as starting points for political action to be taken at face value...

[I]nstitutionalist theory aims to expose and analyse the discrepancy between ‘potential’ interests and those that come to be expressed as political behaviour.

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6 Immegrut 1998 p 17  
7 Krasner 1988 p 73  
8 Krasner 1988 p 72  
9 Pontusson 1995b p 119  
10 Immegrut 1998 p 7
The implication of the new institutionalism is that uniform exogenous shocks (like the economic pressures associated with globalisation) are not likely to produce common changes in policy. Rather, the interests, policy preferences and strategies pursued by similarly constituted interest groups faced with similar pressures in different countries will be affected by the institutional context in which they operate. The particular institutional context of each country reflects past decisions by political and economic actors in that country. These past decisions are embedded in the institutional arrangements and continue to structure the strategies and interests of economic and political actors. Therefore, according to institutionalists, institutional effects tend to produce path dependency and persistence in cross-national differences even in circumstance of strong external pressures for convergence.

In terms of industrial relations policy, institutionalist arguments suggest that a number of institutional factors can mediate the relationship between international economic change and industrial relations reform, and therefore that there is considerable scope for continued diversity in national industrial relations despite the convergence pressures associated with globalisation. Institutional differences, like differences in the relationship between levels of bargaining that Turner and Thelen identify, for example, might cause governments, unions and employers in different countries to adopt different approaches to the need for, or the content of, industrial relations reform. The implication is that institutional differences impact not only on which policy options are likely to be successful but also what economic actors perceive their interests to be. Thus, the institutionalist approach to globalisation and industrial relations inherits from the new institutionalism in comparative politics an understanding that preference formation is endogenous. While it is not explicitly acknowledged, it is this view of the role that institutional effects play on preference formation that leads institutionalists to regard institutional differences between countries as so important in explaining the relationship between international economic change and the domestic institutions of industrial relations. It is for this reason those working within this tradition predict continued diversity of national patterns of labour market regulation despite common pressures.
2.3 THE INTELLECTUAL ORIGINS OF THE NEW INSTITUTIONALISM

Where did this particular understanding of institutions and their impact on preferences come from? There is widespread agreement that the new institutionalism in comparative politics has its immediate intellectual origins in *statism*.\(^\text{11}\) As Remmer puts it, the new institutionalism represents the culmination of a “profound shift away from explanations assigning primacy to micro and macro level variables at the expense of the intermediary or institutional level of social analysis”.\(^\text{12}\) This shift began with the development of statism in the 1970s and early 1980s.

Simply stated *statism* is the view that the state is endowed with autonomy separate from civil society. This autonomy is based on the position of the nation state in the international system, its responsibility for establishing law and order and the independence of state managers from interest group pressures. Statists argue that because of their autonomy states may formulate and pursue goals “that are not simply reflective of the demands and interests of social groups, classes and society”.\(^\text{13}\) On this basis, they suggest that the state ought to be treated as an independent variable in its own right rather than simply as an arena in which conflicts between societal interests play out.\(^\text{14}\)

A number of the authors associated with the new institutionalism treat the development of statism, and the subsequent shift to the new institutionalism, as a consequence of the rediscovery of structural variables in comparative politics that took place in the context of divergent responses by advanced capitalist countries to common economic pressures in the early 1970s. As Thelen and Steinmo note there was a behavioural revolution in comparative politics during the 1950s and 1960s. As its name implies *behaviouralism* stressed the importance of actual behaviour for political analysis. In particular, it suggested that behaviour revealed preference. It was on this basis that comparative politics came to be dominated by methods modelled on the ‘scientific method’ that aimed to quantify observable behaviour and attitudes.\(^\text{15}\) The behavioural revolution, guided by

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\(^\text{11}\) Immegrut traces the origins of the new institutionalism back to de Tourqueville; while Evans and Skocpol traces statism back to the German historicist tradition. For more detail see Immegrut 1998, Evans 1997, and Skocpol 1985

\(^\text{12}\) Remmer 1997 p 42

\(^\text{13}\) Skocpol 1985 p 9

\(^\text{14}\) for overviews and assessments of statism from a variety of perspectives see Krasner 1984; Skocpol 1985; Cammack 1989; Jessop 1990 pp 278-283; Caporaso and Levine 1992 pp 189-193

\(^\text{15}\) Goodin 1996 p 13
these methods, produced theories which stressed, amongst other things, convergence amongst developed countries and between developed and developing countries. Thus, while the methodological basis differed, behaviouralism in comparative politics endorsed theoretical models similar to those associated with the industrialism thesis in industrial relations, outlined in chapter one.

Immegrut argues that this rediscovery of the importance of structural factors, and particularly political institutional factors, arose out of the critique of behaviouralism. She identifies three aspects of the institutionalist critique of behaviouralism which pointed to the significance of institutions. First, institutionalists denied that preferences are revealed in behaviour and argued that the structure of political decisions may produce a discrepancy between preferences and behaviour. Second, institutionalists rejected the behaviouralist view that the aggregation of preferences from individual to group was relatively straightforward and argued instead that the organisation of interest groups impacted on preference formation. Finally, institutionalists rejected the behaviouralist implication that the political process is completely open and fair as normative. Instead they argued that the structuring of the political process affects which views are expressed and how those preferences are expressed.16 All these factors pointed towards the role that institutions and institutional effects played in shaping political outcomes. For Immegrut, then, the growing attention given to political and institutional differences in comparative politics was a logical consequence of the critique of behaviouralism.

Presented in such a way there is no reason to expect statist and new institutionalist accounts to produce systematic bias in favour of political institutions and to consistently downplay the role of factors associated with economic and material interests. Rather the prominence given to political institutional variables seems to have been induced from research findings. Therefore, read in this way, statism and the new institutionalism can be treated is a reflection of empirical reality.

However, against this empiricist view, it can be argued that it was not only the apparent limitations of behaviouralism which shaped the development of state centric theories, and the subsequent shift to institutionalism. Cammack argues that the declining efficacy of

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16 Immegrut 1998 pp 6-8
behaviouralism was accompanied by a growing sophistication of neo-Marxist accounts which seemed to provide alternative explanations for empirical developments in advanced capitalist economies. Theories of modernisation and industrialism had predicted continued prosperity in developed and developing countries. The diversity of policy responses displayed by advanced capitalist countries in the early 1970s took place in the context of a generalised decline of economic performance across all capitalist economies. For liberals, committed to the superiority of liberal democracy as a social form, these developments presented a serious challenge. Thus, Cammack argues that adoption of state centric theories reflected “a recognition that radical critiques could no longer be ignored, and an attempt to assimilate them into non-Marxist approaches, thus distorting and neutralising them.”

This suggests that the interest in structural variables was not something that emerged simply out of the critique of behaviouralism but rather reflected the desire of liberals to counter the growing sophistication of neo-Marxist approaches to the state as well.

Cammack develops this argument by focusing on the work of Theda Skocpol, the most prominent advocate of state-centric approaches to comparative politics and the doyen of the new institutionalism. He argues that in her work Skocpol advances two views about the autonomy of the state. “It is not clear in fact whether she believes (a) that the state can and sometimes does act autonomously or (b) that the state always acts autonomously.”

He notes that the former is a weak formulation of state autonomy, while the later is a strong formulation. He demonstrates that while her theoretical critique of neo-Marxist writing relies on the strong formulation, her empirical work tends to support the weak formulation. For Cammack, it is this inconsistent treatment of state autonomy that allows Skocpol to emphasise the importance of the state while at the same time ignoring the role of variables based on class and material interest. In particular, he argues that this means that “her argument systematically distorts much of the material drawn in support of her

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17 Cammack 1989 p 261. See also Pontusson 1995b p 121
18 Cammack 1989 p 268. Jessop 1990 identifies three distinct approaches: “In their eagerness to criticise society centred analyses, they have failed to distinguish three sorts of claim about the state. It is not clear whether they are (a) rejecting the so called society centred approach in its entirety and arguing that the state ought to be the independent variable; (b) bending the stick in the other direction for polemical purposes, one sidedly emphasising the importance of the state as a crucial causal factor, or (c) suggesting that a combination of society centred and state centred perspectives will somehow provide a complete account of state-society relations.” p 278
case and that frequently it offers, on closer examination, better support for a straightforward neo-Marxist argument.”

Cammack substantiates his argument by showing that Skocpol’s own work (with Finegold) on the origins of the New Deal in the United States in the 1930s provides evidence in support of a weak formulation of state autonomy and is not inconsistent with Marxist views that about the relative autonomy of the state and importance of class interests in shaping politics. However he also demonstrates that, in her later discussion of the theoretical implications of this empirical case, Skocpol not only regards her empirical work as support for the strong formulation of state autonomy but also seriously simplifies and misrepresents the Marxist approach to the state for the purposes of comparison. For Cammack, the end result is that insights associated with the neo-Marxist views are incorporated in the analysis while at the same time their implications about the importance of material and class based interests in accounting for economic and political outcomes in capitalist societies are largely neutralised.

Cammack’s argument suggests that statist accounts rest on a dichotomy between state and society which is ideologically motivated. It is this false dichotomy rather than the force of the empirical evidence, that lies behind the tendency for statists to stress the importance of institutional variables and downplay the role of economic factors and material interest. Jessop expands on this suggestion. He argues that the way in which state centred theorists distinguish between their own approach and those that they characterise as society centred:

… is fundamentally misleading and rests on a straw man account of the society centred bias in other studies which deliberately contrasts unfavourably with their own approach…. If one posits the need to choose between state and society as the independent variable in social analysis, one implies that both exist as independent entities which are fully constituted, internally coherent and mutually exclusive and that one always unilaterally determines the other…

Society centred theorists are alleged to argue that the form and the functions of the state are determined by a logic rooted somewhere in society and/or by the balance of power among societally based forces. Their state centred critics argue that the state actually has its own institutional logic and associated interests and activities and/or is as a subject in its own right…. Such views merely reverse society

19 Cammack 1989 p 269
20 Cammack 1989 pp 274-280; see Skocpol and Finegold 1982 and Skocpol 1985
centred lines of argument and, in so doing, reify the distinction between state and society… a false dichotomy is thereby imposed on social analysis in so far as it is suggested that state and society alike are distinct and self determining, each can be studied in isolation, and the resulting analyses added together to provide a complete account.\(^{21}\)

Thus, it can be argued that the focus on the new institutionalist focus on the role of institutional variables in accounting for cross national differences in policy is not simply the product of the rediscovery of structural variables that emerged out of a critique of behaviouralism. Rather it reflects a conscious effort on the part of these theorists to reassert the superiority of liberal democracy as a social form in the face of radical critiques that stressed the importance of class interests in shaping political and economic outcomes in capitalist societies. Statists attempted to neutralise the implications of these radical critiques by imposing a false dichotomy between state and society on the interpretation of the results of empirical research.

New institutionalists present the development of the new institutionalism out of statism as a natural progression that reflected a growing awareness of the importance of a broader range of variables that connect the state to society. For example, Skocpol depicts her movement from statism to new institutionalism as an evolutionary process which brings in not just the state but also the polity (“which includes parties and organised political actors along with the state”) into the analysis.\(^{22}\) However, this can be regarded as a significant shift. As Cammack puts it, whereas the statist project had aimed to bring the state back in, the aim of the new institutionalism is to get inside the state and explore its internal structures and its complex links with various social actors. For him this reflects an acknowledgement that the strong formulation of the state autonomy argument was unsustainable and that it was necessary to take into account the role of social actors in shaping policy outcomes. He argues that the result of this retreat from statism is that the new institutionalism lacks a coherent theoretical framework and that it is forced to import theoretical explanations from elsewhere. As a consequence he suggests that the new institutionalism produces a “descriptive synthesis” from a range of approaches but in doing so it prevents the implications of these theoretical frameworks from being brought

\(^{21}\) Jessop 1990 pp 287-288
\(^{22}\) Skocpol 1995 p 104; see also Skocpol 1992 pp 41-60 & pp 526-531
to bear on the analysis. As is the case with its statist predecessor, he shows that new institutionalist arguments are not inconsistent with Marxist analyses and that the distinction between Marxist arguments and new institutionalist arguments are largely constructed post facto.

As Pontusson notes, given its intellectual origins in statism, the absence of explicit concern with the concept of the state in much of the new institutionalism is striking. He suggests that there has been an abandonment of “state centred institutionalism” in favour of a “polity centred institutionalism” because statism was unable to account for differences in institutions across countries and explain why there are changes in policy outcomes despite relatively stable institutions. However, in attempting to address these questions, he asserts that the new institutionalism has not gone far enough because it excludes an analysis of capitalism and its dynamics. This absence of an attempt to take into account of the role of the dynamics of the capitalist system reflects the failure on the part of the new institutionalists to question the normative basis upon which the statist project was based. Rather, he argues that the new institutionalism has simply replaced the false dichotomy between state and society with an equally problematic distinction between polity and economy.

At its core the new institutionalism in comparative politics regards institutions as important because they impact on not just the strategies adopted by social actors, but, more fundamentally, how they define their interests. As this section has shown, this particular understanding of the nature and role of institutional effects in shaping political and economic outcomes is the product of a complex intellectual history. While the new institutionalism has been influential in comparative industrial relations scholarship, there have been few attempts by industrial relations scholars to examine the assumptions on which the new institutionalism in comparative politics is based or to identify its potential consequences for comparative analysis.

23 Cammack 1990 pp 160-162
24 see Cammack 1990 pp 162-168
25 Pontusson 1995b pp 121-22
2.4 CONSEQUENCES FOR COMPARATIVE ANALYSIS

It is possible to identify four consequences of the assumptions on which the new institutionalism in comparative politics is based for comparative analysis. These are: first, attributing analytical primacy to polity centred institutions; second, presenting a confused view of preference formation; third, a tendency towards structural determinism; and fourth, being unable to explain institutional change. Taken together these features raise doubts about the applicability of new institutionalism to the comparative study of industrial relations phenomena.

ATTRIBUTING ANALYTICAL PRIMACY TO INSTITUTIONAL VARIABLES

One of the most notable aspects of institutionalist analyses is that they privilege the role of polity centred variables in explaining differences between cases and downplay the potential causal significant of economic variables and material interests.\(^\text{26}\) The preceding analysis suggests that this focus on the role of polity centred institutional variables, like the organisation of interests groups or the structure of legal systems, and lack of causal significant attributed to other factors, like economic structure or capital intensity, are not an unproblematic generalisation of research findings but rather a consequence of the false dichotomy drawn between polity and economy in the new institutionalism.

For Pontusson, comparative analysis based within a new institutionalist framework is likely to exaggerate differences between countries and leave important similarities unexplained. At the same time he argues that the focus on polity centred institutional variables leaves the potential significance of differences in economic structural between countries largely unexplored. This reflects the view that:

> economic structural variables explain what advanced capitalist states have in common, and political-institutional variables explain why they differ…. From a theoretical point of view this dualism strikes me as unsatisfactory, why should some causal variables operate only over time and others only across cases… we ought to consider whether it is not the case that pressures emanating from the world economy or the economic institutional structures of capitalism vary across cases…. If the black box of economic variables [was opened, these types of analyses]…. might have been able to integrate their two problematics- to explain change and to explain cross national variations- more effectively.\(^\text{27}\)

\(^{26}\) Pontusson 1995b p 129 and Remmer 1997 p 56

\(^{27}\) Pontusson 1995b pp 130
**The Confused Status of Preference Formation**

A second problem with the new institutionalism, associated with its intellectual origins in statism, is the confused status of preference formation in these models. As Pontusson notes there is a profound confusion in the new institutionalism as to whether “institutions should be treated as the context in which other variables should come into play or as variables within a broader context”. This confusion is acknowledged by a number of new institutionalists. Hall and Taylor, for example, identify two views about the role that institutions play in shaping preferences in the new institutionalist literature. The first, which they call the *calculus approach*, assumes:

that individuals seek to maximize the attainment of a set of goals given by a specific preference function and, in doing so behave strategically.... In general, the actor’s goals or preferences are given exogenously to the institutional analysis.... Institutions affect behaviour primarily by providing actors with greater or lesser degrees of certainty about the present and future behaviour of other actors.

In the second approach, which they call the *cultural approach*:

Institutions provide moral and cognitive templates for interpretation and action. The individual is seen as an entity deeply embedded in a world of institutions... which provide the filters of interpretation, of both the situation and oneself, out of which a course of action is constructed.... Institutions are resistant to redesign ultimately because they structure the very choices about reform that the individual is likely to make.

Hall and Taylor argue that institutionalists tend to adopt a combination of the calculus and culturalist approach in a way which “suggests that the strategies induced by a given institutional setting may ossify over time into world views, which are propagated by formal organisations and ultimately shape even the self images and basic preferences of the actors involved in them.”

This seems to be too generous an assessment. The calculus and culturalist approaches clearly represent fundamentally different views of the role of institutions in preference formation. The calculus approach can be regarded as a weak assumption about the relationship between institutions and preferences. The culturalist approach can be

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28 Pontusson 1995b p 119
29 Hall and Taylor 1996 p 939
30 Hall and Taylor 1996 p 939
31 Hall and Taylor 1996 p 940
regarded as a strong assumption about the role of institutional effects in shaping preferences.

The confused status of preference formation in the institutionalist literature reflects the statist origins of the new institutionalism and the ideological separation between polity and economy that accompanies it. Thus, while the new institutionalists tend to treat interests as mediated by institutions in their empirical work, treating institutions as embedded in a wider context, they proceed as if their work supports the view that institutions play the dominant role in the construction of interests when in attempting to theorise the significance of institutions and in criticising other theories. For example, despite noting that institutions are only mediating variables Thelen and Steinmo argue that the assumption that preference formation is endogenous is the key feature which distinguishes historical institutionalism from rational choice institutionalism. That is, they take evidence which seems to supports a calculus view of institutions and use it to justify a culturalist view. In doing so they move from a position in which other factors, including economic and material interests, may play an important role in determining the interests of actors, to one in which interests are treated as fully determined by the institutional context within which actors are embedded. It is by this process that all other causally relevant factors are discarded from the analysis. The ultimate effect is an extreme privileging of the polity and political institutions at the expense of all else. Thus, just as statists attributed an absolute autonomy to state actors from evidence which was consistent with a weaker assumption about the relative autonomy of the state, so too the new institutionalists seems to exaggerate the importance of institutions in shaping preferences.

**STRUCTURAL DETERMINISM**

The result of exaggerating the role polity institutional effects play in shaping preferences is a form of structural determinism, in which institutions are said to fully determine the behaviour of actors and political and economic outcomes. Sokolovsky clearly illustrates this tendency in her critique of the new institutionalist approaches to the development of health policy. She argues that new institutionalist accounts of cross national differences in health policy have been characterised by three logical pitfalls- they

32 Thelen and Steinmo 1992 p 8
33 Hay and Wincott 1998 p 952
overlook the extent to which institutional traditions have been invented by later observers; they minimise the extent to which institutions are contested by political and economic actors; and they ignore the flexibility of institutions under altered conditions. She argues that the consequence of these pitfalls is that institutionalist accounts magnify the importance of formal political structures. Consequently, they tend to remove ‘politics’, the conflict between competing interests, from analyses of policy development and therefore produce structural determinist accounts of economic and political outcomes.34

Similarly, Hay and Wincott argue that it is current form the new institutionalism exhibits a latent structuralism because it has been unable to resolve the relationship between structure and agency- a point readily admitted by Hall and Taylor.35 In Hay and Wincott’s view this reflects the failure of the new institutionalism to develop a distinctive social ontology that can form the basis of a theory of institutional innovation, evolution and transformation. However the critique outlined above suggests that the structural determinism evident in the new institutionalism is closely associated with a series of assumptions about the significance of formal politics which are at the heart of the new institutionalist project.

**PROBLEMS ACCOUNTING FOR INSTITUTIONAL CHANGE**

The corollary of this structural determinism, which stems from the privileging of polity-centred institutions at the expense of other potentially important factors, is that new institutionalist arguments are largely unable to account for institutional change. Remmer regards it as one of the central ironies of the new institutionalism that “institutions are being analysed as independent variables at a time of far reaching institutional change and instability… [because] these trends raise important questions about the cause rather than the consequences of political institutions”.36 New institutionalists openly acknowledge the difficulty the new institutionalism has in explaining institutional change. For example, Thelen and Steinmo note that in the dominant approach to institutional change in the new institutionalism, Krasner’s model of punctuated equilibrium:

… institutions explain everything until they explain nothing. Institutions are an independent variable and explain political outcomes in periods of stability, but

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34 Sokolovsky 1998 p 247-50
35 Hay and Wincott 1998; Hall and Taylor 1998
36 Remmer 1997 p 52
when they breakdown, they become the dependent variable, whose shape is determined by the political conflicts that such institutional breakdown unleashes…. [This approach] obscures the dynamic interaction between political strategies and institutional constraints.\textsuperscript{37} They suggest that this outcome is a consequence of the tendency of institutionalists to rely on comparative statics and advocate the development of a more dynamic approach to institutions. The analysis presented here, however, suggests the major reasons for this problem are not simply methodological but rather epistemological. They reflect the tendency of institutionalists to exclude many of the factors that shape institutions, and the outcomes of institutional processes, from their analysis by treating preference formation as endogenous.

Gorges examines the ability of the new institutionalism to account for the development of the Social Dialogue in the European Union. Noting the increasing influence of the new institutionalism in theoretical analysis of the emerging europolity and the significance of the incorporation of social dialogue provisions in the Maastricht Treaty for the development of policy with Europe, he argues that the new institutionalism ought to be able to explain this key institutional change. He identifies four sets of explanations for the development of the Social Dialogue in the institutionalist literature- those that focus on a critical juncture, those which stress the importance of institutional isomorphism, arguments that focus on role of ideational factors and those that focus on the role of leadership in bringing about changes. Gorges demonstrates that there is little evidence to suggests that the period leading up to the introduction of the Social Dialogue represented a critical juncture; nor is there empirical evidence to suggest that the Social Dialogue could be attributed to pressure for the EU to resemble its member states or changes in ideology. Furthermore, while he argues that leadership from within the EU was clearly important in ensuring the inclusion of the consultation rights for social partners in the Maastricht Treaty, he notes there is nothing particularly institutionalist about the focus on leadership. Gorges conclusion is that, in the case of the social dialogue,: the new institutionalism cannot explain institutional change. By relying on exogenous variables such as critical junctures, leadership and ideas, new institutionalist analyses resort to a collection of explanations that proponents of almost any theoretical perspective could use.\textsuperscript{38}

\textsuperscript{37} Thelen and Steinmo 1992 p 17; Krasner 1988
\textsuperscript{38} Gorges 2001 p 152
Cotrell and Peterson provide one example of an attempt to explain institutional change within a new institutionalist framework which illustrates the problem institutional change poses for the new institutionalism. They argue that:

The punctuated equilibrium model offers an incomplete understanding of change for two reasons. First, … this approach obscures the incremental institutional adaptation, a gradual restructuring of the institutional framework, is possible and, indeed, more likely than episodic change…. Secondly, by focusing attention on periods of radical change precipitated by crisis, a model of punctuated equilibrium downplays the roles individuals play in affecting domestic structural change.  

They propose an alternative model which sees institutional change as the result of triggers for change, change oriented preferences and institutional capacity. By triggers for change they mean “international and domestic events” which create windows for institutional change. For them international triggers are factors like war, technological change, macro-economic change, dislocation, and shock. In the list of domestic triggers they include the following: economic growth rate, change of government, and social movement/conflict. Suggesting that triggers may create small or large windows for institutional change, they argue that this model allows them to explain both significant changes in institutions and also incremental change.

However, Cortell and Petersen’s model does not overcome the main problem of institutionalist approaches to institutional change. Both the international and domestic triggers are presented as exogenous shocks that disturb otherwise stable institutional patterns. Whether these shocks produce institutional change is then explained by the relative power of actors within those institutions, which in turn is a function of the structure of those institutions themselves. Thus triggers for institutional change are treated as separate from institutional processes. They are, therefore, regarded sui genesis and there is no attempt to theorise the origins of these changes. Consequently, the analysis remains focussed on the primary explanatory significance of institutions. Furthermore, Cortell and Petersen present domestic and international triggers as separate factors and do not explore the connections between them. For example, they regard changes in the economic growth rate as a domestic factor, and make no attempt to link it to international economic factors. Thus, not only do they treat economic processes as

39 Cortell and Petersen 1999
independent from political processes but they also treat the domestic economy as separate from the international economy. This assumption that economic growth is domestically determined can be regarded as an artefact of economic models that assume a closed economy, made to simplify economic modelling but inadequate as a basis for understanding real world developments. Overall, then it can be argued that Cortell and Peterson continue to attribute primacy to institutions and treat them as separate from other factors and are thus not able to overcome the problems institutionalists have explaining institutional change.

Indeed, once institutionalists try to account for institutional change they find they have abandon the strong culturalist formulation of the relationship between institutions and interests and attribute a causal role to non-institutional factors. For example, as Hall notes:

… the bite of [institutionalist]… analyses turns on the resilience of institutions, and institutions are not immutable. To the degree that the core institutions of the political economy are subject to change, the focus of the analysis must shift toward the socio-economic or political coalitions that underpin them.41

IMPLICATIONS FOR THE INSTITUTIONALIST APPROACH IN COMPARATIVE INDUSTRIAL RELATIONS

The preceding analysis suggests that this common pressure, divergent response framework may be a product of the systematic bias of institutional analysis towards polity centred institutional variables rather than simply an unproblematic generalisation of research findings. As a result we can expect an institutionalist approach to globalisation and industrial relations to exaggerate differences between cases, ignore the potential significance of non institutional variables and be unable to explain similarities as well as differences between cases within the same analytical framework. Chapter five examines whether it is possible to identify these tendencies in the institutionalist comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s.

Furthermore the critique of the new institutionalism advanced in this chapter suggests that the application of this approach to the comparative analysis of globalisation and industrial relations is unlikely, by itself, to explain the impact of international economic change on

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40 Cortell and Petersen 1999 pp181-7
the domestic institutions of industrial relations. While the institutional arrangements that regulate the relationships between employers and workers are likely to have an independent impact on how these relationships develop and change, it has long been acknowledged that these relationships are also fundamentally shaped by a number of non-institutional economic variables. These include the size and capital intensity of the enterprise as well as industry structure. There is also a long tradition in industrial relations scholarship which stresses the impact of the skill profile of workers and labour markets conditions and well as product market conditions can have on industrial relations institutions and outcomes. Finally there is an emerging literature that focuses on the impact of capital market pressures on firms’ human resource strategies. As Ferner and Hyman note many of these factors are likely vary significantly across countries. To the extent that the institutionalist approach systematically ignores or downplays the potential impact of these non-institutional variables, we can expect that it will only provide a partial analysis at best. There are, therefore, a number of reasons to question the extent to which as an institutionalist approach can account of the relationship between international economic change and the domestic institutions of industrial relations.

2.5 RE-CONCEPTUALISING THE RELATIONSHIP BETWEEN INTERESTS AND INSTITUTIONS: A DUALIST APPROACH

The analysis presented in the preceding sections suggests that, because of its tendency to privileged the role of polity-centred institutions and exclude consideration of the impact of material factors in shaping the interests of societal actors, the institutional approach cannot by itself provide a complete account of the relationship between international economic change and the domestic institutions of industrial relations. Nevertheless, those working within the institutionalist approach have provided a number of valuable insights into patterns of cross-national difference and have demonstrated clearly that “institutions matter”. This leaves open the question of how the insights of the new institutionalism can be retained without a priori excluding the potentially important role played by other non-institutional factors.

The critique of the new institutionalism advanced above suggests that many of the limitations of institutionalist accounts reflect the impact of a strong culturalist assumption

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41 Hall 1998 p 183
42 Ferner and Hyman 1992 p xxxiii
about the effects of institutional arrangements on the preference formation of social actors which produces a false dichotomy drawn between polity and economy. Offé argues that this culturalist approach to institutions ignores the dual character of institutions. He argues that institutions must not only produce:

congruent socialisation…. but they must also function properly, i.e., accomplish the task or mission set for them, or be compatible with the supply of resources they depend upon and must hence extract from this environment.43

Offé, therefore, accepts the view, at the heart of new institutionalist accounts, that institutions play a role in shaping preferences and privilege certain interests, but he does not accept the view that these factors are fully determinate of those interests. Rather, he argues that institutions must also function properly and display environmental fit. Given this formulation, Offé suggests that institutional stability, and path dependency, are not products of inertia produced by acculturation but rather the outcome of a continual process of dual feedback.

In short, the stability of institutions is based upon a social process of identical reproduction that is driven by an institution’s socialisation effect and its functional viability.44

Offé also argues that the dual character of institutions may also help explain institutional change, a weakness of mainstream institutionalist arguments. He identifies three potential sources of institutional breakdown- the failure of institutions to socialise members; the development of a viable alternative to an extant institution; and the failure of an institution to perform the role set for it. While he argues the presence of one or all of these factors does not automatically lead to the breakdown of institutions, he suggests that presence of any of these factors can lead to pressures for institutional change.45

Offé’s model suggests that the stability of industrial relations institutions reflects not just the extent to which these institutions shape the interests of employers, workers and the state but also because they produce outcomes that are consistent with a set of material interests and a particular balance of class forces. Thus, it can be argued that the stability of these institutions reflects not only the extent to which these institutions continue to ‘make sense’ to participants but also the extent to which they prove useful.

43 Offé 1996 p 200
44 Offé 1996 p 208
45 Offé 1996 pp 219-20
This treatment of the institution as dualist in character overcomes many of the limitations in the institutionalist approach. Offe’s dualist analysis does not automatically attribute analytical primacy to institutional variables nor does it exclude non-institutional variables from playing a role in shaping economic and political outcomes. Furthermore it provides a way of explaining institutional change. However, while such an approach stresses the potential importance of material and non-institutional factors in shaping outcomes, it does not deny the importance of institutional effects as a result. This leaves open the question of how to theorise the impact of international economic change on material interests- an issue addressed in the next chapter.

2.6 BEYOND CONVERGENCE AND DIVERGENCE: RE-CONCEPTUALISING GLOBALISATION IN INDUSTRIAL RELATIONS

The critique of the new institutionalism advanced in this chapter also suggests the need to re-conceptualise the debate about globalisation in industrial relations scholarship. Giles argues that in seeking to analyse the impact of globalisation on national patterns of industrial relations industrial relations scholars have tended to treat globalisation as both outside the field of industrial relations analytically and also above and outside the national level. While, this approach can be said to reflect the influence of the industrial relations orthodoxy, which has long treated the industrial relations system as separate, it can also be said to reflect the impact of the new institutionalism on debates about globalisation.

Radice argues under the influence of institutionalism, and the dichotomy between polity and economy associated with it, much of the contemporary debate about globalisation … presupposes an ‘original condition’, a starting-point for the process in which the world is made up of distinct and self-sufficient national economies, each under the jurisdiction of an independent nation-state. It leads to the hypotheses that if globalisation proceeds ‘far enough’ it must lead … a single integrated economy … [and] confronts, threatens or undermines the nation state. Radice argues that there are a number of reasons why this formulation is deeply flawed and limits understanding of contemporary developments in the international economy and their impact on national level political and economic outcomes. First, it adopts an

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46 Giles 2000 pp 175-6

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“implicit national starting point” which is historically incorrect. The economic development of all countries has to some extent been influenced by developments in the international economy for the last 200 years.48 Secondly, he argues that those that adopt such an approach falsely:

…separate out and counterpose state and market, national and international… they take for granted that, in the last analysis, either the market or the state regulates economic development.49

Echoing Radice’s criticisms, Pantich argues that much of the contemporary literature on globalisation, which revolves around the juxtaposition of state and market, ignores the extent to which “today’s globalisation is authored by states and is primarily about reorganizing rather than bypassing them”.50

A third feature of the institutionalist approach to globalisation is that it treats “the international economy as essentially distinct for the national economy”.51 However Radice notes that “there is nothing intrinsically national or international about economic institutions or practices”.52 As Bryan and Rafferty note while it is undeniable that nation states have exerted influence over economic processes, the notion of a ‘national economy’ distinct from the ‘international economy’ is politically constructed.

Accumulation always remains globally integrated, no matter what policies nation states may invoke. They may restrict cross-national movements of capital, and transform the terms of exchange; but they cannot construct isolation. The nationality of economic processes is therefore only partial.53

By juxtaposing the international economy and the nation state, the contemporary debate on globalisation, asserts the existence of state autonomy without specifying the purposes towards which that autonomy is deployed. As a result the juxtaposition of nation state and international economy, overlooks the tendency of the nation state to deploy its autonomy in ways that are designed to resolve accumulation problems.54 In many ways, therefore, it is the influence of the assumptions associated with the new institutionalism

47 Radice 1999 p 3; see also Radice 1997
48 Radice 1999 p 3
49 Radice 2000 pp 9-10
50 Pantich 1996 p 85
51 Radice 2000 p 10
52 Radice 2000 p 12
53 Bryan and Rafferty 1999 p 37
54 Panitch 1994
which have produced the focus on whether pressures for convergence associated with
changes in the international economy or divergence produced by national institutional
variables are more dominant that characterises contemporary industrial relations
scholarship.

Giles argues that, if it is to respond to the analytical challenges raised by contemporary
globalisation, industrial relations scholarship needs to overcome its national bias and
adopt an international lens. In particular, for industrial relations scholarship to better
understand globalisation, he argues that there is a need to attribute the international the
same ontological status as the national; for the two to be seen as closely intertwined and
for the international to be seen as a source of enduring influence on the development of
industrial relations regimes rather than the product of a “recent, radical rupture.”

Giles argues that an international political economy perspective offers a means of
integrating this international dimension into industrial relations analysis in a way that
overcomes the limitations of the contemporary debate about globalisation in industrial
relations. An international political economy based approach rejects the juxtaposition
drawn both between state and economy and national and international. It directs attention
towards the role that the dynamics of capitalism play in shaping the international
economy, the position of nation states within it and the nature of the relationship between
the domestic and the international as a result.

While there remains considerable disagreement about the nature and features of the
current wave of globalisation, what is clear is that it is a capitalist process. As Radice
puts it:

If … we start from the view that the contemporary world economy, including the
states that seek to regulate it, are first and foremost capitalist, and that economic
activity is intrinsically both national and international, then the debate about
globalisation can be recast and perhaps transcended. Instead of denying the
significance of global integration, and claiming that in any case it does not
undermine the nation state, we should focus instead on the purposes to which state
power is put.

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55 Giles 2000 pp 180-1
56 Giles 2000 pp 181
57 Radice 1999 p 13
Pantich points to an international political economy tradition—beginning with Murray, carried on by Poulantzas and Palloix and culminating in the work of Cox—which stresses the central role nation states play in supporting the internationalisation of capital. These analyses are based on the observation that just as capital requires the state to create the conditions for accumulation within national states, so too capital requires the support of states and the interstate system to internationalise. Thus, rather than increased globalisation of economic activity representing an attack on the power of the state, globalisation can be seen to be a product of the reconfiguration of state power in support of new forms of accumulation.  

This re-conceptualisation of globalisation has important implications for understanding the autonomy of the nation state vis-à-vis the international economy, in general, and the relationship between international economic change and the domestic institutions of industrial relations, in particular. It suggests that the autonomy of the nation state, while it is real and significant, is constrained by the fact that it is capitalist in nature. In the area of industrial relations, this implies that “the basic requirements of capital accumulation … function as constraints on state policy”. Thus, it can be argued that there are important, but not determinate, connections between the structural constraints given by the international economy and the approach of the nation state to institutional arrangements in the labour market.

It also suggests that the current wave of globalisation, rather than being a radical and recent rupture in the international economy, represents the latest in a series of reconfigurations of the international economy and the position of national economies within it reflecting the dynamics of capitalism. In this view, contemporary changes in the international economy, associated with globalisation, reflect a reconfiguration of the international political economy formed in the context of conflict over forms of accumulation and authored through the agency of states.

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58 Radice 2000 p 13
59 Panitch 1994 pp 63-74
60 Since the late 1960s there has been considerable debate in the political economy literature over the relationship between the democratic state and capitalism. For overviews of this literature see, for example, Holloway and Piccotto 1978, Jessop 1982, Jessop 1990 and Clarke 1991
61 Giles 1989 p 143
Discarding the treatment of globalisation as an exogenous constant and re-conceptualising it as a shift in the international economic regime suggests that an understanding of the relationship between international economic change and the domestic institutions of industrial relations needs to be based on an analysis of the international political economy and the relative position of particular nations within that international political economy. It also admits the possibility that international economic pressures may play a significant role in explaining differences in the domestic institutions of industrial relations between countries rather than being solely being a source of pressures for convergence. Accordingly it offers the opportunity for the debate about globalisation and industrial relations to move beyond the convergence-divergence dichotomy and raises the possibility that industrial relations scholarship can meet the “challenge of explaining both common trajectories and variations across countries” within the same framework.  

2.7 CONCLUSION
Rejecting the view that globalisation will produce convergence of national patterns of industrial relations, comparative industrial relations scholars have argued that because of differences in national level institutional variables common pressures associated with international economic change are likely to produce divergent responses. This growing attention given to the role of institutional variables reflects the influence of the new institutionalism in comparative politics on comparative industrial relations scholarship. However while industrial relations scholars have been willing to apply insights from the new institutionalism in comparative politics to the comparative analysis of industrial relations, there have been few attempts to examine the assumptions on which the new institutionalism is based.

In an attempt to address this gap in the existing literature, this chapter has outlined a critique of the new institutionalism in comparative politics and outlined the potential consequences of its application to the comparative analysis of globalisation and industrial relations. It demonstrated that the primary theoretical insight of the new institutionalism is the view that preference formation is endogenous and therefore that institutional settings will not only structure the actions of social actors but will also play a crucial role.

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62 Giles 2000 p 181-5
in what they perceive their interests to be. This chapter has argued that particular view of institutions and their role in shaping economic and political outcomes is the product of complex intellectual history which has its immediate origins in attempts by liberal social scientists to counter both the declining explanatory power of behaviouralist theories of politics and the increasing sophistication of radical accounts of the capitalism. There are a number of consequences for comparative analysis which stem from the assumptions on which the new institutionalism is based. These include privileging the explanatory significance of polity centred institutional variables *a priori*, downplaying the causal significance of non institutional variables, presented a confused view of preference formation, exhibiting a tendency towards structural determinism and displaying an inability to explain institutional change. These factors have played a significant role in the how globalisation has been conceptualised within industrial relations scholarship.

The chapter concluded by arguing that there was a need to re-conceptualise globalisation in industrial relations and that an international political economy approach offered the opportunity for comparative industrial relations to go beyond the convergence-divergence dichotomy. The following chapter outlines such an approach.
CHAPTER 3
GLOBALISATION AND INDUSTRIAL RELATIONS:
TOWARDS AN INTERACTION APPROACH

3.1 INTRODUCTION

This chapter outlines an alternative theoretical approach to the relationship between international economic change and the domestic institutions of industrial relations which draws on concepts from international political economy literature. This approach—called the interaction approach—builds on both the political economy tradition in industrial relations scholarship and the broader international political economy literature on the impact of international economic change on national policy patterns. The theoretical framework focuses on the interaction between interests and institutions in the context of changes in the international economy.

The chapter is structured as follows. Section 3.2 reviews earlier theoretical debates in industrial relations about the impact of industrial relations institutions. It argues while this debate provided the context for the development of an identifiable political economy tradition within industrial relations, this has not produced a coherent international political economy of globalisation and industrial relations. Indeed, it suggests that it is unlikely that overarching international political economy will be developed within the confines of industrial relations scholarship. This is not to suggest, however, that concepts from the international political economy cannot be used to help examine the relationship between international economic change and the domestic institutions of industrial relations or that there is no scope for developing an approach to these issues which is based on insights from the IPE literature. Section 3.3 reviews a body of work in the IPE literature—the interest based approach—which draws links between international economic change and domestic politics. Section 3.4 examines the application of concepts from this literature to a reassessment of centralised bargaining in Sweden. Section 3.5 examines some potential limitations of interest based approaches. The final section draws together these strands to outline the main elements of an interaction approach to the relationship
between international economic change and the domestic institutions of industrial relations.

3.2 THE POLITICAL ECONOMY TRADITION IN INDUSTRIAL RELATIONS

As was noted in chapter one, recent debates about the effects of globalisation on national systems of industrial relations have not only resulted in renewed interest in convergence and divergence but have also revived interest in the role of institutions in determining industrial relations outcomes. Renewed debate about institutions and their impact on industrial relations outcomes recalls earlier debates about the nature and impact of the institutions of industrial relations.¹ It is worth reviewing this debate, and particularly its connections to the development of a political economy tradition in industrial relations, because it provides an important starting point for constructing an alternative approach to globalisation in industrial relations.

Hyman argues that the same intellectual factors which led to the development of the original convergence hypothesis in industrial relations also produced an orthodox Anglo-Saxon “view of industrial relations as a stable set of institutions through which the ‘inputs’ of divergent goals interests are routinely transformed into a web of rules underwriting the smooth progress of capitalist production”.² John T. Dunlop’s *Industrial Relations Systems*, first published in 1958 was the apotheosis of this orthodoxy.³ Hyman argues that this institutionalist orthodoxy- which treated the institutions of industrial relations as an autonomous system- was underpinned by three assumptions.⁴ These were first, “a naturalistic conception of interests” which treated the participants in industrial relations as groups and individuals and excluded a role for broader collectivities in the

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¹ Indeed it could be argued that the ready acceptance of the new institutionalism in comparative industrial relations reflected the influence of an old institutionalism in industrial relations. See Jacoby 1990 and Bray and Wailes 1997.

² Hyman 1980 p 122.

³ Dunlop 1958. This connection is not accidental. Dunlop was also one of the authors of *Industrialism and Industrial Man*, which, as has already been noted was the source of the original convergence hypothesis in comparative industrial relations. In many ways *Industrialism and Industrial Man* can be read as an attempt to generalise the model outlined by Dunlop in *Industrial Relations Systems* beyond the US.

⁴ The nature of this industrial relations orthodoxy, and especially the model put forward in Dunlop’s *Industrial Relations Systems* has been widely debated in the industrial relations theory literature. The position taken here, consistent with the views of Hyman and others, is that while Dunlop explicitly refers to his work as Parsonian it can more fruitfully be treated as institutionalist. For a more detailed discussion see Bray and Wailes 1997.
The Importance of Small Differences

industrial relations system; second, “an essentialist view of power”; and third, an ethnocentric view of the purpose of trade unions as limited and economistic in character.\(^5\)

As Taylor and Bray note, during the 1970s this industrial relations orthodoxy was criticised from both inside and outside industrial relations scholarship. For them these criticisms created the conditions for the development of an identifiable political economy tradition within industrial relations scholarship.\(^6\) The first set of criticisms came from those who doubted the status of theorisation in industrial relations. Thus, Marsden argues that theory in industrial relations is fundamentally “empiricist” and as a consequence obscures the connection between what is called industrial relations and other political and economic factors.\(^7\)

A second line of criticism of the industrial relations orthodoxy during the 1970s, which also pointed to the importance of the factors beyond the industrial relations system in shaping industrial relations outcomes, concerned developments in industrial conflict. One of the central elements of the orthodoxy was the notion that “conflicts of interest between workers and employers, once openly articulated can be relatively easily contained and accommodated”.\(^8\) That is, as Ross and Hartman famously put it, once institutionalised industrial conflict would “wither away”.\(^9\) The resurgence of industrial conflict across developed economies which began in the late 1960s cast doubts on this argument.

In a major contribution, Korpi and Shalev take issue with the orthodox, institutionalist view that the institutions of industrial relations, alone, shape the relations between the parties in industrial relations and the pattern of industrial conflict. Using the case of Sweden they argue that while on the surface there is some support for the view that there is a connection and the decline of industrial conflict in Sweden, closer examination reveals that:

\[\text{… already by the first century of this century, Sweden had developed fully-fledged institutions for the regulation and containment of industrial conflict. In}\]

\(^5\) Hyman 1980 p 122

\(^6\) Taylor and Bray 1986; for similar arguments see Hyman 1980

\(^7\) Taylor and Bray 1986 p 8; Marsden 1982; see also Griffin, Y 1991, Godard 1993; Godard 1994

\(^8\) Hyman 1980

\(^9\) Ross and Hartman 1960
spite of this institutional richness however for three decades the volume of conflict remained at internationally record levels. The decline in conflict came, not gradually as the theory of institutional development would predict, but rather abruptly, a couple of years after the coming to power of the Social Democratic government.\(^{10}\)

On this basis, they conclude that the institutionalist approach is largely unable to account for cross national patterns of industrial conflict because it is excessive narrow and excludes a range of important factors. Rather they argue that an understanding of the pattern of industrial conflict in industrial societies needs to be based on a view that:

… conceives of these institutions primarily as intervening variables, which are themselves dependent on the power structures in society…. More precisely, the institutions of industrial relations can be regarded as the residues of previous conflicts and as reflecting attempts by the parties to routinize exchange relationships between them…. Once in existence, however, these institutions can be assumed to be of some importance for the level and shape of industrial conflict.\(^{11}\)

Taylor and Bray also note a series of criticisms of the industrial relations orthodoxy which emanated from outside industrial relations scholarship and raised questions about the relationship between industrial relations institutions and outcomes. These included a growing focus by political economists on elements of the labour process and increasing debate about the nature of the capitalist state.\(^{12}\) Set against the growth of direct state involvement in, and increasing politicisation of, industrial relations in the 1970s and 1980s, Giles reviews the treatment of the state in industrial relations theory. He notes that traditional industrial relations scholarship avoided an explicit theoretical understanding of the state. He argues that this is because the orthodoxy, by treating the industrial relations system as an autonomous sphere, has defined industrial relations in a way that directly excludes the determinants of state activity, on the one hand, and limits the types of policies which are considered to be relevant to industrial relations, on the other. In relation to this later point, Giles notes that:

… research on labour policy tends to ignore the role of the state in creating and sustaining the social relations that give rise to employment in the first place. The social foundation of wage labour, industrial discipline, managerial prerogatives, and struggles over the control of work processes and rules, are to found in the particular form of property and employment law in capitalist society…. To ignore

\(^{10}\) Korpi and Shalev 1979 p 168

\(^{11}\) Korpi and Shalev 1979 p 170-1

\(^{12}\) see Taylor and Bray 1986 p 11; on the labour process debate and its implications for industrial relations theory see also Littler 1993 pp 315-9 and Giles and Murray 1997 pp 91-4
the state’s role in sanctioning the very existence of industrial relations (and its problems) is to ignore what is arguably the most crucial role it plays.\textsuperscript{13}

These were precisely the issues that were being addressed in the lively debate about the capitalist state which had been taking place in political economy since the late 1960s, and which formed the intellectual backdrop for the development of statism and the new institutionalism in comparative politics.\textsuperscript{14}

As a number of authors have noted these various elements came together to overcome the traditional antagonism of political economists towards the very idea of “industrial relations” and produced the conditions for an identifiable, if heterogeneous, political economy approach within industrial relations.\textsuperscript{15} Starting from the observation that most contributors in this field would accept the view that “the way in which goods and services are produced and distributed in a society constitutes not just a set of technical relations between people and nature, but also, and more importantly, a set of social relations between people”, Giles and Murray provide an overview of the main features of this critical political economy approach.\textsuperscript{16} These include defining the field as the study of the “social relations in production” and adopting a view of the employment relationship as one of “structured antagonism”. It also suggests that:

… mechanisms such as collective bargaining, grievance arbitration, employment standards and so on are viewed as institutionalised compromises between workers and their employers, compromises sometimes reached independently and sometimes through state policy. The key point is that these institutions and processes are designed to contain and mediate the expression of conflict. Moreover they are inevitably precarious in the sense that they depend on a particular balance of power and so, even if regularised for a period of time, may be replaced or restructured if there is a significant shift in power relations.\textsuperscript{17}

Therefore, debates both inside and outside industrial relations in the 1970s and 1980s led to calls for a broadening of the focus of analysis beyond the impact of the institutions of industrial relations- what Dunlop called the Industrial Relations System- and led to the development of an identifiable political economy tradition in industrial relations.

\begin{itemize}
\item \textsuperscript{13} Giles 1989 p 129
\item \textsuperscript{14} for a review see, for example, Clarke 1991
\item \textsuperscript{15} Taylor and Bray 1986, Giles and Murray 1997
\item \textsuperscript{16} Giles and Murray 1997 p 80
\item \textsuperscript{17} Giles and Murray 1997 p 85
\end{itemize}
However, Giles and Murray argue that this tradition has largely failed to live up to its promise.\textsuperscript{18} They note that there is a difference between advocating an approach which calls for the understanding the institutions of industrial relations within the context of capitalist social relations, and making this a reality. They argue that, while the political economy approach offers potentially important insights into issues associated with industrial relations, there is are a number of problems with developing such an approach.\textsuperscript{19} Perhaps most importantly they note the difficulty of integrating the different levels of analysis required of such an approach into a single framework.\textsuperscript{20} This recalls Hyman’s views that there is a fundamental incompatibility between the generality of Marxist categories and the concrete nature of the issues which concern industrial relations scholars.\textsuperscript{21} The problem is, as he sees it, is that:

\begin{quote}
…it seems impossible to specify a clearly differentiated and homogenous set of Marxist theories or explanations which systematically elucidate relations between unions and employers, workers and managers.\textsuperscript{22}
\end{quote}

It can be argued that this problem is particularly acute when it comes to integrating the international dimension into the analysis. Despite the existence of an identifiable political economy tradition in industrial relations scholarship and the fact that most political economists would see international economic changes as of direct relevance to the domestic institutions of industrial relations, there has been few identifiably political economy attempts to examine the relationship between globalisation and industrial relations.\textsuperscript{23} Indeed Haworth and Hughes argue that the political economy tradition in industrial relations simply replaced the overemphasis on institutions in the industrial relations orthodoxy with concern about control over work relations. As a result they suggest that:

\begin{quote}
the critical perspective was still firmly located in the enterprise, sectoral or national environments and its power relationships. Where opportunities arose for engagement between radical industrial relations theory and international analysis … they were generally underdeveloped.\textsuperscript{24}
\end{quote}

\textsuperscript{18} Giles and Murray 1997 p 100
\textsuperscript{19} Giles and Murray 1997 pp 100-2
\textsuperscript{20} Giles and Murray 1997 p 100-1
\textsuperscript{21} Hyman 1980 p 127
\textsuperscript{22} Hyman 1980 p 127-8
\textsuperscript{23} This is not to argue that there are no such attempts. See, for example, the recent special issue of the \textit{Journal of Industrial Relations} on globalisation and labour regulation especially the contributions by Haworth and Hughes, Murray \textit{et al} and Deyo.
Some of the problems associated with developing an international political economy of the relationship between globalisation and industrial relations can be seen in Robert Cox’s *Production, Power and World Order*—one of the most extensive and elaborate attempts to deal with these issues.\(^{25}\) Beginning from the observation that the social relations of production consist of three interrelated aspects—the power relations governing production, the technical and human organisation of the production process and the distribution of the product—Cox identifies twelve possible modes of social relations of production each with its own set of objective, subjective and institutional supports—including domestic institutions of industrial relations.\(^{26}\) Cox argues that the transition from one mode of social relations of production to another is a consequence of actions of states within the confines of what he calls world orders.\(^{27}\) Using this schema Cox provides a magisterial overview of the shift from one world order to another and the consequences of these shifts have for the social relations of production across a large number of countries over a two hundred year time period. While Cox’s approach meets the demands of an international political economy of industrial relations by linking changes in the social relations of production to changes in the international economy, it also demonstrates the extent to which the political economy tradition in industrial relations has trouble drawing useful connections between different levels of analysis. As Pantich notes, the consequence of Cox’s analysis is that it oscillates between presenting modes of the social relations of production as determined from the outside in by the world order, at one extreme, to a presenting the relationship between world order, state and mode of social relations of production as completely indeterminate.\(^{28}\)

The problems that have been identified with Cox’s work illustrate the difficulties attendant in constructing a fully-fledged international political economy analysis and suggest that it is unlikely that a thoroughgoing international political economy of globalisation and industrial relations will be developed within the confines of industrial relations scholarship. The approach adopted in this thesis is to follow a much more modest path both in terms of the elaborateness of the analysis which is developed and in the range of phenomenon for which explanation is sought. Therefore rather than

\(^{21}\) Haworth and Hughes 2000 p 200  
\(^{25}\) Cox 1987  
\(^{26}\) Cox 1987 p 17-34  
\(^{27}\) Cox 1987 p 105-9
attempting to construct a fully blown international political economy model, the aim of this chapter is to develop an interaction model which draws on insights from a range of political economy sources. This approach follows from the observations made by Hyman in response to Marsden’s argument that industrial relations is fundamentally empiricist.\footnote{Hyman 1994 p 174}

Hyman, following E. P. Thompson’s critique of Althusser, argues that those who charge all industrial relations scholarship with being empiricist have confused empiricism with the empirical mode of intellectual practice, and tend to privilege theoretical abstraction. He argues instead for an approach based on “theoretically informed empirical analysis and empirically grounded theorisation”\footnote{Hyman 1994}. In line with Hyman’s earlier observations that “…a background in Marxian political economy creates a natural sensitivity to structures, problems and processes traditionally neglected within orthodox analysis- at least until a changed material context forces them importunately into view”, the political economy literature presents itself as an important source of concepts on which to base empirical analysis. The next section turns to a strand of the international political economy literature which deals with concepts of direct relevance to the relationship between international economic change and the domestic institutions of industrial relations.

3.3 INTERNATIONAL ECONOMIC IMPACTS ON POLICY DEMANDS: CONCEPTS FROM THE INTERNATIONAL POLITICAL ECONOMY LITERATURE

In the international political economy literature there is a more or less coherent body of work which is concerned with specifying linkages between international economic changes and domestic policy demands.\footnote{for overviews, see Milner and Keohane 1996 and Hall 1998} As with the new institutionalism there are a number of different strands to this literature and it is known by a number of names. First, because it is attentive to the impact of external factors on domestic politics, analyses of this type are often called open polity models.\footnote{Milner and Keohane 1996: 7; Remmer 1997} Second, given its concentration on the effect of international economic factors on social actors, it is often referred to as a society centred approach. This is meant to contrast it with the state centred tradition, associated with Skocpol and others.\footnote{see Caporaso and Levine 1992 pp 181-96} The following discussion uses the term interest-based
approach when referring to this body of work.\textsuperscript{34} This is because it places societal actors’ interests and preferences at the heart of the analysis of political change and in this regard it can be strongly contrasted with the institutionalist approach reviewed in the previous two chapters.

The key insights associated with an interest based approach are that policy patterns are underpinned by coalitions of interest groups and that the policy preferences of these interest groups are likely to be impacted by changes in the international economy. In this way interest based approaches integrate a role for international economic change in shaping national policy patterns. Because countries are integrated into the international economy in different ways, it is conceivable that common changes in the international economy are likely to differential impacts on the policy preferences of interest groups across different countries. Thus, in some cases, policy coalitions may prove to be stable in the face of international economic change, while in others new policy coalitions may form. Such an approach stands in stark contrast with the tendency of institutionalist analyses to treat the impact of international economic change as external and homogeneous. Therefore an interest based approach provides an alternative framework for comparative analysis of the effects of international economic change on national policy patterns.

This section reviews the main contributions to the interest based approach, examining differences in approaches taken to disaggregating societal interests within this literature. It also examines whether concepts from this literature can be applied to the study of globalisation and industrial relations. One of the main focuses of the interest-based tradition has been on explaining cross-national variation in levels of trade protection.\textsuperscript{35} It has also been used to explain cross-national differences in economic policy more generally.\textsuperscript{36} More recently a number of authors have used these types of arguments to account for cross-national patterns in public sector restructuring and welfare reform and,

\begin{flushleft}
\textsuperscript{34} Hall 1998 \\
\textsuperscript{35} see Rogowski 1989; Coram 1993; Midford 1993; Garst 1998 \\
\textsuperscript{36} see Frieden 1988; Frieden 1997; Gourevitch 1978; Gourevitch 1986; Silva 1993; Schwartz 1989
\end{flushleft}
as noted in the next section, it has also become very prominent in debates about bargaining structure in Sweden.\(^{37}\)

**EXPLAINING CROSS NATIONAL DIFFERENCES IN TRADE AND ECONOMIC POLICY**

In a seminal article which motivated much of the later work in this tradition, Gourevitch observed:

…that international market forces affect politics and have done so for a long time seems incontrovertible. Can we find general arguments which posit systematic relationships between such forces and certain configurations of regime type and coalition pattern?\(^{38}\)

Rogowski’s model of trade policy is perhaps the most straightforward attempt to link changes in the international economy to domestic politics in the interest based tradition.\(^{39}\)

Rogowski attempts to develop a parsimonious explanation for variations in levels of trade protection across countries and over time. He argues that changes in international trade exposure affect national political coalitions and cleavages by changing the returns to factors of production (land, labour and capital). According to this approach, domestic political responses to international economic changes can be mapped by establishing the effects of changes in trade exposure on the relative positions of factor endowments. Following the argument that changes in trade exposure benefit the “owners of factors in which, relative to the rest of the world, that society is poorly endowed, as well as producers who use that relatively scarce factor intensively”,\(^{40}\) he suggests that changes in trade exposure have political consequences. It is this differential impact of changes of trade exposure on factors of production which for Rogowski creates the conditions for political realignment around trade policy. Those who benefit will attempt to preserve the change while those who are adversely affected will attempt to halt or alter it through changes in trade policy.

There are a number of limitations associated with Rogowski’s presentation. First, the assumption that a three-factor model can be used to model all market economies is unrealistic. Rogowski himself finds it necessary to relax the assumptions of his model to

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\(^{37}\) on welfare patterns see Schwartz 1994; Kunkel and Pontusson 1998) and on Scandinavian social democracy and collective bargaining see, for example, Iversen 1996; Swenson 1989; Swenson 1991b; Swenson 1991a; Pontusson and Swenson 1996

\(^{38}\) Gourevitch 1978 p 884

\(^{39}\) Rogowski 1989

\(^{40}\) Rogowski 1989 p 3; the following discussion is drawn from pp 2-5

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account for the possibility of Red-Green alliances.\(^{41}\) Midford shows that there are a number of historical examples which Rogowski’s model cannot account for.\(^{42}\) While supporting the general thrust of Rogowski’s approach, he argues that these anomalies are a consequence of the excessive parsimony of a three-factor model. He notes that:

… as an economy becomes more complex, the division of labour becomes finer and large aggregate groups such as labour, land and possibly even capital lose much of their meaning. These factors are likely to subdivide into more specialised subgroups. Because barriers may prevent easy migration of factors between subgroups and because relative abundance and roles in the division of labour are likely to vary, changing exposure to trade will affect the subgroups in disparate ways.\(^{43}\)

In a separate line of criticism, Garst argues that Rogowski’s argument fails to account for those situations under which business remains opposed to forming an alliance with labour in favour of free trade despite favourable movements in exposure to trade.\(^{44}\) This is because, he argues, Rogowski’s model fails to acknowledge that “trade alliances between similarly endowed capital and labour are mediated by the strength of trade union organisation.”\(^{45}\) In particular, he argues that even when there are potential benefits for employers to be derived from the formation of a free trade alliance with labour, faced with relatively weak trade union organisation, employers will avoid supporting policies which improve the conditions for labour organisation. However:

… strong worker organisation arguably makes employers more likely to adopt labour strategies that accommodate rather than fight unions. The presence of trade unions decreases the chances of employers prevailing in direct confrontations with labour and raises the costs of such actions. So long as worker organisation does not impede the ability of capitalists to make acceptable profits, firms whose workers have a strong capacity to organise have a greater incentive to develop ways of living with worker organisation rather than launching costly and disruptive direct assaults on unions. The interests of these employers in collaborating with strong unions is further strengthened by the impact of such

\(^{41}\) Rogowski 1989 pp 13-15
\(^{42}\) Midford 1993; Minford suggests that Rogowski’s model predicts that US politics should have been characterised by a free trading alliance of land and capital against protectionist labour, but notes that US labour largely favoured free trade until the mid 1970s. He also notes differences in when unions organising different sectors of the economy began advocating protection, and also significant differences between capitalists in different sectors in their attitudes to trade policy. These anomalies cannot be accounted for by Rogowski’s basic model. For more details see pp 537- 542.
\(^{43}\) Midford 1993 p 542; Midford advocates the use of Leamer’s model of eleven factors, instead of the three factors to overcome this limitation, see pp 546 ff.
\(^{44}\) Garst 1998; the specific case with which he is concerned in the failure of German business to join a “Lib Lab” alliance with labour in favour of free trade against the “iron and rye” coalition after 1890, see pp 24-28. For an explanation for this process which is consistent with the model advanced in this chapter see Abraham 1986
\(^{45}\) Garst 1998 pp 28, the following discussion is drawn from pp 28-32
unions in limiting disruptive strike activity and imposing uniform wage settlements.\textsuperscript{46}

The problem of excessive parsimony in interest-based models, though not the issue of the role of class interests in shaping policy coalitions, is addressed in Gourevitch’s work on economic policy. Gourevitch rejects the notion that international economic imperatives are determinant of policy outcomes but, at the same time, in contrast to the institutionalist approach, does not exclude them from shaping policy responses.\textsuperscript{47} Rather Gourevitch focuses on the differential effects of international economic change on societal actors and the consequences of these differences for policy preferences and coalition formation. He argues that for each country it is possible to identify a distinctive \textit{production profile} defined as “the situation of a nation’s economic actors in the international economy and the way that their situations relate to policy preferences.”\textsuperscript{48} He advocates disaggregating categories of social actors to map the production profile of a country and to capture the differential effects of international economic change on subsequent coalition formation. Like Rogowski he distinguishes three societal groups—business (which he defines as consisting of manufacturing, trade, marketing, and finance), agriculture and labour. Unlike Rogowski, he argues that these groups can be disaggregated further along a number of dimensions that are likely to impact on their policy preferences.\textsuperscript{49}

Thus he distinguishes five factors which may alter the policy preferences of businesses with regard to economic policy. These are: first, the competitiveness of the business in the international economy; second, the vulnerability to business to fluctuations of demand; third, the role and character of labour needs of the business; fourth, the source of demand for the business’s product or service; and, finally, the structure of capital markets in which the business operates. He also disaggregates agriculture along two dimensions: first, the market for products in terms of buyers (are they producing for international commodity trade or are they selling to domestic consumption markets); and second, according to the organisation of production and adaptability to market changes. Finally he disaggregates the category of labour according to two factors: first, the scale and

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\textsuperscript{46} Garst 1998 p 30
\textsuperscript{47} Gourevitch 1978 p 883
\textsuperscript{48} Gourevitch 1986 pp 76; this concept of production profile is related to Gerschenkron’s classic work on late industrialisation. See Gerschenkron 1962
\textsuperscript{49} The following discussion is drawn from Gourevitch 1986 pp 54-60
character of the enterprise or workplace that they are employed in; second, the situation of that enterprise in the international market place.

With these potential divisions in mind, he examines the economic policy reactions of five countries (Britain, France, Sweden, Germany and the United States) to three economic crises (1870-1890, the 1930s, and since the 1970s). He notes that in all these countries, the experience of economic crisis led to critical realignments of relations amongst social actors. He argues that the key to understanding these critical realignments is the “linkage between international competition and intra-business relationships”. Despite their common interests in keeping wages low and labour weak, he argues that at times divisions develop between different groups of business, and that to achieve their aims these groups are forced to seek alliances with other social groups. Gourevitch also shows that differences in the production profiles of different countries, and possibilities these differences create for coalitions behind different policy mixes largely explains the economic policy responses of these five countries to the three economic crises.

Gourevitch’s analysis provides a strong corrective to the statist tradition that underpins much of the institutionalist literature. As he notes:

…the autonomy of the state has a social base: for state autonomy to exist for specific purposes, the state must be able to obtain support, of differing kinds, from societal actors. The strong state is one which has the political support to be strong, a state with the compliance or enthusiasm of at least some societal actors that support the actions of strength.

By adopting an approach which explores the differences within factors of production, and taking into account the potential complexity of the division of labour, he is able to explain some of policy outcomes which Rogowski’s analysis treats as anomalies. However he does not adequately deal with issue of class and class organisation, which Garst notes in relation to Rogowski’s analysis. Gourevitch dismisses the use of social class as a means of disaggregating societal interests on the grounds that the categories of capital and labour are too large. However, in doing so, Kesselman argues, his analysis fails to

50 Gourevitch 1986 p 222; the following discussion is drawn from pp 221-240.
51 Gourevitch 1986 p 238
recognise “that it is a capitalist political economy- with its distinctive dynamics- for which economic policy is being made.”\textsuperscript{52} More specifically, he argues that:

Although both the world capitalist economy and … the domestic political economy form the backdrop for his analysis, he does not sufficiently explore their complexities…. He equates capitalism with the global system of market exchange and neglects the importance of production relations…. He does not situate international economic crises within cycles of capitalist expansion and contraction.\textsuperscript{53}

\textbf{INTEGRATING CLASS AND SECTOR: DEBATES ABOUT NEO-LIBERAL ECONOMIC POLICY IN LATIN AMERICA}

The contribution of interest-based theorists to debates about origins of neo-liberal economic policies in Latin America directly address the relationship between class and sectoral interest, thereby incorporating an understanding of the impact capitalist relations of production play in producing particular interests and policy coalitions. As Remmer notes the dominant explanations of neo-liberal policy reform in Latin America during the 1980s and 1990s have drawn heavily on state-centric arguments which stress the importance of state autonomy for explaining why many Latin American states introduced unpopular economic reform. She suggests that this approach has produced two paradoxes. First, it is unclear why “relatively autonomous and powerful sets of state actors would pursue reforms diametrically opposed to their own interests” and second it is difficult to account for the coincidence of neo-liberal reform with democratic government and electoral success in a large number of Latin American nations.\textsuperscript{54}

Frieden develops an interest based explanation of differences in the economic policies of five major debtor nations in Latin America during the 1970s and 1980s which focuses on the relationship between class and sector in shaping policy responses to international economic change.\textsuperscript{55} For Frieden, the division between the modern business sector and the industrial working class is the first major cleavage that conditions the economic policy preferences of the private sector in Latin American economies. He argues that the adoption of market-oriented policies is more likely when relations between capital and labour are conflictual. This is because the more conflictual class relations become, the more individual capitalists are interested in preserving property rights and the less

\textsuperscript{52} Kesselman 1992 p 647
\textsuperscript{53} Kesselman 1992 p 653
\textsuperscript{54} Remmer 1998 pp 5-6
\textsuperscript{55} Frieden 1988 and Frieden 1991
The Importance of Small Differences

considered they are with their sectoral interests.\textsuperscript{56} Therefore, he argues, that the more hostile the labour movement, the more capital will tend to favour governments prepared to adopt market oriented policies that have a disciplining effect on the labour movement. Where labour capital relations are less conflictual, however, he argues capitalist are more likely to advance their sectoral interests and may even form alliances with workers from their own sector in lobbying for favourable “sectoral” policies.\textsuperscript{57}

However he also argues that in addition to class relations, sectoral differences condition the political and economic reactions of the private sector to international economic change. Drawing on the international trade literature, he distinguishes between holders of fixed assets and holders of liquid assets.\textsuperscript{58} Fixed asset sectors include agriculture and industry and liquid asset sectors may include finance, real estate, services, and importers and exporters. Using this division, Frieden argues that liquid asset holders are more likely to be sensitive to general market conditions, while fixed asset holders are more sensitive to sectoral developments. Liquid asset holders are likely to benefit more from market-oriented policies, while fixed asset holders are likely to benefit from sector specific policies. Those with liquid assets are able to shift their investments in response to changes in government policy, whereas those with fixed assets are not. Therefore, holders of liquid assets are more likely to respond to government policies with economic actions, including flight, while holders of fixed assets tend to take political action if their assets are threatened.\textsuperscript{59}

He argues that it is similarities and differences in these patterns of class and sectoral relations which explain similarities and differences in the patterns of economic policy adopted by Latin American debtor nations during the 1970s and 1980s in response to the international economic crisis. Thus he notes that in Brazil, the lack of threat from organised labour meant that sectoral concerns continued to dominate economic policy after the 1979 international interest rates crisis, while in Chile the strong labour organisation dampened inter-capitalist conflict and created the conditions of extreme free

\textsuperscript{56} It should be noted that this corresponds to case alluded to by Garst 1998 above.
\textsuperscript{57} Frieden 1988 p 4
\textsuperscript{58} Frieden 1988 p 5 at footnote 5. Frieden acknowledges that this division oversimplifies potential sources of divisions between capitalists, a point which Silva addresses. See below
\textsuperscript{59} Frieden 1988 p 5
market oriented policies which favoured liquid asset holders. He argues that the case of Mexico, Venezuela and Argentina sit between these two extremes.\textsuperscript{60}

For Silva, while the distinction Frieden draws between holders of fixed and liquid assets captures two polar opposites (industrial conglomerates behind protection walls, on the one hand, and finance capital, on the other), it misses the nuances and the range of possibilities between these polar opposites.\textsuperscript{61} By combining Frieden’s and Gourevitch’s approach to disaggregating societal interests, Silva identifies a range of potentially divergent interests amongst groups of capitalists. These include:

(1) capitalists with fixed assets in internationally oriented industrial and agricultural sectors… [and]… (2) those with fixed assets in industries that produce for domestic markets but are internationally competitive. The policy preferences of these groups tend to be different from those with liquid asset holders with strong connections to the international financial community; their preferences also differ from those of producers with fixed assets in internationally non-competitive sectors in industry and agriculture…. Fixed asset international market oriented groups should support open economies but not oppose all sectoral policy. Fixed asset domestic market oriented internationally competitive producers should favour sectoral policies but not be adamantly against gradual reductions in protection.\textsuperscript{62}

Silva uses this delineation to examine the relationship between international economic change and economic policy changes during the Pinochet regime in Chile. He notes that arguments that associate neo-liberal economic policy in Chile with the state autonomy provided by authoritarianism during the Pinochet regime are unable to account for the shift of economic policy from gradual to radical to pragmatic adjustment during this period. Countering state centred arguments, he argues that these shifts can be explained by focussing on international economic factors and their impact these had on the different fractions of capital:

external factors, largely international capital flows, influenced which fraction of capital that dominated at a particular time. Pinochet and his policy makers listened to those capitalists because they seemed to hold the key to economic growth.\textsuperscript{63}

\textsuperscript{60} Frieden 1988 pp 6-15  
\textsuperscript{61} Silva 1993 p 534  
\textsuperscript{62} Silva 1993 p 533  
\textsuperscript{63} Silva 1993 p 535
EXPLAINING CROSS-NATIONAL PATTERNS OF WELFARE STATE RESTRUCTURING AND PUBLIC SECTOR REFORM

Interest based approaches, which examine the impact of changes in the international economy on policy interests, have also figured in recent debates about welfare state restructuring. The dominant explanation for contemporary patterns of welfare state retrenchment stresses the importance of institutions. Pierson, for example, argues that welfare states in developed economies have proved relatively resilient in the face of economic downturn during the 1980s and 1990s. He attributes this resilience to the fact that once institutionalised, welfare states become the status quo and consumer groups are thus able to mobilize to protect them.

Using evidence from the 1990s, Clayton and Pontusson dispute the notion that welfare states have been relatively resilient and argue instead that there has been a general erosion of welfare provision across the OECD and there are significant cross-national differences in the extent to which welfare provision has been eroded. They argue Pierson’s approach is limited in its ability to account for both the generalised decline of welfare provision and differences between cases.

For Clayton and Pontusson both the general erosion of the welfare provision across the OECD and differences in the extent to which welfare has been eroded can be explained with reference to differences in the coalitions of interest that coalesce behind policy regimes. Thus they argue that the retrenchment of welfare is:

… a response to political pressure from a cross class coalition of employers and workers in the export and multinational sectors…. With increased openness and intensified international competition, workers and employers in exposed sectors become acutely concerned with containing the upward pressure on domestic costs generated by large public sectors. In this context a new political-economic cleavage between sheltered and exposed sector opens up and the exposed sector coalition exerts increasing pressure for public sector reform. It is important to recognise that this coalition is based on a compromise among its constituent units, rather than on a complete convergence of interests. Left to their own devices, export-oriented employers would probably have favoured across the board cuts in the welfare state, but the maintenance of basic social insurance is a condition for private sector unions to support public sector cutbacks and reforms.

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64 Pierson 1996
65 Clayton and Pontusson 1998 p 71
Schwartz provides an example of how a focus on interests can help explain the relationship between international economic change and welfare state restructuring and public sector reform. His analysis focuses on four small open economies—Australia, Denmark, New Zealand and Sweden—during the 1980s. Despite the dominance of social democratic governments in all four cases, during the 1980s these countries introduced a broad range of public sector reforms aimed at restricting welfare provision and reducing the size of fiscal deficits. In all four cases these aims were pursued by the use of private sector management principles into welfare provision and public sector management. He notes that in all four cases the effects of these reforms have been to reduce the structural fiscal deficit, the provision of welfare and (except Denmark) the level of public sector employment.\textsuperscript{67}

He accounts for the similarities between the cases by noting the similarities of their integration into the international economy—and particularly the relationship between the internationally exposed sectors of their economies and the domestic and non-tradable sectors. He argues that during the 1970s governments in all four countries adopted Keynesian bridging strategies and incomes policies that were designed to maintain full employment by moderating the impact of volatility in international markets on the domestic economy. The effect of these policies was to increase public sector spending and public sector employment. He suggests that by the early 1980s “fiscal and current account deficits in each country… had cumulated into unsustainable levels of public and foreign debt.”\textsuperscript{68} During the 1980s, he argues that:

in these four countries coalitions of politicians, fiscal bureaucrats, and capital and labour exposed to international competition allied to transform what they saw as a major factor contributing to declining international competitiveness: the state... especially the welfare state.\textsuperscript{69}

However he also notes that there were differences both in terms of the success of the reform agendas and the content of the particular policies pursued. He accounts for these differences both in terms of the institutional differences between the countries, and the opportunities for radical reform, but also in terms of the particular configuration of interests. Thus, he suggests that the introduction of a more radical reform agenda in New

\textsuperscript{66} Clayton and Pontusson 1998 p 97  
\textsuperscript{67} Schwartz 1994 pp 539-44  
\textsuperscript{68} Schwartz 1994 p 532
Zealand, when compared with the other countries, reflected not only lack of restraints on state policy, but also the more serious state of economic crisis in New Zealand economy and the strong agreement between politicians, fiscal bureaucrats and internationally exposed employers of the need to lower deficits, constrain public sector wage push and to reduce the tax burden.\(^{70}\) Coupled with the lack of effective opposition from unions, this created the conditions for more radical reform in New Zealand, than in Australia or the other two countries. This argument has obvious implications for explaining similarities and differences in industrial relations reform in Australia and New Zealand during the 1980s and 1990s, but also demonstrates the potential of interest-based models to overcome the stark dichotomy between convergence and divergence which characterises much of the contemporary analysis of globalisation.

Weiss, a strong proponent of the new institutionalism, characterises Schwartz’s argument as a version of the globalisation thesis. She argues that Schwartz treats the relationship between international economic change and domestic response as determined and homogenous.\(^{71}\) This suggests a misreading on Weiss’s part. In particular, it should be noted that Schwartz not only explains the similarities between the cases but is also able to account for the differences between them. For Schwartz, these similarities and differences reflect the specific pattern of integration of each of these economies into the international economy and the impact of changes in the international economy on the configuration of particular interests and coalitions within each country. Further, Schwartz is able to accommodate agency, strategic orientation and institutional constraints within his explanatory framework. Therefore, rather than treating the relationship between international economic change and domestic policy change as simple and determinate, Schwartz is able to present a complex and contingent account of similarity and difference between these four countries. Thus, contrary to Weiss’s assertion, Schwartz’s analysis highlights the extent to which an interest-based model is able overcome the limitations of both the globalisation and institutionalist approaches.

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\(^{69}\) Schwartz 1994 p 531  
\(^{70}\) Schwartz 1994 pp 535-40  
\(^{71}\) Weiss 1998 p 192
APPLYING AN INTEREST BASED APPROACH TO INDUSTRIAL RELATIONS

In the preceding section it was argued that while there was an identifiable political economy tradition in industrial relations scholarship, which focuses on the role of material interests in shaping industrial relations institutions, this tradition has not been able to integrate an assessment of the role international economic factors play in shaping these interests. This section has reviewed examples of interest-based approaches from the international political economy literature. It has shown how these models, by focussing on the configuration of societal interests which underpin policy patterns, are able to incorporate international economic changes into their explanations of cross national patterns of trade policy, economic policy and welfare policy.

There are a number of reasons to suggest that concepts from this interest-based literature can be applied to the comparative analysis of the globalisation and industrial relations. First, analytically there is no reason to expect that interest-based models would be any less applicable to the institutions of industrial relations than trade policy, the structure of the welfare state or economic policy patterns more generally. Systems of wage determination and labour market regulation have economic consequences and are therefore the subject of political conflict in times of economic change. Furthermore the institutions of wage bargaining and labour market regulation have differential effects on different types of businesses and different types of labour. Thus they are likely to be just as contested as are trade policy, economic policy or welfare provision.

Second, there are a number of strong connections between all of these issues- economic policy, trade policy, the structure of the welfare state and institutional arrangements in the labour market. For example, as will be noted in the chapter four, comparative interest in industrial relations reform in Australia and New Zealand during the 1980s and 1990s, arose in the context of widespread and dramatic changes in economic policy, tariff protection and the provision of welfare. Furthermore, accounts of the origins of arbitration in Australia and New Zealand have long acknowledged the intimate connections between trade policy, industrial relations and welfare provision.\textsuperscript{72} This suggests that an analytical framework which incorporates a role for international economic change in accounting for changes in economic policy, trade policy, and the

\textsuperscript{72} Castles 1985
structure of welfare provision, may also provide a number of important insights into the relationship between international economic change and the domestic institutions of industrial relations.

Third, as the previous review has shown, in many respects the debate about the impact of globalisation on industrial relations is very similar to debates about the impact of international economic change on other areas of policy. For example, the dominant explanations of welfare state resilience have argued that while welfare states are affected by common pressures, these common pressures have been blunted by institutional factors. As in the industrial relations literature, the focus on the role of institutions in accounting for the welfare state resilience leaves these models unable to explain similarities and differences between countries in the same analytical framework. As has been shown, interest based approaches to welfare state restructuring have been able to overcome these limitations and it seems reasonable that this analytical framework could also prove useful in explaining cross national patterns of industrial relations.

Fourth, even within mainstream industrial relations thinking, it is widely accepted that the institutional preferences of industrial relations actors can vary according to circumstance. Thus Katz notes:

> History … demonstrates… that although in many cases unions prefer centralised bargaining (to take wages out of competition) and employers prefer decentralised bargaining (to respond to local conditions and gain whipsaw advantage), the parties’ preferences are not always so simply ordered. In some cases for example unions prefer firm level over industry level bargaining because the former gives them a power advantage. In other cases, both large employers and their unions favour industry wide bargaining as a device through which they can “cartelize” industry and drive out low cost competition.  

This suggests that an approach which traces the role that international economic change may play on the preferences of societal interests is directly relevant to the study of industrial relations phenomena. Finally, there is a long tradition in the industrial relations literature of treating the institutions of industrial relations as a product of compromise between societal interests. Korpi, for example, suggests that the origins of centralised bargaining in Sweden were the product of an historic compromise between labour and

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73 Katz 1993 p 3
capital in the 1930s.\textsuperscript{74} Taken together, these factors suggest that there is considerable scope for the application of concepts from the interest-based literature to the analysis of globalisation and industrial relations.

3.4 INTERNATIONAL ECONOMIC CHANGE, CROSS CLASS COALITIONS AND CENTRALISED BARGAINING IN SWEDEN

While interest based approaches have not figured in the broader comparative industrial relations literature they have been prominent in recent reassessments of the Swedish industrial relations. This section reviews interest-based reassessments of centralised bargaining in Sweden.

HISTORIC COMPROMISE, POWER RESOURCES AND THE ORIGINS OF CENTRALISED BARGAINING IN SWEDEN

In the period 1956-83, Swedish industrial relations was dominated by a three tier system of bargaining- peak level agreements between the Landsorganisationen (LO)- the blue-collar trade union confederation- and the Svenska Arbetsgivareforenongin (SAF)- the Swedish employers association; industry level contracts, and local level bargaining between individual SAF and LO affiliates. This provided a system in which the centralised bodies determined the room for wage increase at a peak level. Subsequent wage negotiation between white collar unions and employers (including public sector employers) were normally settled within the limits provided by the negotiation of the SAF-LO agreement, ensuring wage growth did not outstrip productivity increases. This centralised bargaining system was characterised by two features- employers accepted the principle of a solidaristic wage policy (which refers to the distribution of income among wage earners and also determines the distribution of labour supply and wage costs among employers) in return for the union acceptance of wage restraint (which relates to the distribution of income between employers and labour) to maintain international competitiveness. Together with an active labour market policy and a restrictive macroeconomic policy, the centralised bargaining system played a key role in the post-war economic policy of the Social Democratic party (SAP), a model which successfully

\textsuperscript{74} Korpi 1978
coupled productivity increases and economic growth with full employment and increasing social equity.\textsuperscript{75}

How did this peak level centralisation develop? In an influential account, Korpi rejected the pluralist view that industrial peace and centralised bargaining in Sweden reflected the withering away of the strike associated with the declining salience of class and the institutionalisation of conflict.\textsuperscript{76} Rather he argues that the origins of the centralised bargaining system in Sweden lay in an historic compromise forged between labour and capital in the context of the consolidation of social democratic rule in the 1930s. For Korpi, social democratic political hegemony created the conditions under which labour was able to give up the strike weapon after 1934 and paved the way for the signing of the Saltsjöbaden Basic Agreement between the LO and SAF in 1938. As a quid pro quo for employers accepting the SAP’s dominance in the political sphere, the Basic Agreement contained acceptance of Article 32 of the SAF constitution by unions which ensured the right of employers to “direct and distribute work, to hire and fire and dismiss all workers at will, and to employ workers whether they are organised or not”. For Korpi, this peace settlement created the conditions for peak level centralisation in the 1950s.\textsuperscript{77}

Underpinning this account is Korpi’s concept of power resources. Drawing on neo-Weberian views of social stratification he argues that:

if control over the means of production is the major power resource of the buyers of labour power, organisations that coordinate collective action become the major alternative power resource of its sellers.\textsuperscript{78}

He argues that the labour movement’s abandonment of the strike weapon after 1934, and its concentration on seeking it aims through political control, reflected an acknowledgment by the labour movement that, while it did not have the power resources necessary to challenge the private control of the economy, it did have sufficient power resources to dominate the political sphere and to develop its material power resources through the expansion of the welfare state. This argument suggests that Swedish

\textsuperscript{75} for more details, and different perspectives on the Swedish model and particularly the relationship between centralised bargaining and economic performance see, for example, Martin 1979 and Moene and Wallerstein 1995
\textsuperscript{76} Korpi 1978
\textsuperscript{77} Korpi 1978
\textsuperscript{78} Korpi 1978 p 23
employers voluntary sought centralisation of bargaining in an effort to avoid more dramatic impositions on their prerogatives and that the centralisation of bargaining reflected the power of labour in Sweden vis-à-vis capital. As one commentator puts it:

The cementing of the Red Green alliance ... paved the way to industrial peace in the 1938 Saltsjobaden agreement, concluded between the central organisation of business and the labour movement. The Swedish business community acquiesced in a Social democratic government, higher labour costs, a relatively expansive fiscal policy, and a growth of welfare services- in exchange for labour peace, the continuation of private control over property and capital markets, and the openness to the world economy. This was a ‘historical compromise’ Swedish style, between business and labour”79.

On the basis of this analysis, Korpi argues that the radicalisation of Swedish social democracy and the resurgence of industrial conflict that began in the late 1960s reflected a rejection by labour of the terms of the ‘historic compromise’ and its growing awareness that through the expansion of the welfare state it had developed the necessary power resources to challenge the private control of the economy.80

**REASSESSING THE ORIGINS OF CENTRALISED BARGAINING IN SWEDEN IN LIGHT OF ITS COLLAPSE**

However, it was not this left offensive which threatened the viability of Swedish social democracy and the survival of the centralised bargaining system. Rather it was an employers’ offensive, which developed in the aftermath of the 1980 general strike, which resulted in the collapse of centralised bargaining in Sweden. In March 1983, the Verskstadsforeningen (VF) -the engineering employers’ federation- announced that it had reached a separate agreement with Metal- the Swedish metalworkers’ union- outside the LO-SAF basic agreement. This heralded the demise of peak level centralisation in Sweden and the beginning of significant decentralisation. While there were some moves back to centralisation after 1983, Pontusson and Swenson argue that “the peak level bargaining that did occur in the mid 1980s and again in 1991 was procedurally and substantively different from bargaining the 1956-83 period”.81 In particular, changes in bargaining resulted in an increase in wage differentials both within industries and between industries, and undermined the solidarity wages policy which had been at the

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79 Katzenstein 1985 p 141
80 Other important contributions to power resource theory include Stephens 1980; Esping- Anderson 1985. For an overview of the power resource approach see Olsen and O’Connor 1998. For connections between the power resource approach and the impact of parties approach advocated by Castles 1982and others, which is discussed in chapter six below, see Shalev 1983
81 Pontusson and Swenson 1996 p.230
The Importance of Small Differences

heart of the LO’s aims in bargaining since the 1950s. In the early 1990s engineering sector employers led a further attack on centralised bargaining which created the conditions of not only industry level bargaining, but also for enterprise based bargaining.\(^{82}\)

These empirical developments set the stage for a fundamental reassessment of the origins of centralised bargaining in Sweden and of Swedish social democracy more generally. While the reassessment accepted the notion that the Swedish model was the product of class compromise, it employed a range of concepts consistent with the interest-based approach outlined above, to suggest that the nature of the compromise was also influenced by the effect of international economic changes on both sectoral and class interests.

For Pontusson, Korpi’s inability to account for the failure of the radicalisation of social democracy and the success of the employers’ offensive reflects the flawed assumptions upon which his power resource model is based.\(^{83}\) First, he suggests that Korpi wrongly conceives of labour’s power resources as uni-dimensional and linear. He notes that Korpi steadfastly ignores the effects economic crisis may have on the exercise of working class power in capitalism. This, he argues, reflects Korpi’s tendency to treat power resources as separate from the sphere of production.\(^{84}\) Second, Pontusson argues that Korpi wrongly treats the labour movement as a single unit subject able to move easily between industrial and economic strategies. This assumption is central to the notion of an ‘historic compromise’ and therefore crucial to Korpi’s account of the origins of peak level centralisation in Sweden. Given the range of factors that potentially divide the working class, Pontusson argues that it is not possible to assume away the potential for conflict between the industrial and political wings of the labour movement, on the one hand, or between different factions within both the industrial and political wings of the labour movement, on the other. Indeed he suggests that the creation of working class unity is an outcome of a political struggle which needs to be explained.\(^{85}\)

\(^{82}\) Pontusson and Swenson 1996; for further details and a range of perspectives on the collapse of centralised bargaining in Sweden see also Lash 1985, Lash and Urry 1987, Mahon 1991, and Whyman and Burkitt 1995

\(^{83}\) Pontusson 1984

\(^{84}\) Pontusson 1984 p 77

\(^{85}\) Pontusson 1984; Pontusson 1987
A third criticism that Pontusson levels at Korpi’s power resource approach is that he wrongly assumes that the power of labour is coterminous with the weakness of capital, and thus that the growth of labour’s power resources necessarily entails a reduction in the power of capital. He demonstrates that one of the main effects of the economic policy adopted by the SAP government in Sweden was to increase the concentration of capital. This again suggests that Korpi’s notion of power resources treats class power as independent from and separate to the sphere of production, and that he ignores the possibility that labour and capital exercise power within capitalism in different ways.  

Thus, Pontusson argues that, in attempting to overcome the limitations of functionalist Marxist models of the capitalist state, which preclude the possibility of the exercise of meaningful power by labour within the confines of capitalism, the power resources model produces a reverse functionalism that treats the state as a neutral vehicle for the exercise of working class power. This approach, he argues, systematically ignores the structural power of capital, the constraints this places on state power and the limitations on the exercise of working class power in capitalist societies. On the basis of this critique, Pontusson goes on to argue that the radicalisation of Swedish social democracy in the 1960s, the failure of the left offensive during the 1970s and the rise of the employer offensive during the 1980s reflect the erosion of the conditions which underpinned the effective operation of the Swedish model during the post war period.  

Pontusson’s critique of the power resources model also suggests the need for an alternative account of the origins of centralised bargaining in Sweden. Drawing on Pontusson’s critique, Swenson argues that Korpi’s account of the origins of industrial relations centralisation in Sweden both overstates the unity of interests that existed in the labour movement and underestimates the role that capital played in the process of centralisation. In an attempt to overcome the view that industrial relations centralisation in Sweden was achieved at the expense or against the interests of “capital” as a whole, he argues that the centralisation of industrial relations in Sweden was a:  

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86 Pontusson 1984  
87 Pontusson 1984 pp 82; see also Pontusson 1992  
88 Pontusson 1987
The Importance of Small Differences

... product of a class intersecting, cross class alliance behind the institutions of centralised conflict resolution that routinely served the mutual interests of sectoral groupings that dominated employer and union confederations.\textsuperscript{89}

Swenson argues that this centralisation took place in two stages- the centralisation of LO control over its affiliates in the 1930s and the centralisation of bargaining during the 1950s. He demonstrates that while centralisation of union authority was cemented by organisational reforms introduced by the LO leadership in 1941, these changes were largely forced on the LO by a cross-class alliance formed between export oriented employers in the metals sector and unions representing workers in that sector against both workers and employers in the sheltered building trades during the 1930s. This cross-class alliance was supported by the SAP.\textsuperscript{90}

In the context of the Depression, with increased competition and falling prices in international markets, Swedish export-oriented, engineering sector employers were particularly sensitive to effects of increased costs on their international competitiveness and market share. One important potential source of increased costs was the protected construction sector. Engineering sector employers were aware both that building sector employers could easily pass on increased wages as increased costs and that wage increases in the building sector had the potential to generate increased wage demands from their own workers, many of whom shared the same skills. With this in mind, they met increased wage militancy of building sector workers in the early 1930s with threats of offensive inter-sectoral lockouts designed to force the LO to centralise control over its affiliates in the building trades and control wage militancy.\textsuperscript{91} This is consistent with Fulcher’s view that the origins of the 1938 Basic Agreement lay in a change in the strategic orientation on the part of employers, not workers, during the 1930s.\textsuperscript{92}

At the same time as the LO faced external pressures to centralise its authority over affiliates in the building sector from export sector employers, there were also internal pressures which promoted centralisation. The Depression had also exacerbated divisions between the interests of different unions. Swenson argues that union leaders in the metals

\textsuperscript{89}Swenson 1991a p 514
\textsuperscript{90}Swenson 1991a
\textsuperscript{91}Swenson 1991a pp 519-22
\textsuperscript{92}Fulcher 1987
industry joined with employers in seeking centralised union control over militant unions in the building trades. This was because they were faced with growing rank and file dissatisfaction at wage restraint, the increased wage differentials between skilled workers in the different sectors and were also mindful of the consequences of wage increases and cost pressures for employment levels in the export sector.\textsuperscript{93}

Swenson also notes that external pressures from export sector employers and internal pressures from leaders of the metal workers union for centralisation of union authority were further reinforced by government pressure. In the 1930s the SAP was in minority government and one of the conditions for Agrarian Party support was bringing the building industry strike to an end. Added to concern over the stability of its political coalition, the SAP was also concerned about the consequences of continued wage militancy in the construction sector for its interventionist economic policy, particularly its public housing initiatives. Thus, as Swenson notes, the SAP made no attempt to counter the SAF’s threat of lockouts. During the 1930s it also threatened to introduce compulsory arbitration legislation which had greater power to award sanctions against local strikes and boycotts than the Labour Court which had been established in 1928.\textsuperscript{94}

Thus Swenson argues that the 1938 Saltsajoben Agreement reflected an acceptance by the LO leadership that it would intervene in the local strikes and industrial disputes to prevent wage militancy in protected domestic sectors of the economy. For him, it was this acceptance which created the conditions for the 1941 organisational changes within the LO.\textsuperscript{95}

Swenson goes on to argue that while centralisation of LO control over its affiliates was one of the preconditions for the development of centralised industrial relations institutions in Sweden, it was events associated with changes in the international economy in the aftermath of world war two which were central to peak level centralisation.\textsuperscript{96} As Pontusson notes, contrary to the expectation of the labour movement, the end of world war two did not result in a return to mass unemployment. Rather,
Sweden like many other countries was beset by severe inflationary pressures associated with pent up demand and limited supply, which was reinforced by dollar scarcity and other restrictions on international trade. The SAP responded to these inflationary pressures by attempting to continue administrative control of prices and placing pressure on the LO to continue the pay freezes that it had instituted during the war. However he shows that by 1950:

… this incomes policy experiment, like similar ones in other Western European countries, strained relations between the unions and the government and undermined the cohesion of the union movement, for unions could not prevent local wage increases that employers were able and willing to pay. Local wage drift undermined the authority of national union leaders and gave rise to compensatory demands claims by workers who did not benefit from wage drift or benefited less than others.  

Swenson argues that it was the experience of decentralised bargaining under full employment that created the conditions for peak level centralisation of wage bargaining in post war Sweden. By 1951 the LO was no longer in a position to enforce wage freezes on its affiliates and wage bargaining was decentralised to industry level. In the aftermath of the inflationary wage settlements in 1951, and against the backdrop of SAP pressure for wage restraint, the SAF forced the LO to negotiate over wages at a peak level, by refusing to allow its industry confederations to bargain at an industry level and initiating a series of lockouts. It was under these conditions that the LO entered into peak level negotiations in 1956. Thus Swenson argues that employers in Sweden aggressively sought centralisation of wage determination as a way of dealing with the problems of inflation in a full employment economy.

However Swenson also argues that “the coercive power of SAF was unlikely to have sufficed by itself in maintaining centralised LO control.” He argues that the experience of uneven wage drift under wage freezes meant that unions representing low pay workers in woodworking, textiles, garments and agriculture, who had become increasingly powerful within the LO, were unwilling to accept the centralisation of wage determination without compensation for loss of bargaining power. This created the

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97 Pontusson 1992p 59
98 Swenson 1989 p 53
99 Swenson 1989 pp 54-5
100 Swenson 1989 p 56
101 Swenson 1991b p 384
conditions for a *de-facto* cross class coalition to form between employers in the export sector seeking wage restraint and control on inflation, on the one hand, and low paid workers in the LO on the other. It was under these conditions that the LO adopted the solidarity wage policy, which restrained the wages of high paid workers and gave low wage unions relatively higher wage increases.

Thus Swenson’s account of the origins of peak level centralisation in Sweden retains Korpi’s focus on the importance of the material interests and compromises that underpin the institutions of industrial relations, but at the same time, consistent with Pontusson’s critique of the power resource approach, goes beyond the problematic assumptions about the unity of interests and the neutrality of the state, which are present in Korpi’s account. Rather using an interest-based approach, Swenson seeks to disaggregate capital and labour by exploring the economic structure of Sweden and the pattern of its integration in the international economy. He demonstrates the effect changes in the international economy (the Depression of the 1930s and post war inflation), had on material circumstances faced by these different class fractions and the effects this, in turn, had on their institutional preferences.

However, while Swenson’s account demonstrates the conditions which led to the creation of cross-class coalitions and the relationship between these cross-class coalitions and the particular pattern of institutions that came to characterise Swedish industrial relations, he does not account for the stability of these institutions over the next thirty years. This issue is taken up by Pontusson in his analysis of the factors that underpinned labour’s post war strategy in Sweden.\(^{102}\) While Pontusson accepts Swenson’s account of the origins of centralised bargaining in Sweden, he argues that the conjunctural circumstances in the international economy, and changes in the structure of production within Sweden associated with these conjunctural circumstances, played a significant role in the continuation of centralised bargaining. In particular, he notes that the growth in the trade of mass produced products in the international economy during the 1950s and 1960s created the conditions for the rise of Fordist mass producers within the Swedish economy- typified by Volvo and Eelectrolux- who:

… occupied an intermediary position between domestic and export oriented industry and also between the two traditional types of export oriented industry

\(^{102}\) Pontusson 1994
[capital intensive raw material exporters and the craft based engineering exporters]. More so than other firms, they benefited from both sides of the post war growth regime, that is, from both supply side measures to promote rationalisation and labour mobility and demand side measures designed to promote full employment and the raise the living standards of the working people.  

Pontusson argues that the rise of Fordist mass production also had significant consequences for labour. First he suggests that the spread of mass production increased productivity in the economy as a whole and thus made it possible for labour to achieve both real wage growth and welfare state expansion. Second he argues that the rise of mass production lead to a dramatic increase in the number of semi-skilled workers in the Swedish economy and “attenuated the traditional bifurcation between skilled and unskilled workers in Sweden”. Thus, it was this set of conjunctural circumstances which created the conditions under which the potential inter-sectoral divisions between competing fractions of capital and between different groups of workers were moderated. Under these conditions the centralised institutions of industrial relations were consistent with the interests of a range of fractions of capital and also across broad groups of different workers. Furthermore, given the favourable international economic conjuncture, it was consistent with and indeed integral to the accumulation strategy pursued by the state during this period. For Pontusson, it was these factors, and not path dependency, which ensured the stability of the centralised institutions of collective bargaining in Sweden in the post war period. The Swedish case, therefore, suggests the importance that international economic factors may play in not only creating the conditions for changes in the institutions of industrial relations, but also in ensuring their stability over time.

**THE COLLAPSE OF CENTRALISED BARGAINING IN SWEDEN**

For Thelen, the collapse of centralised bargaining in Sweden in the early 1980s is a key example of the:

 profound sense of theoretical disorientation [that] pervades the literature on contemporary labour politics in advanced capitalist countries … Traditional measures of labour strength (overall membership levels, degree of centralisation) do not appear to explain relative union success in the face of new strains. Swedish unions, long considered the paradigmatic case of labour strength, have

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103 Pontusson 1992 p 320
104 for a similar analysis see Glyn 1995
105 Pontusson 1992 p 320
been unable to defend traditional bargaining institutions in the face of employers’ opposition.106

As Pontusson notes, power resource theorists and others that stress the connection between the organisational strength of labour and centralised bargaining, have responded to the decline of centralised bargaining in Sweden with reference to the consequences of globalisation for the autonomy of the nation state, on the one hand, and the rise of new politics and post-material values, on the other.107 For example, Esping Andersen argues that the collapse of Swedish social democracy and the decentralisation of bargaining in Sweden reflects the impact of a set of “post material” cleavages in the working class.108

Pontusson and Swenson argue that both the centralisation and decentralisation of bargaining in Sweden can be explained in the same terms. Thus they argue that the decentralisation of bargaining in Sweden during the 1980s can be explained in terms of the complex interaction between international economic change, interests and institutional arrangements. Building on Swenson’s cross class based account of the origins of centralisation of industrial relations and Pontusson’s view of the conjunctural conditions that underpinned this institutional configuration in the post war period, they stress the key role played by changes in the institutional preferences on the part of export sector employers in the decentralisation of wage bargaining in Sweden during the 1980s and 1990s.

They argue these changes in institutional preferences, and the employer offensive that ensued, reflected two factors. First, export sector employers sought decentralisation of bargaining because the Swedish model was no longer delivering the outcomes that they had sought when they played an active role in its construction in the 1950s.109 Noting that during the 1950s the centralised bargaining system had allowed export sector employers to achieve both wage restraint and wage flexibility, they note that since the late 1960s there had been a number of developments within the institutions of centralised bargaining which have undermined the perceived benefits of the centralised bargaining system for export sector employers. In particular they note that the introduction of inter-

106 Thelen 1994 p 107
107 Pontusson 1995a p 496
108 See, for example, Esping-Anderson 1991 and Fox Piven 1991. See also Kitschelt et al. 1999
109 Pontusson and Swenson 1996 p 225; the discussion below is drawn from pp 232-235
The Importance of Small Differences

occupational levelling and wage drift compensation clauses into wage bargaining since the late 1960s had produced a dramatic compression of pay differentials within firms and across industries. The result was that wage drift, used by employers in internal labour markets, was generalised to the protected and non-tradeable sectors which experienced little or no productivity growth. As a consequence, the SAF was forced to push skilled blue-collar workers for extra restraint at the central level. However at the local level in the face of shortages of skilled labour, employers continued to introduce wage drift. This translated into increased domestic costs and inflation as compensation clauses kicked in.110

These developments, in part, reflected growing pressure from white collar and public sector workers and low paid blue-collar workers for greater equality in the context of economic downturn during the 1970s. The growing power of public sector workers, in turn, reflected the growth of public sector spending and employment by governments trying to prevent the threat to full employment posed by increased volatility in international markets.111 These developments were, therefore, a consequence of the erosion of the external and conjunctural conditions that had underpinned the Swedish model during the 1950s and 1960s.112

In the context of increased competition in world markets, especially for consumer durables, the micro and macro consequences of inter-occupational levelling and the spread of wage drift compensation clauses caused export sector employers to question the benefits of the centralised wage determination system. These factors also created the conditions for a division within the union movement. As Swenson notes by the early 1980s significant conflict broke out within the LO between export sector workers and white collar and public sector workers.113 Union officials in the export sector had become increasingly frustrated by the effects of wage drift compensation clauses on the relative pay of their membership and its real effects on their purchasing power. Furthermore, the increasing burden of the public sector had the potential to undermine the competitiveness of the export sector at the same time as these sectors were faced with

110 Pontusson and Swenson 1996 p 234-5
111 see also Swenson 1991b and Schwartz 1994
112 this argument is outlined in more detail in Pontusson 1987; Pontusson 1994
113 Swenson 1991b pp 382-3
increasing international competition. This manifest itself both through actual and inflationary taxes. It was under these conditions that Metal was prepared to walk away from centralised and solidaristic bargaining and entered into a separate agreement with VF in 1983.

Pontusson and Swenson argue that dissatisfaction of export-oriented employers with the traditional bargaining system was reinforced by a second set of factors closely associated with changes in the international economy. Thus they note that given the nature and scale of Swedish industry, the Swedish engineering sector were largely unable or unwilling to respond to increased competition in international markets through a low cost strategy and instead attempted to compete through differentiation. This competitive strategy implied the need to ensure high levels of quality and the ability to respond to customers needs in the production process. Changes in the organisation of production associated with these developments, and their implications for pay systems and classifications within firms, further eroded the support of these employers for the traditional bargaining system and increased their interest other forms of wage bargaining, including enterprise based bargaining.\(^{114}\) Again this demonstrates the complex interaction between international economic change and the interests that underpin the domestic institutions of industrial relations.

Pontusson and Swenson argue that in pushing for decentralisation of bargaining and wage determination, engineering sector employers faced opposition from other employers who were faced with different circumstances. For example, they note that commercial and retail sector employers were implacably opposed to decentralisation. Unlike engineering sector employers, these employers were largely sheltered from international markets and could pass on increases of wage costs in the form of increased prices. Furthermore, solidarity wage policy took wages out of competition for these employers and guaranteed labour peace. Given the presence of a large co-operative sector in Sweden, this was a significant consideration. The benefits that these employers derived from the centralised bargaining system were considerable. Other export sector employers were not as adversely affected by developments in the wage determination system during the 1970s or changes in production technology as engineering employers. For example, high capital

\(^{114}\) Pontusson and Swenson 1996 pp 235-239
intensity in the forest products sector limited the impact of inter-occupational levelling on overall profits and made these employers more vulnerable to industrial action than many other employers.\textsuperscript{115} Thus just as the centralisation of bargaining in Sweden reflected divisions between sectors, as much as between classes, so too Pontusson and Swenson note the importance of sectoral divisions, exacerbated by international economic change, were evident in the decentralisation of bargaining during the 1980s and 1990s.

Overall the reassessment of the origins and collapse of the centralised collective bargaining in Sweden demonstrates the explanatory power of interest based approaches in explaining the relationship between international economic change and the domestic institutions of industrial relations. Swenson and Pontusson demonstrate that international economic change can impact on the domestic institutions of industrial relations by altering the material interests of fractions of capital and sections of the labour movement. Furthermore, they are able to use this framework to account for both the development and the subsequent collapse of the institutions of centralised bargaining in Sweden. Even Peter Hall, a key author in the institutionalist tradition, admits that an interest approach “provides us with a powerful way for understanding how changes in the international political economy can affect domestic politics and policies of a nation.”\textsuperscript{116} In particular he notes that:

\begin{quote}
… their great value lies in their capacity to explain change, as opposed to continuity, in the economy and especially change inspired by international economic developments. Moreover, although institutions do not figure prominently in such analyses, the later have real potential for showing how the political will necessary to shift institutional structures can be assembled.\textsuperscript{117}
\end{quote}

3.4 LIMITATIONS OF AN INTEREST BASED APPROACH
Nonetheless there are some potential weaknesses associated with the interest based tradition which potentially limit its usefulness as an alternative theoretical framework within which to examine the relationship between international economic change and the domestic institutions of industrial relations. Hall outlines three potential limitations of interest based approaches. First, he argues that the results of these models are highly sensitive to the economic theories used to derive the interests of the particular actors.

\textsuperscript{115} Pontusson and Swenson 1996 pp 239-242
\textsuperscript{116} Hall 1998 p 178
\textsuperscript{117} Hall 1999 p 146
This problem has already been noted in relation to the excessive parsimony of Rogowski’s three-factor model. This is however always a problem when it comes to modelling economic phenomenon, and surely does not justify excluding consideration of economic factors from understanding policy choices. Rather it underscores the extent to which economic factors of excluded from institutionalist approaches.

However, the approach taken to disaggregating societal interests in an interest based approach can impact on its generalisability. In the literature on centralised bargaining and Sweden, Swenson and Pontusson disaggregate interests of capital and labour in an inductive fashion and as a result the class fractions they identify relate specifically to the Swedish case. Thus, for Pontusson and Swenson, the main, although not the only, axis of intra-class conflict within capital is between export oriented manufacturing engineering employers trading in world markets and protected domestic sector employers in construction, the public sector and other non-tradable aspects of the economy. By the same token the main axis of conflict within labour they identify is between relatively skilled workers blue-collar workers in the export sector and white-collar workers in the non-tradable sections of the economy. It is obvious that these categories reflect the specifics of the Swedish case, and particularly the position of Sweden as a small economy trading heavily reliant on the export of manufactured goods to world markets. Iversen attempts to address this issue by distinguishing between what he calls strategic sector, market vulnerable and privileged elements amongst both labour and capital.\textsuperscript{118} However these categories are still related to the specifics of the countries that he compares with Sweden- Denmark, Norway and Austria- all of which are characterised by the same features identified by Katzenstein in \textit{Small States in World Markets}.\textsuperscript{119} If the insights of the interest based tradition are to be used as the basis for an alternative approach to the relationship international change and the domestic institutions of industrial relations there is a need to address the country specific nature of the identification of class fractions.

A second criticism that Hall levels at interest-based approaches is that they have a tendency towards economic determinism because they see changes in the international economy as the driving force behind politics. In particular, he argues that “the general

\textsuperscript{118} Iversen 1996 p 407-410

\textsuperscript{119} Katzenstein 1985
implication of such approaches is that we should see increasing convergence of firm strategies, institutional frameworks, and policies across nations as each comes under similar socio-economic pressures”. This characterisation seriously misrepresents the interest-based approach. Indeed these models predict that two countries faced with the same external economic change, but with differences in their production profiles, may adopt different policies because different policy coalitions will form. The models suggest that even small differences in the patterns of integration into the international economy will produce potentially significant differences in policy outcomes. Contrary to Hall’s assertion, the strength of this approach is that it provides a mechanism through which to explain both similarities and differences in the domestic responses to international economic changes in a way institutionalist models cannot.

Hall’s third criticism of interest-based approaches is that these models have problems explaining how changes in sectoral interests translate into changes in policies. In particular, he suggests that interest based theories assume that extra-parliamentary lobbying or electoral coalitions are determinate in policy making and notes that “despite the centrality of coalitions to this perspective, it pays little attention to the collective action problems associated with coalition formation and the acquisition of influence.” This line of criticism is more germane and points to key weaknesses in interest based models- lack of explicit theorisation of the capitalist state and a failure to account for the impact of institutional effects on policy outcomes. The broad argument, underpinning most interest based models, is that policies and institutions are supported by a coalition of interests. If the nature of these underlying interests shifts dramatically, then there are good reasons to expect policy change and change in institutional structures. However, interest based models pay relatively little attention to specifying the mechanisms through which changes in interest translate into policy and institutional change.

At their most extreme, these models can be excessively reductionist and determinist. For example, Rogowski assumes that political entrepreneurs will take advantage of the incentives for new coalition formation created by changes in political preferences.
This reductionist pluralism is also evident in Frieden’s work. Gourevitch adopts a less reductionist approach when he demonstrates how economic crises can produce a range of competing responses and when he argues that the outcome of the conflict over competing policy responses needs to be explained with specific reference to the historical case. Nevertheless, Gourevitch’s analysis relies on an instrumentalist logic to explain the relationship between the formation of policy coalitions and changes in government policy.

Similar problems can be identified in the literature on centralised bargaining in Sweden. While Pontusson and Swenson’s argument provides a powerful account of the factors behind the development of the employers’ offensive in Sweden, it does not explicitly deal with the role of the state in the decentralisation of bargaining in Sweden. In part, this can be regarded as a reflection of the Swedish case because the institutions of centralised bargaining, while supported and bolstered by the state, have always been private sector arrangements. However this is a very narrow conception of the state and its role in shaping institutional arrangements. As Pontusson himself notes elsewhere, one of the main elements which contributed to the collapse of centralised bargaining in Sweden in 1983 was a fundamental shift in the SAP’s macroeconomic policy stance after 1982. While Iversen attempts to overcome this problem including the macro-economic policy regime as a variable in his model of institutional choice in wage bargaining and he does not provide an explanation for why states choose to adopt particular macroeconomic policy regimes. The implication is that while concepts from the interest based tradition provide important insights into the impact of international economic change on policy preferences, there is also a need to theorise the capitalist state and explain why and how nation states act in the interests of certain fractions of capital and their allies.

Furthermore Hall’s criticisms also highlight the relative lack of attention that interest based theorists play to role of institutional effects in determining the relationship between policy coalitions and policy outcomes. The previous chapter argued that the new institutionalism was flawed because it used evidence that institutions matter to assert that

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124 see Frieden 1991 pp 27-9
125 Gourevitch 1986
126 Pontusson 1994
127 Iversen 1996 p 417
only institutions matter. In ignoring the potential role of institutions play in shaping policy outcomes, the interest based tradition is a danger of present an equally untenable argument. The challenge is to incorporate the insights of the interest based and institutionalist models into a single framework.

3.5 AN INTERACTION APPROACH TO GLOBALISATION AND INDUSTRIAL RELATIONS

… comparativists need to shed their resistance to incorporating the international dimension into their explanatory frameworks…. Comparativists need to begin thinking more systematically in terms of open polity models. The assumption that international variables represent a constant that can be ignored for the purposes of comparative research is less a product of available theory than of case study methodology…. A more plausible line of analysis would begin with changes in the international system and explore the mediating impact of domestic interests and institutions.125

In light of the preceding analysis this section outlines an interaction approach to the relationship between international economic change and the domestic institutions of industrial relations. This interaction approach, while not a fully blown international political economy model, draws on concepts from the interest based tradition in the IPE literature. It is called an interaction model because it is interested in the interaction between interests and institutions in the context of international economic changes. Unlike both the globalisation and institutionalist approaches it does not seek to privilege the role of one factor in explaining cross-national patterns of industrial relations, nor does it a priori seek evidence of either convergence or divergence. Rather its explicit aim is explain both similarities and differences between countries within the same analytical framework.

The interaction approach to the relationship between international economic change and the domestic institutions of industrial relations consists of four main elements. These are: first, an understanding of the international economic regime and its impact on the countries being compared; second, the ability to specify the production profile of each of the countries being compared so that it is possible to map and compare the effects of international economic change on policy coalitions; third, an understanding of the accumulation strategy pursued by the state and finally, an acceptance that existing

128 see also Garrett and Lange 1996
institutional arrangement play a role in shaping policy outcomes. The following discussion addresses each of these elements in turn.

**SPECIFYING THE FEATURES OF THE INTERNATIONAL ECONOMIC REGIME**

The first major element of the interaction approach is that it acknowledges the importance of the main features of the international regime in which countries are embedded for shaping the relationship between international economic change and the domestic institutions of industrial relations. This reflects an awareness that one of the major problems with the contemporary treatment of globalisation in industrial relations is that it juxtaposes the international economy and nation state. As Giles notes a re-assessment of the international in industrial relations suggests that “national industrial relations systems are not autonomous entities but instead take shape, are reproduced and are changed within wider international systems”\(^\text{130}\). The concept of an international economic regime captures the nature of these connections. The concept of an international economic regime also reflects the fact that international economic pressures are not separate from, nor are they independent of political factors, national or international, but rather are inextricably intertwined.

While there are a variety of approaches that could be used to identifying the main features of international economic regimes, the approach adopted here draws on a variant of the world systems approach advocated by Cox, which was discussed above. However, in an attempt to avoid the problems identified with analyses like Cox’s it attempts to keep the analysis relatively simple. It notes that there have been a series of major shifts in the international economic regime and seeks to map the consequences of these shifts for the domestic institutions of industrial relations. These major shifts include a shift from an international economic regime characterised by British economic, military and political dominance, international free trade and an international monetary system based on the gold standard which was established in the late nineteenth century to one dominated politically and economically by the US, characterised by relatively limited trade and capital controls and with an international monetary system based the Bretton Woods institutions in the post world war two period. This approach also suggests that the international economic changes normally associated with globalisation, rather than being

\[^{129}\text{Remmer 1997 p 53}\]
\[^{130}\text{Giles 2000 p 186}\]
The Importance of Small Differences

a completely new phenomenon, reflect the decline of the post war international economic regime and the establishment of new international economic regime.\textsuperscript{131}

**IDENTIFYING NATIONAL PRODUCTION PROFILES**

Debate about the “industrial relations system” suggested that there was a need to allow for the possibility that a range of factors, including material interests, may play a role in shaping patterns of change in the institutions of industrial relations. Much of the discussion of this chapter has focussed on models which show that differences in how countries are integrated into the international economy can produce different configurations of material interest. The implication is that changes in the international economic regime may have differential impacts on the domestic institutions of industrial relations because it produces different policy demands in different countries.

Therefore, one of the key tasks of an interaction approach is to specify how countries are integrated into the international economic regime and the configuration of material interests which develop as a result. To use Gourevitch’s terminology this exercise can described as identifying national production profiles, which he defines as “the situation of nations economic actors in the international economy and the way their situations relate to policy preference”.\textsuperscript{132} However, the approach to developing a production profile in this model differs from Gourevitch’s because it stresses the importance not just of sector but also of social class in shaping national patterns of interest. Thus while, as Pontusson and Swenson note, there are fundamental limitations to analysis which treats capital and labour as single homogenous unit, it is also important to recognise that policy preferences are formed in the context of a capitalist world economy. Thus the conflict of interest between labour and capital are also crucial elements in the analysis.

At the same time identifying the production profiles of the countries to be compared helps overcome one of the limitations identified in the literature of Swedish collective bargaining. The previous section noted that Swedish literature disaggregated fractions of capital and the potential divisions between elements of the labour movement in an inductive fashion from the specifics of the Swedish case. Specifying the production profile of countries, and disaggregating material interests on this basis, reduces the

\textsuperscript{131} Cox 1996; Perraton \textit{et al.} 1997

\textsuperscript{132} Gourevitch 1986 p 76
Chapter 3: Towards An Interaction Approach

possibility that categories that are derived from a particular social formation will be inappropriately applied to other cases. This is particularly important for this thesis, which concentrates on the application of the interaction model to Australia and New Zealand. Chapter six notes some of the problems associated with the uncritical application of theoretical concepts from Sweden to these two cases. While these two countries share a number of features with Sweden, most notably that they are both small countries trading in world markets, there are also important differences between them. In particular, Australia and New Zealand have traditionally been dependent on the export of primary products and commodities and this has created a different set of material interests around the institutions of industrial relations. Specifying the production profile of the countries to be compared may help avoid these potential difficulties.

**IDENTIFYING ACCUMULATION STRATEGIES: RESOLVING THE PROBLEM OF THE STATE**

The preceding section suggested that a major weakness of interest-based models is the lack of explicit attention given to the relationship between the formation of policy coalitions and the outcome of policy processes. The interaction approach links the interests of policy coalitions to state policy by appealing to the notion of an *accumulation strategy*. Thus it is argued that the policies pursued by capitalist states, including those in the area of industrial relations, reflect the desire to create the conditions of profitable accumulation within the confines of a particular international economic regime, on the one hand, and given a certain production profile, on the other. As a result there is a *tendency* for the policies of capitalist states to reflect the interests of the dominant fraction of capital. However, it also suggests that changes in the international economic regime may result in competition between different fractions of capital and result in political conflict over a range of alternative accumulation strategies. This conceptualisation leaves open the possibility of political agency. The interaction approach, therefore, examines the relationship between societal interests, especially the interests of capital, and state policy in the context of the dynamics of capitalism, without treating state and society as distinct spheres or treating the international economy as separate from the nation state.

The notion of accumulation strategy is derived from a reading of Jessop’s structural-relational approach to the capitalist state and offers the ability to explain why, in Giles’

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133 see, specifically, the critique of Castle’s domestic defence model outlined in Chapter 6 below
memorable phrase, the state role in industrial relations is ‘biased’. Briefly, Jessop argues that an effective understanding of the relationship between capitalist interests and state policies needs to be based on an understanding of the nature of capitalist interests and the channels by which they are advanced, on the one hand, and an examination of state forms and its social bases, on the other. Drawing on the distinction between capital in general and particular capitals in Marxist theory, Jessop argues that in a capitalist economy a range of competing accumulation strategies may develop between different factions of capital depending on their location in the circuit of capital. Thus he uses the example of business interests in the Weimar Republic to demonstrate that:

…the collective interests of capital are not reducible to the various interests that capital has in common ….. They are not wholly pre-given but must be articulated in, and through specific accumulation strategies which establish a contingent community of interest among particular capitals…. The Weimar case shows how impossible it is to define the interests of capital in isolation from the form of the state, the balance of political forces and the international conjuncture.

Turning to the question of the effect of capitalist interests on state policy, Jessop argues that the capitalist state is a “form determined social relation” and as such it is important to focus not just on the state as a institutional ensemble but also on the social bases of the state- which he defines as the “the nature of the power bloc, supporting classes and other social forces and alliances whose unstable equilibrium of compromise is crystallized in that state system”. The implication of this view is that the state is not separate from society or that policy changes take place in a separate arena but rather that conflicts over the direction of policy take place within the state itself. The result is that while capitalist interests do not fully determine the policy directions adopted by the state, and there are opportunities for the resources of the state to be employed by a number of groups, there is a tendency for the state to adopt accumulation strategies which reflect the interests of its underlying social basis.

134 Giles 1989 p 142
135 Jessop 1990 Chpt 5
136 Jessop 1990 p 154. This conclusion rests on Jessop’s treatment of the indeterminacy of the value form in capitalist economies. For a more detailed discussion see pp 150-5 and pp 196-219. This treatment resolves many of the objections raised by Clarke about the concept of class fractions. See Clarke 1978 and Solomons 1979
137 Jessop 1990 pp159-60 emphasis in the original. For a detailed treatment of the case of business interests in the Weimar Republic which illustrates Jessop’s general argument see Abraham 1986.
138 Jessop 1990 p 346
ACCEPTING THE IMPORTANCE OF INSTITUTIONAL EFFECTS

The final element of the interaction approach is an acceptance that “institutions matter” and therefore that the impact of institutional effects needs to be incorporated into the model. To some extent this distinguishes the interaction approach from the interest based models discussed above which tend to present themselves as in direct conflict with institutionalist analysis. However, as was noted in chapter two, the main problems with the institutionalist approach are not the assertion that institutions matter but rather are associated with the reasons why and how institutions are said to matter and the subsequent treatment of other variables which may impact on policy outcomes in institutionalist analysis. There is a tendency for institutionalists, having identified that national level institutions impact on policy outcomes, to assume that only institutions matter. As its name implies the approach being advanced here is concerned with the interaction between interests and institutions in the context of international economic change and does not attempt to attribute analytical primacy to one set of variables prior to empirical investigation. Rather it attempts to incorporate the insights of the institutionalist approach while at the same time avoiding some of its pitfalls.

3.6 CONCLUSION

This chapter has outlined the main elements of an interaction approach to the relationship between international economic change and the domestic institutions of industrial relations. These four elements are: first, specifying the nature of the international regime; second, examining the production profile of countries to be compared; third, identifying the accumulation strategies being pursued by these countries, and finally accepting the impact of institutional effects.

Drawing on earlier debates in industrial relations which suggested that there was a need to look beyond institutional factors to explain industrial relations outcomes, this chapter has reviewed a body of literature which examines the impacts of international economic change on the coalitions of material interest that underpin policies and institutions. It was noted that concepts from this literature, which the first two elements of the interaction approach draw on, offered the possibility of integrating the international dimension into the analysis of globalisation and industrial relations and potentially allowed both similarities and differences between cases within the same model. Thus, it has been suggested that an alternative theoretical framework which draws on concepts from this
literature can overcome the limitations of the main approaches to the relationship between international economic change and the domestic institutions which were identified in chapter one.

However, it was also noted that in order to be able to use concepts from this literature to explain the relationship between international economic change and the domestic institutions for industrial relations, there was a need to address the relationship societal interests and policy outcomes in a more satisfactory way and also that it was necessary to accept the important role that institutional effects can play in shaping cross national policy outcomes. The third and fourth features of the interaction model are designed to address these issues. The remainder of the thesis tests the ability of the interaction approach to explain the relationship between international economic change and the domestic institutions of industrial relations in the context of the comparison between Australia and New Zealand. The following chapter introduces this comparison and the reasons why it forms an ideal framework within which to test these competing approaches.
CHAPTER 4
ALMOST PERFECT CASES: COMPARING INDUSTRIAL RELATIONS REFORM IN AUSTRALIA AND NEW ZEALAND

4.1 INTRODUCTION
The first three chapters of this thesis have reviewed theoretical arguments about the relationship between international economic change and the domestic institutions of industrial relations. Chapter one reviewed the two major approaches to these issues in the comparative industrial relations literature—the globalisation approach and the institutionalist approach. Chapter three outlined the main elements of an third, interaction approach based on concepts from the international political economy literature. The remainder of this thesis seeks to empirically test these competing approaches by examining their ability to explain the cases of Australia and New Zealand. In doing so it is seeks to exploit the potential advantages of a most similar case research design.

As was noted in the introduction, the relationship between international economic change and the domestic institutions of industrial relations is likely to be most obvious and identifiable in relatively small countries with a high degree of trade dependency and historically distinctive institutional structures of labour market regulation like Australia and New Zealand. Developments during the 1980s and 1990s made the comparative analysis of industrial relations reform in Australia and New Zealand even more likely to provide a fruitful ground for assessing the relationship between international economic change and the domestic institutions of industrial relations. Despite broad similarities in patterns of economic, political and institutional development, and faced with what were regarded as very similar external economic imperatives, marked differences in the pattern of industrial relations reform and institutional change in the two countries emerged during the 1980s and 1990s. This apparent divergence between similar cases created the conditions for the development of a small but interesting body of comparative literature.¹

As Bray and Haworth, in the introduction to a major contribution to this literature, note:

¹ The major contributions to this literature include: Sandlant 1989; Wanna 1989; Harvey 1992; Bray and Haworth 1993b; Bray and Haworth 1993a; Bray and Walsh 1993; Hince 1993; McAllister and Vowles 1994; Bray and Walsh 1995; Gardner 1995; Bray and Neilson 1996; Castles and Shirley 1996; Castles et
Perhaps it is only when countries traditionally deemed to be very similar begin to part ways that comparative analysis is applied, as in the recent crop of Canadian US comparative studies following the divergence in union performance in the two countries… This collection of papers emerges from a similar conjunction. Australia and New Zealand have been commonly perceived for generations to be broadly similar countries sharing common social, political and cultural roots. However in the 1980s Australia and New Zealand grew apart in their political and industrial relations experience.²

This chapter examines the logic behind the most similar case research design and examines the extent to which to Australia and New Zealand cases can be said to constitute most similar cases.³ The next section reviews the logic behind the most similar case research design upon which the comparative literature on industrial relations reform in Australia and New Zealand is based. The third section assesses the extent to which a most similar case research design might provide a useful basis to address theoretical questions in industrial relations in general, and theoretical questions about the relationship between international economic change and the domestic institutions of industrial relations, in particular. The fourth and fifth sections examine whether the Australia and New Zealand comparison can be accommodated within a most similar case research design. They show that in many respects the two countries constitute almost perfect real world examples of most similar cases. Thus, according to the logic behind the most similar case research design, they provide amongst the most favourable frameworks for theory testing in industrial relations scholarship.

4.2 MOST SIMILAR CASE RESEARCH DESIGN
While the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s is quite diverse, all of the contributions to this literature have attempted to exploit the similarities between the cases to generate theoretical explanations for the differences in the patterns of industrial relations reform. In doing so many of the contributors to this body of literature have explicitly noted the benefits of a most similar case research design for generating theoretical explanations of industrial relations phenomenon, as the following examples indicate:

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¹ Ramia 1998
² Bray and Haworth 1993a p 2
³ sections of this chapter have previously been published in Wailes 1999
The chapters in this book compare and contrast political and policy change in Australia and New Zealand for a period roughly a decade starting in the early 1980s. In doing so they take advantage of the many similarities between the two societies, which make it possible to focus on the key differences between them, thus employing social explanation in one of its most potentially powerful comparative applications.  

Australia and New Zealand are both small open economies with a similar industrial relations history, being at one time two examples of similar cases for comparative investigation. From that point the divergences in their experience point to the limited number of factors that really make a difference to industrial relations.

Comparison [of Australia] with New Zealand, a classic example of a most similar systems research design offers the opportunity not only to explain the unexpected in Australia, but also to explore questions of broader theoretical significance for the corporatist debate.

Most similar case research designs aim to generate causal explanations for observed differences between cases. This approach relies on the method of difference first outlined by John Stuart Mill in his *System of Logic* which has received renewed attention in social science research since the late 1970s. Linden argues that this revival can be primarily attributed to the forceful advocacy of the method of difference by Theda Skocpol in her *States and Social Revolutions* and subsequent methodological work.

The method of difference refers to a research design which compares (at least) two cases which are as similar as possible in all respects except in relation to the phenomenon to be explained. This can be represented in notational form, as in Table 4.1 below. As this notation demonstrates the matching of cases with overall similarities (a-c), allows isolation of the presence (x) or absence (not x) of a causally important factor which can be used to explain the presence (y) or absence (not y) of the phenomenon in question. As Nichols points out, in the method of difference “one seeks to maximise the similarities

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4 Castles *et al.* 1996b pp 2-3  
5 Gardner 1995p 3  
6 Bray and Walsh 1995 p 3  
7 Mill 1852/1936  
8 Linden 1998; {Skocpol, 1979 #257}, Skocpol and Somers 1980, Skocpol 1984, Skocpol 1986. The most similar systems design outlined by Prezeworski and Teune 1970 pp32-34 relies similar logic. This chapter uses the terms *method of difference* and *most similar case research design* interchangeably because of this shared logic. However strictly speaking the method of difference outlined by Mill, and championed by Skocpol, refers to uni-variate causation, while Prezeworski and Teune allow for the possibility of multivariate causation.  
9 Mill’s original notation was as follows: 

\[
\begin{array}{c}
A \quad B \quad C \\
\hline
a \quad b \quad c
\end{array}
\]

\[
\begin{array}{c}
-A \quad B \quad C \\
\hline
b \quad c \quad \text{source: Nichols 1986 p 171}
\end{array}
\]
The Importance of Small Differences

between positive and negative cases in order to show that the two resemble one another in every relevant respect except the one hypothesised to be causal.\textsuperscript{10}

Table 4.1: Method of Difference

<table>
<thead>
<tr>
<th>Positive case(s)</th>
<th>Negative case(s)</th>
<th>Overall Similarities</th>
<th>Crucial difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>B</td>
<td></td>
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<tr>
<td>C</td>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>X</td>
<td>Not x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Y</td>
<td>Not y</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

key: \( x \) = causal variable
\( y \) = phenomenon to be explained\textsuperscript{11}

The attraction of most similar case research design can be seen in Skocpol and Somers’ discussion of different logics of comparative analysis in the social sciences.\textsuperscript{12} Skocpol and Somers identify three distinct logics to the use of comparison in social sciences. In the first, they argue that comparison is used as a means of demonstrating the applicability of a general theory to a given case. This approach, which they call parallel demonstration of theory, they argue can only illustrate and clarify a theory but it cannot be used to validate the theory. The second logic, called the contrast of contexts, refers to the use of comparison to moderate and limit overly generalised theories. Somers and Skocpol argue that this approach is not concerned with developing new causal explanations. They argue that a most similar case research design represents an example of ‘macro- causal analysis’ and that, unlike other logics of comparison, macro causal analysis is capable of developing and testing hypotheses - that is, causal inference.\textsuperscript{13} For Skocpol and Somers, this claim to causal inference stems from their view that the logic of macro-causal analysis resembles that of statistical analysis which manipulates groups of cases to control sources of variation in order to make causal inferences... [Macro causal analysis] is a kind of multivariate analysis to which scholars turn to validate causal

\textsuperscript{10} Nichols 1986 p 170
\textsuperscript{11} Skocpol and Somers 1980 p 184
\textsuperscript{12} For more details see Skocpol and Somers 1980 pp 176-181 and pp 191-193.
\textsuperscript{13} Skocpol and Somers 1980 pp 182-87. It should be noted that Skocpol and Somers include comparison based on Mill’s method of agreement (or most different research design) under the macro casual category, because it makes a similar effort to control and isolate the sources of variation between cases, and follow Mill in advocating the combination of these two methods. Nevertheless, they argue that the method of difference is ‘more powerful for establishing valid causal associations than is the method of agreement’ (p 183).
Skocpol and Somers central claim is that adoption of Mill’s formal logic of comparison in research design can allow social scientists to infer causation with case study (small N) and indeed qualitative data in a manner similar to that associated with big N studies that apply statistical techniques to quantitative data. Furthermore, as Lopez notes, Skocpol and Somers’ claim is that a rigorous research design based on Mill’s formal logics can mitigate the problem of over-determination which plagues case study and small N studies. Over-determination relates to the situation in which two or more independent variables explain the same part of the variation in the dependent variable.

4.3 MOST SIMILAR CASE RESEARCH DESIGN AND THEORY TESTING IN INDUSTRIAL RELATIONS RESEARCH

The proponents of most similar case research designs claim that they are able to produce causal statements from small N and case study research, qualitative data and inductive reasoning. Many would argue that this makes such a research design ideally suited to addressing issues of industrial relations. Industrial relations, as an academic discipline, has often been criticised for being overly descriptive and for its seeming inability to develop straightforward causal explanations of industrial relations phenomenon. This view was expressed clearly in Dunlop’s famous observation that:

The field of industrial relations today may best be described in the words of Julian Huxley: ‘Mountains of facts have been piled on the plains of human ignorance… the result is a glut of new material. Great piles of facts are lying around unutilised, or utilised only in an occasional and partial manner’. Facts have outrun ideas. Integrating theory has lagged far behind expanding experience. The many worlds of industrial relations have been changing more rapidly than the ideas to interpret, to explain and determine them.  

For many, the tendency towards excessive description, lack of theoretical frameworks and the failure to develop causal hypotheses in industrial relations reflects the traditional reliance on inductive reasoning and descriptive case study research. Cappelli argues that it was in an attempt to overcome these limitations, and to generate causal inferences, that mainstream industrial relations academics, particularly in the United States, abandoned

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14 Skocpol and Somers 1980 p 182
15 Lopez 1992 p 214
The Importance of Small Differences

traditional case study based inductive research and adopted a research approach based on
the application of what he calls the “deductive normative methodology”. This reflected a
view that the lack of theoretical development in industrial relations could be attributed to
the failure to apply “the scientific method” which had allowed theoretical advancement in
other disciplines like economics and psychology.\textsuperscript{17} Kaufman describes this as a shift
towards science building in industrial relations, a development which has been common
to most social science disciplines in the post war period.\textsuperscript{18}

However, as a number of authors have pointed out, the adoption of this deductive
normative methodology has not tended to advance theory in industrial relations. As
Godard notes, the application of scientific method

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\ldots \text{has largely fallen short of the “promise” of the scientific ideal. Large quantities of}
\text{multivariate research have been published, but there have been surprisingly few}
\text{consistent findings (at least relative to inconsistent ones). As such, it would appear}
\text{that few really substantive research questions have been resolved satisfactorily.}^19
\]

Furthermore, as Cappelli notes, the adoption of deductive normative methodology in
industrial relations has not only failed to produce significant theoretical advances, but
also had some unfortunate consequences. In particular, Cappelli argues that the adoption
of a deductive normative research methodology by industrial relations academics has
resulted in a tendency to produce arguments that favour individual rather than collective
explanations of industrial relations phenomenon. This tendency reflects the influence of
methodological individualism, empiricism and reductionism in hypotheses derived from
economics and psychology that have come to dominate industrial relations research. He
argues that as a consequence:

\textsuperscript{16} Dunlop 1958 p vi. This is not to argue that Dunlop’s attempt to develop an integrative theoretical
framework succeeded in overcoming the mountain of facts.
\textsuperscript{17} Cappelli 1985. There are, of course, alternative explanations for the lack of theoretical development and
excessive description in industrial relations which are more compelling. As was noted in the previous
chapter some have argued that the tendency towards description reflects the ‘empiricism’ of the discipline,
see Marsden 1982, Griffin, V 1991, Godard 1993 and Godard 1994. It has also been suggested that that
concern over a lack of theoretical development in the discipline reflects a fundamental misunderstanding
about what theory is and the role that its plays in social sciences. See Hyman 1994.
\textsuperscript{18} Kaufman 1993 p 125. See Cappelli 1985 pp 96-9 and Godard 1993 pp 284-287 for accounts of this
process.
\textsuperscript{19} Godard 1993 p 287. For Godard this lack of progress reflects not simply the failure of industrial relations
academics to apply the scientific method properly but rather the fundamental limitations associated with the
application of an idealised model of how the scientific method operates in the physical sciences to the study
of social phenomenon.
…certain topics are not investigated at all because they concern behaviour above the individual level or because there are no existing social science theories which directly address them…. A focus on an individual level has also meant that many topics are addressed in an inappropriate or at least an incomplete fashion… A final problem with the deductive individualist approach it that because it relies on existing social science theories, it is virtually impossible for industrial relations to contribute to the evolution of theory in social sciences.20

A most similar case research design potentially allows some of these problems to be overcome. It raises the possibility of deriving causal statements about industrial relations phenomena while at the same time advocating small N, case study research, qualitative data and inductive reasoning. According to this logic, given the appropriate research design, traditional approaches to research in industrial relations ought to be able to overcome the tendency towards excessive description and generate theoretical advances. This is because, as Skocpol and Somers present it, a most similar case research design allows researchers to imitate the beneficial aspects of “scientific method”, especially control of sources of variation, without incorporating the distortions and biases that Cappelli identifies with a deductive-normative methodology.

A second potential advantage of research based on a most similar case research design is that it offers a way of operationalising the theory building and testing possibilities associated with comparative industrial relations research. It has long been suggested that comparative research offers the potential for significant theoretical advance in industrial relations. For example, in a major introductory text on the subject, Bean argues that

…there can be little doubt that the most important and overriding purpose of comparative studies is…. [that] by exploring the determinants of similarities and differences between national systems, they can help promote the development of industrial relations as an academic discipline.21

The reasons that comparative research has been regarded as a fruitful basis for theoretical development are neatly summarised by Kochan:

Taking an international perspective broadens the range of comparisons available on these and other variables and increases the chances of discovering the systematic variations needed to produce new theoretical insights and explanations.22

20 Cappelli 1985 pp104-5
21 Bean 1985 p 7, see also Bamber and Lansbury 1998 pp 3-4
The Importance of Small Differences

However, while many have alluded to the potential advantages associated with comparative industrial relations research, there have been relatively few examples of comparative industrial relations scholarship which have demonstrated this potential. For example, Shalev observes:

it is perhaps surprising that … the comparative study of industrial relations continues to play a relatively small role in the discipline. Furthermore, such comparative work as has been produced is rarely if ever self consciously theoretical in either purpose or method.”

Likewise Bean notes that:

whatever the ultimate objectives, the fact remains that a good deal of the existing work within the comparative industrial relations field, although often rich and insightful has not been explicitly theoretical in either its purpose or its method … Many studies present empirically derived information arising from cross national investigations, often related to institutions and practices, which is then analysed and interpreted with no direct orientation towards theoretical considerations”.

Similarly, Hyman argues that

…comparative industrial relations is a much abused notion. Comparison surely means the systematic cross analysis of phenomena displaying both similarities and differences…. It both contributes to and is informed by theory and generalisation. Against this criterion, much work which is presented as comparative does not justify the title.

One explanation for the relative failure of comparative industrial relations research to live up to its promise relates to the difficulties associated with doing comparative research. The literature on comparative industrial relations is replete with warnings about these difficulties. Many of these problems relate to the difficulties of establishing “conceptual equivalence” in operationalising comparative research. Linden distinguishes between phenomenal equivalence, where identical measures are used for the same concept regardless of context, and conceptual equivalence, where different measures are used for the same concept to reflect differences in contexts. He argues that comparative analysis can only proceed on the basis of conceptual equivalence.

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22 Kochan 1998 p 41
23 There are, of course, some notable exceptions. See for example Dore 1973.
24 Shalev 1980 p 26
25 Bean 1985 p 8
26 Hyman 2001 p 2. Indeed he identifies five distinct bodies of comparative research which do not meet the standards of genuine cross-national comparison.
27 see, for example, Bean 1985 pp 15-17; Bamber and Lansbury 1998 pp 4-6 and Strauss 1998 pp 183-191
28 Linden 1998 pp 5-6. In most of the literature on comparative research this point is reduced to warnings about the difficulties of finding direct translations for concepts like “strike” in other languages but there is a more important theoretical point behind it.
A most similar case research design potentially allows researchers to overcome the problems of establishing conceptual equivalence in cross-national research. Because the cases are most similar, there are no significant differences in the contexts. Therefore, phenomenal equivalence may be closely aligned to conceptual equivalence. This means that a most similar case research design might allow comparative research to be operationalised more easily than when there are significant differences between the cases being compared, and thus large differences between phenomenal equivalence and conceptual equivalence. As Strauss notes:

Some researchers compare matched pairs of countries with somewhat similar economies, cultures, and historical traditions and that therefore fit into a single typology …. The advantage of studying close pairs is that their similarities permit us to hold many characteristics constant while concentrating on the relatively few on which the countries differ. Such studies begin by focusing on the similarities and later shift to the differences. By contrast, the problems with studies that examine many countries or that look at countries that differ substantially … is that the large number of differences make it difficult to sort out the relative importance of each difference.29

Overall then it can be argued that there are a number of reasons to suggest that comparative research which employs a most similar case research design has the potential to produce advances in theoretical explanations of industrial relations phenomenon.

It can also be argued that under particular circumstances comparative research based on a most similar case research design has the potential to offer particular insights into the relationship between international economic change and the domestic institutions of industrial relations. If the dependent variable relates to the domestic institutions of industrial relations and one of the sources of difference that is controlled between the cases relates to the effects of changes in the international economy, then a most similar case research design ought to be able to help clarify the relationship between international economic change and the domestic institutions of industrial relations. In particular, if it could be shown that despite similar external economic imperatives, there were differences in changes to the domestic institutions of industrial relation, this would constitute a basis for questioning the validity of the globalisation thesis. Moreover, on the basis of this comparison, because so many sources of difference are controlled for in the research

29 Strauss 1998 p 186, emphasis added
design, it should be possible to identify those variables that are causally significant in determining the relationship between international economic change and the domestic institutions of industrial relations. This means that a most similar case research design should help provide some insight into the explanatory power of the institutionalist and interaction approaches.\(^{30}\)

### 4.4 Australia and New Zealand as Most Similar Cases

The previous section has outlined the potential benefits of a most similar case research design for exploring questions about the sources of change in domestic institutions of industrial relations. It follows from the discussion that the greater the similarities between cases, the more sources of variation on the dependent variable will be controlled for, and the better will be the prospects for identifying causally significant explanations of cross-national variation. Because of the broad range of similarities between Australia and New Zealand, the two countries represent an almost perfect real world instance of most similar cases. Therefore the comparative research, which attempts to explain the differences in changes in their industrial relations institutions during the 1980s and 1990s, offers potentially important insights into the relationship between international economic change and the domestic institutions of industrial relations. The aim of this section is to summarise the reasons that the two countries can and have been treated as most similar cases.

In their introduction to a collection of essays on industrial relations reforms in Australia and New Zealand during the 1980s, Bray and Haworth observed that “the Australia New Zealand comparison falls so firmly into the ... [most similar] camp that it is remarkable that so few comparative studies of the two countries have been undertaken.”\(^{31}\) There are certainly a number of grounds for treating Australia and New Zealand as most similar cases. Most obviously, they share linguistic, ethnic and cultural similarities because of their common origins as British colonies. These similarities are well known.\(^{32}\) The presentation here concentrates on four sources of similarity which have been identified in the comparative literature and constitute the basis for treating Australia and New Zealand

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\(^{30}\) although I have argued elsewhere that because it treats variables as independent from each other, the most similar case research designs tend to systematically bias the findings in favour of institutionalist approaches and exclude consideration of the variables associated with the interaction approach. See Wailes 1999.

\(^{31}\) Bray and Haworth 1993a p 2

\(^{32}\) see Bray and Haworth 1993a pp 2-7
as most similar cases. They are first, the common institutional heritage in industrial relations; second, the shared pattern of public policy known as domestic defence; third, the similar pattern of economic development and integration into the international economy; and finally, the similarities in the reform agendas pursued by labour governments during the 1980s.

**COMMON INSTITUTIONAL HERITAGE IN INDUSTRIAL RELATIONS**

One of the strongest bases for treating Australia and New Zealand as most similar cases is their shared experience with compulsory arbitration. Australia and New Zealand are the only two countries in the world to have relied on a national system of conciliation and arbitration to regulate industrial conflict and to determine the wages and conditions of the majority of their workforce. It is generally argued that reasons for establishing arbitration in the two countries were broadly similar. Furthermore there are similar arguments about the consequences of arbitration for the patterns of industrial relations that developed in the two countries.

The terms “arbitration” and “arbitration system”, as they are used in this thesis, refer to a particular form of labour market regulation that developed in the late nineteenth and early twentieth centuries in New Zealand and the colonies, and later, states and the Commonwealth of Australia. Gardner and Ronfeldt provide a useful summary of the main features of the arbitration systems that developed in Australia and New Zealand. The first feature was the establishment of permanent independent tribunals which were charged with the resolution of industrial disputes. The second major feature was the importance “public interest” considerations played in the operation of the tribunals. This

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33 Because of its Federal structure, there are seven major jurisdictions of industrial regulation in Australia. A number of the state systems of arbitration predated the introduction of the Federal jurisdiction in 1904. There are also a number of important differences between the systems that developed in the different jurisdictions. Furthermore the relationship between state and federal jurisdictions is an important issue in Australian industrial relations and there have been a number of significant changes in this relationship over time. For the sake of clarity the discussion that follows deals with the main features of the arbitration systems as they developed in New Zealand and at a Federal level in Australia, and does not address the particular features of the state jurisdictions. For more detailed assessment of the origins of the state jurisdictions, the differences between them and their relationship to their relationship to the Federal jurisdiction see, Macintrye and Mitchell 1989 and Mitchell 1989. For a general overview of the different state jurisdictions and their relationship to the federal jurisdiction see, for example, Portus 1963 and Dabscheck and Niland 1981 pp 273-302. For an assessment of changes in the state systems and their relationship to Federal jurisdiction from the mid 1980s to the early 1990s see McCallum and Ronfeldt 1995; for detailed assessments of changes in state jurisdictions during the 1990s see the articles in Nolan 1998.
reflected the influence of the European public law tradition on the operation of the arbitration systems. The third, and related, feature of the arbitration systems in Australia and New Zealand was their compulsory nature. Mitchell argues that the Australasian systems of arbitration were compulsory in at least three senses - the system could be invoked without the consent of one or either of the parties; the award resulting from arbitration was binding on the parties; and during the operation of the system direct action by either party was prohibited. The compulsory nature of the system can be contrasted with the voluntary systems of arbitration which developed in some Australian colonies during the late nineteenth century.

The fourth feature of the arbitration systems was the encouragement of trade union formation, through a system of registration. In both countries there were provisions established for the registration and regulation of associations of employees and employers. For unions, registration ensured recognition because once registered they had the legal right to force an employer to arbitration. The fifth feature of the arbitration system that can be identified relates to industrial action. The establishment of industrial tribunals with the power to arbitrate disputes between registered parties was designed to replace the need for overt industrial conflict. While this did not eventuate, in both Australia and New Zealand provisions were made for the imposition of legal sanctions for taking industrial action. While it oversimplifies the features and operation of the arbitration systems, Gardner and Ronfeldt’s model demonstrate that the two countries shared a unique and distinctive set of institutional arrangements for labour market regulation.

These systems of arbitration were introduced in Australia and New Zealand at similar times. The arbitration system in New Zealand was established in 1894 with the passing of the Industrial Conciliation and Arbitration Act (NZ) (IC&A Act). The Commonwealth

34 Gardner and Ronfeldt 1996. While this paper relates only to Australia, the essential features of the model outlined can also be said to apply to New Zealand.
35 Mitchell 1989 p 90
36 Notably Victoria in 1891, Queensland in 1892 and New South Wales in 1892 (Mitchell and Stern 1989 p 105). See Bray and Rimmer 1989 for an interesting account of the failure of voluntary arbitration and the reasons for the adoption of compulsory arbitration in New South Wales in the 1890s.
37 For more detailed accounts of the features, development and operation of the arbitration systems in Australia see, for example, Healey 1972, Hancock 1979/84 and Dabscheck and Niland 1981. For accounts of the New Zealand system see Woods 1963, Holt 1986, Deeks and Boxall 1987
Conciliation and Arbitration Act (Cth) (CCA Act) was passed in Australia in 1904. However, many would argue that the 10 years difference in the establishment of arbitration in the two countries is somewhat misleading. Compulsory arbitration was introduced in a number of Australian colonies and states before 1904. Furthermore, provision had been made a federal conciliation and arbitration power in section 51 xxxv of the 1901 Australian Constitution. It is generally assumed, therefore, that differences in the timing of adoption of arbitration in the two countries are merely a reflection of differences in the political process which operated in the two countries.

It has also been argued that the origins of the two systems lay in a shared intellectual response to contemporaneous economic and political factors. Macintyre argues that the adoption of arbitration in both Australia and New Zealand reflected the influence of the “new liberalism” on reactions to the economic and political crises that impacted on Australia and New Zealand in the late nineteenth century. For Macintyre, arbitration represented an attempt by liberals to prevent the re-emergence of widespread industrial conflict which had affected both societies in the 1880s and 1890s and to address the evils of “sweating” that had become pervasive in both societies since the economic downturn of the 1880s.

There is even a debate in the literature about whether it was an Australian or a New Zealander that was the original architect of the arbitration system. Mitchell argues that the origins of the particular form that the Australasian arbitration systems took are to be found in the Bill introduced (but never passed) by Charles Kingston to the South Australian Parliament in 1890. He argues that this Bill formed the basis for William

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38 These include Western Australia in 1900 and 1902 and New South Wales in 1901. Compulsory arbitration was introduced in both South Australia and Queensland in 1912.
39 The validity of this assumption is questioned in Chapters 6 below.
40 Macintyre 1989b. New liberalism in this context refers to moderate social liberals influenced by the work of the J. S. Mill, Henry George and others. Liberals were influential in both Australia and New Zealand politics in the late nineteenth century and early twentieth centuries. For a more detailed analysis which focuses on the New Zealand experience see Rogers 1963. The reference to “new liberalism” here should not be confused with the term “neo-liberal” which is intended to refer to more contemporary theories that draw on stylised versions of classical liberalism to criticize state intervention in the management of the economy.
Pember-Reeves’ 1894 Act in New Zealand and therefore rejects the claims that Reeves was the architect of arbitration.\textsuperscript{41}

The comparative literature on industrial relations reform in Australia and New Zealand not only stresses the common timing and origins of the arbitration systems in the two countries but also stresses the parallels in the subsequent developments in the two systems. For example, Mitchell and Wilson note that:

[in both countries] the settlement of industrial disputes quickly developed into formal centralised process whereby the settlement of major ‘national’ or ‘industry’ cases provided the standard or basis for the wages and conditions settled in other awards and agreements. The process of flow on of wages and conditions helped to maintain a uniform level of minimum employment guarantees throughout both Australia and New Zealand.\textsuperscript{42}

Similarly Bray and Walsh argue that “until the 1980s, therefore, the compulsory arbitration systems in both Australia and New Zealand developed along similar lines.”\textsuperscript{43}

This reflects the view, common to the historiography of both countries, that while the primary intention of the architects of the arbitration systems was to create a system for preventing the re-emergence of large scale industrial conflict, the systems very rapidly developed into mechanisms for setting wages and conditions across entire occupations and industries. For example, Holt observes that by 1901 in New Zealand:

…the Arbitration Court had become a tribunal charged not only with resolving conflicts but also with fixing minimum wages, maximum hours and the conditions of employment in ever-growing areas of the private sector. None of this could have happened without Reeves’ Act and in this sense Reeves’ experiment was a success, but it was the kind of success achieved by a hunter who went seeking wild boar and came back proudly bearing a stag.\textsuperscript{44}

Walsh and Fougere call this Holt’s paradox- “that a system designed to address one set of problems flourished by solving completely different ones”.\textsuperscript{45} There are similar arguments

\textsuperscript{41} Mitchell 1989 pp 93-96. The much more vexed question of whether Pavlova is an Australian or New Zealand invention has yet to be resolved.
\textsuperscript{42} Mitchell and Wilson 1993 p 42; “For most of the century the systems of conciliation and arbitration on either side of the Tasman Sea developed in parallel. They were almost mirror images of each other.” Brooks 1995 p 32
\textsuperscript{43} Bray and Walsh 1998 p 365
\textsuperscript{44} Holt 1986 p 53
\textsuperscript{45} Walsh and Fougere 1987 p 189
about the unintended consequences of arbitration in Australia. Hawke, for example, argues that:

the metamorphosis of the [federal tribunal]… into an institution with powers and functions far beyond the limited intentions of the fathers of the Constitution has been a major event in the constitutional and economic history of Australia in this century.\(^{46}\)

In both countries, there has been a tendency to treat the history of industrial relations and the history of arbitration as synonymous. There are a number of aspects of industrial relations which are directly attributed to the operation of the arbitration system in both countries. These include trade union organisation, the structure wage determination, the organisation of employer bodies and the pattern of industrial conflict.

In both Australia and New Zealand the arbitration system has been said to have influenced the patterns of trade union organisation. As Gahan notes, in the Australian literature:

… arbitration has been presumed to be a significant determinant of a range of union characteristics, including … their origins, or at least the regeneration of many unions after the great strikes of the 1890s; union growth; union goals and union structure… Australian unions have typically been described as dependent on arbitration.\(^{47}\)

The most famous statement of this view is Howard’s trade union dependency theory.\(^{48}\) Howard argued that the introduction of arbitration in Australia allowed unions to overcome two problems. First, it enabled weak unions to gain recognition from strong employers. Second, the arbitration system allowed Australian unions to overcome the problem of non union labour because awards applied to both union and non union labour removed the economic threat posed by non union labour.\(^{49}\) For Howard these factors explain the rapid growth of trade unionism in Australia between 1901- 1921. However he argues that dependence on the arbitration system had a number of negative consequences for Australian unionism. In particular he argues that dependency on arbitration prevented trade unions developing a “wide and conventional range of industrial relations activity” and instead gave them the incentive to focus on advocacy at the commission.\(^{50}\) He argues

\(^{46}\) Hawke cited in Dabscheck and Niland 1981 p 305
\(^{47}\) Gahan 1996 p 649
\(^{48}\) Howard 1983
\(^{49}\) Howard 1983 p 240
\(^{50}\) Howard 1983 p 243
this prevented Australian trade unions from developing organisational capacity and workplace structures.\textsuperscript{51}

Likewise, in the New Zealand, there is a widely held view that many of the unions that were established after the introduction of arbitration were “creatures of the state” who owed their existence to the registration provisions established in the arbitration system.\textsuperscript{52}

In most analyses of New Zealand trade union history, there is a distinction drawn between those unions that relied on the union recognition and security provisions in the arbitration systems for their existence and those that did not.\textsuperscript{53}

There have also been a number of attempts to apply Howard’s dependency thesis to the New Zealand case. Starting from the observation of the fundamental similarities in the arbitration systems established in Australian and New Zealand, Hince tests the applicability of Howard’s dependency thesis to the specific case of the Wellington Shop Assistants Union. He concludes that the New Zealand evidence provides substantial support for the dependency thesis and argues that Howard’s approach can be seen as providing the basis for an Australasian theory of the union movement.\textsuperscript{54}

Hince and Harbridge extend this analysis by examining the consequences on trade union membership of changes in the arbitration system in New Zealand since the late 1980s. They concluded that the “analysis of the empirical evidence and causative forces reaffirms the Hince/Howard theoretical propositions”.\textsuperscript{55}

This “dependency” approach to trade unions under arbitration is firmly entrenched in the comparative literature on Australia and New Zealand as the following quote demonstrates:

\begin{quote}
In both Australia and New Zealand …. unions benefited from significant institutional support from a compulsory arbitration system. These strengths allowed unions to influence a range of industrial issues…. But this strength was deceptive and was not of
\end{quote}

\textsuperscript{51} The dependency thesis has been broadly criticised in the Australian literature and there has been considerable debate about effects of arbitration on trade unions. See especially Cooper 1996. See also Gahan 1996; Patmore 1991 pp 120-2; Patmore 2000; Sheldon 1995 and Sheldon 1998 on the relative importance of arbitration for trade union growth in Australia. For a more detailed discussion of this critique see Chapter 5 below.

\textsuperscript{52} For an overview see Walsh and Nolan 1994

\textsuperscript{53} Roth 1973

\textsuperscript{54} Hince 1993. See also Green 1994 for an analysis which echoes some of the criticisms made of the dependency thesis by Australian writers.

\textsuperscript{55} Hince and Harbridge 1997 p 10
the unions’ own making. It derived from the protections offered them by the arbitration system and offered their employers by economic protectionism. Industrially unions were predominantly arbitrationist in character in both countries, created by the system and dependent upon the security it offered.  

In broader comparative perspective, the consequences of arbitration are said to account for the apparent paradox of relatively high union density and a large number of small unions that has tended to differentiate New Zealand and Australia from other advanced industrial economies.

Arbitration has also been said to have shaped the nature and pattern of wage determination in both Australia and New Zealand further reinforcing the view that they represent most similar cases. In both countries the arbitration tribunals developed quasi-legal principles for the determination of award wages. In Australia the Federal Arbitration Court developed the principle of a “basic wage” for unskilled male workers derived from a cost of living based “needs principle”. The original enunciation of this principle was made by H.B. Higgins in 1907 during the famous Harvester case when he set the rate at 7s a day for an unskilled male labourer. The basic wage, which set award wages in terms of the costs of living, was eventually enshrined in legislation and to was to remain a central feature of the Australian wage determination system until 1967. After 1920 the Court gained the power to adjust the basic wage level in all awards during their operation and developed a system of regular reviews of the basic wage against a cost of living standard.

At the same time as it established the basic wage, the Court also developed a set of “margins for skill” which were added to the basic wage in determining award rates. Margins, or secondary wages, in Australia have been calculated according to two

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56 Bray and Walsh 1993 p 123  
57 Walsh and Nolan 1994 p 12  
58 In fact the Harvester decision was not an award under the CCA Act nor was it the first time the basic wage principle was applied. Rather it was an application to establish whether Hugh Victor McKay, a harvester manufacturer, met the ‘fair and reasonable’ wages standard required to qualify for tariff protection under the Excise Tariff Act. This Act was later struck down by the High Court as unconstitutional, but the basic wage was to become firmly entrenched in award decisions because Higgins used the Harvester decision as the basis for determining the rates in the 1908 Maritime Cooks’ Case and the Broken Hill Case in 1909. See Hutson 1971 pp 2-6 and Dabscheck and Niland 1981 pp 308- 310.  
59 for more details see Healey 1972 pp 24-42; Dabscheck and Niland 1981 pp 305-40 and Hancock 1979/84  
60 Hancock 1979/84
principles- “work value” and “comparative wage justice”. Work value refers to some objective assessment of the special skills associated with a particular job or trade. Comparative wage justice is, as Issacs puts it, “a job evaluation concept and approximates the principle of equal pay for equal work: if one job has the same or similar work requirements as another, it should be paid the same rate”.

Over time these principles became codified and the arbitration tribunal developed elaborate systems of determining the level of margins in awards and the relationship between margins in different awards.

In New Zealand, the Arbitration Court developed principles for the setting of wages in awards- the “fair wage” and the “living wage”- which were broadly similar to the secondary wage comparative wage justice principle and to the basic wage needs principle, respectively. As Woods notes, from its inception the New Zealand Arbitration Court adopted a “fair wage” principle which involved establishing what good employers were actually paying for that class of worker and imposing that on the industry as a whole. However, he argues that by 1908, in part influenced by Higgins in Australia, the rate for an unskilled male workers of 8s a day had effectively become established as the basic rate in all awards and cost of living considerations came to play a role in determining wages.

In the inflationary context of the immediate post World War 1 period, the Court was given the authority to make cost of living adjustments to all awards. These Standard Wage Pronouncements (SWPs) set standard minimum rates for unskilled, semi-skilled and skilled workers which were subsequently read into awards on their expiry, thus combining costs of living adjustments (the living wage) with the establishment of margins between different groups of workers (the fair wage). In the 1930s, the Court was given the power to make General Wage Orders (GWOs) through which it could adjust all minimum award wages on the basis of a cost of living index.

Therefore, under arbitration, both Australia and New Zealand developed wage determination systems in which issues of cost of living and wage relativities between different groups of workers were institutionalised and came to play a central in the determination of relative wages. In both countries it has been argued that these principles

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61 Issacs 1986 p 84
62 for more details see Hutson 1971 pp132-159 and Issacs 1986
63 Woods 1963 pp 96-8

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had a pervasive influence on the structure of relative wages and even on the general wage level. For example, one of the dominant themes in the literature on the Australian wage determination system is that the wage structure in Australia is more egalitarian than in a number of other countries and that this greater egalitarianism is a consequence of the arbitration system. Norris treats this as an issue of the “extent to which different institutional arrangements for wage determination give rise to different institutional behaviour, producing different outcomes in the wage bargaining process”. He concludes that the empirical evidence suggests that earnings are more evenly dispersed in Australia than in Britain and that it is reasonable to attribute this difference to the operation of the arbitration system. Similarly, Martin argues that the wage structure that developed in New Zealand has been significantly influenced by the function of the arbitration system. In particular he suggests that “the policies adopted by the Arbitration Court in fixing wage rates… [had] a dual effect on the wage structure: that is, to compress both inter-industry and skill differentials”.

A number of authors have argued that arbitration played a significant role in the sustaining gender inequality in the wage structure in Australia and New Zealand. Kirkby reviews the Australian literature. She notes that feminist scholars have pointed out “that since its inception, the arbitration system has been active in sustaining the structured inequality inherent in a sexually and hierarchically divided workforce”. The most obvious manifestation of this was that in setting the “basic wage”, Higgins represented it as a family wage. The implication was women ought not to play an active role in the paid workforce. In the Clothing Trades Case of 1919, Higgins subsequently set women’s wages at 54% of the basic wage, and this percentage was to remain customary until World War 2. Robertson examines the consequences of arbitration for women workers in New Zealand in light of the Australian feminist literature. He concludes that, as in

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64 for more detail on the development and operation of the wage determination system in New Zealand see Holt 1986; Woods 1963 and Martin 1974
65 For the classic statement see Portus 1969
66 Norris 1986 p 183
67 See Withers 1986 for a contrary treatment of this evidence.
68 Martin 1974 pp 263-5
69 Kirkby 1989
70 for further discussion and major references see Patmore 1991 pp 169-2
Australia, attitudes about women’s role being in the home had an important impact on the setting of women’s wage rates in awards.\(^{71}\)

The significant parallels in the origins, development and consequences of arbitration in the industrial relations historiography in Australia and New Zealand have been regarded by the contributors to the comparative literature as constituting a particularly solid basis for treating Australia and New Zealand as most similar cases.

In both countries the arbitration system shaped most important aspects of the industrial relations system, including trade union and employer organisation; the structure, operation and outcomes of the bargaining system; and the role of the state.\(^{72}\)

While many of the authors in the comparative literature are aware of differences in the operation of the arbitration systems in the two countries, they have tended treat the similarities as more important than the differences.\(^{73}\) Bray and Haworth, for example, argue that:

Although there were differences between the various Australian and New Zealand systems of arbitration, they were essentially very similar and they subsequently played a crucial role in the moulding of industrial relations institutions in both countries.\(^{74}\)

It is on this basis that the comparative literature has been able to assume that differences in industrial relations reform in the two countries during the 1980s and 1990s cannot be explained by significant differences in the institutional arrangements in the labour market. Such an approach builds on existing tendencies in the historiography of industrial relations in both Australia and New Zealand.

**Shared Pattern of Public Policy and the Domestic Defence Model**

A second source of similarity which has been identified in the Australia and New Zealand comparison relates to the particular pattern of public policy that has characterised the two countries during the twentieth century. The most influential account of the origins and

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71 Robertson 1991 p 40.
72 Bray and Walsh 1998 p 358
73 See, for example, Sandlant 1989 and Bray and Walsh 1998. However in doing so they have also tended to treat the consequences and impact of arbitration as relatively constant rather than attributing much significance to changed roles played by the institutions of arbitration over time within the two countries. This issue is taken up in Chapter 7 below
74 Bray and Haworth 1993a p 5
nature of this Antipodean exceptionalism is Castles’ *domestic defence model*.\(^{75}\) The domestic defence model has had an important impact on the comparative literature on industrial relations reform in Australia and New Zealand and has provided a strong theoretical foundation for treating Australia and New Zealand as most similar cases.\(^{76}\)

The domestic defence model is an explicit response to Katzenstein’s work on the origins of open trade policy and the advanced welfare states in small European countries and builds on aspects of the power resources tradition, discussed in the previous chapter. Katzenstein argues that extreme economic vulnerability and an inability to alter the terms of integration into the world economy produced profound economic and political crises in the small European nations in the inter-war and immediate post-war period.\(^{77}\) These economic and political crises were resolved through historic compromises which preserved economic openness (ensuring responsiveness of the domestic economy to the demands of export markets) but, at the same time, developed policies which compensated for this openness—protection for agriculture and extensive redistribution through the welfare state. Katzenstein calls this policy pattern “domestic compensation” and sees it as a logical response by small countries trading in world markets to the effects of economic vulnerability.

For Castles, the policy pattern that has characterised Australia and New Zealand since the end of the nineteenth century represents a second potential response to economic vulnerability. He argues that “the particular combination of structural conditions and political factors” which prevailed in Australia and New Zealand in the late nineteenth century allowed for the early mobilisation of the working class behind a reformist agenda and resulted in divisions in the political organisation of the right. These factors created the conditions for an historic compromise between elements of capital and the labour movement around a pattern of public policy he calls “domestic defence”.

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\(^{75}\) Castles 1988

\(^{76}\) Textual references to Castles’ domestic defence model in the Australian New Zealand comparative literature can be found in, for example, Bray and Haworth 1993a p 2; Bray and Walsh 1993 p 124, Castles *et al.* 1996b pp 7-8; Easton and Gerritsen 1996, p 62 and McAllister and Vowles 1994. See also Walsh and Nolan 1994 p11, pp 19-22 and Perry 1992 for application of Castles’ model to New Zealand.

\(^{77}\) Katzenstein 1985
The Importance of Small Differences

The four elements of the domestic defence policy pattern that Castles identifies are reliance on tariff protection; legal wage regulation through compulsory arbitration; limitations and controls on the pattern of immigration; and an early but minimalist welfare state. He argues that these policies functioned like interlocking shock absorbers designed to defend and stabilise the existing structure of economic opportunities and rewards against a rapid or excessive disturbance from exogenous forces. Almost every section of early twentieth century Australian [and New Zealand] society was protected in some way: the exporters and the pastoralists by the very profitability of the export trade in staple commodities; the manufacturers by tariff; and the working class by a minimum wage and a mechanism for controlling labour supply."

Castles argues that once established the terms of this historic compromise determined the pattern of economic and political developments in the two countries throughout the twentieth century. The preceding section has already noted the tendency to attribute patterns of industrial relations outcomes to the operation of arbitration. Similar treatments can be found in relation to the impact of tariff protection on industrial development and the composition of exports in the two countries. Castles’ own focus has been on explaining the consequences of domestic defence policy for the pattern of welfare and social protection that developed in Australia and New Zealand.

Thelen and Steinmo note the potential significance of the relational pattern of institutional factors in explaining cross national variation. On the basis of Castles’ domestic defence model, it is possible to argue that Australia and New Zealand share not only the same institutions of labour market regulation - the arbitration system - but also a broader similarity in the relational character of various institutions. Being able to establish that the two countries share the same pattern of public policy limits the extent to which variation on the dependent variable can be explained in terms of differences in these factors.

**Shared Pattern of Integration into the International Economy**

The third variable which has been used in the construction of Australia and New Zealand as most similar cases relates to similarities in integration of the two countries into the

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78 Castles 1988 p 93
79 see of example Easton and Gerritsen 1996
80 see, for example, Castles 1985; Castles 1988; Castles and Shirley 1996
81 Thelen and Steinmo 1992 pp 16-26
international economy. Distinctive patterns of labour market regulation and the broader similarities in the pattern of public policy reflect the parallels in the timing and pattern of economic development of Australia and New Zealand. As a consequence, Australia and New Zealand, it is argued, are integrated into the international economy in the same way and have been uniformly affected by changes in the international economy. This, it is argued, is evident in the shared nature of the long run economic problems of the two countries and the acute economic crises they experienced in the late 1970s and early 1980s.

The comparative literature on Australia and New Zealand treats the economic imperatives facing Australia and New Zealand during the 1980s and 1990s as, in part, a reflection of their shared experience of settler capitalism. Denoon provides a detailed account of the origins and consequences of settler capitalism. Rapid industrialisation in Britain created demand for raw materials and also made large amounts of capital available for export. These factors helped consolidate an international economic regime founded on free trade. It also created the conditions under which areas of recent European settlement, like the colonies of Australia and New Zealand, could be brought into world market using debt financing to motivate raw material and commodity production.

For Denoon, the political and economic crises in the settler economies in the late nineteenth century were a consequence of their high degree of dependence on international trade to service debt owed to foreign lenders. For him, this experience helps explain the distinctive institutional features of Australia and New Zealand. Falls in commodity prices produced the industrial conflict and the deterioration of working conditions which were instrumental in the introduction of arbitration in the two countries. Rapid development followed by falling commodity prices also produced the “particular combination of structural conditions and political factors” with which Castles associates the domestic defence pattern of public policy including the protection of domestic manufacturing behind a system of tariffs and import restrictions.

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82 Bray and Haworth 1993a p 2
83 Denoon 1983
84 see Denoon 1983 pp 43-51
85 Denoon 1983 pp 51-54 for Eastern Australia and pp 54-5 for New Zealand
Denoon also argues that the experience of settler capitalism produced a tendency towards specialisation on primary production rather than diversification in the subsequent development of the settler economies. 87 Both Australia and New Zealand have remained largely dependent on the export of primary products and commodities as the driver of economic growth throughout the twentieth century. In both countries similar arguments have been made about the consequences of dependence on primary products for long-term economic growth. Commodity and primary product prices tend to be volatile in the short run and the terms of trade of primary products relative to manufactured goods exhibit a long run tendency towards secular decline. Both of these effects stem from the limited scope for differentiation of primary products (relative to manufactured goods) and the resultant high income elasticity relative to supply both in the short run and in the long run. Therefore in the long run reliance on primary products tends to limit the potential for economic growth. 88

It has also been argued that the reliance on primary product exports as the engine for economic growth, coupled with tariff protection for manufactured goods, meant that the manufacturing sector in both Australia and New Zealand remained small and uncompetitive. According to this view, tariff protection in Australia prevented the development of internationally competitive industries because it distorted the allocation of resources by confounding market signals. As Gruen puts it, “both made to measure protection and restrictive trade policies cosseted the business community and insulated it from change and possible adversity”. 89 Thus Ravenhill argues that, under the instruments of protection in Australia, “a dual economy emerged in which inefficient manufacturing and service sectors rode on the back of the rents generated initially by the largely efficient (by world standards) rural sector and subsequently by this sector in conjunction with the mining industry.” 90 The implication of these arguments is that the level of manufacturing

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86 Denoon 1983 for New Zealand see pp71-6 and Eastern Australia pp 82-5
87 Denoon 1983 p 223
88 for summaries of these arguments Ravenhill 1994 pp 75-7; Halevi and Kriesler 1993 pp 4-10 and Gruen 1986 p 188 for Australia and Woolding 1993 pp 93-95 for New Zealand.
89 Gruen 1986 pp 186-8; for similar views see Anderson 1987; Anderson and Garnaut 1987; and EPAC 1995 (esp pp 9-19 for an economic model of the effect of tariffs on Australian economic performance). While the underlying argument in many of these treatments is lack of competitiveness in the manufacturing sector is the product of excessive government intervention, Bell 1994 argues convincingly that it was a consequence too little state involvement beyond the macro level. For more detail see Bell 1993. W. B. Sutch advanced similar views about industry policy in New Zealand. See Sutch 1966
90 Ravenhill 1994 p 77
employment attained in Australia was only sustainable if favourable conditions for the commodity based export sector were maintained.

Similar arguments have been made about the consequences of tariff protection for the competitiveness of manufacturing in New Zealand and the reliance of manufacturing employment on the surplus generated by the export sector. As Wooding notes “New Zealand’s poor economic performance was frequently attributed to the type and level of protection of the manufacturing industry.”\textsuperscript{91} Likewise, Easton notes that “it was argued that assistance protected inefficient managers, discouraged entrepreneurial initiative, and that the resulting lack of dynamism was a major reason for the perceived poor performance of the New Zealand economy”.\textsuperscript{92} As in Australia, it has been argued that in New Zealand the protection of domestic manufacturing industry had the potential to damage the competitiveness of the commodity based export sector by raising the costs of inputs:

\begin{quote}
\text{costs rise because of the direct effects of tariffs on domestic prices of imports; and because the higher economy wide cost structure generated by the domestic provision of inputs which could have been more cheaply imported, or which could have been produced more cheaply had industry not been protected.}\textsuperscript{93}
\end{quote}

Given the similarities in the patterns of economic development and the economic consequences that have been ascribed to the policy regimes adopted in the two countries, the comparative literature has tended to assume that changes in the international economy have had almost identical consequences for New Zealand and Australia. The underlying argument can be summarised as follows.\textsuperscript{94} Despite the tendency towards a secular decline in the terms of trade, comparative advantage in primary product production, economic growth in their major trading partners, limited competition and preferential access to markets in the post war period produced favourable terms of trade for Australia and New Zealand. This created the conditions for the continued development and expansion of the sheltered domestic manufacturing sector in the two countries during the

\begin{footnotes}
\textsuperscript{91} Wooding 1987 p 92
\textsuperscript{92} Easton 1989a p 117
\textsuperscript{93} Evans 1987 p 105
\textsuperscript{94} For a more detailed treatment see Wailes 1997
\end{footnotes}
1950s and 1960s, with some of the exporters’ surplus transferred to the domestic sector through the arbitration system and the instruments of protection.\footnote{see Easton and Gerritsen 1996 pp 26-8; see also Fagan and Webber 1994 p 48 and Ravenhill 1994 on Australia and Roper 1993 pp 1-11 and Wooding 1993 on New Zealand}

However since the late 1960s, changes in the international economy have undermined the conditions necessary for the maintenance of the domestic defence model in both Australia and New Zealand. On the one hand, there was declining growth in the two countries’ major trading partners, which reduced demand for commodities and primary products. On the other hand, there were dramatic increases in world trade, especially in commodities, and significant increases in the supply of a number of important primary products. This increased competition in markets where products were largely undifferentiated. Faced with a decrease in commodity prices, producers further increased production to offset losses of income. This had the effect of further weakening prices.\footnote{on New Zealand see Easton 1997 pp 73-88 on Australia see Dyster and Meredith 1990 pp 268-310 and Bell 1997 pp 80-121}

As the following diagram demonstrates, both countries have experienced a significant decline in the terms of trade for their main export commodities since the late 1960s.

\begin{figure}
\centering
\includegraphics[width=\textwidth]{figure4.png}
\caption{Terms of Trade, Australia and New Zealand 1961-91\footnote{source Easton and Gerritsen 1996 p 27; Index 1961-1991= 1000}}
\end{figure}

The decline in the relative terms of trade for primary products was further exacerbated by a number of other developments in the international economic regime. The protected access to markets that Australia and New Zealand had enjoyed had largely evaporated by the late 1960s. Increased competition in commodity markets and declining economic
growth in developed countries also resulted in rising levels of protectionism in developed countries, especially in agricultural products. Furthermore, the oil shocks produced a structural shift in the energy and primary product intensity of manufacturing, which further reduced demand for primary products.

At the same time, a number of developments in the international economy made the use of traditional Keynesian economic policies more difficult for governments in both Australia and New Zealand. For example, instability in the international financial system made it difficult to maintain currency pegs and exacerbated the mounting national debt problems in the two countries.98 By the early 1980s both countries found themselves faced with increasingly serious economic problems which were widely regarded as a consequence of significant changes in the international economy and the growing unsustainability of the domestic defence model in the face of these changes.

In many ways the economic problems faced by Australia and New Zealand can be regarded as examples of the types of changes in the international economy that have been associated with globalisation. Thus Bryan and Rafferty review the extent to which Australia has experienced many of the economic changes commonly associated with the current wave of globalisation since the mid 1980s. They show that for Australia trade has been growing in relation to production since the 1970s. Imports and exports as a percentage of national production have increased from 33% in 1965/6 to 46% in 1995/6 (although they also note that in 1900 it was as high as 50%). Bryan and Rafferty also note that Australia has always received high levels of international inward direct investment (IDI). In 1995 it was the fourth largest recipient of IDI and in 1996 2961 foreign affiliates of trans-national corporations were located in Australia. However since the 1980s, there has been a dramatic increase in outward investment from Australia- at a rate more than three times that of domestic investment. Most dramatically, Australia’s financial markets have become highly internationalised. Bond issues and derivatives in Australia dollars have grown in line with global trends and since its was floated in 1983

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98 Glyn 1992
the Australian dollar one of the most highly traded currencies in the world- far in excess of Australia’s relative position as a trading nation.99

The view that the economic imperatives in both countries were fundamentally similar, and reflected changes in the international economy, is broadly accepted in the comparative literature on industrial relations reform in Australia and New Zealand and underpins the construction of New Zealand and Australia as most similar cases. For example, McAllister observes that:

Historically Australia and New Zealand were among the most economically prosperous countries in the world. Both lost their economic leadership position in the 1950s…. Both economies have shared a particular mode of economic regulation, which Castles terms ‘domestic defence’. This involves the maintenance of high protective barriers against foreign manufactured goods and a dependence on the export of primary products to a narrow range of markets, most notably Britain. Wealth generated by the primary sector was recycled through the economy by highly regulated and partially decommodified systems of wage regulation, and only secondarily through the development of welfare states which remained more modest and more tightly targeted than their European counterparts…. This mode of regulation suited wealthy colonial economies in an era of organised capitalism, but by the 1960s it was becoming increasingly costly and inefficient.100

Likewise, Bray and Walsh stress the fundamental similarity in the structural problems faced by the two economies:

economic differences can easily be exaggerated...the Australian economy suffered from very similar structural problems to those of New Zealand, namely an export sector excessively reliant on primary products at a time of declining international commodity prices and an inefficient manufacturing sector too long protected from international competition.... No, the economic differences were more differences of degree than of kind.101

“The Great Experiment”: Labour Governments and Market Oriented Reform in Australia and New Zealand

The similarities between the two countries in terms of their institutional traditions, their pattern of integration into the international economy, and the nature of the economic imperatives they faced, is further reinforced by the parallels in the reform agendas

99 Bryan and Rafferty 1999 pp 4-12. There are some sources that draw explicit links between the economic problems of the two countries and globalisation. For Australia, see for example, Fagan and Webber 1994 especially Ch 3. For New Zealand, see for example Maitra 1997
100 McAllister and Vowles 1994 p 7
101 Bray and Walsh 1998 p 379
adopted by newly elected labour governments in the during the 1980s. In 1983 a federal Labor government was elected in Australia for the first time since 1975 and only the second time since 1949. In 1984 a Labour government was elected in New Zealand for the first time since 1975. This was only the fourth Labour government in New Zealand’s electoral history. Both the second (1957-60) and the third (1972-75) Labour governments had been single term governments.

The election of labour governments in both Australia and New Zealand resulted in a fundamental realignment in the relationship between state and economy in both countries. In concluding a substantial comparative analysis of policy developments associated with the labour governments in the 1980s, Castles et al describe this policy change as:

*The Great Experiment* … the paradox of deregulatory change pursued under the auspices of Australasian labour movements, which, in their earlier development, had played an important role in fashioning distinctive state institutions.

And conclude that:

What has been described ... is a more or less common policy response to quite similar economic, political and social challenges, but overlaid by the diverse assessments, strategies and choices of policy makers in each country. Looking beyond particular arenas of policy concern to the broader picture and showing a common pattern of substantial transformation does, we believe, justify a label, such as the *Great Experiment*, pointing to the quite unusual ubiquity of change accomplished or set in motion by the Labour government of Australia and New Zealand in the 1980s.

These similarities in the policies reflected similar understandings of the underlying economic problems and solutions to these problems by policy makers in the two countries. In both countries, the experience of economic crisis, growing dissatisfaction with the efficacy of the traditional pattern of state intervention in the economy and concern about the need for economic restructuring in the face of changes in the international economy, led labour governments to introduce fundamental changes in the role the state played in managing the economy. While the adoption of market oriented reforms was more dramatic in speed and scope in New Zealand, especially in the mid 1980s, in both cases the economic theory behind the changes in government policy and

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102 The Australian Labor Party adopted the American spelling of the word labour, whereas the New Zealand Labour Party has retained the English spelling. This thesis adopts the English spelling when referring to both labour parties.

103 Castles *et al*. 1996a pp 1-2

104 Castles *et al*. 1996a pp 213-4
the direction of that policy was fundamentally similar and demonstrated a radical change in underlying relationship between state and economy.

In both countries, policy makers accepted that, because of changes in the international economy, the domestic defence system was no longer sustainable and had become a major impediment to improved economic performance. They also shared the view that policies designed to increase the scope for market forces, and reduce the role played by the state in the economy, would provide the basis for renewed economic growth. In an effort to place their economies on a sounder footing to meet external economic challenges, and to secure their own political futures, labour governments abandoned their traditional commitment to intervention and adopted market oriented reforms across almost a broad range of policy areas.\footnote{For Australia see, for example, Pusey 1991, Whitwell 1986; Kelly 1994, Bell 1997 and Wiseman 1998. For New Zealand see Bollard and Buckle 1987; Collins 1987; Easton 1989 and Walker 1989.}

In both countries the adoption of market oriented reform by labour governments marked a critical juncture in the focus and direction of economic policy. In 1990 a National government won the election in New Zealand. It both continued and expanded the reform agenda initiated by Labour.\footnote{Boston and Dalziel 1992} In 1996 a Liberal National Coalition government was elected in Australia and it has sought to further many aspects of the reform agenda begun by Labor thirteen years before.\footnote{Quiggin 1998} Therefore, in both countries political parties of the right abandoned their long-term commitment to protectionism and interventionist economic policy and sought to implement market oriented reform in even more vigorous and systematic fashion.\footnote{for New Zealand see James 1997; for Australia see Kelly 1994 esp pp 597-614} As Quiggin notes “the shift to the right is simply an extension of policies initiated by labour governments in the 1980s”.\footnote{Quiggin 1998 pp 76-7}

The comparative literature on industrial relations reform has regarded the policy changes associated with labour governments in the 1980s as critically important. Indeed, it can be argued that while the other sources of similarity constitute an important basis for the development of the comparative literature, it was the shared experience of dramatic deregulation under the auspices of labour governments, coupled with differences in the
implications of these reforms for the institutions of industrial relations, that drove the
development of the comparative literature. It is for this reason that most of the
comparative literature focuses its analysis on explaining why industrial relations policy in
the two countries differed during the 1980s rather than focussing on the 1960s or 1970s.

4.5 CONCLUSION
This chapter has discussed the logic behind a most similar case research design. It noted
that this research design, which seeks to exploit similarities between cases to identify the
source of variation, offers the prospects of producing causal inference within the confines
of small N, inductive and case study based research. It was also noted that this form of
research design may help to realise the potential for theory building and development
long associated with comparative research. On the basis of these observations it is argued
that a most similar case research design provides an excellent framework within which to
explore questions of the relationship between international economic change and the
domestic institutions of industrial relations.

This chapter has shown that Australia and New Zealand can be regarded as most similar
cases across a range of dimensions. These include shared reliance on arbitration for
labour market regulation, broader similarities in the pattern of public policy, parallels in
economic structure and integration into the international economy; and, finally,
commonalities in the reform agendas adopted by labour governments during the 1980s.
These similarities between the two countries have allowed the comparative analysis to
control for a broad range of factors that might potentially explain differences in patterns
of change of industrial relations institutions.

Indeed Australia and New Zealand share many more similarities than other matched pairs
that have used in most similar case research designs.\textsuperscript{110} For example, the legislative
framework and the subsequent development of industrial relations institutions in
Australia and New Zealand seems much more similar than is the case for US and Canada.
In addition, Australia and New Zealand exhibit similarities across a number of other key
variables, including economic structure and political heritage, than do the US and
Canada. In this regard, there are a number of grounds for concluding that Australia and

\textsuperscript{110} for major references see Taras 1997
New Zealand represent almost perfect real world examples of most similar cases. Thus, the in-depth comparison of industrial relations developments in Australia and New Zealand provides a powerful context within which to test competing approaches about the relationship between international economic change and the domestic institutions of industrial relations. The next chapter provides a critical review of the findings of the comparative literature on industrial relations reform in Australia and New Zealand during the 1980 and 1990s and assesses the implications of these findings the competing theoretical accounts outlined in chapters one and three.
CHAPTER 5

“DIFFERENT PATHS TO NEO-LIBERALISM”: A CRITICAL REVIEW OF THE COMPARATIVE LITERATURE ON INDUSTRIAL RELATIONS REFORM IN AUSTRALIA AND NEW ZEALAND

5.1 INTRODUCTION
From the mid 1980s Australia and New Zealand were faced with rapid change in industrial relations institutions and outcomes in the context of strong economic imperatives associated with changes in the international economy and fundamental realignment of the role played by the state in the economy. In this context the existence of another country that shared a similar heritage and faced similar economic problems became analytically interesting. This was even more the case when it seemed that these common pressures had divergent consequences for the domestic institutions of industrial relations in the two countries. Indeed, as Easton and Gerritsen note, at one stage it appeared as if the only significant difference between the cases was in the area of industrial relations reform.¹

This apparent divergence between the two cases created the variation on the dependent variable necessary for the deployment of a most similar case research design. The previous chapter has noted the potential benefits of the most similar case research design for testing theoretical questions in industrial relations. It also demonstrated that there are a number reasons for treating Australia and New Zealand as almost perfect real world examples of most similar cases. Furthermore, because the changes in industrial relations institutions seemed to reflect reactions to economic pressures created by changes in the international economy, the comparison created an ideal framework within which to explore issues of globalisation and industrial relations.

This chapter examines industrial relations reform in the two countries during the 1980s and 1990s and the explanations put forward in the comparative literature for the apparent divergence between the two most similar cases. It is structured as follows. Section 5.2 and
5.3 provide a brief overview of industrial relations reform in Australia and New Zealand during the 1980s and 1990s, focussing on the nature and extent of change to the domestic institutions of industrial relations that occurred as a result.\(^2\) Section 5.4 summarises the range of explanations the comparative literature has generated for differences in industrial relations policy and institutions in the two countries. Section 5.5 assesses the implications of these explanations for the three theoretical approaches to the relationship between international economic change and the domestic institutions of industrial relations that were canvassed in chapters one and three. Section 5.6 identifies a range of limitations associated with the comparative literature on industrial relations reform in Australia and New Zealand in the 1980s and 1990s. It argues that these limitations are consistent with the criticisms of the new institutionalism outlined in chapter two above.

5.2 **INDUSTRIAL RELATIONS REFORM IN AUSTRALIA DURING THE 1980S AND 1990S**

**INDUSTRIAL RELATIONS POLICY UNDER LABOR IN AUSTRALIA, 1983-1996**

The Labor government that came to power Federally in Australia in 1983 not only inherited a weak economy but also an industrial relations system that was in a state of uncertainty. In December 1982, the Australian Conciliation and Arbitration Commission instituted a wages freeze accepting most of the Commonwealth government’s submission to the National Wage Case (NWC).\(^3\) This in effect represented the abandonment by the Fraser Liberal and National Coalition government of its attempt to foster decentralised wage determination after the collapse of wage indexation in 1981.\(^4\) The Commission had scheduled a National Wage Case hearing for late July 1983 to reassess the ‘wages pause’.

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1 Easton and Gerritsen 1996 p 45
2 The overview of industrial relations reform in Australia and New Zealand during the 1980s and 1990s is not intended to be comprehensive but rather seeks to establish the similarities and differences in the reforms that have been introduced in the two countries. There is an extensive literature on industrial relations reform in each of the countries and references to more detailed treatments are made throughout this section.
3 The Federal industrial tribunal was known as the Australian Conciliation and Arbitration Commission until 1988. Its was replaced by the Australian Industrial Relations Commission (AIRC) in 1988 with the passing of the Industrial Relations Act (Cth) 1988. While there were some differences in the AIRC’s structure from its predecessor, it is essentially the same institution and both will be referred to as the Commission in the following discussion. In National Wage Cases the full bench of the Commission “determines or adjusts wages for all workers covered by federal awards. These are minimum determinations where the full bench takes account of broad industrial, social and economic changes.” Dabscheck and Niland 1981 p 305-6. See Dabscheck and Niland 1981 pp 305-337 for an overview of the development of the National Wage Case system.
4 See Dabscheck 1989 pp 26-41 and Rimmer 1987 pp 106-7
The Early Accords and the Return to Centralization, 1983-1985

The Australian Labour Party (ALP) and the Australian Council of Trade Unions (ACTU) made a joint submission to the NWC held by the Commission in July 1983. The basis for this joint submission was an agreement, known as the Price and Incomes Accord (hereinafter, the Accord), reached between the ALP and the Australian Council of Trade Unions (ACTU) immediately prior to the 1983 election. For the rest of Labor’s period in office (until 1996), the practice of making coordinated submissions to NWCs, based on prior negotiations and formalised bargains between the ACTU and the ALP was to remain the primary means of introducing industrial relations reform. Between 1983-1996 the Accord was to be renegotiated seven times.5

The initial Accord (Mk1) was essentially a voluntary incomes policy designed to induce a shift in the relationship between inflation and employment levels by constraining nominal wage inflation. In the Accord document, the ACTU pledged the union movement to making no extra claims in wage bargaining in return for a reintroduction of wage indexation. For its part the government pledged, amongst other things, to introduce a range of reforms to the taxation system, to increase the “social wage” and to implement a range of industry policies.6

The Commission largely accepted the ALP and ACTU submissions and reintroduced wage indexation in September 1983. Dabscheck argues that in the period September 1983 to December 1985, 96% of nominal wage increases in Australia resulted from the decisions of the Arbitration Commission in NWC decisions and that in the same period there were no substantial movements in over-award pay.7 Furthermore the introduction of the Accord was associated with increased job creation and a reduction of unemployment.8 Therefore, during this period 1983-1985, the Hawke Labor government, in consultation with unions, was able to use the centralising tendency of the existing institutions of arbitration to create a highly centralised wage determination system which could effectively administer an incomes policy.

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5 There is a considerable literature on the Accord from a range of disciplinary areas. Some of the major references include Archer 1992, Bray 1994, Stilwell 1986; Carney 1988; Singleton 1990; Ewer et al. 1991. See also the contributions to Wilson et al. 2000. For details of the various Marks of the accord see Wilson et al 2000 pp 283-399
6 Rimmer 1987 p 107-8
7 Dabscheck 1994 p 155
Managed Decentralism 1986-1991

However, during the course of the late 1980s the role of the traditional institutions of arbitration were fundamentally recast. A serious worsening of the external economic situation, a change in government policy, dissatisfaction with the trade-offs associated wage restraint within a number of powerful unions, and growing employer demands for labour market deregulation created pressure for change to the industrial relations system.

Beginning with Accord Mk 3, concluded in 1986, there has been a steady movement towards a decentralisation of wage determination and bargaining in Australia. The status of industrial awards has changed dramatically. Traditionally these documents constituted the primary regulation of employment relationships across entire industries and occupations. Changes made to the industrial relations system in the late 1980s and early 1990s effectively reduced these documents to a ‘safety net’ designed to provide the baseline for enterprise-based productivity bargaining and to prevent flow-ons of wage gains from one area of the economy to another.

NWCs were transformed from a mechanism of centralised wage determination into a vehicle for determining the principles that should apply to decentralised wage determination. From 1986, the AIRC only allowed wage increases above a minimal level where unions could show that they were prepared to make changes to employment regulations that would enhance the productivity of the industry or enterprise covered by that agreement. One set of commentators characterised this approach as one of “managed decentralism”. It is notable however that this was achieved within the existing framework of labour market institutions.

Accord Mk 3 was translated into specific wage principles by the AIRC in NWCs in 1987, 1988 and 1989. The 1987 NWC granted two separate wage increases to be paid to all workers covered by federal awards. It also permitted wage increases of up to 4 percent to be granted in individual awards where employers and unions had addressed issues of restrictive work and management practices, multi-skilling and broadbanding of work classifications, reduction of demarcation barriers and changes in award classification.

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8 Kyloh 1989
9 Dabscheck 1994 p 157
10 MacDonald and Rimmer 1989
Chapter 5: Different Paths to Neo-Liberalism

The 1988 NWC developed this approach further in the Structural Efficiency Principle (SEP). This allowed wage increases of up to 3% to be incorporated into individual awards and agreements where unions and employers had reviewed awards in relation to skill related career paths, award relativities, flexibility, minimum rates and discriminatory aspects of awards. This resulted in a mixture of industry by industry and employer by employer negotiations. The SEP was reinforced in the 1989 NWC, which made two wage increases available- the first associated with Commission scrutiny of proposals for award restructuring and the second related to progress made on introducing changes.\footnote{Davis and Lansbury 1998 pp 126-8; see also Kyloh 1989 pp 113-117; Bramble 1989 pp 381-6; and Rimmer and Zappala 1988}

**Enterprise Bargaining and the 1993 Industrial Relations Reform Act**

By 1990 there was growing pressure for faster and more dramatic change in industrial relations. One of the consequences of deregulation of the financial system and abandonment of currency controls was a growing sensitivity of government policy to the sentiment of financial markets.\footnote{see Glyn 1992} By 1989, the Labor government had adopted orthodox tight monetary and fiscal policies which were designed to prevent further deterioration in the current account deficit. Having abandoned autonomy over macroeconomic policy settings, government policy concentrated more heavily on the role of microeconomic reform in restructuring economic activity. At the same time employer groups had become more vocal and united around a policy of labour market deregulation and further decentralisation of bargaining. The ACTU was finding it increasingly difficult to reproduce affiliate commitment to wage restraint- especially amongst skilled workers who had suffered a significant decline in their real wages relative to other groups. At the same time the union movement was aware of the dangers of union exclusion from policy making. It was in this context that the ACTU and the ALP, in Accord Mk 6, agreed to promote enterprise bargaining as the primary means through which wages and conditions would be determined.

It was opposition raised to the introduction of enterprise bargaining by the AIRC which was to result in fundamental changes being made to Australia’s traditional institutions of industrial relations. The AIRC initially rejected and then placed significant limitations on the adoption of enterprise bargaining. In response the government took steps to enshrine

\footnote{Davis and Lansbury 1998 pp 126-8; see also Kyloh 1989 pp 113-117; Bramble 1989 pp 381-6; and Rimmer and Zappala 1988}

\footnote{see Glyn 1992}
The Importance of Small Differences

the principles of enterprise bargaining in legislation and to limit the power of the AIRC to determine the speed and extent of the decentralisation of bargaining through legislation. These changes were eventually incorporated in the Industrial Relations Reform Act (Cth) 1993 (hereinafter, the Reform Act), beginning the process of “clipping the wings of the commission”.

The Reform Act resulted in a number of fundamental changes to the Australian industrial relations system. As one contemporary assessment noted: “the scope of the changes to the Industrial Relations Act contained in the Reform Act are quite staggering and go well beyond the subject of enterprise bargaining.” Amongst other things the Reform Act: recast awards as “safety nets”; weakened the ability of the AIRC to intervene in the terms and conditions of bargains; began the process of recasting unions’ role in bargaining as agency representation rather than the traditional role of group representation; and introduced the possibility of legally sanctioned non union agreements into the federal industrial relations system for the first time. These were all profound changes to the traditional institutional structures of industrial relations in Australia. Indeed Gardner and Ronfeldt questioned the extent to which it was still possible to speak of an “arbitral model” in Australia in the aftermath of these changes.

Therefore by the end of the Labor period the Australian industrial relations system had seen considerable change. Motivated by the desire to improve economic performance, the Labor government, in consultation with the union movement, moved from exploiting the centralising tendencies of the traditional arbitration system to using it as vehicle for promoting decentralised productivity based bargaining. While the traditional institutional structures of industrial tribunals and industrial awards remained in place, their role and form was considerably different to that which existed at the beginning of the Labor period.

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13 Dabscheck 1995 pp 43-77
14 McCallum and Ronfeldt 1995 p 12
15 see MacDermott 1995
16 Naughton 1994
17 Frazer 1995 pp 65-80
18 Bennett 1995
19 Gardner and Ronfeldt 1996
INDUSTRIAL RELATIONS REFORM IN AUSTRALIA UNDER THE LIBERAL- NATIONAL COALITION SINCE 1996
The election of a Liberal and National Coalition government in 1996 was to result in further changes to the industrial relations system in Australia. The Coalition was elected on a manifesto which included further reform and deregulation of the labour market and had attracted support from a number of business groups for this policy position. One of the first pieces of legislation introduced by the new government was the Workplace Relations Bill. The election of a Coalition government also marked the end of the Accord process of formalised bargains between the ACTU and the government.

The Workplace Relations Act 1996
The Workplace Relations Act (Cth) 1996 (WR Act) was eventually passed into law only after considerable delay and a number of major revisions had been incorporated into the Act as the government sought to gain the support of the Australian Democrats in the Senate of the Commonwealth Parliament. The main features of the WR Act can be summarised as follows. First, it retained the AIRC and the status of awards but limited awards, and therefore the use of the commission’s arbitral powers, to 20 allowable matters. Furthermore, the Act set in place a timetable for awards to be stripped back to these twenty allowable matters. Second the Act made the negotiation of non-union collective agreements easier and decreased to power of the commission to vet enterprise agreements. This including introducing provisions for the ratification of non-union collective agreements by a ‘valid majority’ and also a substantial weakening of the no disadvantage test against which the Commission ratified non-union agreements.

Third, the WR Act introduced legally sanctioned non-union individual contracts called Australian Workplace Agreements (AWAs) into the federal jurisdiction for the first time. The Act established a new set of institutions to administer these agreements and set out a mechanism by which employers can use AWAs to take their employees out of award coverage.

Fourth, the Act introduced a number of changes designed to constrain the

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20 see Pittard 1997 pp 62-64 for an outline of the changes made in the movement from Bill to Act. The Australian Democrats hold the balance of power in the Senate, an upper house of review in the Australian federal system. The tendency for the government not to hold a majority in the Senate has become an important feature of modern Australian politics and is seen by many as a major impediment to dramatic reforms being introduced.

21 see Pittard 1997

22 ACIRRT Various March 1997 p 28; Waring and Lewer 2001

23 see McCallum 1997 and Ronfeldt 1997 pp 5-10
actions of trade unions. These include provisions which prohibit compulsory union membership and preference agreements; encourage the formation of breakaway unions and limit the access of union officials to workplaces. The WR Act also significantly increased the risks associated with industrial action by increasing sanctions, including significant penalties against ‘secondary boycotts’ and making strike pay illegal.

There are a number of different assessments of the significance of the Workplace Relations Act. Some have tended to stress the evolutionary nature of reform embodied in the WR Act. It is argued that the WR Act builds on the major changes that were introduced by Labor in the early 1990s. Rimmer even argues that there are profound continuities between the WR Act and the traditional pattern of industrial relations policy taken by conservative governments in Australia. Contrary to this view there are a number of authors who have argued that the WR Act represents a decisive break from the traditional pattern of industrial regulation in Australia and is likely to result in significant changes in the pattern of labour market regulation over time.

Much of the debate about the WR Act has focused on AWAs. Table 5.1 shows the growth in the number of registered AWAs in Australia from the Workplace Relations Act from 1996 through to the end of 1999. The data presented in table 5.1 suggests that the number of AWAs has grown steadily since their introduction in the Federal jurisdiction. However these figures represent only a small proportion of the Australian workforce. Waring estimated that in early 1999 AWAs covered less that 0.6% of the Australian workforce. ABS data for 2000 suggests that the registered individual agreements of all types (both state and federal) cover only 1.8 of the workforce.

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24 see Naughton 1997  
25 Peetz 1997 pp 165-8  
26 Rimmer 1997  
27 see for example McCallum 1997  
28 Waring 1999 p 307  
29 cited in ACIRRT Various December 2000 p 9
Table 5.1 The Growth of Federal AWAs in Australia, 1997-99

<table>
<thead>
<tr>
<th>As at end of (Qtr)</th>
<th>Total number of AWAs approved</th>
<th>Number of Employers covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sept 1997</td>
<td>1,281</td>
<td>79</td>
</tr>
<tr>
<td>Dec 1997</td>
<td>4,393</td>
<td>225</td>
</tr>
<tr>
<td>March 1998</td>
<td>10,790</td>
<td>425</td>
</tr>
<tr>
<td>June 1998</td>
<td>22,471</td>
<td>700</td>
</tr>
<tr>
<td>September 1998</td>
<td>34,426</td>
<td>899</td>
</tr>
<tr>
<td>December 1998</td>
<td>45,089</td>
<td>1,163</td>
</tr>
<tr>
<td>March 1999</td>
<td>52,961</td>
<td>1,200</td>
</tr>
<tr>
<td>June 1999</td>
<td>61,264</td>
<td>1,360</td>
</tr>
<tr>
<td>September 1999</td>
<td>73,042</td>
<td>1,567</td>
</tr>
<tr>
<td>December 1999</td>
<td>84,864</td>
<td>1,747</td>
</tr>
</tbody>
</table>

One interpretation of these figures is that while on the paper AWAs represent a substantial change in Australian industrial relations, the provisions for implementing AWAs are too onerous and costly for many employers to consider. This point has been made by a number of legal scholars in their assessments of the provisions of the WR Act precisely in this area. Likewise advocates of radical labour market deregulation have stressed their disappointment in the limited nature of the changes ushered in by the WR Act. Indeed, available survey evidence suggests that employers are likely to use alternative mechanisms for individualising bargaining arrangements. Using data from a survey conducted in September 1998, Wooden concludes that while thirty percent of workplaces surveyed had some form of individualised bargaining arrangements “just 19% of respondents from workplaces where individual agreements operated indicated that at least some of these agreements had been approved by, or refereed to, an industrial tribunal or other relevant statutory authority”.

On the basis of the evidence of the limited up take of AWAs it would be tempting to conclude that changes introduced in the WR Act are relatively minor. However a number of authors have suggested that the small number of AWAs masks their greater significance both as a mechanism for breaking unions in key sectors and as an implicit threat employers can use to alter outcomes in other streams of bargaining. O’Brien and

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30 Source: Waring 1999 p 307 and ACIRRT Various March 2000 p 8. While more up to date figures are available, as Van Barneveld and Waring 2002 note, the way the statistics are compiled makes no distinction between current AWAs and those that have lapsed or been replaced. They suggest that after the end of 1999 less than half of the registered AWAs included in the official statistics were current (pp 107).
31 for example see McCallum 1997, Creighton 1997, Ronfeldt 1997
32 see for example Wallis 1998
The Importance of Small Differences

O’Donnell’s analysis of the effects of the Workplace Relations Act on bargaining in the Australian Public Service provides an example of the first mechanism.\(^{34}\) They show that management in a number of public sector agencies have been able to use the provisions of the WR Act to force a shift towards non-union, and even individualized, bargaining arrangements. They also note that public sector unions have only been able to resist these initiatives where they have significant coverage and there is delegate activism. Examples of the use of AWAs as part of strategies to break union coverage can also be found in the coal mining industry.\(^{35}\) This suggests that the AWA provisions in the WR Act are more significant than their numerical incidence alone suggests and that over time their introduction is likely to produce a marked change in industrial relations outcomes in Australia.

Perhaps more significant than the introduction of AWAs have been the changes to the tests to be applied by the Commission to non-union collective agreements by the AIRC. Waring and Lewer note that while on the surface there appeared to be little difference between the no disadvantage test against which the AIRC ratified non-union enterprise flexibility agreements under the Reform Act and the no disadvantage test outlined in the WR Act in relation to non-union collective agreements, a number of minor changes have significantly weakened the test.\(^{36}\) As a consequence of these and other changes the WR Act created the possibility for gaps to develop bargaining outcomes contained in union and non-union enterprise agreements.

Data gathered by ACIRRT suggests that since the introduction of the WR Act there has been a substantial growth in the number of registered non-union collective agreements in the federal jurisdiction, both in absolute numbers and in relation to union collective agreements:

Only 5% of the 5147 federal agreements certified in 1997 were non union agreements, compared to 11% of the 7023 certified agreements for 1998 and 13% of the 6133 certified agreements for 1999. A total of 2447 federal certified agreements have been certified as at the end of June 2000 to date.\(^{37}\)

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33 Wooden 1999 p 437
34 O’Brien and O’Donnell 1999
35 Waring 1999, Ellem 2001
36 Waring and Lewer 2001 pp 69-73
37 ACIRRT Various September 2000 p 8
There is also evidence that a significant gap has developed between the wages and conditions outcomes union and non-union agreements ratified under the WR Act. Noting that earlier research had found that there were only limited differences between the union and non-union stream of bargaining under the Reform Act, in late 1997 ACIRRT reported the development of marked differences between union and non-union agreements in the areas of wages, hours entitlements and procedural fairness. Figure 5.1, which reports data on wage increases from ACIRRT's Agreement Database and Monitor (ADAM) demonstrates that this gap has been maintained since 1997 in relation to wages. This suggests that the changes in Australian industrial relations are significant and represent a substantial break with changes introduced during the Labor period.

Despite these varying assessments, it is clear that recent changes introduced by the Coalition government either continued and accelerated changes in the institutions of industrial relations in Australian made by successive governments attempting to adjust the functioning of the labour market and to make it more responsive to changes in the international economy that have impacted on Australia.

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38 source ACIRRT Various December 2000 p 8, reporting data from ACIRRT’s Agreement and Database Monitor (ADAM)
changes in Australian industrial relations outcomes 1991-1999

There are a number of changes to industrial relations outcomes in Australia which can be associated with the policy and institutional changes outlined above. These include changes in bargaining structure, trade union membership and bargaining outcomes. Taking the period 1991 to 1999 as a whole, there have been significant changes in the form and coverage of collective bargaining in Australia. As Campbell notes ABS figures indicate that in 1990 approximately 80% of employees were covered by awards and agreements; with the remaining 20% covered by common law contracts and minimal statutory protection.

ACIRRT estimates, using a variety of sources, that by the mid 1990s one third of employees had their terms and conditions determined by award only, another third by enterprise agreement, leaving more than thirty percent of the workforce in an unregulated sector. Campbell using ABS figures estimates that by 2000, award only coverage had fallen to 23.2%, registered collective agreements covered 35.2% and unregistered collective agreements covered another 1.5%. This left over forty percent of the workforce with individual agreements, the vast bulk of whom (38.2%) had unregistered individual contracts while registered individual contracts, like AWAs, covered less than 2% of the workforce.

Another area of major change in Australian industrial relations since the late 1980s has been the reduction in the percentage of workers who are members of trade unions and are represented by a union in negotiations with their employers. Table 5.2 shows the decline of trade union membership and density in Australia from 1990 to 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Members (million)</th>
<th>Union Density (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>2.66</td>
<td>40.5</td>
</tr>
<tr>
<td>1992</td>
<td>2.51</td>
<td>39.6</td>
</tr>
<tr>
<td>1993</td>
<td>2.38</td>
<td>37.6</td>
</tr>
<tr>
<td>1994</td>
<td>2.28</td>
<td>35.0</td>
</tr>
<tr>
<td>1995</td>
<td>2.25</td>
<td>32.7</td>
</tr>
<tr>
<td>1996</td>
<td>2.19</td>
<td>31.1</td>
</tr>
</tbody>
</table>

39 Campbell 2001 p 13
40 Buchanan et al. 1997; ACIRRT 1999 p 43
41 Campbell 2001 p 15-6
42 source 1990-1997 Peetz 1997 p 6; 1999-2000 ABS Cat 6310.0 Employee Earnings, Benefits and Trade Union Membership (various years)
As Peetz notes although union decline is a common to most industrialised economies, the speed and scale of union decline in Australia is extreme in comparative terms (although not as dramatic as the fall in New Zealand which is outlined below). He argues that while structural economic change has played an important role in the decline in trade union membership in Australia, as elsewhere, Australia’s expectionalism is in part attributable to the particular pattern of institutional change. Specifically he argues that changes in industrial relations legislation and policy during the 1990s, which amongst other things eroded union preference, created the conditions for an “institutional break” in union membership in Australia.\(^{43}\)

In addition to, and as a consequence of changes in the structure of bargaining and the percentage of the workforce represented who are members of trade unions, there has been a notable shift in the content of bargaining in Australia during the 1990s. Changes in bargaining structure have led to an increased spread of wage settlements in Australia. As Campbell and Brosnan put it, it would seem that “the current fragmentation of channels of wage determination is producing fragmentation of wage outcomes”.\(^{44}\) For example, in 1996 employees covered by enterprise agreements had average annual wage increases of between 4 and 6 percent, whereas employees covered solely by awards received only 1.3 percentage increase.\(^{45}\) A second major set of changes in bargaining outcomes has been in relation to working time. Research by ACIRRT into the content of agreements has revealed that changes to working time arrangements have been the most common areas of workplace change introduced through enterprise bargaining.\(^{46}\) According to Buchanan and Bearfield, this meant that by the mid 1990s only 36.5% of the total labour force worked a standard forty hour week and they estimated that 19.3% of the workforce worked unpaid overtime. They argue that these increased levels of unpaid overtime were a direct consequence of changes in bargaining in Australia during the 1990s.\(^{47}\)

\(^{43}\)Peetz 1997 pp 84-113
\(^{44}\)Campbell and Brosnan 1999 p 357
\(^{45}\)ACIRRT 1999 p 77
\(^{46}\)ACIRRT 1999 p 45
\(^{47}\)Buchanan and Bearfield 1997
Overall, it is clear that there was substantial change in the Australian industrial relations during the 1980s and 1990s. In an effort to improve the responsiveness of the economy to external economic imperatives, successive governments have introduced major reforms to the traditional bargaining system. However these changes have largely been achieved through the existing institutions. Thus while their focus and function is significantly altered from the early 1980s, unlike New Zealand the traditional institutions of industrial relations- like industrial tribunals and awards- still exist in Australia. These changes have meant that the Australian bargaining system has become a complex hybrid with multiple streams of bargaining- centralised and decentralised, regulated and deregulated. However, it is also important to note that while the traditional institutions remain in place, the effect of these changes is that a significant proportion of Australia workers have fallen outside the formal mechanisms of employment regulation.48 Of those that remain within the formal mechanisms of employment regulation only a minority have access to collective bargaining in which they are represented by unions. The remainder either have their wages and conditions determined in awards which have become increasingly narrow in scope or by agreements (both individual and collective) where the opportunity for collective representation or any genuine bargaining is profoundly limited. These changes have been introduced in response to international economic changes and the perceived need to increase the responsiveness of the Australian labour market in light of these changes.

5.3 INDUSTRIAL RELATIONS REFORM IN NEW ZEALAND DURING THE 1980S AND 1990S

INDUSTRIAL RELATIONS REFORM UNDER LABOUR IN NEW ZEALAND, 1984- 1990
The New Zealand Labour Party (NZLP) that came to power in 1984 inherited not only an economy in crisis but also an industrial relations system which was in limbo. On July 22\textsuperscript{nd} 1982, the National government had imposed a wage and price freeze which remained in force when Labour took power in 1984.49 This represented the culmination of a period of almost constant government intervention in the wage determination system since the early 1970s.50 The wage-price freeze effectively suspended the operation of wage

\begin{footnotesize}
48 see Campbell, I 1996b; Campbell, I 1996; Campbell, I 1997
49 see Boston 1984 pp 227-51
50 see Boston 1984 for more details.
\end{footnotesize}
determination function of the arbitration system and by early 1984 many awards had not been adjusted since 1981.

**The Return to Free Wage Bargaining, 1984-87**

Labour had gone to the election with a manifesto that included statements about the need for a:

- comprehensive negotiated incomes policy which would:
  - establish permanent and formal machinery for income determination, including major participation from trade unions, employers and government. Full economic information would be provided to all parties.
  - provide for annual wage adjustments aimed at maintaining real disposable incomes- taking into account changes in taxation, increases in productivity and the social wage provided by way of government assistance for such matters as health benefits.
  - allow for collective bargaining within guidelines between employers and trade unions.\(^{51}\)

Despite this an arrangement of the type achieved in by the ALP and the ACTU in Australia did not eventuate in New Zealand until late in Labour’s second term.\(^{52}\) Unlike its Australian counterpart, the NZLP quickly rejected the idea of adopting a voluntary incomes policy preferring a rapid return to free wage bargaining at the end of the wage freeze.\(^{53}\) This move was enshrined in the introduction of amendments to the Industrial Relations Act in 1984. These amendments largely reflected the consensus that had been reached in tripartite deliberations on the industrial relations system during the wage freeze.\(^{54}\) The most significant change was the removal of access to compulsory arbitration in unsettled wage negotiations.\(^{55}\) This was designed to prevent award wages being determined by historical relativities and to encourage bargaining. As Hodge notes, in comparison with the approach adopted by the Muldoon National government during the 1970s, the 1984 amendments were “characterised by a loosening of restraints on bargaining, giving greater scope for parties to create their own dispute resolution

\(^{51}\) Boston 1987 p. 159
\(^{52}\) Harvey 1992
\(^{53}\) There were some attempts to explore the idea of agreement over a voluntary incomes policy between unions and the government but these were abandoned. See Boston 1987 and Harvey 1992
\(^{54}\) L.T.R.C 1983. See Walsh 1989 pp 152-6 and Boston 1984 pp 260-5; This consensus included agreement on the need for formal tripartite consultations prior to each wage round; a greater role for economic factors in Arbitration Court decisions; the retention of awards as minimum documents and increased scope for industry and enterprise bargaining. While, the committee had not agreed on a number of crucial areas related to the structure of bargaining and union registration procedures, the existence of broad agreement on a range of issues set the stage for reform.
\(^{55}\) see Walsh 1989 and Harbridge and Walsh 1999 pp 12-3 for more details on these amendments.
machinery and directing wage fixers to follow the market place instead of historical practice.” Therefore, in its first term of office the fourth Labour government tried to use the traditional institutions of industrial relations to engender “responsible” collective bargaining between employers and unions, hoping that tight monetary policy would prove enough to control wage inflation.57

The Labour Relations Act 1987-1990
At the same time as Labour sought a quick return to free wage bargaining, it also initiated a comprehensive review of the industrial relations system through a Green Paper/ White Paper exercise to deal with a number of issues that remained unresolved in the Long Term Reform Committee- principally union registration and second tier bargaining.58

The eventual result of this process was the Labour Relations Act (NZ) 1987 (LR Act), which was introduced at the beginning of Labour’s second term. The Act attempted to retain some of the traditional protections of the arbitration system but at the same time introduced a number of significant changes designed to increase the flexibility of the labour market. This reflected the view of the government that the institutions of industrial relations had to play a role in helping the economy adjust to changes in the international economy.

The major changes associated with the LR Act can be summarised as follows. First it forced amalgamations of unions by making registration dependent on having 1000 or more members. Second, it prevented the use of relativities in the determination of award rates, and instructed the arbitral body to have regard to economic criteria only in wage setting. Third, the Act specified that wages and conditions were to be determined by one set of negotiations and that unions had to choose between awards and agreements. Accordingly it introduced mechanisms through which unions could opt out of award

56 Hodge 1985 p 32
57 The 1984/5 wage round began in December 1984 with the negotiation of the Metal Trades and General Drivers Awards. The result was an average 7.9% increase in award rates and a 9.9% increase in average total weekly earnings. Boston argues that while this was higher than the government had wanted, given economic conditions and loose monetary policy, it represented substantial wage restraint on the part of unions, with significant declines in real incomes. This restraint evaporated in the 1985/6 wage round with the majority of award rates increasing by more than 15.5%. Award rates increases in the 1986/7 bargaining round were moderate with settlements in the range of 6-8%, despite continued looseness of monetary policy. For detailed analysis, including a critique of the credibility hypothesis upon which the Labour government wages’ policy was based, see Boston 1985 and Boston 1987. For details on the 1986/7 bargaining round see Harbridge and Walsh 1989 pp 62-5
coverage and enter into enterprise agreements. These changes were designed to eliminate the practice of secondary bargaining and to foster the growth of enterprise bargaining.\textsuperscript{59} One commentator argued that:

\begin{quote}
The [LR] Act does depart significantly from the traditional premises of the arbitration system and to that extent offers opportunities for deregulation and flexibility. If those opportunities were to be aggressively taken up employers in the present economic distress and the attendant bargaining weakness of unions, the practice of industrial relations in New Zealand would change substantially.\textsuperscript{60}
\end{quote}

In 1988 further legislative changes eliminated the distinction between public sector and private sector bargaining arrangements which had been a traditional feature of the New Zealand industrial relations system.\textsuperscript{61}

While the aim of the LR Act was to create an orderly decentralisation of bargaining, in practice it had the opposite effect. Faced with the choice between award and agreement, in the context of significant economic dislocation, unions attempted to shore up their awards.\textsuperscript{62} As a consequence, Boston notes, the pattern of union wage restraint, that had characterised some of the earlier bargaining rounds, was again repeated in the 1987/8 bargaining round despite continued growth of the money supply and inflation peaking at 18.9\% in June of 1987.\textsuperscript{63}

After the passing of the LR Act, the New Zealand Business Roundtable (BRT) began a campaign for further labour market deregulation.\textsuperscript{64} The BRT argued that the continued regulation of the labour market was preventing the benefits of deregulation in other factor and product markets from following through the economy.\textsuperscript{65} The BRT was successful both in convincing other business groups to support radical deregulation and in influencing the policy formation of National Party while in opposition.\textsuperscript{66}

\begin{footnotes}
\item[59] for more detailed discussion see Deeks and Boxall 1987; Harbridge and Walsh 1989; Harbridge and McCaw 1992; Harbridge and Walsh 1999; Hince and Vranken 1989 pp 124-131; and Wood 1988
\item[60] Walsh 1989 p 168
\item[61] Walsh 1989 pp 165-7; Walsh 1991; Walsh 1991
\item[62] Boxall 1990 p 532 and Harbridge and McCaw 1992. Harbridge and McCaw note that between 1987 and 1991 only 563 employers were cited out of awards and that a significant percentage of these were cited out by just two unions- the Engineers’ Union and the Timberworkers.
\item[63] Boston 1987 and Wood 1988 p 171
\item[64] for an overview and references see Dannin 1997 pp 39-61
\item[65] see, for example, Brook 1989
\item[66] Dannin 1997 pp 93-8; Walsh and Ryan 1993 pp 15-7 “The Employment Contracts Bill reflected the ability of the Employers Federation and Business Roundtable and their allies to capture the policy making
\end{footnotes}
In a belated attempt to counter the call for deregulation, and to preserve the protections of the existing industrial relations system, the Labour government attempted to negotiate a voluntary incomes policy in late 1989 and early 1990. At the same time it also introduced amendments to the LR Act which gave employers to power to opt out of award coverage and to compel unions to negotiate workplace agreements. Neither of these initiatives was to be tested. Labour lost the 1990 election to the National Party.

Therefore by the end of the Labour period in New Zealand there had been substantial changes in the industrial relations system. While the institutional structures and many of the features of the traditional arbitration system were preserved in the Labour Relations Act, the ability of the Court to arbitrate disputes and to promote a wages policy had been largely removed. Furthermore, the Labour Relations system was far from stable and it was clear that there would be substantial change introduced by the incoming National government.

**INDUSTRIAL RELATIONS REFORM IN NEW ZEALAND UNDER NATIONAL SINCE 1991**

Few commentators however fully appreciated how substantial this change was to be. The National Party had been through fundamental policy realignment during its period in opposition towards neo-liberal policy alternatives. As one of its first actions National introduced the Employment Contract Bill. In the process of the movement from Bill to Act, there was some moderation of the legislation (most notably the retention of a specialist jurisdiction for labour law). Nevertheless, in its final form the Employment Contracts Act (NZ) 1991 (ECA) still represented a radical break from the traditional approach to labour market regulation in New Zealand. In contrast to the Australian experience, deregulation of the labour market in New Zealand resulted in the dismantling of virtually all vestiges of the traditional institutions of labour market regulation.

**The Employment Contracts Act 1991**

The ECA was derived from philosophical and economic theories that regard government intervention in the labour market as a major source of economic distortion and which
stress the economic efficiency of the law of contract.\(^{69}\) In keeping with these arguments the ECA repealed all of the remaining aspects of the arbitration system in New Zealand and replaced it with an individual contractual order based on three principles: freedom of association, freedom of choice and sanctity of contract.

The ECA was based on particular approach to freedom of association which gives employees the right to associate or not with other employees for the purposes of advancing their collective interests. This can be directly contrasted with the traditions of compulsory union membership and union preference that operated in New Zealand.\(^{70}\)

In terms of freedom of choice, the Act specified that employers and employees can choose who represents them in bargaining and with whom they bargain. They could either represent themselves or they can appoint a bargaining agent. While employees could appoint unions as their bargaining agents, “there are no procedures to require an employer to recognise any union, let alone a majority union, nor to bargain with a union or any other workers’ representative”\(^{71}\). Previously, unions could use the registration provisions of the arbitration system to establish their right to bargaining on behalf of a certain group of employees and could force employers to bargain with them, on behalf of those workers, through the conciliation and arbitration procedures. The ECA therefore removed the monopoly bargaining rights of unions that were established in New Zealand in 1894 and gave employers effective choice over whether or not they would negotiate with a union.

This reflected a more general downgrading of the legal status of trade unions in the ECA. The word “union” was not mentioned in the Act, and while unions could still exist there

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\(^{69}\) see Wailes 1997 for a critique of these views and their application to labour market regulation.

\(^{70}\) The First Labour Government introduced compulsory union membership in New Zealand in 1936. In the 1960s the National government replaced it with unqualified preference. For details see Walsh 1986. For a discussion of the relationship between these arrangements and International Labour Organisation (ILO) conventions see Anderson 1986. Compulsory union membership was reintroduced by Labour in the 1984 amendments to the Industrial Relations Act. The ECA however removed all forms of preference. Nevertheless the ILO has found that the form of Freedom of Association embodied in the ECA is inconsistent with Conventions 87 and 98 because “the philosophical foundations of the Act are incompatible with the right to freedom of association because it does not actively promote the right to bargain collectively” (Boyd 1997 p 71). For details of the New Zealand Council of Trade Unions complaint to the ILO, the adverse findings of the Committee of Freedom of Association and the reaction of the New Zealand government see Haworth and Hughes 1995

\(^{71}\) Anderson 1991 p 133
are no special registration provisions or statutory provisions governing their internal operations. This stands in stark contrast with the arbitration system which sought to protect the rights of employees through the creation of trade union and regulated the internal affairs of those unions. Furthermore there were a number of provisions in the ECA which were designed to restrict the access of unions to workplaces and the ability of unions to negotiate on behalf of their members.  

The traditional approach to setting wages and conditions in New Zealand was through a system of awards and agreements which were collective in nature. Awards, which were determined by the Arbitration Court, applied to all employees and their employers in a particular occupation or industry. Agreements applied to all employees in a particular occupation or at a particular workplace and their employer. Prior to 1987 agreements were normally negotiated above the award. After 1987 the coverage of agreements collapsed as unions were forced to choose between award and agreement. Therefore, prior to the ECA, the majority of employees had their wages and conditions set not only on a collective basis but also a multi-employer basis. The ECA completely dismantled the Award system and replaced it with two types of employment contract - individual employment contracts (IECs) and collective employment contracts (CECs). An individual employment contract is a contract between one employer and a single employee. A collective employment contract is defined as a contract between one or more employers and two or more employees. As a number of commentators have noted the provisions of the Act favoured IECs and make CECs more difficult to negotiate and maintain. IECs did not have to be written and do not have to have an expiry date. In the absence of any negotiation, an IEC with a range of implied terms was deemed to apply to the employee. Collective employment contracts have to be written and have to have an expiry date. When a CEC expired employees were deemed to be covered by an IEC with the same provisions as CEC. Furthermore the ECA also severely curtailed the use of collective action in support of a collective agreement and particularly in support of a multi-employer collective employment contract. While employees had the right to strike after the expiry of a CEC, employees covered by IECs have no right to strike and strike action in support of multi-employer bargaining is illegal.  

72 see Anderson and Foote 1994 pp 8-10; see also Gay and MacLean 1997 Kelsey 1997  
73 see Kiely and Casey 1993 p 59
In keeping with the principle of sanctity of contract, the ECA did not prescribe how wages and conditions were negotiated and only required employment contracts to comply with a very limited set of minimum standards.\textsuperscript{74} Furthermore, the ECA dismantled the previous specialist institutions and established two new bodies, the Employment Tribunal and the Employment Court, which were charged solely with dealing with disputes arising out of employment contracts.\textsuperscript{75}

**Changes in New Zealand Industrial Relations Outcomes Since 1991**

It is possible to clearly identify a number of industrial relations outcomes that are associated with the ECA. First, there was a significant decline in the extent of collective bargaining in New Zealand. The figures presented in Table 5.3 indicate that the number of workers covered by collective bargaining arrangements fell by 41% between 1989/90 and 1993. Furthermore, the figures indicate that those workers that were still covered by collective bargaining were predominantly covered by single employer collective agreements. There was an almost complete collapse of multi-employer bargaining, especially in the private sector. Harbridge and Honeybone argue that the collapse of the multi-employer bargaining reflects the impact of the dismantling of the Award system under the ECA.\textsuperscript{76}

<table>
<thead>
<tr>
<th>Type of settlement</th>
<th>1989/90 employees covered (000s)</th>
<th>1993 employees covered (000)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-employer</td>
<td>553.9</td>
<td>90.0</td>
<td>-84%</td>
</tr>
<tr>
<td>Private sector</td>
<td>384.6</td>
<td>38.2</td>
<td>-90%</td>
</tr>
<tr>
<td>Public sector</td>
<td>162.3</td>
<td>51.8</td>
<td>-69%</td>
</tr>
<tr>
<td>Single employer</td>
<td>167.5</td>
<td>337.1</td>
<td>+101%</td>
</tr>
<tr>
<td>Private sector</td>
<td>29.0</td>
<td>238.3</td>
<td>+722%</td>
</tr>
</tbody>
</table>

\textsuperscript{74} For a list of the minimum provisions see Walsh 1997 p 281
\textsuperscript{75} Goddard 1997
\textsuperscript{76} Harbridge and Honeybone 1996
\textsuperscript{77} source Harbridge and Crawford 1998 p 212. This table reports the last official figures collected on collective bargaining coverage. See Harbridge and Crawford 1997 p 249 for estimated figures for change in collective bargaining coverage over the period 1993-1996/7. These figures suggest that collective bargaining coverage has fallen by 40% in New Zealand between 1991 and 1996. Other figures are available from surveys conducted by the New Zealand Department of Labour. These results are reported in Hector and Hobby 1998. While these figures suggest higher levels of collective bargaining, the authors acknowledge that there was a low response rate in the survey (p 314). This suggests that these figures are unreliable. For a more detailed critique see McLaughlin et al. 2000
Associated with the collapse of collective bargaining, there was a dramatic decline in trade union membership in New Zealand in the aftermath of the introduction of the ECA. The figures in table 5.4 show that while there was a decline in the level of trade union membership before May 1991, the pace of decline accelerated considerably in the aftermath of the introduction of the ECA. Furthermore as the figures suggest there has been continued decline in trade union density during the 1990s. Harbridge and Crawford suggest that continued decline in trade union density reflects difficulties unions in New Zealand have both in recruiting new workers in unionised workplaces and gaining recognition in Greenfield sites. They argue this reflects the ease with which employers are able to prevent union organising drives under the ECA.\(^78\) The figures in table 5.5 demonstrate that while there was a decline in trade union membership (and collective bargaining coverage) across all sectors of the economy, the falls were more dramatic in some industries than others.

<table>
<thead>
<tr>
<th></th>
<th>Public sector</th>
<th></th>
<th>Total coverage</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>138.5</td>
<td>98.8</td>
<td>721.4</td>
<td>428.7</td>
</tr>
<tr>
<td></td>
<td>-29%</td>
<td></td>
<td>-41%</td>
<td></td>
</tr>
</tbody>
</table>

\(^78\) Harbridge and Crawford 1997
Table 5.4: Trade Union Membership and Density, New Zealand 1985–1999\textsuperscript{79}

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Unions</th>
<th>Membership</th>
<th>Density</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 1985</td>
<td>259</td>
<td>683000</td>
<td>43.5</td>
</tr>
<tr>
<td>Sept 1989</td>
<td>112</td>
<td>648825</td>
<td>44.7</td>
</tr>
<tr>
<td>May 1991</td>
<td>80</td>
<td>603118</td>
<td>41.5</td>
</tr>
<tr>
<td>Dec 1991</td>
<td>66</td>
<td>514325</td>
<td>35.4</td>
</tr>
<tr>
<td>Dec 1992</td>
<td>58</td>
<td>428160</td>
<td>28.8</td>
</tr>
<tr>
<td>Dec 1993</td>
<td>67</td>
<td>409112</td>
<td>26.8</td>
</tr>
<tr>
<td>Dec 1994</td>
<td>82</td>
<td>375906</td>
<td>23.4</td>
</tr>
<tr>
<td>Dec 1995</td>
<td>82</td>
<td>362200</td>
<td>21.7</td>
</tr>
<tr>
<td>Dec 1996</td>
<td>83</td>
<td>338967</td>
<td>19.9</td>
</tr>
<tr>
<td>Dec 1997</td>
<td>80</td>
<td>327800</td>
<td>19.2</td>
</tr>
<tr>
<td>Dec 1998</td>
<td>83</td>
<td>306687</td>
<td>17.7</td>
</tr>
<tr>
<td>Dec 1999</td>
<td>82</td>
<td>302405</td>
<td>17.0</td>
</tr>
</tbody>
</table>

Table 5.5 Union Membership by Industry, New Zealand 1991–1997\textsuperscript{80}

<table>
<thead>
<tr>
<th>Industry</th>
<th>Dec 1991</th>
<th>Dec 1997</th>
<th>% decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, fishing, and forestry</td>
<td>14,234</td>
<td>988</td>
<td>93%</td>
</tr>
<tr>
<td>Mining and related services</td>
<td>4,730</td>
<td>1,122</td>
<td>76%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>114,564</td>
<td>76,874</td>
<td>33%</td>
</tr>
<tr>
<td>Energy and utility services</td>
<td>11,129</td>
<td>5,712</td>
<td>49%</td>
</tr>
<tr>
<td>Construction and building services</td>
<td>14,596</td>
<td>5,094</td>
<td>65%</td>
</tr>
<tr>
<td>Retail, wholesale, cafes and accom.</td>
<td>64,335</td>
<td>14,499</td>
<td>77%</td>
</tr>
<tr>
<td>Transport, communication and storage</td>
<td>52,592</td>
<td>38,132</td>
<td>28%</td>
</tr>
<tr>
<td>Finance and business services</td>
<td>32,219</td>
<td>23,345</td>
<td>28%</td>
</tr>
<tr>
<td>Public and community services</td>
<td>205,925</td>
<td>162,034</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>514,324</td>
<td>327,800</td>
<td>36%</td>
</tr>
</tbody>
</table>

It is more difficult to identify the consequences of changes in industrial relations reform in for the content of bargaining in New Zealand than it is in the Australian case. Because they were regarded as private contracts between the parties to the contract, no information on the content of IECs negotiated or implied under the ECA were made publicly available. There is limited information available on the content of collective employment contracts and as in the Australian case it demonstrates that there has been a growth in the spread of the wage settlements contained in collective employment contracts.\textsuperscript{81}

\textsuperscript{80} source Crawford et al. 1998 p 196
\textsuperscript{81} see Harbridge and Crawford 1997 pp 241-4
Overall there have been dramatic changes in industrial relations in New Zealand during the 1980s and 1990s. In an effort to improve the responsiveness of the economy to external economic imperatives, major reforms were made to the traditional bargaining system. By 1991 all institutions and principles which had characterised regulation of the labour market in New Zealand since the late nineteenth century had been removed in an effort to achieve greater economic efficiency. This dramatic deregulation resulted in a situation in which the vast majority of New Zealand workers are no longer represented by a trade union and had their terms and conditions determined by individual contracts of employment. These individual contracts were often determined by managerial fiat and may involve no negotiation formal or informal. These workers did not have a legal right to strike and are only protected by a limited minimum code. The only mechanism for the protection of these legal rights was through the Employment Tribunal and the Employment Court. These changes were introduced in response to international economic changes and the perceived need to increase the responsiveness of the New Zealand labour market in light of these changes.

5.4 THE AUSTRALIAN NEW ZEALAND COMPARATIVE LITERATURE: EXPLAINING THE POLICY DIVERGENCE

The previous sections have outlined the main features of industrial relations reform in Australia and New Zealand during the 1980s and 1990s. While there are a number of similarities in these processes, the comparative literature on industrial relations reform in the two countries has focussed on the differences between the two cases. For all of the contributors to the comparative literature on Australia and New Zealand, the divergence between the two countries has been regarded as significant enough as to constitute the variation on the dependent variable required to deploy a most similar case research design. For example, Bray and Neilson argue that:

During the 1980s and 1990s industrial relations policy in Australia and New Zealand diverged more than at any time since the turn of the century.... The divergence between the two countries which became evident from the early 1980s was one of both substance and process. In the face of broadly similar economic crises, the challenge to the industrial relations compromise not only produced different outcomes, but the route by which change was achieved was also different.

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82 The are a number of, predominantly descriptive accounts, which have stressed the broad similarities in the changes in labour market regulation that have taken place in Australia and New Zealand during the 1980s and 1990s. See for example Brooks 1995 and Teicher and Svensen 1997
83 Bray and Neilson 1996 pp 68-9
However, while they all share the view that the divergence of industrial relations policy is significant enough to constitute variation of the dependent variable, it is also important to note that the specification of the dependent variable in the comparative literature on industrial relations reform in New Zealand and Australia is not uniform and has tended to change over time. In the 1980s the concentration was on explaining why the ACTU and the Australian Labor Party (ALP) were able to implement a voluntary incomes policy in Australia, and conversely why similar developments did not eventuate in New Zealand. For example, in Sandlant’s work “the emphasis of the enquiry is on the conditions under which a trade union movement might embrace a strategy of short term wage restraint through political bargaining”.  

Harvey adopted a similar position in his analysis of failure of the Compact, a voluntary incomes policy modelled on Australia’s Accord, in New Zealand in the late 1980s. The same explicit contrast of the fate of voluntary incomes policies in Australia and New Zealand frames the analysis put forward by Boston. Similarly Bray and Walsh focus on the differential success of unions in Australia and New Zealand in advancing “strategic unionism” in response to the demands of economic restructuring. Gardner also uses the Australia New Zealand comparison to assess the factors which determine the strategic responses of unions to industrial restructuring. Bray and Walsh have even gone as far as to treat the presence or absence of corporatism as the dependent variable in the Australian New Zealand comparison, depicting the Accord as an outcome of corporatist policy making.

Other contributions to this literature have focussed on different factors and defined the dependent variable in different ways. Mitchell and Wilson, commenting on the period before 1993, set out to explain why industrial relations legislative has been more extensively used in New Zealand than Australia to foster reform and restructuring. Plowman and Street are interested in explaining the differences in the policy orientations

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84 Sandlant 1989 p 1  
85 Harvey 1992 p 81  
86 Boston 1987 p 159 & p 162  
87 Bray and Walsh 1993  
88 Gardner 1995  
89 Bray and Walsh 1995 “The aim of this article is to … explain why the Australian trade union movement was able to construct and sustain a corporatist Accord with the Labor government during the 1980s, whereas over the same period New Zealand unions were not able to achieve any corporatist arrangements with their Labour government” p 1.
of employer groups in the two countries- the increasing unity of employer groups around extensive labour market deregulation in New Zealand and the continued divisions that characterise the reform agendas of employer groups in Australia. Wanna uses the Australian experience of division amongst employer groups, and the differential success of employer bodies in influencing policy, as the basis for explaining the development of unified and effective employer organisation in New Zealand. O’Brien also draws an explicit contrast with the New Zealand BRT in his analysis of the development of the Business Council of Australia’s (BCA) industrial relations reform agenda. Peetz treats trade union membership as the dependent variable and uses the Australia-New Zealand comparison in an effort to dismiss explanations of trade union membership decline in Australia, which attribute this decline to the Accord:

... a comparison between Australia and New Zealand up until 1991 enables a direct comparison between the operation of the Accord and the experiences of a Government and a union movement that pursued decentralised wage fixing under an award system without providing a strategic framework for institutional reform or the encouragement of workplace-level reform. It is analogous to what might have happened in Australia has a Labour government not followed an Accord strategy.

In the mid 1990s there was a noticeable change in the focus of the comparative project and the consequent definition of the dependent variable reflecting changes in policy direction in Australia. In a 1996 piece, Bray and Neilson attempt to explain the factors that resulted in the following outcomes: “New Zealand saw radical deregulation of the labour market and decentralisation of bargaining.... The Australian experience was one of partial deregulation and decentralisation in which outcomes were less radical and the change was more gradual”. This theme has been echoed by a number of authors attempting to account for the recent pattern of industrial relations reform in Australia. For example, Rimmer begins his analysis of the WR Act in Australia by seeking to establish the reasons why it fell short of the deregulation achieved by the ECA in New Zealand. Similarly, Peetz views the post 1991 comparison as an opportunity to assess what might have happened in Australia had a conservative government been elected after

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90 Mitchell and Wilson 1993
91 Plowman and Street 1993
92 Wanna 1989
93 O’Brien 1994
94 Peetz 1997 p 158
95 Bray and Neilson 1996 pp 69-70
96 Rimmer 1997 pp 69-70, see also McCallum 1997 pp 11-3
Broadly speaking, the extent to which industrial relations reform has diverged from the New Zealand model of the ECA has become an important object of analysis in the Australian industrial relations literature and the New Zealand-Australia comparison has become an important reference point.

What all these studies have in common is that the specification of the dependent variable in the Australian and New Zealand comparison has been largely defined in terms of policy outcomes and institutional arrangements. Most of the definitions of the dependent variable can be accommodated within a broader framework which treats the major difference that needs to be explained as the process by which decentralisation and deregulation has been achieved. In Australia, decentralisation and deregulation has been pursued through the existing institutions of arbitration, whereas in New Zealand the institutions of arbitration have been completely dismantled in the process of decentralisation and deregulation. Most recently Bray and Walsh have characterised the Australian and New Zealand comparison as representing “different paths to neo-liberalism”- reflecting this more general definition.\(^{98}\)

The comparative literature on industrial relations reform in Australia and New Zealand has produced a range of explanations of the differences in industrial relations reform between the two countries, despite their overall similarities. Broadly speaking there are three lines of argument about the sources of divergence that can be discerned in the literature. These relate to differences in the labour movements, differences in employer organisation, and differences in state capacity and autonomy. This section reviews the explanations that this literature has advanced for the differences in the industrial relations reform between the cases.

**Differences in the Labour Movements**

Much of the comparative literature concludes that the differences between the two countries can, in part, be explained by differences in the labour movements of the two countries. These include differences in the organisational capacity of the trade union movements in the two countries, and its consequences for their strategic orientation; differences in the relationship between the labour parties and the union movements in the

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\(^{97}\) Peetz 1997 p 158  
\(^{98}\) Bray and Walsh 1998
two countries; and differences in the ideological orientation of the dominant factions in
the labour governments. This line of explanation is used particularly to explain why the
Australian union movement was able to enter a voluntary incomes policy in the mid
1980s, while its New Zealand counterpart was not.

A number of authors have noted the differences in the organisational capacity and
strategic orientation of the union movements in the two countries. It has been argued that
one of the major reasons for the policy divergence between the two countries during the
1980s was that, unlike its Australian counterpart, the New Zealand union movement was
not in a position to deliver the wage restraint required for a voluntary incomes policy.
This is said to reflect the greater organisational unity of the Australian union movement
in comparison with the New Zealand union movement.

In one of the earliest versions of this argument, Bray and Walsh argue that both the
Australian and New Zealand union movement adopted a similar response to economic
restructuring in the mid 1980s in response to similar economic pressures.99 However,
while they both union movements had similar aims, they argue that:

the Australian unions had more success in implementing the ‘strategic unionism’
agenda than their New Zealand counterparts, who continued to be excluded from
most economic and political decision making, despite the existence of a Labour
government between 1984 and 1990.100

They attribute the greater success of the Australian union movement to the greater
authority of the ACTU, which gave it the ability to negotiate on behalf of its affiliates and
police an incomes policy. They argue that the increased authority of the ACTU in the
mid 1980s can be attributed to a number of factors. These included the sense of urgency
created by economic recession and the political threat posed by the New Right but also
reflected organisational factors:

(By the 1980s) the ACTU was more representative, due to mergers with the
ACSPA and CAGEO, and it developed better organisational structures which
more effectively bound federal unions to ACTU policy. The ACTU secretariat
received better funding from its affiliated unions, allowing it to expand its
research capabilities.101

99 Bray and Walsh 1993 p 129
100 Bray and Walsh 1993 p 129
In contrast they suggest that the failure to develop a voluntary incomes policy in New Zealand when the Labour government was originally elected was:

in part due to the belief by leading Labour politicians that the central union organisations- the Federation of Labor (FOL) and the Combined State Unions (CSU)- would be unable to deliver their side of an accord. The historical legacy of weak central union organisation continued to frustrate any hopes of significant union influence over national economic policy making.\textsuperscript{102}

Despite the broad similarities of the effects of the arbitration system on unions in the two countries, which is one of the factors used to establish them as most similar cases, there were differences in the organisation of the trade union movements and particularly in the peak trade union bodies that developed.

The ACTU was formed in 1927 out of both moderate and socialist elements of the union movement in the context of industrial conflict with the Bruce-Page government and in the aftermath of the One Big Union dispute. Notably the moderate Australian Workers Union (AWU) remained unaffiliated to the ACTU until 1967. During world war two the ACTU became the main trade union central for negotiations with the Labor government and gained the authority to intervene in industrial disputes involving its affiliates following the 1949 coal strike.\textsuperscript{103} Nevertheless from the early 1950s to the 1970s the ACTU remained a relatively weak organisation and has generally been characterised as dependent on its affiliates. Furthermore a number of important unions were not affiliated to and there were a number of other trade unions centrals representing unions in different sectors of the economy.\textsuperscript{104} However from the late 1960s there were a number of developments which increased the organisational unity of the Australian. These included the affiliation of the AWU in 1967 and mergers with the major white collar and public sector union peak bodies in 1978 and 1981 respectively.\textsuperscript{105} Therefore by the early 1980s Australia had one peak union movement.

In New Zealand, the peak private sector trade union body, the Federation of Labour (the FOL), was formed through the combination of the two rival federations in 1937 in the

\textsuperscript{101} Bray and Walsh 1993 p 130
\textsuperscript{102} Bray and Walsh 1993 p 132
\textsuperscript{103} Patmore 1991 p 85
\textsuperscript{104} Briggs 1999
\textsuperscript{105} Griffin, G 1991
The Importance of Small Differences

aftermath of the election of the first Labour government in 1935 and the reintroduction of arbitration in 1936. During the 1950s it was dominated by F. P. Walsh, the head of the Clerical Workers’ Union, and was staunchly pro-arbitration. However during the 1960s a new leadership emerged which challenged the Arbitration Court and pushed for direct bargaining. The other major trade union body in New Zealand in the early 1980s was the Combined State Unions (CSU). The CSU was formed in 1932 as a central committee of seven public sector employee organisations in areas like post and telegraph, the railways and the public sector. It was expanded to include a number of other groups, including secondary school teachers and nurses, in 1969 and became known as the Combined State Services Organisations (CSSO). It was later renamed the Combined State Unions. A single trade union central, The New Zealand Council of Trade Unions (NZCTU), was not formed until 1987:

embodying the majority of former FOL union affiliates, the state sector unions and a number of previously non affiliated unions. [However] some key private sector unions remained outside the structure (mainly blue-collar and trades-dominated unions), distrustful of the size and influence of state and service sector unions and their non militant traditions.

Therefore unlike its Australian counterpart, the New Zealand trade union movement in the 1980s was characterised by organisational division. This suggests that despite the broad range of similarities between the cases, there were important differences in the organisational capacity of the union movements and that this difference played a significant role in shaping the course of policy development.

Gardener argues that differences between Australia and New Zealand, and particularly in the involvement of the trade union movement in industrial restructuring, can be said to

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106 see Franks 1994
107 see Roth 1973 pp 137-142
108 Roth 1978
109 This reflected the exclusion of public sector workers from the arbitration system in New Zealand and existence of separate public sector pay fixing system that had operated in New Zealand since 1912. It was not until 1988 with the introduction of the State Sector Act that public and private sector industrial relations were covered by the same system in New Zealand, although there had been significant links between the pay setting principles established since the 1920s, see Roth 1987; Walsh 1991; Walsh 1991; and Powell 1989. This can be contrasted with the Australian experience of public sector industrial relations. Since 1911 Commonwealth public sector wage determination has been subject to arbitration by a division of the Federal Arbitration Commission. For details see Sharp 1971 pp 429-439. Sharp notes the differences between Australia and New Zealand in this regard. Given this difference in the scope and application of the arbitration systems, it is surprising that it does not feature more prominently in comparative assessments of industrial relations of the two countries.
reflect structural differences between the union movements in the two countries. Gardener argues that the literature on national trade union movements suggests that the more inclusive a national trade union movement, the more likely it is to develop a coherent response to economic restructuring. For Gardener, it was the growing inclusiveness of the ACTU during the 1970s and 1980s which allowed the Australian union movement to present a coherent response to the industrial restructuring at a national level, through the Accord, and to subsequently shape developments at an industry and workplace level. In contrast, she argues that the New Zealand union movement was relatively less inclusive than its Australian counterpart, because the NZCTU lacked the national authority and cohesiveness of its Australian counterpart, and for this reason was not able to effectively promote a coherent national approach to issues of industrial restructuring. Rather, she suggests, it was forced to react to these changes at the industry and workplace level.

The New Zealand experience illustrates the difficulties of effective union intervention in economic restructuring at any level without a cohesive trade union movement with significant political and industrial influence at the national level. Clearly New Zealand unions began the 1980s espousing a national strategy for economic restructuring, but the structural and historical circumstances in which the movement found itself forced the unions back to a limited industrial agenda at the enterprise level.

In subsequent articles, Bray and Walsh attribute differences in the inclusiveness and organisational capacity of the two union movements, and the consequent differences in the effectiveness of their strategies, to differences in the institutional framework for bargaining that developed in the two countries during the 1970s:

An important ingredient in the ACTU’s new found power was the central role conferred on it by the centralised wage policy administered by the compulsory arbitration system in most of the years from the mid 1970s to mid 1980s. Had the compulsory arbitration system remained important in New Zealand, then the FOL might have been as powerful as the ACTU, and the viable options might have well been different from what they were in 1984.

From 1975 onward, the ACTU was strengthened by being at the centre of the new more centralised bargaining structure. Mergers with previously competing

110 Harvey 1992 p 64
111 Gardner 1995 pp 34-40
112 Gardner 1995 p 55. More generally Gardner argues that trade union strategies are resource dependent and the greater strategic success of the Australian union movement in comparison with its New Zealand counterpart reflects structural differences between the two pp 62-3.
113 Bray and Walsh 1995 p 20
The Importance of Small Differences

Confederations of white-collar unions and an ideological reconciliation between left and right wing forces also contributed to the ACTU’s growing authority. From this position of strength the ACTU was able to encourage a more unified and strategic approach by Australian unions towards economic restructuring. In contrast the FOL was unable to exert any significant authority during this period, not least because decentralisation of bargaining had shifted the focus of activity away from the FOL to individual unions. These developments within the two union movements made important contributions to the divergence of policy direction in the two countries….114

Thus for Bray and Walsh, institutional differences that developed in the arbitration systems of the two countries during the 1970s play a significant role in explaining differences in the organisational capacity of the union movements and therefore help explain the divergence of otherwise similar cases.

In addition to differences in the organisational capacity of the trade union movements, a number of contributors to the comparative literature have pointed to the difference in the relationship between the trade union movement and the labour party governments in Australia and New Zealand and the significance this had for the adoption of a voluntary incomes policy and the course of industrial relations reform more generally. For example, Harvey notes that “there were and remain substantial differences particularly in the closeness of ties between the ALP and the ACTU. This was certainly not a feature of the relationship between the FOL and the NZLP”.115 Likewise Castles et al suggest that:

Arguably the most crucial systematic difference making for differences in outcomes would appear to be the very different relations existing between government and trade unions in the two countries…. attenuated links between the two wings of the New Zealand labour movement meant the virtual exclusion of a union role in policy formation, leaving the way open for the adoption of radical policies of market liberalisation…116

These differences are, in part, attributed to differences in the extent of personal links between the trade union leaders and labour politicians. As Easton and Gerritsen note one

114 Bray and Walsh 1998. Sandlant 1989 adopts a similar position when he argues that ‘the breakdown of the arbitration system in New Zealand plays a significant part in explaining why an Accord was far more difficult to achieve there than Australia.” (p 31) although he differs from Bray and Walsh in that he suggests that there have always been significant differences in the arbitration systems between the two countries and does not simply concentrate in changes during the 1970s. Thus he argues, “the Accord is very much heir to a system of conciliation and arbitration which, it is not always recognised, is very different to the system which existed in New Zealand for most of the century” (p 32). For a more detailed discussion of this point and its implications for the comparative analysis of Australia and New Zealand, see below chapter 6

115 Harvey 1992 p 61
of the most significant differences between the ALP and the NZLP was the union background of key ministers.

The ALP has ongoing and intimate links with its affiliated industrial wing, as symbolised in Bob Hawke’s effortless rise (after resigning as President of the ACTU) to parliamentary leader in under three years. His successor, Simon Crean, followed Hawke into parliament and quickly into Cabinet. Another key Minister in the Australian Labor government has been Ralph Willis, who had been an industrial advocate for the ACTU. There were also former union officials in the caucus. Symbolising this affinity was close relationship between Paul Keating and the ACTU Secretary, Bill Kelty, which became a key element in successive renegotiations of the Accord.

The NZLP has no such record of close links at the personal or career level. As in Australia, unions are important funders of and active within the NZLP. But the only cabinet Minister in the 1984 New Zealand Labour government with a long union background was Stan Rodger, a past President of the Public Service Association, but who ranked number fourteen (out of 20) in the ministry.\(^\text{117}\)

Sandlant argues that these differences reflect the impact of reactions of the two labour movements to conservative rule during the 1970s for party union relations in the two countries. Both labour parties initiated reviews of the party union relations in the aftermath of electoral defeats in the late 1970s. In Australia the consequence was a reassessment of the importance of the union movement, and particularly the growing number of white-collar workers represented by unions affiliated to the ACTU, to the electoral success of the ALP. In New Zealand, while there was a growing belief that links with the FOL were an electoral liability and that there was a need for ‘modernisation’ of the relationship between the party and the unions. Thus he argues that whereas the experience of conservative rule during the 1970s and early 1980s had the effect of bringing the ALP and the Australian union movement together, the experience of conservative Government under Muldoon in New Zealand drove a wedge between the union movement and the parliamentary Labour party.\(^\text{118}\)

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\(^{116}\) Castles et al. 1996b p 13

\(^{117}\) Easton and Gerritsen 1996 p 34-5. As Webber 1977 notes the percentage of New Zealand politicians with trade union backgrounds has been in steady decline since the 1930s- from almost 90% in 1935 to 27% in 1972. Interestingly, there has been a similar decline in the percentage of ALP Federal Parliamentarians with trade union backgrounds. In 1901 the figure was 79%, in 1941 it was 49% and in 1981 it was 35% (Emy and Hughes 1988 p 76). However, the decline was not as significant as in the NZLP and as Webber points out representation in Cabinet is far more important than numbers on caucus.

\(^{118}\) Sandlant 1989 p 87-92
The Importance of Small Differences

These differences in personal and career links between the industrial and political wings of the labour movement and of the electoral strategy adopted by the labour parties in the two countries, can also be said to reflect formal institutional differences in the role played by unions in policy development of the two labour parties. As Castles et al note:

The formal organisational roles of unions in the federal ALP is much more substantial than the NZLP: union affiliates normally control fewer than half of the votes in an NZLP annual conference, but significantly more than half in the federal ALP counterpart. Clearly, the stronger institutionalised linkages in the Australian labour movement were an important factor underpinning the development of the Accord.

Also significant is the formal role of the ALP conference in determining party policy, one that in the NZLP is effectively the responsibility of a Policy Council within which the party’s MPs have a substantial presence, although not a majority.119

Thus, it is argued that in Australia, the existence of a number of strong personal links between the union leadership and the government as well as the important role that unions played in the formulation of ALP policy provided the platform for the Accord. While at the same time, in New Zealand few members of the fourth Labour government that had a union background and unions had virtually no formal influence over the development of policy by the party. As Bray and Walsh put it:

An important factor in understanding these divergent experiences in the 1980s and 1990s was clearly the relationship between unions and their respective labour political parties. In Australia, new leaders with close personal and organisational ties combined with a collective desire to learn from the failures of the 1970s to allow unions and party to develop a cooperative relationship which was historically unique. This type of relationship did not emerge in New Zealand where policy making within the Labour party was dominated by a group which came to see unions as opponents who could easily be ignored.120

As this quote suggests the comparative literature has also noted a third, and related difference, between the labour movements in Australian and New Zealand that is said to help account for differences in industrial relations policy during the 1980s. This third factor relates to the ideological orientation of dominant faction of the newly elected labour governments. Ideological orientation, it is argued, had an effect on the receptiveness of the different labour parties to an economic policy agenda which included

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119 Castles et al. 1996b p 13. For more detailed assessments of the formal role of played by unions in the development of labour party policy, in Australia see Jupp 1982 and in New Zealand, see Milne 1966 especially pp 101-113.
Chapter 5: Different Paths to Neo-Liberalism

a role for incomes policy and did not necessitate deregulation of the labour market. In New Zealand the Labour Party moved quickly towards a very orthodox monetarist policy approach. This meant that the NZLP did not see a voluntary incomes policy as an integral part of controlling inflation and were subsequently less amenable to entering into a co-operative relationship with the union movement.\(^{121}\) The Australian government, on the other hand, adopted a policy agenda based on neo-Keynesian views of the relationship between inflation and unemployment and therefore saw a positive role for incomes policies which altered the trade off between these two factors.

Differences in the policy orientations of the two labour parties are in turn attributed to a number of factors including differences in the formal organisation of the political parties and differences in the organisation of policy advice in the two countries. In the NZLP, a small group of pro-market reformers, led by the Finance Minister, Roger Douglas, were able to dominate key committees within the cabinet and were able to pursue policy development largely without reference to the broader party. In Australia, however, the existence of formalised factions within the ALP and the greater role played by caucus in policy decisions meant that free market interests could not fully dominate policy development.\(^{122}\)

There were also notable differences in the organisation of policy advice in the two countries and particularly in the extent to which Treasury was able to dominate economic policy setting. In both countries Treasury officials had fostered the development of monetarist policy alternatives during the 1960s and 1970s.\(^{123}\) However while in New Zealand Treasury came to dominate policy advice under the fourth Labour government, changes introduced by the Fraser government to Treasury in the mid 1970s meant that policy advice was far more contested in Australia.\(^{124}\) Therefore, it can be argued that institutional differences in process of policy development in the Labour parties and the

\(^{120}\) Bray and Haworth 1993b p 145  
\(^{121}\) for a range of accounts of the timing of and the reasons for the shift in policy in the NZLP see Oliver 1989, Goldfinch, 1993 #390\} and James 1997  
\(^{122}\) Boston and Uhr 1996 pp 51-2  
\(^{123}\) for Australia see Whitwell 1986 and Pusey 1991, for New Zealand see Boston 1990; Goldfinch and Roper 1993; and Goldfinch 1997  
\(^{124}\) Boston 1989 p 80-1. Fraser spilt Treasury into two bodies- one which was responsible for macroeconomic policy (Treasury) and one responsible for control of government expenditure (The
organised economic advice had an impact on the policy orientation of the two labour parties and influenced the receptiveness of the labour governments to an incomes policy.

Taken together these three factors - the greater organisational capacity of the Australian union movement and the ability of the ACTU to deliver the wage restraint required in a voluntary incomes policy; the closer formal and informal links between the ALP and the Australian trade union movement; and the greater openness of the ALP to economic policy which incorporated a role for an incomes policy - can be regarded as providing a robust explanation of why Australia adopted an Accord in the mid 1980s. The implication in the comparative literature is that the Accord moderated the impact of international economic change on the traditional institutions of industrial relations and prevented the adoption of radical restructuring of the labour market in Australia. This reflects that view that the Accord, to use Frenkel’s expression, “contained dualism through corporatism”\(^{125}\). This is contrasted with the New Zealand experience in which a weak and divided trade union movement was both unwilling and unable to enter a voluntary incomes policy; Labour party policy was dominated by a monetarist policy orientation which questioned the usefulness of incomes policies for economic restructuring and there was a relatively less direct and indirect connections between the trade union movement and the labour party and comparative less influence on policy formation by the trade union movement. These factors, suggest the comparative literature, meant that international economic pressures in New Zealand translated directly into significant changes in the domestic institutions of industrial relations.

**Differences in Employer Organisation**

A second set of explanations in the comparative literature for the difference in the pattern of industrial relations reform in the two countries during the 1980s and 1990s focuses on organisational differences between employer bodies in the two countries. This line of argument has been influential in explaining why New Zealand adopted a radical labour market deregulation in the early 1990s whereas the movement towards deregulation, and consequently institutional change, in Australia has been less dramatic and slower.

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\(^{125}\) Frenkel 1990 paraphrasing Goldthorpe 1984
Plowman and Street provide the most systematic attempt to compare differences in employer organisation and its effects on industrial relations reform in Australia and New Zealand during the 1980s and the early 1990s. They contrast the growing unity of employer opinion about the need for dramatic labour market deregulation and fundamental change to the arbitration system in New Zealand in the lead up to the introduction of ECA with continuing fragmentation of employer opinion about the scope and nature of changes in the operation of the arbitration system needed in Australia during the 1980s and 1990s. They argue that these differences were not a function of differences in the economic imperatives faced by the two countries, or differences in employer views about the need for change, but rather reflected “differences in the respective patterns of employer organisation which mediated the policy debate among employers.” In particular, they argue that:

Employer organisation has developed differently in the two countries over recent years. In New Zealand the logic of employer demands brought New Zealand’s dominant employers’ organisations into a close alliance round a shared deregulatory programme, while fragmentation of employer organisation marked the 1980s and early 1990s in Australia.

Therefore, in an approach which mirrors the assessment of the union movements in the two countries, the greater effectiveness of New Zealand employers in influencing policy development than their Australian counterpart is regarded largely as a consequences of differences in organisational effectiveness, which is in turn is seen as a function of organisational unity. While noting that arbitration had similar consequences for the organisation of employer opinion in New Zealand as it did in Australia, Wanna argues that:

in response to the erosion of state directed compulsory arbitration since the late 1960s, and then the economic crises affecting New Zealand after 1975, employer associations moved to consolidate their policy making networks. This entailed greater centralisation of business politics. These steps towards employer unity rested on organisational linkages and formal consultative arrangements.
There are a number of aspects to this centralisation. First significant restructuring took place within the New Zealand Employers’ Association. In 1971 it restructured its 11 provincial bodies into four regional ones. It also incorporated members from sectoral employer bodies, including Federated Farmers, the Manufacturing Federation and Chambers of Commerce, into its executive. In 1977, the NZEF established the Top Tier Advisory Committee, which consisted of representatives from the major trade associations and played a key role in developing policy platforms across a range of issues. It also established a President’s Advisory Group consisting of 12 chief executives from big business. In 1986, the NZEF further reorganised its leadership by giving full-time executive staff greater control over the management of the organisation and integrating industrial relations policy into the General Council. Wanna argues that as a consequence of this reorganisation:

the policy interests of the peak employer body began to expand from a narrow, reactive industrial relations preoccupation to a broader set of policy concerns… the organisation began to conceive industrial relations in a wider context with more emphasis on the principles of policy making agenda setting and the relationship with coexisting policies.

It was in this context that the NZEF began to develop a consistent critique of traditional institutional arrangements in the labour market and develop policy demands focussed on the deregulation of wage bargaining.

A second aspect to the development of employer opinion in New Zealand was the formation and the development of the New Zealand Business Roundtable (BRT). The BRT was started as an informal club of executives from large companies in 1976 and established formally as an organisation in 1980. It based it rules on those of the New York Business Roundtable. Since the mid 1980s it has accepted membership by Chief Executive Officers of up to the 50 largest companies in the country. In 1986 it appointed Roger Kerr, former Assistant Secretary of Treasury, as full time executive officer. It also

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consensus over the substance of wage policy was always difficult and the CAI only rarely became involved in collective bargaining at an industry or company level.” Bray and Walsh 1995 p 10
130 Rudman 1974
131 Wanna 1989 p 5 and pp 8-9
132 Wanna 1989 p 9
133 see Plowman and Street 1993 pp 96-106
established a research secretariat and developed links with the Centre for Independent Studies, a neo-liberal “think-tank”. 134

As Walsh notes the BRT was largely excluded from the policy development of the 1987 LR Act. In the period after the introduction of the LR Act the BRT waged a major public campaign for the deregulation of the labour market. 135 The BRT produced a number of reports on the need for radical deregulation of the labour market. 136 One of BRT’s researchers, Penelope Brook, published a book, called Freedom at Work, which provided the intellectual framework for the ECA. 137 Brook argued that the “LR Act left the essentials of the system … largely untouched, [because] the assumption that monopoly unionism, supported by the state, was the way to go about promoting the interests of workers in the employment relationship went largely untouched.” 138 For her it was the retention of monopoly rights for trade unions which explained why the deregulation of the economy introduced by Labour had not resulted in improved economic performance. 139 On this basis she argued for a labour statute based on freedom of contract as “a philosophically and theoretically consistent alternative to New Zealand’s current labour market arrangements”. 140

During this period the NZEF “gradually moved to a position consistent with that of the Roundtable.” 141 Walsh and Ryan argue that the BRT and the NZEF produced a powerful policy committee which together influenced the development of National Party industrial relations policy and shaped the development of the ECA. 142 It can be argued that the growing centralisation of employer organisation within the NZEF created the conditions for the alignment of views about the need for radical labour market regulation amongst employer bodies and produced the conditions for effective influence of policy development.

134 Wanna 1989
135 Walsh and Ryan 1993 p 15 and Walsh 1992 p 62; see also Dannin 1997 pp 39-61
136 see for example BRT 1986 and BRT 1989
137 Brook 1990
138 Brook 1990 p 27
139 Brook 1990 p 82
140 Brook 1990 p 132
141 Walsh and Ryan 1993 p 15
142 Walsh and Ryan 1993 p 15
The Importance of Small Differences

The success of employer associations in the shaping the pattern of labour market reform in New Zealand is contrasted in the comparative literature with the relative failure of their Australian counterparts to achieve similar influence. The most obvious contrast is the failure of the Confederation of Australian Industry (CAI) to provide an effective voice for employers. The CAI was formed in 1977 out of a merger of the Australian Council of Employers’ Federations and the Associated Chambers of Manufacturers of Australian. This reflected the view that the lack of coordination of employer opinion was preventing it from influencing policy direction.\footnote{143} Mathews argues that the CAI faced organisational problems from its inception. First it was unrepresentative and did not represent significant groups of employers, including public sector employee and key private sector industry bodies. Second, it failed to allow individual employers to affiliate. Third, it operated two separate secretariats, one responsible for industrial relations, based in Melbourne, and one focussed on other issues and based in Canberra. Finally, Mathews notes that the CAI lacked financial resources and faced financial difficulties from the very start.

For a number of authors, the lack of organisational unity amongst Australian employers, in the form of an effective peak body, provides an explanation for the apparent failure of Australian employer bodies to play a role in the negotiations that led to the Accord, and the more general failure of employer groups to influence policy development. Plowman and Street regard the disintegration of the CAI and differences in the reaction of sectoral employer organisations to the Accord as consequences of an historical legacy of division between sectoral and regional employer bodies which developed in the late nineteenth century. This reflects Plowman’s views that arbitration made Australian employers “reactive” and prevented them from playing an active role in shaping bargaining structure.

\footnote{143 for details see Mathews 1983; Mathews 1991; and Mathews 1994}
or influencing the development of industrial relations policy. Plowman and Street treat the comparison with New Zealand as providing support for this view.

Similarly, Mathews argues that the Accord represented ‘corporatism without business’ and he argues that the organisational division between employer groups contributed to their exclusion from input into the development of industrial relations policy more generally. Thus he argues that:

Australia’s distinctiveness lies in the organisational asymmetry of its producer (that is, economic interest) groups. On the one hand, labour and agriculture each has a single, centralised, comprehensive organisational rivalry and fragmentation.

For Mathews the fragmentation of Australian business can be largely attributed to four institutional factors— the dual economy, the federal system of government, policy instruments and the labour movement. He argues that the existence of dual economy with the export sector dominated by commodity trade and the an inwardly focussed domestic manufacturing sector created divisions within employer ranks which were different in character from those in other countries. Second, he argues that the federal system of government in Australia has both proliferated the number of employer organisations and also made it more difficult to coordinate employer opinion. Third, he suggests the distinctiveness of Australia’s arbitration and tariff protection systems created “competing umbrella groups in the States the opportunity to use selective incentives in the struggle for organisational growth and survival” and this has prevented the development of “a clear and consistent pattern of vertical and horizontal integration among Australia’s regional and national business groups.”

Finally he argues that one major source of impetus for employer organisation has been the political power the labour movement and

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144 Plowman 1989. Plowman’s reactivity hypothesis has been widely criticised in the Australian literature. Barry 1995 argues that the formation of employer associations in Australia can only partially be accounted for by the introduction of arbitration and that the Australian pattern of employer association development is consistent with the experience of other developed countries. Westcott 1999 provides evidence from the oil industry to support the notion that employer associations played a significant role on shaping bargaining structure. See also the contributions to Sheldon and Thornthwaite 1999, especially the introduction and conclusion by the editors. It is interesting to note that to some extent these critiques parallel those made of the dependency thesis about the effect of arbitration on trade unions discussed in chapter 4.

145 In doing so they seem to be unaware of the implications of the New Zealand case for the reactivity thesis. New Zealand had an arbitration system, which they assume was formed under similar circumstances to the one that operated in Australia. It should therefore follow that New Zealand employers should have exhibited the same level of reactivity as their Australian counterparts.

146 Mathews 1991 p 193

147 Mathews 1991 p 206 and 207
that the failure to form a peak level organisation in Australia may reflect the relatively infrequency with which Labor has held power in Australia.\textsuperscript{148} For Mathews these factors explain the development of “corporatism without business” and the relative lack of business influence over the development of policies including labour market policy.

However, by the mid 1990s it had become difficult to argue that employer bodies had not played a role in influencing industrial relations policy in Australia. Since the late 1980s, the Business Council of Australia (BCA) have developed a campaign for labour market deregulation in Australia which many commentators have credited with significant influence over industrial relations policy reform in the 1990s.\textsuperscript{149} The BCA was organisationally very similar to the BRT in New Zealand. It was formed in 1983 in the aftermath of the National Economic Summit and was an attempt by big business to influence policy debate. In 1987, the same year that the BRT launched its campaign for radical deregulation in New Zealand, the BCA made a formal statement on industrial relations and set up an Industrial Relations Study Commission. During the 1980s and 1990s it issued a number of major reports on industrial relations calling for the dismantling of the award system and the adoption of enterprise bargaining.\textsuperscript{150} O’Brien argues that despite similarities in their objectives, the BCA was forced to adopt a more moderate policy agenda than the BRT in New Zealand because a number of factors including the greater diversity in employer opinion about extent of industrial relations reform that was necessary in Australia than in New Zealand.\textsuperscript{151} In other words the lack of organisational unity on the part of employers in Australia, in comparison with their New Zealand counterparts, is seen by O’Brien to have prevented the BCA from advocating as radical a reform agenda as that put forward by the BRT.

Therefore, just as it stresses the importance of differences in the organisational unity of the trade union movements, the comparative literature also attributes differences in the pattern of industrial relations reform in the two countries during the 1980s and 1990s to the organisational effectiveness of employer groups. Thus the comparative literature contrasts the growing organisational capacity of the trade union movement and the

\textsuperscript{148} Mathews 1991 p 208
\textsuperscript{149} see for example O’Brien 1994 and Dabscheck 1995
\textsuperscript{150} BCA 1989; BCA 1991; BCA 1993 For an overview and critique see Dabscheck 1995 pp 81-100
\textsuperscript{151} O’Brien 1994; for a critique of this position see Wailes 1997 pp 36-43
continued division amongst employers in Australia with the growing organisational unity of the employer organisation and the continued division within the union movement in New Zealand. As Bray and Neilson put it:

central to the explanation offered... is the organisation of and interaction between interest groups.... In Australia, organised labour was more effective and capital less united than their New Zealand counterparts, which allowed the emergence of a bilateral corporatist arrangement that slowed and moderated the withdrawal of the state from the direct involvement in industrial relations policy.152

DIFFERENCES IN STATE AUTONOMY AND CAPACITY
A third line of explanation for differences in the pattern of industrial relations reform in the two countries concerns differences in the institutions and organisation of state power in the two countries. Many of the contributors to the comparative literature have argued that differences in industrial relations reform in the two countries reflects differences in the ability of Australian and New Zealand governments to introduce radical reform. This line of explanation has been important for explaining the initial divergence of industrial relations reform between Australia and New Zealand during the period of labour government, but has become even more significant in recent attempts to explain the failure of the Coalition government in Australia to emulate the level of labour market deregulation achieved by the National government in New Zealand.

There are important differences in the organisation of state power in Australia and New Zealand. Australia is a federation with a written constitution that specifies, and therefore places limitations on, the power of the Commonwealth government to legislate. The Commonwealth parliament is bicameral. The upper house, the Senate, acts as a house of legislative review and has significant power to slow and even moderate reform initiatives. New Zealand is a unitary state with an unwritten constitution. Furthermore since the late 1940s, New Zealand has had a unicameral parliament. It has long been recognised that this has given the New Zealand government, and especially the cabinet, a high degree of capacity and autonomy.153 As Boston and Uhr note, this potentially makes the nature of policy development and decision making in Australia and New Zealand different:

Australian and New Zealand national governments operate in different constitutional environments. The dispersed powers that are basic to the Australian federal and bicameral system limit the capacity of a national government to

152 Bray and Neilson 1996 pp 69-70
153 These concepts of autonomy and capacity are closely associated with work of Theda Skocpol and the state centric tradition discussed in chapter 2 above.
transform governance…. Australian national government has more of a brokerage character than that of New Zealand, where governments have greater capacity to impose new modes and orders of rule.\textsuperscript{154}

It is thus argued that the Australian government has relatively less autonomy from interest groups than does the New Zealand government. Furthermore the existence of state jurisdictions and limitations on the powers of the Commonwealth, it is argued, gives the Australian state less capacity than its New Zealand counterpart, which has relatively less restrictions on the scope of its policy making. One of the specific limitations on the Commonwealth power is in respect to industrial relations. Section 51 xxxv of the Australian Constitution gives the Parliament:

\begin{quote}
Power to make laws for the peace, order and good government of the Commonwealth with respect to … Conciliation and Arbitration in the prevention and settlement of disputes extending beyond the limits of the any one state.\textsuperscript{155}
\end{quote}

Historically, this has placed a number of limitations on the ability of Australian governments to implement industrial relations policy and industrial relations legislation has been subject to a number of High Court challenges. Of particular note a High Court challenge in 1956 required that the division of the judicial and wage setting functions of the Arbitral body. It also meant that the Commonwealth government in Australian has not able to directly pursue a wages policy and had to rely on the industrial tribunal to implement its decisions. While the Federal government has often been able to influence the wage policies of the commission either directly or indirectly, there have been a number of notable instances in which the Commission has been at odds with the Federal government over industrial relations policy.\textsuperscript{156}

This situation can be contrasted with the New Zealand case in which there are virtually no limitations on state intervention in industrial relations and the determination of wages policy. Thus governments in New Zealand have on a number of occasions directly

\textsuperscript{154} Boston and Uhr 1996 pp 64-65  
\textsuperscript{155} The Constitution of Australia cited in Dabscheck and Niland 1981p 188  
\textsuperscript{156} Although the Constitutional limitations on industrial relations policy have been steadily eroded during the 1980s and 1990s. furthermore, both the Keating Labour government and the Howard coalition government have used other heads of powers in the Australian Constitution, including the foreign affairs power and the corporations power to implement industrial relations power. For more details see Ford 1997. For example, proposals currently before the Australian Federal Parliament designed to restrict the access of employees of small businesses to unjustified dismissal provisions rely on the corporations power. For more details see Riley 2003
intervened in the operation of the industrial tribunal. Amongst the most notable of these was the suspension of compulsory arbitration during the Depression of the 1930s.\footnote{157} It has been argued that the collapse of arbitration in New Zealand after 1968 reflected growing dissatisfaction on the part of employers and unions in the amount of state interference in the operation of the arbitration system.\footnote{158} Throughout the 1970s, the New Zealand government imposed a series of statutory incomes policies both through the industrial tribunal and also through a separate set of institutions.\footnote{159}

A number of the contributors to the comparative literature attribute differences between the cases to these differences in institutionalisation of state power and their consequences for state capacity and autonomy. For example for Mitchell and Wilson it partly explains why industrial relations reform in New Zealand under Labour was more radical and involved greater recourse to legislative change than in Australia, where they argue industrial relations reform until the early 1990s was achieved through consultation.\footnote{160}

For Easton and Gerristen, constitutional differences and their implications of policy making are important factors in explaining the differences in the economic policy approaches adopted by the two labour governments, and the consequent divergences in industrial relations policy.\footnote{161} Bray and Neilson explicitly invoke the notion that differences in state autonomy explain industrial relations divergence in the two countries during the 1980s and 1990s:

Particularly important is the concept of state autonomy, which refers to the extent which the state is able to pursue its own agenda free from the pressures of key interest groups in society…. In both Australia and New Zealand, economic difficulties meant that influence of capital was heightened and Labour governments were more prone to divorce themselves from their traditional constituents among organised labour…. However, the speed and completeness with which the respective governments could pursue [deregulation] depended on the will of the government and the organisational capabilities of capital and labour.\footnote{162}

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\footnote{157} see Holt 1986
\footnote{158} Walsh 1994
\footnote{159} Boston 1984
\footnote{160} Mitchell and Wilson 1993 p 54
\footnote{161} Easton and Gerristen 1996 p 34; see also Quiggin 1998 p 82: “It is important to consider whether the fact that reform in New Zealand was more radical than in Australia (or for that matter anywhere else in the world) reflected broader discontent with the existing economic policy framework or whether it was simply the result of a set of institutions and personalities which made radical reform easier to implement… the critical factor is that the New Zealand political system was open to the ‘blitzkrieg’ approach required to impose free market reforms on an initially sceptical, and later actively hostile, public.”
\footnote{162} Bray and Neilson 1996 pp 69-70
More recently differences in the capacity and autonomy of the state in the two countries have been used to help explain the divergence of industrial relations policy under conservative governments in Australia and New Zealand. For example, Rimmer notes the differences between the WR Act introduced in Australian in 1996 and the ECA in New Zealand introduced in 1991 and argues that:

The [Australian] federal government seemed to accept that labour market deregulation in the federal jurisdiction would proceed at a more moderate pace [than in New Zealand]... The dispersion of power in Australia’s federal system and bicameral federal parliament tends to damp down the extremes of industrial relations change. .... Lacking the same political and constitutional constraints, New Zealand governments have occasionally explored more extreme options. 163

Likewise McCallum notes the importance of constitutional differences between the countries in explaining the variation between the two statutes. 164 Finally Bray and Walsh note the importance that institutional arrangements of the state play in accounting for the differences in industrial relations reform in the two countries over the entire period 1983 to 1996:

Constitutional arrangements and political structures also help explain the different pace of each journey. In New Zealand the absence of constitutional constraint enabled the [both Labour and National] governments to pursue rapid and radical change.... In contrast, both Labor and Coalition governments in Australia were forced to make compromises because they shared power with state governments, and new federal legislation had to pass an upper house of review, in which the government did not necessarily have a majority. Change was consequently incremental, making Australian corporatism weaker, but also slowing the march of neo-liberalism. 165

5.5 THE AUSTRALIA NEW ZEALAND COMPARISON AND THEORETICAL APPROACHES TO GLOBALISATION AND INDUSTRIAL RELATIONS

As has been already noted the comparison of industrial relations reform in the two countries provides an excellent framework within which to test the validity of the different approaches to the relationship between international economic change and the domestic institutions of industrial relations that were outlined in the first three chapters of this thesis. The previous section has reviewed the explanations for divergence in industrial relations policy during the 1980s and 1990s that have been produced by the

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163 Rimmer 1997 pp 69-70
164 McCallum 1997
165 Bray and Walsh 1998 p 380
comparative literature. It identified three broad sets of explanations for differences in policy outcomes in the arguments put forward in this literature—differences in the organisation of the labour movement, differences in the organisation of employer bodies and differences in the capacity and autonomy of the state. This section summarises the implications of these findings for the three approaches to globalisation and industrial relations.

AUSTRALIA AND NEW ZEALAND AND THE GLOBALISATION APPROACH
Overall, it can be argued that the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s provides little evidence to support the globalisation approach outlined in chapter one. The globalisation thesis predicts that faced with the pressures associated with globalisation all countries will converge on reduced and minimal labour standards. In many ways the Australia-New Zealand comparison represents a critical case for the globalisation thesis. They are relatively small trading nations and the pressures that have been associated with globalisation have impacted on them more dramatically than many other developed economies. Furthermore they both share distinctive set of industrial relations institutions. If the globalisation thesis does not hold in this case then it is not likely to hold in any other developed economy.

As the comparative literature illustrates, while there have been a number of similarities in the responses of Australia and New Zealand to international economic change, there are some important differences, especially in the area of labour market regulation and the domestic institutions of industrial relations. By drawing attention to these differences, the Australia and New Zealand comparative literature illustrates the flaws in the convergence hypotheses associated with globalisation. As the cases show there is not a simplistic or inevitable relationship between international economic change and the domestic institutions of industrial relations. They show that even in the context of extreme economic pressure, there is scope for a range of responses at the national level.

AUSTRALIA AND NEW ZEALAND AND THE INSTITUTIONALIST APPROACH
By the same token, the Australia-New Zealand literature seems to provide strong empirical support for the institutionalist approach to the relationship between international economic change and the domestic institutions of industrial relations. Each
of the three broad arguments identified in the comparative literature attribute significance to national level organisational and institutional factors in explaining the difference between the two cases. Thus the Australian New Zealand comparison suggests that the relationship between international economic change and the domestic institutions of industrial relations is mediated by the organisational structure of the labour movement and the organisational structure of employer bodies. These factors in turn, it is suggested, are shaped by institutional arrangements in the labour market and the polity. The comparative literature also suggests that the relationship between international economic change and the domestic institutions of industrial relations are mediated by the structure of the state and the institutional constraints placed on state capacity and autonomy.

More particularly, it can be argued that this literature shows that even in cases where there are not significant institutional differences, small differences can mean that common pressures result in divergent responses. Thus while New Zealand and Australia faced similar economic imperatives and there were a significant number of similarities in the institutional arrangements that existed in the two countries, the comparative literature suggests that small differences in the operation and development of the wage bargaining system and its effects on the organisation of capital and labour, and differences in the institutional configuration of state capacity and autonomy, played key roles in shaping the impact of international economic change on the domestic institutions of industrial relations in the two countries. This suggests that national level institutional factors, especially those associated with the organisational capacity of capital and labour and the autonomy of policy makers, are important factors in understanding the relationship between international economic change and the domestic institutions of industrial relations.

Indeed a number of the contributions to the Australia-New Zealand comparative literature are explicit about the key explanatory role that can be attributed to institutional variables. Gardener, for example, argues that the New Zealand-Australia comparison indicates the “continuing importance of national political movements and contingencies in constraining union strategies and effectiveness.” Bray and Walsh, are even more

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166 Gardner 1995 p.34. Some of Gardner’s other work draws on Australian industrial relations draws explicitly on new institutionalist theory. See, for example, Gardner 1991. It should also be noted that
explicit. They summarise the contribution of the comparative literature in the following way:

An important theme … is the role of institutions- both industrial relations and political- and especially the complex interaction between different institutions within each country and the effect that they had in mediating economic and ideological factors.\textsuperscript{167}

This paper … emphasise[s] the distinctive institutional configuration of each country and the unpredictability of historical contingency as the main factors in explaining the differences between Australia and New Zealand. Political and industrial relations institutions mediated the broadly similar economic and ideological forces at work, and these institutional differences produced the particular pattern of events peculiar to each country.\textsuperscript{168}

**AUSTRALIA AND NEW ZEALAND AND THE INTERACTION APPROACH**

What about the interaction approach? Does the comparative literature on Australia and New Zealand draw attention to any of the variables or relationships that were canvassed in chapter two? The answers to these questions, on the whole, is no. While issues associated with the international economic regime, the effect of production profile on societal interests and the nature of the accumulation strategies figure in the comparative literature, it is generally assumed that these are points of similarity between the cases rather than sources of difference.

It is interesting to note that the only exceptions to this relate to assessments of the economic context of labour market reform. Thus in their introduction to the 1993 collection of essays, Bray and Haworth suggest that the contribution Castle and Haworth, in their analysis of the economic context for reform, “ask[s] whether the answers [to the

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\textsuperscript{167} Bray and Walsh 1998 p 359

\textsuperscript{168} Bray and Walsh 1998 p 379. See also Bray and Walsh 1995 pp 19- 20. “A vital explanatory factor … which is exposed by the comparison between Australia and New Zealand- concerns the institutions supporting collective bargaining. The restoration of the centralised arbitration in Australia made possible a sequence of events not possible in the New Zealand case….. An important part of the story then is the way in which particular legal and institutional configurations define the options available to the parties to national policy making. In terms of the preconditions for corporatism, it suggests that the focus upon the strength of organisations evident in the existing corporatist literature needs to be complemented by an examination of why central organisations are powerful. It is not simply a function of the internal structure and inherent capacity of the organisation. Their power may rest upon a specific set of institutional arrangements external to them and be vulnerable to changes in those arrangements.” Both Bray and Walsh have been engaged in debate about the new institutionalism and its application to industrial relations. See for example, Walsh 1993 in which he adopts “an institutionalist view of the state” (p 172), and Bray and Wailes 1997 which explores the extent to which mainstream industrial relations shares many features of institutionalism in other disciplines.
The Importance of Small Differences

differences between two countries] lie in the conjunction of economic performance and industrial relations in economies of different size”.\textsuperscript{169} However, this interesting line of enquiry, which suggests the relevance of an interaction approach, is not addressed explicitly in the actual chapter by Castle and Haworth. Nor are there attempts to answer it in any of the subsequent contributions to the comparative literature. Likewise, in a contribution to the same volume, which focuses on comparing labour market developments, Brosnan and Burgess argue that:

In many respects the pace and extent of labour market restructuring in Australia and New Zealand compares with other OECD economies…. [These] similarities suggest that institutional and policy arrangements are peripheral to changes generated in the labour market via the international economy and changes in the level and composition of aggregate demand. This is especially the case given the relative openness of both economies to externally generated shocks.\textsuperscript{170}

While the evidence presented in this chapter demonstrates that institutional and policy arrangements are not unimportant, Brosnan and Burgess’s observation suggests that they interact with other factors which are largely ignored in the literature. In this regard, it should also be noted that arguments which stress the importance of institutional effects are not inconsistent with the interaction approach outlined in chapter two. Rather the argument of this thesis is that they are likely to produce only a partial explanation of the factors that shape the relationship between international economic change and the domestic institutions of industrial relations.

It may also be argued that the lack of evidence to support an interaction approach is a reflection of the most similar case research design itself. As a number of authors have noted, it cannot be assumed that the most similar case research design will produce valid causal inferences and indeed it is possible to argue that it biases research towards certain types of conclusions. As Lieberson puts it:

The method [of difference] assumes that no interaction effects are operating are operating (i.e. that the influence of variable x on y is unaffected by the level of some other independent variable)… the procedure does not empirically or logically eliminate interaction effects. Rather it arbitrarily assumes that they do not operate and therefore constants cannot influence the dependant variable.\textsuperscript{171}

\textsuperscript{169} Bray and Haworth 1993a p 8
\textsuperscript{170} Brosnan and Burgess 1993 p 84
\textsuperscript{171} Lieberson 1991 pp 312-3; for a more detailed critique of the most similar research design and its application to the Australia New Zealand comparison see Wailes 1999 pp 1020-1023
It is therefore not surprising that a research design that holds important elements of economic and political factors as constant does not produce evidence which points to the significance of the interaction between political and economic factors.

That said, the Australia New Zealand comparison and the literature associated with it clearly represents an important challenge to the interaction approach in two respects. First, given that the comparative literature on industrial relations reform in Australia and New Zealand seems to provide strong empirical support for the institutionalist approach, it questions the need to go beyond examining institutional effects and also to include a role for interests. Second, it also suggests that an important test for the validity of the interaction approach its ability to generate an alternative, more satisfactory, explanation of the pattern of industrial relations in Australia and New Zealand.

5.6 PROBLEMS WITH THE COMPARATIVE LITERATURE ON INDUSTRIAL RELATIONS REFORM IN AUSTRALIA AND NEW ZEALAND

However, while the Australia-New Zealand comparison appears to provide empirical corroboration for the institutionalist approach, it can also be regarded as a critical case for the institutionalist approach. Because the Australia and New Zealand comparison provides such a favourable context within which to focus on the causal role of institutions in shaping the relationship between international economic change and the domestic institutions of industrial relations, the failure of institutionalist arguments to provide a complete and convincing account of developments in the two countries would raise serious questions about the validity of the institutionalist approach itself. That is, if the common pressure divergent response framework does not fit the Australia and New Zealand comparison, then the institutionalist approach is unlikely to fully explain the relationship between international economic change and the domestic institutions of industrial relations for any other set of countries. This section identifies three sets of problems associated with the existing comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s. It argues that: first, the comparative literature tends to obscure and distort historical differences between the cases; second, it ignores the role of economic factors in explaining the contemporary policy divergence between the two cases; and third, it downplays similarities between the cases in terms of changes in industrial relations institutions and outcomes.
In the Australia New Zealand comparative literature, the causal role attributed to institutional factors, and hence the empirical support provided by this literature for an institutionalist approach, rests on three assumptions. First, this literature assumes that because of the historical similarities between the two cases, the divergence in industrial relations policies between the cases cannot be explained by historical differences. Second, because the countries share a similar pattern of economic development and integration into the international economy, this literature assumes that they have experienced similar economic imperatives and therefore that economic differences play no role in explaining differential outcomes in the two countries. Finally, the comparative literature assumes that the divergence between the cases that developed in the 1980s can be expected to last as long as the institutional and organisational differences between the cases persist- and as such it leaves little room for similarities in outcomes in the two cases. As will be shown there are grounds for questioning the validity of each of these assumptions.

Ignoring Small But Important Historical Differences Between the Cases

The comparative literature on Australia and New Zealand proceeds from an assumption that they are so similar historically that the contemporary divergence between them cannot be explained by historical differences between the cases. However as a consequence the comparative literature tends to downplay and obscure small but potentially important differences between the cases. Examples of this tendency in the comparative literature can be seen in the treatment of the origins and consequences of arbitration in the two countries.\(^{172}\)

Australia and New Zealand are the only two countries in the world to have adopted a system of conciliation and arbitration for regulating the relations between employers and employees on a national basis. Starting from the observation that there were a number of similarities in the origins of arbitration in the two countries and that patterns of industrial relations in both countries have been attributed to the impact of arbitration, the comparative literature has tended to assume that the consequences of the arbitration

\(^{172}\) Rather than providing a comprehensive overview of the minutiae of historical differences between the countries across a range of issues, the intention of this section is to illustrate the general argument. Because of its particular relevance to this thesis, this section concentrates on issues associated with the arbitration system in the two countries. The issues raised here are examined in more depth in chapters 6, 7 and 8 below.
system and subsequent development of industrial relations in the two countries was largely identical. Thus historical differences in their arbitration system regarded as largely unimportant in explaining the contemporary differences in industrial relations policies between the countries.

This treatment masks small but important differences between the cases which are potentially relevant for explaining contemporary developments in the cases. While it may be the case that the origins of arbitration in the two countries were very similar, it does not automatically follow that its subsequent development of the systems or their consequences were identical. This position is argued forcefully by Macintyre in a brief assessment of Holt’s *Compulsory Arbitration in New Zealand: The First Forty Years*.173

In an extension of his critique of the standard accounts of the origins of arbitration in Australia, Macintyre notes that while there were a number of similarities in the origins of the arbitration in Australia and New Zealand, there were also a number of important differences which need to be accounted for.174 Thus, Macintyre notes differences in the ease with which arbitration was adopted and the timing of this adoption in two countries. Arbitration was introduced in New Zealand in 1894 and quickly began operating. The adoption of arbitration in Australia was, according to Macintyre, more hesitant with some colonies (and states) “sett[l]ing for the less ambitious device of wage boards- and the central Commonwealth Conciliation Arbitration Court …circumscribed by restrictions on the federal jurisdiction”.175 Indeed, the Commonwealth jurisdiction remained constrained until well into the twentieth century.176

Macintyre argues that the difference in ease with which arbitration was adopted in the two countries was in part related to differences in the strength of political labour in the two countries. Labor had become an independent political force in a number of Australian colonies and States prior to federation. The development of a strong independent Labour Party in New Zealand did not occur until the second decade of the twentieth century.177

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173 Macintyre 1987; Holt 1986 was published posthumously in 1986 and has since become the standard treatment of the early years of arbitration in New Zealand.
174 Macintyre’s original critique of the standard account of the origins of arbitration in Australia can be found in Macintyre 1983 and is extended in Macintyre 1989b. It is discussed in more detail in chapter six below.
175 Macintyre 1987 p 153
176 Patmore 1991 p 115
177 Olssen 1987
For Macintyre this confirms his views that arbitration was a product of the new liberalism and that the advent of Labor in Australia weakened support for its introduction.\textsuperscript{178}

More generally, Macintyre argues that there are fundamental differences in the balance of class forces, associated with different patterns of development, which accompanied the introduction and development of arbitration in the two countries.\textsuperscript{179} In particular he notes that:

New Zealand and Australia took divergent paths in rebuilding their economies, as the one intensified and the other modified the international division of labour. Refrigeration allowed New Zealand to develop new export industries and enter a new phase of growth as prosperity flowed from farms and processing industries in the towns. While Australia also diversified its farm production, greater attention was given to the protection and encouragement of secondary industry.... In New Zealand the farmers matched the influence of the urban bourgeoisie, whereas in Australia they formed a resentful minority. In Australia the presence of an industrial working class was unmistakable....

Under these circumstances it would not be surprising if their common initiative in the field of industrial arbitration developed along different lines and had different consequences.\textsuperscript{180}

Thus, Macintyre, argues, while the institutions that developed in the two countries were similar, the context, both political and economic, within which they operated was fundamentally different and this had consequences for the development of the industrial relations in the two countries. Macintyre’s interesting line of analysis, which alludes to importance of the many of the variables identified in the interaction approach, remains largely unexplored in the comparative literature but it does have a number of important implications. One, which Macintyre addresses, is that it is these differences between the cases, and not their profound similarities, which explains the lack of comparative analysis between the two countries in the period leading up to the 1980s.\textsuperscript{181}

More importantly in the context of this thesis, Macintyre’s observation raises questions about the validity of the assumption that arbitration shaped the development of industrial relations in Australia and New Zealand in the same way.\textsuperscript{182} A number of contributors to

\textsuperscript{178} see Macintyre 1987
\textsuperscript{179} Macintyre 1987 pp 157-158
\textsuperscript{180} Macintyre 1987 p 157
\textsuperscript{181} Macintyre 1987 p 156 c.f Bray and Haworth 1993a
\textsuperscript{182} This is addressed in more detail in Chapter 6 below
the comparative literature on Australia and New Zealand allude to differences in the operation and development of arbitration in the two countries. Of all the contributions, Sandlant provides the most extensive review of the historical differences in the arbitration systems in Australia and New Zealand and some of their consequences, and can be used to illustrate the general problems associated with this literature.\textsuperscript{183}

Sandlant identifies differences in the relative independence of the arbitration systems in Australia and New Zealand and the wage fixing principles that developed as a result. Thus Sandlant notes that while the New Zealand arbitration system was designed around conciliation tribunals and an arbitration court, and the intention of the IC&A Act was that the majority of disputes would be settled in conciliation:

> the New Zealand Arbitration Court quickly made a clear disposition to make rather restrictive and conservative decisions. These decisions moreover were entirely predictable for the unions and employers and so… most of the teeth were taken out of bargaining in conciliation.\textsuperscript{184}

He also notes that the centralisation of authority was accompanied by an increasingly restrictive wages policy. Thus while the Arbitration Court was prepared to issue awards setting minimum across industries and occupations, after 1906 it strongly resisted increases in award wages on the basis of cost of living or capacity to pay arguments, or for the purposes of resolving specific disputes.\textsuperscript{185} This, and the general economic climate, impacted heavily on the course of real wages in New Zealand in the period leading up to world war one. As Olssen puts it:

> During the late 1890s employers and workers usually agreed without debate on what constituted a reasonable wage. By 1905 almost every union complained about the rising cost of living and the failure of wages to keep up…. By 1911 all workers shared a sense of deprivation, for real wages had not risen. Although there are no reliable statistical series for prices or wages in this period all students of the subject agree that most workers experienced no real income growth between 1901 and 1914.\textsuperscript{186}

\textsuperscript{183} Sandlant 1989 pp 31-63
\textsuperscript{184} Sandlant 1989 p 39
\textsuperscript{185} Holt 1986 p 65
\textsuperscript{186} Olssen 1988; see also Walsh and Fougere 1987 pp 192-193
For Olssen this restrictive wages policy was instrumental in the sparking widespread industrial conflict in New Zealand after 1908 and the formation of strongly anti-arbitration trade union federation- the “Red” Federation of Labor.  

Sandlant contrasts the restrictive nature of Arbitration system in New Zealand with developments in Australia by stating that:

In Australia, the federal arbitration system was never perceived in quite the same terms as its counterpart in New Zealand, that is, as an instrument of state control. Partly, this was the result of the degree of autonomy and independence which under federalism the arbitration system enjoyed from the Commonwealth government, and partly it was a result of the wage-fixing flexibility displayed by the Federal Arbitration Commission.  

In relation to the later point, while the basic wage was set at 7 shillings a week until 1912 when the first price index became available, the Australian Court displayed a much greater flexibility towards the setting of margins in awards before the end World War One. This was often associated with the greater use of wage policy to settle specific disputes.  

Forster notes that, in contrast to the experience of New Zealand, there is evidence to suggest that real wages in Eastern Australia increased throughout the period 1906- 1914. While he questions the extent to which this increase in real wages was simply a function of the wage fixing principles of the commission, in part due to the limited coverage of the federal jurisdiction before 1921, he notes:

that the system was not put under strain because of unfavourable economic conditions. It was able to consolidate and become an established part of the economic landscape, in a period when both employers and employees could feel that it was not incompatible with their interests.  

Sandlant uses these differences in the early development of the arbitration systems to explain differences in the attitudes of unions to arbitration in general and also as an important precondition for the divergent pattern of peak level union organisation in the two countries. However while many of the authors in the comparative literature are aware of differences in the operation of the arbitration systems in the two countries, they have treated these differences as variations on a theme, or small differences, and regard

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187 Olssen 1988  
188 Sandlant 1989 p 39  
189 Hancock 1979/84 p 65  
190 Forster 1989 p 216  
191 Sandlant 1989 pp 32-7
the similarities as more important than differences. As Bray and Walsh put it “despite some differences the Australian and New Zealand systems of arbitration were fundamentally similar.”\footnote{Bray and Walsh 1998 p 361}

In the process the comparative literature has ignored the possibility, alluded to by Macintyre, that the small differences between the cases represent more fundamental differences in the political economies of the countries. In particular, divergences in wage policy and the course of real wages imply that, despite their common experience with arbitration, the two countries experienced markedly different patterns of political and economic development in the late nineteenth century and the early twentieth century. Thus, while Sandlant notes differences in the role played by arbitration in developing wages policy in the two countries from the beginning, he attributes these differences to the conservatism of Sims, Judge on the Arbitration Court in New Zealand at the time in comparison with Higgins, on the one hand, and the greater relative autonomy granted the Australian institution by the industrial relations power in Australian Constitution, on the other.\footnote{Sandlant 1989 pp 42-44} However he leaves unexplored the possibility that differences in attitudes of the arbitration tribunals to wage policy reflected differences in the scope to which real wage increases could be accommodated within divergent development models.\footnote{Bray and Walsh 1998 p 361}

The tendency for the comparative literature to downplay this and other small, but potentially important, differences between Australia and New Zealand reflects the, often implicit, view that institutional factors fully determine economic and political outcomes. This tendency can be clearly seen in the way in which contributors to the Australia- New Zealand comparative literature endorse the trade union dependency thesis. As was noted in chapter four, Howard’s views that trade unions were dependent on arbitration has been influential in both Australia and New Zealand and has been broadly adopted by the comparative literature.

The dependency thesis has been the subject of considerable criticism in the Australian literature. Many of the criticisms of the dependency thesis have stemmed from historical studies of trade union growth in Australia. In his study of the growth of unionism in the
The Importance of Small Differences

maritime industry Sheldon, for example, argues that arbitration was relatively unimportant in accounting for the growth of union membership, especially before 1908. Instead he argues that union activism in the context of improving economic conditions were the crucial determinants of union growth. \(^{195}\) Cooper, in a study of the Organising Committee of the New South Wales Labor Council from 1900-1910 argues that “the contribution to arbitration to union recruitment was ambiguous” and points to the key role played by “the agency of trade unions in recruiting members to unions and fostering unionism amongst non unionised sectors of the workforce” in the face of organised employer opposition. \(^{196}\)

Studies of trade union action under arbitration in both Australia and New Zealand have also questioned the extent to which arbitration determined their behaviour. For example, Gahan provides case study experience from four very different unions under arbitration in Australia. He summarises his findings in the following way:

> The case study evidence revealed a complex set of relationships between unions and arbitration. Certainly the introduction of arbitration influenced the behaviour and character of individual unions. This will be the product of any institutional structure, however; it moulds the incentives and returns to particular objectives and actions. [However] this proposition is something very different for [sic] the view that arbitration has made unions dependent. \(^{197}\)

In a study of the New Zealand waterfront from 1915 to 1951, titled “the unimportance of arbitration?” Green also questions the role arbitration played in regulating employment and setting wages and conditions of employees, focussing instead on the nature of work and working class organisation as the key variables. \(^{198}\)

While there is some disagreement in this literature as to the relative importance of different causal factors, the main thrust of the criticism has been to argue that the dependency thesis exaggerates the importance of the institutions of arbitration in shaping trade union form and function and ignores the influence of other factors, including economic structure, economic conditions, class politics and trade union agency in shaping union organisation. The criticisms of the dependency thesis suggest that institutional

\(^{194}\) see Chapter 6 below
\(^{195}\) Sheldon 1998 pp 439-440
\(^{196}\) Cooper 1996 p 64; see also Patmore 2000
\(^{197}\) Gahan 1996 p 693, emphasis in the original
effects alone cannot explain union behaviour and, as political economists in industrial relations have argued for some time, there are a number of other non-institutional factors that shape the development of industrial relations outcomes. To the extent that these non-institutional variables differ across the two countries, there are good reasons to question the assumption in the comparative literature that because they have a shared institutional experience with arbitration, there are no significant historical differences between the union movements in the two countries. By exaggerating the importance of institutional factors, and downplaying the role of economic and material factors, the comparative literature therefore downplays potentially important historical differences between the cases.

A UNIFORM ECONOMIC IMPERATIVE?
A second potential flaw of the Australian and New Zealand comparative literature is its treatment of the economic imperatives facing the two countries during the 1980s and 1990s. As was noted in chapter four, the comparative literature has often assumed that because of their shared pattern of economic development and the similarities in the economic problems they faced during the 1970s and 1980s, that differences between the cases cannot be explained by differences in economic imperatives. This is in line with the treatment of international economic change as a source of convergence across development market economies in the broader comparative industrial relations literature, noted in chapter one.

There are a number of problems with this formulation for understanding the Australia and New Zealand comparison. First, while the direction of the economic imperatives facing Australia and New Zealand during the 1970s and in the early 1980s was broadly similar, their strength differed markedly. Put simply during the period of comparison New Zealand experienced a far more dramatic and prolonged economic crisis than that faced by Australia. Second, while in comparative perspective both economies are relatively small, when compared directly the Australian economy is both significantly larger and more diversified than the New Zealand economy. Third, the approach taken in the comparative literature ignores the impact differences in the economic performance of the two countries during the 1980s and the 1990s had on the development of industrial

198 Green 1994, for a recent critique which reasserts the importance of institutions see Barry 2001
relations policy. These issues are sketched out briefly here but are covered in more detail in subsequent chapters.\textsuperscript{199}

By focussing on the similarities in the direction of the economic pressures facing Australia and New Zealand in the early 1980s, the comparative literature tends to blur differences in the severity of the economic crises facing the two countries at the time. As the figures in table 5.6 demonstrate, while both Australia and New Zealand experienced declining economic performance during the 1970s and into the early 1980s, the situation faced by New Zealand was far more serious. Thus during the late 1970s and early New Zealand exhibited noticeably lower economic growth, higher current account deficits, and higher inflation than in Australia. Furthermore New Zealand had a much higher level of indebtedness, Australia’s net foreign debt as a percentage of GDP increased from 3.3% in 1973 to 15.6% in 1982. In New Zealand net foreign debt increased from 7.3% of GDP to 57.0% during the same period.\textsuperscript{200} As Schwartz notes this meant by the early 1980s New Zealand had a foreign debt profile similar to a number of Latin American economies.\textsuperscript{201} The only area where New Zealand outperformed the Australian economy was in terms of unemployment. However even in this regard it is worth noting that in the period 1973 to 1982, while the official unemployment rate in Australia increased 208% (from 2.3% to 7.1%), there was a 3600% increase (from 0.1% to 3.7%) in New Zealand.

\textsuperscript{199} Chapter 6, 7 and 8 below track differences in the economic development in Australia and New Zealand during throughout the twentieth century.

\textsuperscript{200} Schwartz 1994 p 533
\textsuperscript{201} Schwartz 1991 p 238
### Table 5.6 Main Economic Indicators, Australia and New Zealand 1973-1999

<table>
<thead>
<tr>
<th>Year</th>
<th>Per capita Real GDP Growth (%)</th>
<th>Current Account Balance (%GDP)</th>
<th>Inflation (%)</th>
<th>Unemployment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Aust</td>
<td>NZ</td>
<td>Aust</td>
<td>NZ</td>
</tr>
<tr>
<td>1973</td>
<td>-0.9</td>
<td>0.9</td>
<td>0.6</td>
<td>2.0</td>
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<tr>
<td>1974</td>
<td>1.8</td>
<td>2.4</td>
<td>-3.4</td>
<td>-0.9</td>
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<tr>
<td>1975</td>
<td>3.8</td>
<td>4.9</td>
<td>-1.1</td>
<td>-14.0</td>
</tr>
<tr>
<td>1976</td>
<td>-0.8</td>
<td>1.9</td>
<td>-2.0</td>
<td>-9.0</td>
</tr>
<tr>
<td>1977</td>
<td>1.9</td>
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Data sources:
Second, by treating Australia and New Zealand as economically similar, the comparative literature downplays significant differences in the size and complexity of the two economies. As the Figure 5.2 demonstrates, the Australian economy is significantly larger than New Zealand economy.

Figure 5.2 Real Gross Domestic Product, Australia and New Zealand
1949-1999

In part as a consequence of differences in the sizes of the two economies, there are also significant differences in the economic structure of the two countries. In particular, there is a noticeable difference both the size of the manufacturing sectors of the two economies and the extent to which this manufacturing involves elaborate or simple transformation. Figure 5.3 provides broad aggregates of the contribution of agriculture and industry to GDP. It demonstrates that during the 1970s, and into the 1980s, the contribution of industry to GDP in Australia was close to the OECD average and from the mid 1980s fell below the OECD average. In the New Zealand case the contribution of industry to GDP has been consistently below the OECD average. These broad aggregates do not provide information about the relative sophistication of industry. In New Zealand much of the manufacturing activity was associated with the processing of agricultural products. By the early 1980s, food processing accounted for 27% of manufacturing activity in New Zealand.

202 calculated from dataset provided by Professor Paul Dalziel.
Zealand while machinery and equipment production accounted for 25% well below the OECD average.\textsuperscript{203}

Figure 5.4 which reports value added by manufacturing of electrical and non electrical machinery illustrates the differences in manufacturing depth in the two countries. Thus while there has been considerable debate in Australia about the decline of manufacturing since the early 1970s, for the purposes of comparison it is important to remember that Australia has traditionally has a much bigger and more sophisticated manufacturing sector that New Zealand.\textsuperscript{204}

\textbf{Figure 5.3 Contribution of agriculture and manufacturing to GDP, Australia and New Zealand 1970- 1996}\textsuperscript{205}

\begin{center}
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\end{center}

\begin{itemize}
\item \textsuperscript{203} Schwartz 1991 p 235
\item \textsuperscript{204} see for example Ewer \textit{et al.} 1987 and Bell 1997
\item \textsuperscript{205} source: OECD (2002) \textit{Historical Statistics: structure or composition of certain economic aggregates}, release 01.
\end{itemize}
These factors—differences in the severity of the economic crisis facing the two countries, differences in the relative size of their economies and differences in the complexity of the economies—while largely ignored in the comparative literature, have potentially important consequences for explaining the pattern of industrial relations reform in the two countries in a number of ways. First, the relative size of the economic imperative is likely to impact on the extent to which existing institutions are seen to be sustainable. Second, the greater the complexity of the economy the more different types of employers and workers there are. From an interaction perspective this is likely to produce the possibility for greater differences in interest, and different cross class coalitions, to develop around industrial relations institutions. However, because it treats economic factors as small differences, these issues are largely excluded from the comparative literature.

A third problem with the comparative literature relates to the treatment of differences in economic performance of the two countries in the late 1980s and in the 1990s. As the data in figures 5.5 and 5.6 demonstrate the divergence in economic performance of the two countries continued and indeed accelerated during the late 1980s and during the 1990s. Figure 5.5 demonstrates that since the late 1980s there has been a sharp

divergence in economic growth, indicated by real GDP per capita, between Australia and New Zealand. Figure 5.6 indicates that since the early 1990s there has also been a sharp divergence in the labour productivity in the two countries. In both cases New Zealand has fared much worse than Australia.

Figure 5.5 Real GDP Per Capita, Australia and New Zealand 1978–1998

Figure 5.6 Labour Productivity, Australia and New Zealand 1978–1998

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207 Dalziel 2002 p 37 Figure 2
The importance of small differences

The comparative literature treats differences like these as outcomes of the policy process and uses them to assess the relative effectiveness of the reform efforts in the two countries. For example, Easton and Gerritsen note that across a range of measures Australia’s economic performance “was broadly superior to the New Zealand one”. They suggest that these differences can be largely be accounted for by the differences in policy agendas adopted by labour governments in the two countries, and conclude that the “more market” direction adopted in New Zealand has been disastrous.\(^{209}\) Similarly Maloney uses New Zealand’s relatively poor productivity performance in comparison with Australia to question the benefits of radical labour market deregulation.\(^{210}\) In perhaps the most comprehensive comparison of economic performance of the two countries, Dalziel uses the poor performance of New Zealand relative to Australia across a range of dimensions to conclude “the New Zealand experiment did not succeed.”\(^{211}\)

While these comparisons provide some important insights, portraying economic performance solely as a policy outcome ignores the potential impact these differences in economic performance may have on the policy process itself. In this respect, Pontusson’s comments on comparative public policy can be said to apply directly to the Australia New Zealand comparative literature.

Much of what passes for comparative political economy in political science remains an exercise in comparative public policy in the sense that that the dependent variable is government policy (some kind of economic policy) and variations on the dependent variable are explained by government institutions or processes (eg. corporatist arrangements). Commonly it is assumed that government policy in turn affects economic outcomes (e.g. patterns of industrial adjustment) but the economic consequences of government policy are not the object of analysis. On the other hand this approach to the politics of economic policy assumes that economic conditions do not explain cross national policy variations.\(^{212}\)

Contrary to the assumptions of the comparative literature, it might be expected that the prolonged and marked variation in the economic performance of the two countries during in the late 1980s and in the 1990s would have had a significant impact on the development of industrial relations policy. The failure to take this into account reflects

\(^{208}\) Dalziel 2002 p 41 Figure 7  
\(^{209}\) Easton and Gerritsen 1996 p 40  
\(^{210}\) Maloney 1994  
\(^{211}\) Dalziel 2002 p 44  
\(^{212}\) Pontusson 1995b p 120
the tendency of the comparative literature ignores and downplays the potential importance of economic factors in explaining differences between the countries

**HOW DIFFERENT? SIMILARITIES IN INDUSTRIAL RELATIONS OUTCOMES AND RECENT DEVELOPMENTS IN AUSTRALIA AND NEW ZEALAND**

A third major weakness of the existing comparative literature on industrial relations reform in Australia and New Zealand relates to its relative inability to explain similarities between the two countries. While there are differences between the cases in terms of the policy process by which industrial relations reform has been introduced there are strong similarities in industrial relations outcomes in the two countries. Furthermore during the 1990s policy developments brought the two countries much closer together. This has happened despite the continuation of the institutional differences that were said to have produced policy divergence in the 1980s.

As was noted earlier in this chapter the existing comparative industrial relations literature in deploying a most similar case has tended to treat the policy process as the dependent variable. While there have clearly been important differences in the policy process through which industrial relations reform has been introduced in the two countries, in terms of labour market outcomes there are strong similarities between the cases. As was demonstrated in sections 5.2 and 5.3 during the 1980s and 1990s there has been a substantial decentralisation of bargaining; deregulation of bargaining arrangements for a significant proportion of employees; a dramatic decline in the trade union membership and an increased spread of wage settlements. Seen in broader comparison, the experiences of Australia and New Zealand stand as extreme examples of deregulation across the developed economies. As Campbell and Brosnan put it:

… in international comparison Australia presents a radical example of labour market deregulation, paralleled only by the more abrupt shift of its geographic neighbour, New Zealand. As such it offers another useful test of the effects of neo-liberal policies on labour markets and labour.213

In a recent article, Harbridge and Walsh, one of the most important contributors to the institutionalist explanation of policy divergence in Australia and New Zealand, argue that despite the differences in the policy processes and legislative mechanisms in place in the two countries, the effects of industrial relations reform in the two countries have been

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213 Campbell and Brosnan 1999 p 354
Because the focus of the existing comparative literature has been on explaining differences between otherwise similar cases, the comparative literature have been largely ignored or downplayed in the literature. Indeed an institutionalist framework makes it hard to explain these similarities. Harbridge and Walsh, for example, suggest that the ‘remarkable similarity’ between the two countries is because “globalisation has required labour flexibility and deregulation of the labour market to allow flexibility to be achieved”. Thus, in effect, they end up adopting a crude version of the globalisation thesis- arguing that pressures associated with globalisation have produced convergence in industrial relations practices and outcomes despite differences between cases.

Furthermore while there were a sharp divergence in the policy developments in the two countries in the early 1990s, during the 1990s there were a number of developments in Australia which have brought it closer to New Zealand. In the early 1990s there were notable differences in industrial relations policy in the two countries- in New Zealand, the Employment Contracts Act had been introduced and arbitration had been dismantled while in Australia, under the influence of the Accord, the Commission was supervising the process of managed decentralisation through the institutions of arbitration. However by the late 1990s, while the ECA was still in place in New Zealand, the situation in Australia had changed significantly. The introduction of enterprise bargaining significantly altered the nature of the arbitration system, recasting it as a minimum, and the Workplace Relations Act reinforced and extended many of these changes. While the specifics of the WR Act and the ECA are different in a number of respects, the

214 Harbridge and Walsh 2002 p 433. The following discussion is drawn for pp 425-33
215 Harbridge and Walsh 2002 p 433
ideological underpinnings of both pieces of legislation are broadly similar.\textsuperscript{216} Furthermore, it can be argued that while the short term effects of the WR Act have been reasonably muted in comparison with the ECA, the cumulative impact will produce similar changes to those witnessed in New Zealand under the ECA.\textsuperscript{217}

In part because it has altered the definition of the dependent variables, the existing comparative literature has been able to avoid dealing with this increased similarity in both outcomes and policy. Thus writing in aftermath of the introduction of the ECA in New Zealand and while the Accord was still in place in Australia, Bray and Walsh treated the dependent variable as the presence or absence of corporatist arrangements. However writing in the aftermath of the introduction of the Workplace Relations Act in Australia, the same two authors defined the dependent variable in the comparison between the two countries as “different paths to neo-liberalism” and argued that there were differences between the two countries “first, in the path travelled toward neo-liberalism, second, in the speed of the journey, and third, in the particular destination arrived at”.\textsuperscript{218}

Nonetheless, this increasing similarity between the cases poses a significant challenge for the institutionalist literature on Australia and New Zealand. These increasing similarities have taken place despite the continuation of institutional differences between the countries which were apparently so significant during the 1980s. Because of the

\textsuperscript{216} for more detailed discussion on this point see Wailes 1997
\textsuperscript{217} It can also argued that the differences between the cases have been further eroded by developments since the late 1990s. While a detailed consideration of developments since the end of the 1990s is beyond the scope of this thesis, it is worth briefly noting recent developments. In 2000 the Labour-Alliance Coalition government introduced the Employment Relations Act (NZ) 2000 (ER Act). The ER Act attempted to roll back aspects of the ECA which were unfavourable to labour. Key provisions included the introduction of the notion of good faith bargaining, improved right of access provisions for union officials to workplaces and provisions for the formation of enterprise unions. For more details see Wilson 2001 and Boxall 2001. While early assessments suggest that the reforms have had only a limited impact on unionisation levels but it has increased the number of unions and may provide the basis for increased levels of unionisation and collective bargaining in the future. See May \textit{et al.} 2002. At the same time, there are currently a number of proposals before the Australian federal parliament for changes to the WR Act to limit the application of unjustified dismissal in small businesses and to limit the use of pattern bargaining while these legislative changes have been rejected by the Australian Senate, where the balance of power is held by minor parties that have indicated their opposition to the reforms, the current government has indicated that it will continue to pursue these reforms and use them as double dissolution triggers. A double dissolution election would create the conditions for the joint sitting of both houses of the Australian Federal parliament and would ensure that the government could use its majority in the lower house to drive through legislative reform. See Riley 2003. Thus while since the late 1990s the extent of labour market deregulation has diminished in New Zealand, there is a strong possibility that it may increase in Australia in the not too distant future.
\textsuperscript{218} Bray and Walsh 1998 p 378
significance it attributes to institutional variables, the comparative literature is largely unable to explain why institutions mattered in one period but appear to matter less in another period.

**Implications for the Institutionalist Approach to Globalisation and Industrial Relations**

Because of the strong similarities between the cases, the problems identified in the comparative literature on Australia and New Zealand also raise significant doubts about the institutional approach itself. Because the comparison between the two countries is so favourable for identifying the role institutions play in mediating the relationship between international economic change and the domestic industrial relations, if the institutionalist approach is unable to explain the Australia and New Zealand comparison, it is questionable whether it could provide a robust explanation of this relationship in any other case. As this chapter has shown while the Australia-New Zealand comparative literature appears to provide strong empirical support for an institutionalist approach there are a number of limitations associated with this approach. These limitations include ignoring historical differences between the cases; downplaying differences in the economic situation facing to two countries in the contemporary period; exaggerating differences in outcomes between the cases and ignoring similarities in recent developments. The implication is that institutionalist approach at best provides a partial explanation of the developments in these two countries and at worst distorts the analysis of causally significant factors.

The limitations identified in the Australia-New Zealand comparative literature are consistent with the consequences for comparative analysis associated with the new institutionalism in comparative politics, outlined in chapter two. The tendency to ignore historical differences between Australia and New Zealand, and to downplay the importance of contemporary economic differences, reflects way in which institutionalist analysis privileges polity centred institutional variables at the expense of other potentially important sources of policy interest. The tendency of the comparative literature to exaggerate the differences and ignore similarities in industrial relations reform in Australia and New Zealand reflects both the structural determinism of the new institutionalism, and its inability to explain the sources of change in the institutions itself.
Remmer argues that there are four ironies associated with the new institutionalism:

The revival of interest in institutions has tended to pull analysts back to the national level of analysis. Variable patterns of linkage with the international system … are downplayed in favour of organisation of domestic interests and institutions….The second irony is that institutional approaches carving out a relatively autonomous causal role for political processes have risen to the forefront of political analysis precisely when economic constraints have drastically narrowed the range of feasible policy options…. The third irony is that institutional approaches have placed politicians and bureaucrats at the centre of analysis just as the activities, resources and relative weight of the state are being dramatically reduced…. The fourth and final irony is that institutions are being analysed as independent variables at a time of far reaching institutional change and instability. These trends raise important questions about the cause rather than the consequences of political institutions.  

Each of these ironies are evident in the literature which compares industrial relations reform in Australia and New Zealand. Emphasis is given to the greater relative autonomy of the New Zealand state to adopt policies which have the effects of limiting its own policy autonomy. Australian employers are depicted as unable to influence policy at a time when the entire focus of government policy has been on creating the conditions for increased profits, in a hope that this will help encourage increased investment and generate employment. New Zealand employers are presented as powerful and well organised despite the economic crisis they faced in the late 1980s. Australian unions are presented as strong and well organised in comparison with their New Zealand counterparts despite the fact that trade union membership has fallen almost as precipitously in Australia as it has in New Zealand.

5.7 CONCLUSION

This chapter has provided a review of the major features of industrial relations reform in Australia and New Zealand during the 1980s and 1990s. It demonstrated that in both cases there have been significant changes in the traditional pattern of industrial relations policy as governments have responded to changes in the international economy. Nevertheless it was also shown that there were differences in the process by which this reform was introduced and its consequences of the existing institutions of industrial relations. The chapter noted that this apparent divergence created the basis for the development of an interesting comparative literature which had implications for assessing the theoretical arguments about the relationship between international economic change.
and the domestic institutions of industrial relations. Three broad sets of explanation for
the divergence lines of argument were identified in this literature. They included the
organisation of the labour movement, the organisation of employer opinion and the
autonomy and capacity of the state.

However, while the comparative literature on industrial relations reform in Australia and
New Zealand clearly illustrates the flawed nature of the globalisation approach and
provides a number of important insights into the role that institutional factors play in
mediating the relationship between international economic change and the domestic
institutions of industrial relations, it also demonstrates that an by itself a focus on
institutional variables is not able to provide a robust explanation of the similarities and
differences in industrial relations reform in Australia and New Zealand during the 1980s
and 1990s. As this chapter has shown there are a number of limitations of the
comparative literature on industrial relations reform in Australia and New Zealand which
are consistent with the criticisms of comparative analysis base on the new institutionalism
outlined in chapter two. Because the comparison of these two countries provides such
favourable context within which to assess the explanatory power of the institutionalist
approach to globalisation and industrial relations, the problems identified in this literature
raise serious doubts about the validity of the institutionalist approach in general. The
implication that can be drawn from the application of the institutionalist approach to the
Australia and New Zealand comparison, is that at best the institutionalist approach
provides only a partial explanation and at worst may seriously distorts the analysis of the
relationship between international economic change and the domestic institutions of
industrial relations.

The remainder of this thesis tests whether the interaction approach, outlined in chapter
three, is able to overcome these problems and explain the similarities and differences in
industrial relations in Australia and New Zealand. The next chapter focuses on whether
an interaction approach can explain similarities and differences in the origins and early
development of arbitration in the two countries.

219 Remmer 1998 p 52
CHAPTER 6
DOMESTIC DEFENCE OR DOMINION DEPENDENCY?
THE ORIGINS AND DEVELOPMENT OF ARBITRATION IN
AUSTRALIA AND NEW ZEALAND, 1894-1935

6.1 INTRODUCTION
One of the tests of the explanatory power of theoretical framework is its ability to explain more than one instance of a phenomenon. The following three chapters apply the interaction approach to the Australia and New Zealand comparison, examining its ability to explain similarities and differences in the institutions of arbitration in three periods of significant international economic change.¹

This chapter focuses on the connections between international economic change and the adoption of arbitration in the two countries in the late nineteenth and early twentieth centuries. As was noted in chapter four, Australia and New Zealand were the only two countries to adopt compulsory arbitration as the primary means for regulating industrial conflict and determining wages during the twentieth century. This shared institutional heritage forms one of the most important platforms on which the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s is based. However, as was noted in chapter five, the comparative literature has tended to exaggerate the historical similarities in the arbitration systems in the two countries and consequently downplayed some important differences between the two countries. This chapter argues that an explanation based on the interaction model is able to account for both the similarities and the differences in the arbitration systems that developed in the two countries in the early twentieth century.

This chapter is structured as follows. The next section critically reviews the dominant account of antipodean exceptionalism—Castles’ domestic defence model—upon which much of the comparative literature on industrial relations reform in Australia and New Zealand is based. It argues that Castles’ account of the origins and development of
The Importance of Small Differences

arbitration in Australia and New Zealand is based on a set of flawed assumptions which render it historically inaccurate. The remainder of the chapter uses an interaction approach to explain the origins and development of arbitration in Australia and New Zealand. Section three looks at the rapid economic development of the Australian and New Zealand colonies in the context of free trade imperialism. Section four examines the political and economic consequences of this pattern of development— one which Schwartz calls *dominion dependency*. The fifth section examines the differences in the cross-class coalitions that developed in Australia and New Zealand in response to the crises associated with dominion dependency. Section six examines the consequences of these differences for the initial development of the arbitration in two countries. Section seven traces the implications of the collapse of free trade imperialism for the development patterns adopted by Australia and New Zealand and their domestic institutions of industrial relations in the interwar period. The chapter concludes by examining the implications of this alternative account for both the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s and the more general debate about the relationship between international economic change and the domestic institutions of industrial relations which is the focus of this thesis.

6.2 THE DOMESTIC DEFENCE MODEL AND THE ORIGINS OF ARBITRATION IN AUSTRALIA AND NEW ZEALAND

In a brief article comparing the experiences of arbitration in Australia and New Zealand, Macintyre asks:

> Why did these two countries, but not others, adopt this distinctive method of regulating industrial relations, and why was it adopted more readily in the one than the other?²

The dominant account of this antipodean exceptionalism is Castles’ *domestic defence* model. Castles argues that arbitration was just one of a number of elements introduced in Australia and New Zealand at the turn of the twentieth century introduced as part of a domestic defence policy pattern. This pattern included the regulation of wages through arbitration, limitations on labour migration, protection of manufacturing through tariffs and the early development of a residual welfare state.³ For Castles, the similarities in the

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¹ Gourevitch 1986
² Macintyre 1987 p 155
³ Castles 1988
pattern of public policy adopted by Australia and New Zealand reflected both the fundamental similarities in the composition of the two countries and in the situations they faced. Furthermore he argues that once established, the domestic defence policy pattern played such a crucial role in determining the subsequent economic and political development of the two countries that they can be regarded as two manifestations of the same model. As a result Castles regards differences in the ease with which arbitration was adopted in the two countries as largely inconsequential and sees any differences in the subsequent development of the arbitration systems as largely unimportant when compared with their overriding similarities.\textsuperscript{4}

Much of the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s draws explicitly on Castles’ domestic defence model as a theoretical foundation for treating the two countries as most similar cases.\textsuperscript{5} Thus the domestic defence model plays a key role in allowing authors in the comparative literature to discard historical differences as sources of potential divergence between the cases and allows an almost exclusive focus on contemporary institutional sources of divergence between the two countries. However, as was argued in the previous chapter, as a result of this assumption the comparative literature ignores a number of small but potentially important differences in the origins and development of the arbitration systems of the two countries.

**HISTORIC COMPROMISE AUSTRALASIAN STYLE**

While the domestic defence model plays an important role in establishing the basis for comparison between Australia and New Zealand, relatively little attention is given to the historical and theoretical adequacy of this model. For example, the comparative literature does not generally acknowledge that Castles treats the domestic defence policy pattern as the outcome of an *historic compromise* reached between labour and capital in Australia and New Zealand at the end of the nineteenth century. He regards this antipodean compromise as functionally equivalent to the historic compromises around domestic

\textsuperscript{4} In the preface to the book in which he outlines the domestic defence model Castles makes the following statement: “Indeed given my earlier insistence on the fundamental similarity in strategies of social amelioration in the two countries, and the premise of the present study that such strategies are only a part of broader patterns of socially protective public policy patterns… I can say that a study of New Zealand public policy development which failed to reveal such convergences would certainly make me think again” Castles 1988 p xi). As the analysis presented below suggests there are a number of grounds Castles might be forced to think again.
compensation that characterised the small European economies during the 1930s and 1940s.\(^6\)

In making this argument, Castles’ treats arbitration as equivalent to the living wage principles that subsequently developed in the two countries, which for him, were to form the basis of the *wage earners’ welfare state*.\(^7\) Thus, he regards the adoption of arbitration in the two countries as a major victory for the working class which resulted from its ability to influence policy either directly through its industrial and political organisations or through liberal parties that relied on working class votes.\(^8\)

For Castles, this early victory for the working class in Australia and New Zealand was a reflection of a number of conditions in the Australasian colonies which simultaneously allowed for the comparatively early mobilisation of the working class behind a reformist agenda and created divisions in the political organisation of the right. The comparatively early mobilisation reflected the economic and political conditions that existed in the Australasian colonies in the nineteenth century including the relatively early extension of manhood suffrage in the colonies, the relative shortage of skilled labour and the comparatively early formation of trade unions and working class political organisations.\(^9\)

He also argues that these economic and political conditions favoured the development of a reformist outlook amongst the working class, in turn making it easier for the working class to form alliances with other groups in society. Reformist activity was seen as realistic because the colonial state was substantially equipped with a number of powers of economic direction. Furthermore scarcity of labour produced strong labour market power and provided the economic muscle necessary for their political wings to realistically push for reformist legislation. He suggests that the economic downturn of the late nineteenth century only served to push labour more towards the need for reformist political action.\(^10\)

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\(^5\) see Chapter 4 above  
\(^6\) Castles 1988 pp 84-109; for a discussion of this literature see Chapter three above  
\(^7\) Castles 1985  
\(^8\) Castles 1985 p 53, see also pp 17-20  
\(^9\) Castles 1985; Castles 1988  
\(^10\) Castles 1985; Castles 1988
While Castles argues that there were auspicious conditions for working class organisation behind a reformist political platform of social protection in the Australasian colonies in the late nineteenth century, he regards the conditions for political mobilisation of the Right as less favourable. The lack of an entrenched ruling class, he argues, both created fewer impediments to working class organisation and also resulted in divisions between rural and urban capital. He argues that it was this division which created the conditions for an historic compromise in Australia. “In economic and social terms the division on the Right was the immediate and decisive factor in social reform.”

Castles thus argues that in Australia and New Zealand a number of factors combined to make it possible for the working class in Australia and New Zealand was able to gain the benefits of social protection in the form of arbitrated wage levels and restrictions on labour migration. He also argues that it was this comparatively early mobilisation of the working class in these two countries which explains why workers in these countries have traditionally sought “social protection by other means” than those which were to characterise the small European states thirty years later. On this basis, Castles is able to conclude that in Australia and New Zealand, as in the small European countries, a causal relationship can be established between working class mobilisation in Australia and New Zealand and the development of social protection.

A CRITIQUE OF THE DOMESTIC DEFENCE MODEL
It will be noted that there are a number of strong parallels between Castles’ account of the origins of the domestic defence model in Australia and New Zealand and Korpi’s account of the origins of labour peace in Sweden in the 1930s, which was reviewed in the chapter three. Indeed, as Watts has argued, Castles’ original interest in the Australia and New Zealand cases stemmed from his desire to account for the apparent anomaly these two countries presented for power resource theory, with their combination of relatively strong labour movements and comparatively underdeveloped welfare states.

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11 Castles 1985 p 65
12 This is consistent with his arguments about the origins of welfare provision outlined in Castles 1982.
13 Korpi 1978. It is interesting to note that Castles’ called his first book on this topic The Working Class and Welfare. This title strongly echoes the title of Korpi’s earlier book, The Working Class and Welfare Capitalism and shows the derivative nature of Castle’s domestic defence model.
14 Watts 1997
Pontusson’s view that Korpi’s account of the origins of centralisation of Swedish collective bargaining is distorted by his theoretical commitment to a model which does not adequately account for the effect of the relations of production on the exercise of working class power in capitalist society was outlined in chapter three. To review, Pontusson argues that Korpi wrongly treats labour’s power resources as uni-linear and uni-dimensional; regards the labour movement as a monolithic whole; and views the strength of labour’s power resources as coterminous with the weakness of capital.  

Castles’ relies on similar views about the mobilisation of labour and as a result the domestic defence model can be said to share many of the flaws Pontusson identifies in the power resources approach.  These assumptions distort Castles’ presentation of the Australian and New Zealand cases and raise serious questions about the status of the domestic defence model as the basis of comparison between the two cases. Thus, Castles’ account of the origins on arbitration in Australia and New Zealand relies on the same uni-dimensional and uni-linear conception of labour’s power resources that characterises Korpi’s account of industrial relation in Sweden. Consequently, Castles demonstrates the same inability to explain the effects of economic downturn on labour’s power resources that Pontusson identifies in Korpi’s work. Castles argues that it was the combination of the comparatively strong industrial organisation of workers in Australia and New Zealand, underpinned by a long experience of labour scarcity, which created conditions for the extraction political concessions from capital. In making this argument Castles all but dismisses the effect of depression in the two countries on the strength and nature of working class mobilisation, regarding economic downturn as a temporary interruption to a long term pattern whose only effect was attitudinal and strategic.

In attempting to substantiate this view, Castles quotes figures from 1905 indicating that union density was 10% in Australia and 8% in New Zealand. These figures refer to union membership 11 years after the establishment of the arbitration system in New Zealand.

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15 Pontusson 1984
16 see, for example, Castles 1978; Castles 1982; for an analysis of the relationship between Castles’ approach and power resource theory see Shalev 1983
17 see Castles 1985 pp 53-59
18 Castles 1985 pp 57-8
19 Castles 1985 p 21
Zealand, and a number of years after the establishment of arbitration and wage board systems in the Australian colonies and states. They also relate to a period of economic recovery in both Australia and New Zealand. Examination of statistics for union membership in the period leading up to the introduction of arbitration in both countries reveals a more complex explanatory task. For example, Roth’s figures for New Zealand show that there was a dramatic increase in trade union membership at the end of the 1880s. Roth argues that from a base of less than 3000 union members in 1888, trade union membership was as high as 63,000 by the second half of 1890, on the eve of the maritime dispute. This was followed by a precipitous decline in the number of trade unions and in trade union membership. Roth’s estimates suggest that by 1894 trade union membership had fallen to 8000, and the number of unions had fallen from a high of 200 to around 70. By 1905, 245 unions with 29,869 members were registered under the 1894 IC&A Act.\(^{20}\) While questions may be asked about the reliability and accuracy of these figures, they point to significant changes in the nature and strength of working class mobilisation sometime after the introduction of arbitration in New Zealand which Castles fails to account for in his analysis.\(^{21}\) Given the centrality of working class mobilisation and labour’s power resources to Castles’ theoretical model this omission is particularly significant.

As was noted earlier in this thesis, there has been considerable debate in both Australia and New Zealand as to whether it was arbitration, and the removal of impediments to recognition associated with it, which spurred the growth of trade union membership in two countries, or whether it was other factors like economic recovery which drove the growth of trade union membership. However while there is disagreement about the precise nature of the causal mechanism involved, there is a general agreement that the growth of unionism in Australasia took place after the introduction of arbitration. Notwithstanding this, Castles maintains that it was the relative industrial power of the Australasian labour movement prior to the introduction of arbitration which is

\(^{20}\) Roth 1973 “Table I: Unions and Their Membership” pp 167-168; see also discussion pp 10-25: equivalent figures for Australia are as follows: 1891, 124 unions with an estimated 54,900 members; 1896, 134 unions with an estimated 55,100 members; 1901, 198 unions with 97,200 members; 1906 302 unions with 175,000 members. Source: Patmore 1991 p 120.

\(^{21}\) see Holt 1986 pp 19-20 and 24
analytically significant. He takes this position because the theoretical tradition within which he is working posits a causal link between mobilisation and welfare development. As a consequence he distorts the historical record of the cases.

Castles account of the origins of arbitration in Australia and New Zealand also treats the labour movement as a single analytical unit able to choose its strategy. Just as Korpi presented the decision of the labour movement to abandon the strike weapon in Sweden in the mid 1930s as a reflection of a tactical compromise and a signal of a political shift, so too Castles presents the introduction of arbitration as the outcome of a political turn and a tactical compromise by the labour movement in Australia and New Zealand. This conclusion is necessary for Castles to be able to establish a causal relationship between early working class mobilisation and the early development of social protection in Australia and New Zealand.

However in the process, Castles reproduces many of the features of the orthodox account of the origins of arbitration in Australia which see arbitration as an outcome of the decision by Labor parties to offer “support in return for concessions”. In other words, Castles reproduces the essential features of McCarthy’s and Rickard’s accounts of the origins of arbitration in Australia. In this view, unions increasingly supported arbitration, which at least ensured their recognition. Their experiences of economic depression, state intervention on the part of employers during the strikes of the 1890s, and the increasingly strategic power of Labor parties and labour candidates in Australian parliaments convinced them to seek politically what they had found difficult to achieve industrially. Castles clearly endorses the major tenets of this traditional account, as can be seen from the following quote:

... the Australian Labor Party was extraordinarily hard headed about what was required to work out compromises with other interests, and in its fight from the 1890s onward ‘to make and unmake social conditions’, it offered its political opponents ‘support in return for concessions’. Despite its character as a compromise acceptable to liberal, nation building elites, the politics of domestic

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22 Castles 1988 pp 122 see also Table 6.4 where Castles reports post hoc figures of trade union membership.
23 Castles 1988 p 109
24 for discussion and references see Macintyre 1989b pp 180 & 198. Macintyre argues that elements of this traditional explanation are also to be found in Holt’s account of the origins of arbitration in New Zealand. See Holt 1986; Walsh and Fougere 1987 and Macintyre 1987
25 Markey 1989 p 157
defence would have protected working class interests far less adequately if it had not been on large part a product of labour movement struggle.\textsuperscript{26}

In a series of articles, Macintyre takes issue with this orthodox account of the origins of arbitration in Australia.\textsuperscript{27} Much of this critique can be applied to the domestic defence model. Contrary to Castles’ view, Macintyre notes that the introduction of arbitration in Australia was not simply the result of a political turn by a monolithic labour movement. It was not Labor governments which placed arbitration on statute books in the Australian colonies and states. He also notes that it is hard to argue that Labor forced non-Labor parties to introduce arbitration. Indeed, he shows that in the cases where Labor emerged as an important political force relatively early, this created impediments to the introduction of arbitration- as in Victoria after Labor broke away from its alliance with the Liberals comparatively early. Furthermore, he notes that early colonial, Commonwealth and state Labor Parties lacked the necessary independence, cohesion and discipline to ensure concessions for their support. Instead, Macintyre demonstrates that in most cases it was middle class social liberals that were at the forefront of introducing arbitration.\textsuperscript{28} Labor parties may have played a role in ensuring the passage of legislation once introduced, and have claimed some credit for its introduction later, but this does not equate to Castles’ depiction of a labour movement forcing through a clear reformist agenda in Australian parliaments by assiduously canvassing support in return for concessions.

Even in New South Wales, where Labor’s support was important in determining the form that arbitration took, Markey shows there is little evidence to suggest that Labor’s support of compulsory arbitration was an unproblematic political turn reflecting just a change in strategy by the monolithic labour movement. Rather Markey shows that growing support for the introduction of the compulsory arbitration after 1895 was the outcome of an accommodation between “an urban petit bourgeois intelligentsia” in the parliamentary Labor party and the leadership of AWU. He argues that for the urban intellectuals, arbitration offered a means through which the neutral state could prevent class conflict (the intellectual impulse identified by Macintyre as the “new liberalism”), while for the

\textsuperscript{26} Castles 1988 p 109
\textsuperscript{27} Macintyre 1983; Macintyre 1987; Macintyre 1989b
\textsuperscript{28} Macintyre 1989b pp 189-193
AWU compulsory arbitration presented a means of overcoming the problem of recognition in the pastoral industry.\textsuperscript{29} These groups attracted pragmatic support from conservative elements within the craft unions. However, at the same time Markey shows that there were significant groups within the labour movement that opposed the introduction of compulsory arbitration. This opposition was led by socialists but also included a number of craft unions, like the Amalgamated Society of Engineers, and a substantial body of the rank and file of the Labor party and within the unions. Markey argues that widespread rank and file opposition explains the delay between the urban intellectuals and AWU gaining the ascendancy in the Labor party in 1895 and the final full support for compulsory arbitration by the Labor Party in 1898-99.\textsuperscript{30}

On the basis of this account Markey argues that one of the central weaknesses of the orthodox account is its tendency to regard the labour movement as:

… relatively homogeneous, drawing little distinction between the attitudes of different trade unions, between trade unions and the Labor Party, or between the attitudes of important leaders and of the rank and file. The attitudes of Labor’s political leaders have often been taken as representative of the labour movement, without any elaboration of the processes by which they became dominant.\textsuperscript{31}

These comments, which echo the criticisms Pontusson levels at power resource theory in general, clearly apply to the domestic defence model. In treating the labour movement as an undifferentiated whole, able to choose between distinct strategies, Castles treats the relationship between union leaders and the rank and file, on the one hand, and the relationship between the political and industrial wings of the labour movement, on the other, as unproblematic. In doing so he presents a distorted account of the events which led to the introduction of arbitration in Australia.

Castles account of the origins of arbitration in Australia and New Zealand also reproduces the tendency of the power resource approach to equate the strength of labour with the weakness of capital. Thus he argues that:

… what is unusual about late nineteenth century Australasia is the extent to which conservative social and economic forces faced major difficulties in articulating a coherent political voice to stem the tide of radical reform. Obviously there is a

\textsuperscript{29} see Hearn and Knowles 1996 pp 17-20
\textsuperscript{30} Markey 1989 pp 164-169
\textsuperscript{31} Markey 1989 p 158
way in which these disadvantages were a mirror image, and indeed a consequence of the advantages in the situation of the working class.\textsuperscript{32}

Castles is, in effect, arguing that the strength of working class mobilisation in Australia and New Zealand created divisions on the political Right because it offered a coalition partner for urban interests. Thus Castles he argues that in Australia, that “two decades of incessant bickering between free traders and liberal-protectionists created an electoral environment in which the ALP'[s]... support Was assiduously canvassed by the other parties”.\textsuperscript{33} It was this situation which, according to Castles, allowed the labour movement to secure the benefits of arbitration and limitations of the labour supply, because the liberal protectionist wing needed the support of labour to secure trade protection. While he argues that this division ended in the 1909 fusion between free traders and protectionist, he suggests that by this time it was too late override the terms of the historic compromise, enshrined in the Constitution. This implies that capital in Australia had to acquiesce in a policy position that was less advantageous than in other countries where the conditions for working class mobilisation were less favourable.

To what does Castles attribute this crucial political division on the Right? In an extremely cryptic explanation, Castles seems to argue that in the absence of an entrenched aristocracy, the cleavages between urban and rural interests stemmed from conflict between these groups as they sought to establish elite status for themselves.\textsuperscript{34} Castles offers no empirical support for this pattern of political development, treating a reference to Gollan’s work as adequate substantiation.\textsuperscript{35}

While it may be true that there were divisions on the political Right and that these played a role in events which led to the introduction of arbitration in New Zealand, the Australian states and colonies and the Commonwealth, Castles account of the reasons for and the character of these divisions is thoroughly unconvincing. For example, how does he account for the make up of the Liberal party in New Zealand elected in 1890 which drew its support from small farmers, on the one hand, and the urban working class, on the other, and which drew little support from “urban interests” other than property developers

\textsuperscript{32} Castles 1985 p 63
\textsuperscript{33} Castles 1988 p 123
\textsuperscript{34} Castles 1985 pp 63-65
\textsuperscript{35} Gollan 1960 pp 50-68
interested in being bailed out by renewed government borrowing? At the very least this suggests that nature of the historic compromise that developed in New Zealand in response to economic crisis at the end of the nineteenth century differed from that in Australia, and Castles’ tendency to extrapolate from one case to the other is untenable.

More generally it can be argued that the problematic and largely unsubstantiated depiction of the sources of division on the political Right reflects Castles’ more general failure to take into account the effect of material interests on the policy and institutional preferences of different groups. While Castles see the domestic defence model as a reaction to economic vulnerability, his analysis largely excludes economic factors and material interests from explaining the division between different groups of capitalists. Rather he tends to treats political action as independent from and largely unconnected to economic factors. It is quite clear from even a cursory reading of historical accounts of the period that the primary source of division between different fractions of capital in both Australia and New Zealand concerned which groups were going to bear the costs of the economic downturn, and that it was on this basis that sharp divisions developed between pastoralists, domestic manufacturers, overseas holders of government debt and domestic property developers and mortgage holders.

In a critique of Castles’ wage earners’ welfare state explanation of the development of social welfare in Australia, Watts argues that Castles’ account of the development of the welfare state is strongly functionalist and distorts the historical record. He argues that these outcomes are largely a consequence of Castles’ overriding concern to confirm his earlier work on the role of the labour movement in developing the welfare state:

In a simple sense Castles’ wage earners’ welfare state model is a result of trying to reconcile his already settled conviction that there is a significant ‘causal connection’ between social democracy and working class mobilisation and extensive welfare provision with the problem which the Australian case represents for his thesis.

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36 see Sinclair 1980 pp 172-188 and Richardson 1981f or more details of the composition of the Liberal Party. See Shannon 1963 for an account of the conflict between different elements in the second Liberal ministry, especially between urban labour and farmers.

37 See Ramia 1998 for a critique of Castles which stresses this issue.

38 see below for a more detailed discussion

39 Watts 1997 p 8
The critique advanced above suggests that Watts’ criticism can be applied to the entire domestic defence model. In particular, it can be argued that the influence of a set of assumptions about the nature of working class power in capitalist society dominate Castles’ presentation of the Australian and New Zealand cases and as a consequence his domestic defence model distorts the historical record of the two countries. For this reason, there are good reasons to question the almost universal acceptance of the domestic defence model as an adequate theoretical basis of comparison in the literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s. Most notably, the assumption that the political reaction of Australia and New Zealand to economic vulnerability at the end of the nineteenth century was the same in all important respects is largely unsubstantiated in Castles’ work and may be said to be a result of his assumptions rather than an accurate reflection of the historical events. Thus, as was noted in chapter five, it may be that the differences in the timing and ease of adoption of arbitration in the two countries alluded to by Macintyre are not unimportant or inconsequential but rather reflect more fundamental differences between the cases. The remainder of the chapter uses an interaction approach to examine the nature of these differences and the implications they had for the development of arbitration in the two countries.

6.3 INTERNATIONAL ECONOMIC REGIME: FREE TRADE IMPERIALISM AND THE RAPID DEVELOPMENT OF THE DOMINIONS
The interaction approach to the relationship between international economic change and the domestic institutions of industrial relations, outlined in chapter three, suggests that an assessment of the main characteristics of the international economic regime, and the particular nature of the integration of countries being compared into this regime, is an important element in understanding similarities and differences in the domestic institutions of industrial relations. This section briefly outlines the main features of the regime of free trade imperialism which dominated the international economy from the mid-nineteenth century until world war one and the relative position of Australia and New Zealand within that regime.

The colonies of Australia and New Zealand, along with a number of other areas of recent European settlement, experienced rapid economic development in the second half of the
The Importance of Small Differences

nineteenth century. This rapid economic development was intimately connected with, and fundamentally shaped by, the establishment of British hegemony over the international economy and the establishment of a regime of free trade imperialism. Industrialisation in Britain, starting the late eighteenth century, created the preconditions for the development of free trade imperialism. Industrialisation created greatly expanded demand for raw materials and food. This demand was reinforced by the rapid growth of population in Britain during the nineteenth century and the slow productivity increases in the agricultural sector. Industrialisation also resulted in the rapid accumulation of capital. As Denoon notes, by the mid nineteenth century “so much capital had accumulated in Europe that ordinary interest rates were derisory, and capital could be borrowed very cheaply.” Declining returns gained from investment in capital goods production for the domestic market after 1840 further encouraged holders of capital to seek more remunerative rates of return overseas. These pressures only intensified during the second half of the nineteenth century. Thus Cain argues:

Investors looking for safe outlets found fewer openings at home after mid century. Gladstonian finance restricted the amount of new government paper drastically; domestic railways suffered a sharp decline in profitability after 1870; and agricultural mortgages fell out of favour when arable began to suffer the effects of fierce foreign competition. With interest rates falling, rentier money was forced to look for opportunities on the new capitalist frontier in North America, Australasia and Latin America.

These factors- industrialisation, population growth and the accumulation of capital- came together to foster the establishment of an expanded international trade regime based on free trade, which became firmly established by the second half of the nineteenth century. The intellectual case for free trade had been made by the classical economists, starting with Adam Smith in 1788 and followed by Nassau Senior and Ricardo. However, it was not until the 1840s that major steps were taken to fully establish a free trade regime. This represented a combination of pressure from the anti-Corn Law League, representing the new industrial and financial interests, and the effects of the Irish famines in 1845-6. The

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40 for general overviews see Denoon 1983 and Schwartz 1989. On New Zealand see Condliffe 1959a and Simkin 1951. On Australia see, for example, Fitzpatrick 1949 pp 131-133
41 One of the first industries to develop and to expand rapidly was the textile industry. There was mechanisation of cotton looms as early as the 1790s. However mechanisation of woollen textile production was not widespread until the 1850s (see Biernacki 1995 p 5 ff for a more detailed discussion).
42 see also Fitzpatrick 1949 pp 131-133
43 Denoon 1983 p 48
44 Arrighi 1995 p 161
result was the repeal of the Corn Laws in 1846.\textsuperscript{46} However it was Gladstone’s Budget of 1860 which removed most remaining duties that “marked Britain’s emergence as a free trade nation within the international economy”.\textsuperscript{47}

Free trade imperialism was underpinned by Britain’s military dominance based on sea power that was established in the aftermath of the Napoleonic wars. Peace and British military dominance lowered the risks of investment in other parts of the world. Transaction costs associated with international investment and trade were also lowered by technological developments especially in transport and communications. “Of these improvements the application of steam to land and seas transport was of critical importance.”\textsuperscript{48}

Free trade imperialism was also promoted by, and reinforced, the development of a sophisticated financial centre in the City of London. Ingham argues that while the City developed its basic financial and commercial activities in the period of pre-industrial trading, they became more highly articulated and developed in the second half of the nineteenth century.\textsuperscript{49} In the period after the Napoleonic wars, the City of London had developed into a sophisticated mechanism for exporting accumulated capital in pursuit of more remunerative returns.\textsuperscript{50} The dominance of the City was reinforced by the growing adoption of the gold standard as the basis of the international monetary system.\textsuperscript{51} As Frieden argues:

By the 1850s two things were clear. First, the United Kingdom was irrevocably on the gold standard… Second the United Kingdom was the world’s financial and commercial centre. London had come to dominate international finance, shipping and trade; the country as a whole was far and away the most important economy; and the pound sterling was becoming the vehicle currency for most international trade and payments. This process was especially clear in the financial realm: after averaging £5.5 million a year in the 1830s and 1840s, British net foreign investment rose to £20 million a year in the 1850s and £37.2 million a year in the 1860s.\textsuperscript{52}

\textsuperscript{45} Cain 1994 p 219
\textsuperscript{46} see Kindelberger 1975 pp 77- 81 for a review of the debates about the reasons for the repeal of the Corn Laws and the establishment of free trade.
\textsuperscript{47} Kenwood and Lougheed 1983 pp 74-6
\textsuperscript{48} Kenwood and Lougheed 1983 p 25
\textsuperscript{49}Ingham 1984 p 43
\textsuperscript{50} see Ingham 1984 Chpt 5
\textsuperscript{51} see Eichengreen 1996 pp 15 ff
\textsuperscript{52} Frieden 1997 p 214
The regime of free trade imperialism created the conditions under which the countries of recent European settlement could be brought into world market production using debt financing to motivate raw material and commodity production. In the second half of the nineteenth century a disproportionate amount of British capital flowed to the Dominion economies in the form of debt. This debt was used to finance the development of commodity production for export, primarily wool farming. This took two main forms. First there was public borrowing, by newly established elected Colonial administrations, to fund state investment in social overhead capital (mainly railroads) which opened up land for wool farming. Debt financing also took the form of private mortgages held over farming land and improvements. The rapid growth of the export sector in the Dominions created demand for consumer and intermediate goods, resulting in favourable conditions for growth of the service sector and domestic manufacturing. It was under these conditions that the population of the colonies of Australia and New Zealand continued to grow rapidly in the late nineteenth century. Thus, while export oriented commodity production had not been the main factor in motivating the initial settlement of the colonies in Australia and New Zealand, the establishment of free trade imperialism, and the discovery of the “golden fleece” created the conditions for rapid economic development of these colonies.

6.4 Debt Financed Development and Dominion Dependency

Reliance upon Mammon in the form of foreign capital had a consequence which may not have been foreseen at all clearly. The host state was responsible for the security and profitability of capital invested. To maintain a flow of fresh investment for further export growth, the governors must demonstrate that existing capital was well provided for. Only the narrowest of margins separated responsibility for this capital from responsibility to those who invested it. Yet the governors were simultaneously responsible to some at least of the governed.... this dual responsibility might rest very lightly on the shoulders of politicians so long as economic conditions were buoyant, and a general optimism prevailed; but there were crisis periods when capital and people seemed to be on a collision course.  

While free trade imperialism created the conditions for rapid economic growth of the Australasian colonies based on debt financing, it also created the preconditions for a series of economic and political crises in the late nineteenth century in response to changes in international market conditions. Schwartz provides a detailed analysis of the
consequences of debt financed development for Dominion economies. His model, which goes beyond Castles’ vague notions of ‘economic vulnerability’ and draws on an understanding of the dynamics of capitalism, provides the background necessary to understand both the similarities and differences in the introduction and development of arbitration systems in Australia and New Zealand.\(^{54}\) This section reviews Schwartz’s \textit{dominion dependency} argument to explain the shared nature of the crises affected Australia and New Zealand in the late nineteenth century. The following section examines differences in the ways that Australia and New Zealand responded to these economic and political crises.

Schwartz argues that, despite rapid economic development, reliance on foreign debt created \textit{dependence} in the Dominions. This dependence was not a reflection of poor returns on the investment of the borrowed funds but rather reflected the inability of colonial states to capture a sufficient amount of the value created by public debt.\(^{55}\) This is best illustrated in relation to railroad development- a major source of dominion debt. Investment in railroads increased the value of land “opened up”. This increment could have been used to pay back the debt. The problem for the colonial state was how to capture part of the value of that investment and use it to repay the debt. A number of factors meant that the Dominion governments did not receive the new market value of the land and that freight charges did not reflect the cost of capital. One of the factors that Schwartz points to is the involvement of land speculators in the early settler government and the extent to which the increment in land value that resulted from state investment in social overhead capital flowed into the hands of private speculators and financiers. Another factor was the political unwillingness of Dominion governments to charge the full, real cost of freight on the railways.

The result of the inability or unwillingness of the Dominion governments to capture the value generated by public debt was that they resorted to taxation as a means of financing the public debt. Taxation was mainly in the form of customs and excise duties. The

\begin{itemize}
\item \textsuperscript{53} Denoon 1983 p 71
\item \textsuperscript{54} Schwartz 1989
\item \textsuperscript{55} Dependency is defined by Schwartz as a situation in which there is a strategic control of accumulation circuits by foreign capital such that there is a transfer of surplus from the local economy which is large enough to hinder autonomous investment by domestic capitals. For the formal modelling of this
\end{itemize}
burden of this form of taxation fell primarily on the domestic sector because taxation through customs and excise duties was effectively a tax on the use of labour. The relatively higher labour intensity associated with domestic sector production in comparison with the export oriented agricultural sector meant that that the domestic sector bore the majority of these costs. At the same time, the domestic sector made relatively less use of subsidised transport, and other forms of subsidised social overhead capital, in comparison with the export sector. In other words, the domestic sector provided a significant subsidy to the export sector.

Schwartz argues that one of the effects of the subsidy was to encourage over-investment and over-production in the export sector. The subsidy concealed the real rate of return in investment activity and encouraged over-investment. The subsidy also encouraged overproduction, by artificially reducing operating costs. Eventually this was to contribute to a reduction of the prices of commodities on world markets. Thus while the subsidy initially created the conditions for rapid growth of the export sector, it also undermined the long-term profitability of that sector.

The subsidy not only led to over-investment in the export sector but also resulted in stagnation in the domestic economy. Rapid growth of the export sector initially produced demand for domestic sector producer and consumer goods, offsetting the loss of surplus through taxation. However as export sector investment production continued, the burden of the subsidy on the domestic sector increased. Eventually the effect of the subsidy was greater than the growth induced by the export sector- placing pressure on the viability of the domestic sector.

For Schwartz, these factors created the preconditions for political and economic crises in the Dominions at the end of the nineteenth century. As he notes:

... by 1873 the international economy had entered a long depression which lasted until the mid 1890s. By the 1870s, the dramatic increase in agricultural production for world markets resulted in falling commodity prices... British wool consumption slowed in the late 1880s and began to drop off early in the 1890s.

dependency relationship see Schwartz 1989 pp 20-29. The following discussion is based on Schwartz 1989 pp 35-41
Wool prices fell in the 1880s to 77% of the 1870s average, bottoming at 63% of 1870s prices in 1894.\textsuperscript{56}

This dramatic decline in export prices, produced a series of interlocking private and public debt crises in the dominion economies which reflected the consequences of dependent development.

Once liquid capital (money) is invested in a productive asset the value of that capital is determined by the stream of income the asset can produce. If the price of the goods that asset produces falls, and the profit rate for those goods falls, then the value of the capital invested must fall as well. Most of the capital invested must fall as those goods falls, then the value of the capital invested in Dominion export activity was secured by mortgages on land. But as the prices received for wool and meat fell, in turn land values fell, and loans to exporters became insecure and illiquid, trapping financiers’ investments... capital as liquid money capital could not leave because the market for land had disappeared. Not all the capital backed by land could be made liquid again at the new, lower level of land prices. Refinance of extant debt became equally impossible, for the land no longer secured the initial investment.\textsuperscript{57}

Thus as the prices for export commodities fell, land values fell and loans to exporters became insecure and illiquid, trapping financiers’ investments and resulting in a private debt crisis. Exporters responded to the fall of prices by attempting to increase production to offset the loss of income eventually resulting in a further fall in commodity prices, accelerating the private debt crisis.

Falling commodity prices and the private debt crisis in the export sector also created public debt crises in the Dominions. Falling commodity prices in the export sector had significant effects on the demand for services and manufactured goods from the domestic economy. At the same time, with declining returns from land sales, one of the few options for the state to service public debt and to subsidise the export sector was to increase the taxation burden on the domestic sector, which had further depressing impacts on domestic demand. It also made it increasingly difficult for the colonial governments to meet their debt service burdens or to raise further capital. Thus Schwartz argues that, in context of falling commodity prices, the magic circle created by debt financed development in the Australasian colonies quickly became a vicious cycle where declining profitability in the export and domestic sectors undermined the state’s creditworthiness,

\textsuperscript{56} Schwartz 1989 p 64
\textsuperscript{57} Schwartz 1989 pp 41-42. The following discussion draws on Schwartz 1989 pp 41-6
reducing taxation and land sale revenues, and hence reduced its ability to prop up the whole system by renewed borrowing.

Schwartz argues that it was these interlocking private and public debt crises, reflecting the structure of the international economy under free trade imperialism and the dependent nature of Dominion development with this system, that produced the conditions for the widespread conflict both between labour and capital, and also between different fractions of capital in the colonies of Australia and New Zealand at the end of the nineteenth century. Falling commodity prices and debt crises created the conditions for increased conflict between labour and capital. On the one hand, domestic sector employers sought to offset reduced profit margins and the increasing burden of taxation by lowering wages and increasing productivity. This explains the growth of “sweating” in industries like the boot trades in both Australia and New Zealand during the late nineteenth century.\(^58\) Export sector employers, on the other hand, sought to increase productivity and lower costs to maintain income levels in glutted markets. In is in this context that conflict in the pastoral sector in the late nineteenth century in New South Wales and Queensland needs to be understood. The efforts of pastoralists to enforce “freedom of contract” in the shearing industry, was not simply an ideological position but rather reflected the pastoralists rejection of an earlier accommodation reached with the shearers’ union because of the precipitous decline in export prices and growing concern about their ability to service mortgage payments. Breaking union control was part of an attempt to both increase production and lower costs of production. Producer concerns about the need to reduce costs, in the context of falling export receipts, also helps explain the development of conflict in the Maritime industry on both sides of the Tasman in the 1890s.\(^59\)

Pressures associated with dominion dependency also help account for the rapid growth of labour organisation in the 1880s in both Australia and New Zealand. Workers already bore the brunt of the subsidy to agriculture through consumption taxes and were caught

\(^{58}\) for more details on sweating and its connections to reduced profitability in domestic manufacturing and falling commodity prices in New Zealand see Street 1994 pp 40-41 and in Victoria and New South Wales see Frances 1988 pp 99-100 and Ellem 1989 pp 37-8. As all these authors note the impact of increased sweating was borne disproportionately by women workers.

\(^{59}\) The 1890 Maritime Strike began in Australia but quickly spread to New Zealand. For details see Macintyre 1987 p 151 and Olssen and Richardson 1986 pp 1-4.
between further increases in living costs and downward pressure on wage costs from employers. This provided a fertile ground for the development of the new unionism amongst unskilled and semiskilled workers in both Australia and New Zealand during the 1880s.\textsuperscript{60} While Schwartz does not directly address this issue, another implication of his argument is that the crises associated with dominion dependency also exacerbated potential divisions between different groups of workers. The crises of dominion dependency created the conditions for important differences of interests between domestic sector workers and workers in the export chain which to some extent mirror those that developed in Sweden during the Depression in the 1930s, which were reviewed in chapter two. In the context of falling export receipts, workers in the export chain (shearing, mining, transportation and the Maritime sector) were more likely to regard costs from the domestic sector as damaging to the viability of the export sector as a whole and thus were likely to be opposed to the preservation of craft union margins. At the same time, domestic sector workers and especially skilled workers organised in craft unions were likely to regard wage militancy in the export sector as potentially damaging to the viability of the domestic and non-tradeable sectors of the economy. There is some evidence of divisions along these lines within the union movement in both New Zealand and Australia. Roth, for example, notes that in New Zealand an open hostility developed between the craft dominated Trades and Labour Councils (TLCs) based in the major cities and the Maritime Council, a body which formed in 1889 to represent unskilled and semiskilled workers in the export chain, including coalminers, waterside workers, railwaymen and farm labourers.\textsuperscript{61}

The end of economic growth that had been generated by the debt financed expansion of the export sector, and which had underpinned growth of the domestic sector, not only provoked increased conflict between labour and capital, and between elements of the labour movement, but also produced a number of divergent interests amongst the various fractions of capital each trying to protect the value of their investments. Drawing on an analytical framework similar to those outlined in the chapter three, which focus on the

\textsuperscript{60} for a discussion of the new unionism in New Zealand see Roth 1973 pp 6-16. For a discussion of the concept of new unionism and its applicability to Australia in the 1870s and 1880s see Patmore 1991 pp 65-8. There was a strong “Australasian” character to the new unionism of the 1880s. Many of the unions in New Zealand were affiliated to Australian bodies and Australian organisers played an important role in establishing unions in mining and the maritime industries. See Knowles and Ryan 2002.

\textsuperscript{61} Roth 1973
intersection between class and sector, Schwartz identifies a number of different fractions of capital in the Dominions and maps the consequences of changes in international market conditions on these fractions. In particular, he distinguishes between the interests of holders of different types of debt—public and private—and between the interests of different types of producer groups—primarily pastoralists and processors operating in the export markets and manufacturers focussed on the domestic sector. He notes that declining export prices resulted in increased levels of conflict between these different fractions of capital:

Public debt, private debt (in the form of investments in export activity) and labour’s standard of living are all threatened when domestic sectors no longer can subsidise export activity. The owners of public and private debt, and labour and the domestic sectors, all struggle to make the others lose their investment or wage level. The unity between capitals that underwrote the whole system of public debt subsidised expansion disintegrates as each group of capitals tries to save its own investment. Holders of public debt advocate retrenchment (i.e. decreased subsidies) so that the fisc can meet service payments. Exporters and their creditors advocate increase taxes on other sectors so that they can continue at their expected “historic” rate of profit, or they propose state subsidised buyouts of export land so as to free the capital frozen in devalued mortgages.62

6.5 DIVERGENT RESPONSES TO THE CRISSES OF DOMINION DEPENDENCY IN AUSTRALIA AND NEW ZEALAND

Thus because of their shared experience of debt financed development in the context of free trade imperialism the crises of dominion dependency manifest themselves in similar fashion in New Zealand and the Australian colonies. However there were fundamental differences in the ways in which these crises were resolved in two countries. Differences in the cross-class coalitions that formed in Australia and New Zealand in response to the crises of dependency resulted in the adoption of different accumulation strategies.

NEW ZEALAND: EXTENDING “THE FRONTIER OF DEBT” THROUGH INTENSIVE FARMING

The New Zealand pioneer bore a load of debt.... From the first the community as a whole also incurred considerable debt for, as in all underdeveloped countries, progress awaited investment—a familiar observation which explains why a great deal of New Zealand’s history has been concerned with credit, and why some of its powerful leaders have been chiefly noted (or notorious) for their skill at making vast sums of money appear as though from nowhere and then, only too often, as unaccountably vanish.63

62 Schwartz 1989 pp 44-45
63 Sinclair 1980 pp 151-2
According to Castles, the election of a Liberal government in New Zealand in 1890, which in part drew support from the labour movement, was a reflection of the same process which resulted in the election of Labor candidates to colonial legislatures in Australia during the 1890s and to the rise of political Labour at the state and Federal level after 1901. In both cases, he regards the introduction of arbitration as concession gained by the labour movement in return for its support for the introduction of protection. It is on this basis that Castles regards the two countries as fundamentally similar. As has already been noted, there are a number of reasons to question whether this characterisation applies to the Australian case. There are even stronger reasons to question the adequacy of this account in the New Zealand case.

Indeed, it can be argued that the coalition of class forces that developed in New Zealand in response to the crisis of dependency differed fundamentally from that which developed in Australia. The political consequence of the crisis of dependency was the election of a Liberal government which drew support from an unstable alliance of disparate groups, including:

- urban and rural labour,
- the petit bourgeoisie living in small towns,
- and the financial capitals most heavily involved in land speculation…. The Liberals advocated a programme of industrial conciliation and closer settlement to link these disparate elements together against estate owners and their urban manufacturing and mercantile allies.\(^{64}\)

However, while urban labour played a role in the election of the Liberal government, and labour members of the Liberal Party supported the introduction of arbitration, this was not a clear strategy of a united labour movement turning from industrial action to the political arena. As Olssen and Richardson note the growing interest in political involvement on the behalf of labour, and political support for the Liberals came predominantly from urban craft unions and their Trades and Labour Councils which were based in the major metropolitan areas. The defeat of the Maritime Council in the 1890 general strike, provided the opportunity for urban craft interests to assert themselves within the labour movement and to ensure that developments in the field of labour legislation both served the interests of these unions and prevented the use of militant tactics on the part of export sector workers. In this they were opposed by a number of
elements in the labour movement including most importantly the export sector workers that would later form the core of the Red Federation of Labour more than a decade later.\footnote{Schwartz 1989 pp 181-182} Thus in contrast to Castles’ view, the alignment of forces behind the Liberal government in New Zealand in the 1890s did not represent the labour movement as a whole, but rather was dominated by the sectional interests of urban craft based unions. Moreover, even though elements of labour played a role in the election the Liberal government in New Zealand 1890, and its subsequent legislative agenda, this influence was always secondary in character and was quickly eroded. While much of the focus in Castles’ account is on the *quid pro quo* of arbitration for tariff protection, the most significant aspect of the New Zealand Liberal government’s legislative programme in the early 1890s related to land tenure and land settlement. The 1891 *Land and Income Tax Act* and, more importantly, the 1894 *Advances for Settlers Act* created the conditions for closer settlement of land for farming and the growth of small-holding.\footnote{for more details see Roth 1973; Olssen and Richardson 1986; Olssen 1988} This had a significant effect on the both the New Zealand economy and the pattern of political alignments that developed. First, it led to a dramatic increase in the numbers of farmers in New Zealand. As Schwartz notes between 1892 and 1909 there was a 61% increase in the number of farmers with holdings of less that 200 acres and a 101% increase in the number of holders of farms between 200 and 5000 acres. This growth in small and family run farms created the basis for the application of intensive farming techniques to land in New Zealand and the dramatic switch of production away from wool and towards meat and dairy for export, which was to dominate economic development in New Zealand throughout the twentieth century. As Condliffe notes:

> in 1890 the exports of butter and cheese were little more than 2 percent of the total; in 1935, despite a great increase in other exports they were nearly 39%.... [There] were parallel developments in the sheep farming industry. Between 1890 and 1935 the quantity of frozen meat exported rose from 899,00 to 5,207,00 cwt.... These changes reflected a revolution in farming practice.\footnote{for more details see Sinclair 1980 pp 178-182; Condliffe 1959a pp 196-211. It is important to note that the original agenda of the Liberal Party, which united urban workers and small rural farmers and rural workers, was to break-up the big estates and redistribute their land. However, in part because of the declining influence of radical elements within the party, it soon abandoned this aim and sought instead to promote closer settlement through sales of crown land (much of which was alienated from Maori ownership) financed by a resumption in overseas borrowing. For a detailed account of the position of large land holders and the erosion of radical liberalism see Eldred-Grigg 1980}
The combination of favourable prices in export markets from 1895 on, the application of intensive farming techniques and the introduction of technologies for refrigeration to the export of meat and dairy products, increased the productivity of land and with it the ability of its owners to service debt payments. This resolved the immediate crisis of dependency which had affected New Zealand during the 1880s and 1890s and allowed for the resumption of government borrowing in the mid 1890s.

Closer settlement and the rise of the family farm also had significant implications for urban labour, its ability to shape policy developments within the Liberal Party, and for the economic position of workers and manufacturers in the domestic economy. As Shannon notes, by the 1893 election William Pember Reeves and the other ‘radical’ and labour elements within the Liberal party had lost much of their influence. However, unlike Australia, an independent Labour Party had not yet emerged. After the 1893 election, in which the Liberal Party lost many of its urban seats, Shannon argues that the Liberal Party began a transition towards a country based Liberal party that drew its primary electoral support from rural interests, especially family-run farms. It was therefore just as labour’s influence in the Liberal party was waning that the 1894 IC&A Act was introduced.

The resolution of the crisis of dependency through closer settlement, the shift to export of dairy and meat and the resumption of government borrowing, also had important consequences for the subsequent development of the domestic economy and therefore for the position of workers and manufacturers within New Zealand. Castles’ suggests that in New Zealand, as in Australia, the primary axis of the historic compromise was between urban labour and domestic manufacturers and involved the introduction of arbitration in return for tariff protection. This view, drawn from a reading of the Australian case, completely distorts the New Zealand case and misreads the nature of the economic development that ensued. The resolution of the crisis of dependency in New Zealand largely excluded urban manufacturers and the tariff regime that did develop in New Zealand did not play the same role in supporting the development of a domestic manufacturing sector in New Zealand during the early part of the twentieth century that it

67 Condliffe 1959a pp 227-8
68 Shannon 1963 p 128
There is no content available in the image provided.
with the Labour Party. Not until ruinous depression in the 1930s reproduced and even exaggerated the conditions that had been prevalent in the 1880s was the alliance restored.  

Thus it was within the constraints placed on it by continued dependence on foreign borrowing and the dominance of the interests of the export sector based in intensive farming that arbitration was introduced and developed in New Zealand.

**AUSTRALIA: FEDERATION, THE ‘NEW PROTECTION’ AND DOMESTIC MANUFACTURING**

It was this not inconsiderable manufacturing industry (which, even in 1893, contributed about 30 percent of all the value of production in Victoria, and about 20 percent of New South Wales production) that the Liberal Commonwealth ministries, supported by the Labor Party which had lopped off its free trade wing, and Labor ministries, proceeded to legislate for by the devices of the ‘New Protection’. These devices were to protect the farmer only to a small extent …. They were above all to protect the manufacturer and his employees …. What with industrial arbitration, the suppression of monopolies, and legislation which would make it unprofitable to sweat workers, Australia was to be made a garden in which coffee, rice and cotton grew freely, in which enlightened middle class Liberalism walked hand in hand with the President of the Court of Conciliation and Arbitration, smoothed by airs played by military band instruments, duty free under the tariff of Nineteen Hundred and Seven.  

While the resolution of the crises associated with dominion dependency in New Zealand resulted in an accumulation strategy based around the interests of the intensive farming agricultural export sector, the same crises produced a quite different outcome in Australia. Unlike New Zealand, the accumulation strategy adopted in Australia in the early 1900s in response to the crisis of dependency included the interests of domestic manufacturing and ensured that Australia developed in a fundamentally different way from New Zealand in early twentieth century.

Schwartz argues that “Australia and New Zealand’s political and economic trajectories are too often seen as similar”. He identifies three important differences between the Australian colonies and New Zealand which altered the nature of the cross-class coalition that emerged in two countries in response to the crises of dominion dependency. These include the impact of the 1851 Victorian gold discovery, the impact of the debt crisis on

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72 Condliffe 1959a p 225
73 Fitzpatrick 1949 pp 263-5
74 Schwartz 1989 p 195
large-scale pastoral capital, and the opportunity provided to domestic manufacturing interests by the Federation process in Australia. Schwartz argues that the discovery of gold in Victoria in 1851 “introduced a factor that caused Victorian and then Australian history to diverge slightly from that of the other dominions”.\textsuperscript{75} The discovery of gold led to a dramatic increase in the population of Victoria. This, in turn, created the conditions for Victorian agriculture to diversify away from exclusive reliance on wool production for export and for the development of domestic manufacturing to service the needs of expanding population. The introduction of a protective tariff in Victoria in the 1860s, while intended as a revenue raising measure on the part of the Victorian government, had the effect of expanding and entrenching the manufacturing base in Victoria and absorbed significant numbers of unemployed ex-miners. The gold discovery also generated an important domestic, as opposed to foreign, source of capital to finance developments in Victoria and in the other Australian colonies. Thus gold discovery allowed for the rapid development of a fraction of capital based in manufacturing and also created different fractions of finance capital in Australia, which were aligned to manufacturing.

Secondly, unlike the New Zealand case, the crisis of dependency largely wiped out large scale pastoral capital in Australia. In the aftermath of land selection legislation in the 1860s, significant amounts of Victorian and foreign capital flowed into investment in the pastoral sector. As Buckley and Wheelwright argue:

\begin{quote}
capital … flowed in the form of loans from banks and finance companies to squatters to enable them to extend their operations and to buy land. Security for the loans came from mortgages on the land, with the result that a large proportion of graziers became heavily indebted. The extent of this was not evident before the depression of the 1890s, for in the good time the financiers did not intervene in the management of stations. Nevertheless the independence of the squatters was basically undermined.\textsuperscript{76}
\end{quote}

In the context of falling commodity prices in the 1880s, finance companies and banks increasingly looked to foreclose on mortgages on large properties. The effect was that large-scale pastoralists were virtually wiped out by the debt crises of the 1880s and 1890s

\textsuperscript{75} Schwartz 1989 p 58. For a detailed treatment of the effect of the Victorian gold discoveries on Australian economic development see Fitzpatrick 1949 pp 102-129. There were also gold discoveries in New Zealand in 1861. However as Sinclair notes while “for some years gold was New Zealand’s major export…. its impact on New Zealand life was much less than in Victoria and Australia in general” Sinclair 1980 p 107

\textsuperscript{76} Buckley and Wheelwright 1988 p 110
and were considerably weakened as a political and economic force. As Schwartz notes the elimination of independent large-scale pastoralists in Australia, removed an importantly for foreign debt holders in the political and economic struggles over the crises of dependency.\^{77}

A third factor which differentiated the Australian experience from New Zealand was the political opportunity provided by Federation. While Federation was a complex event motivated by a range of factors, as Fitzpatrick notes “by no means were all these factors [making for Federation] economic factors, but in one from or another most of them were associated with an economic motive.”\^{78} According to Schwartz, the failure of colonial efforts to resolve the debt crises made it possible for domestic manufacturers to assert their interests during the Federation process against those of pastoral capital and London financial interests and to some extent set the agenda for Federation. To simplify a complex political process it can be argued that during the course of Federation, interests associated with domestic manufacturing, particularly Victorian manufacturing, were able to influence the final form of the Constitution. This influence was manifest in, amongst other things, securing Commonwealth powers to introduce protective tariffs and arbitration- which were later to become key elements in Deakin’s “New Protection”- in return for supporting free trade between states and financial arrangements to re-establish the credit worthiness of states.\^{79}

These three factors created the conditions for a radically different coalition of interests to develop in Australia and the development of an accumulation strategy which placed considerable emphasis on the role of the tariff and the growth of domestic manufacturing. Thus Deakin’s Liberal Protectionist Party (LPP), which became the first Commonwealth government, had a dramatically different social base from the Liberal Party government that introduced arbitration in New Zealand. Rather than incorporating the interests of

\^{77} Schwartz 1989 p 67. For the contrast with New Zealand see Eldred-Grigg 1980. As was noted above by the late 1880s the divisions between large landowners and small holders in New Zealand had begun to collapse, and the dominant coalition that emerged pitted the interests of the export sectoral and foreign capital against those of urban workers and domestic employers.

\^{78} Fitzpatrick 1949 p 259

\^{79} For a detailed treatment see Schwartz 1989 pp 87-104. See also Grenewegen 1983 p 169 ff. On Federation see the various contributions to Irving 2001. While much of the comparative literature on industrial relations reform in Australia and New Zealand points to the importance of constitutional
agricultural export capital, through the ‘New Protection’ Deakin’s LPP attempted to forge a coalition of interests between domestic manufacturing capital, and aligned financial capitals, with conservative elements of the labour movement. In contrast to the Liberal government in New Zealand, the major legislative programme of the LPP was not directed primarily at land tenure, but rather at establishing protection and encouraging manufacturing. These included the Excise Tariff Act 1906, the Industries Preservation Act 1906, the Customs Tariff Act 1908 and the Manufactures Encouragement Act 1908. At the same time Deakin sought to incorporate elements of labour into a new coalition. Seen in this way, the introduction of arbitration in the federal jurisdiction was attempt by the LPP to win support from the moderate elements of the labour movement for tariff protection.

While, as Macintyre puts it, the New Protection sought to “soften class conflict” by tying the interests of manufacturing capital and conservative elements of labour together, just as the Liberal Party alliance between farmers and craft workers in New Zealand had proved to be unstable in the 1890s, so too the coalition that the LPP attempted to form with the New Protection before 1909 was never realised. Many of the key elements of the New Protection were struck down by the High Court- including the Excise Tariff Act and most aspects of the bounty system- before they came into operation. Furthermore, the accumulation strategy of domestic industrialisation remained largely dependent on export receipts to service debt and to finance capital imports. Unable to establish complete dominance over free traders, protectionists were limited in the extent to which they could increase the level of the tariff. The New Protection compromise was further ruptured by the rise of Labor as a political force. By 1909, capitalist concerns about the possibilities of Labour holding power at Federal as well as state levels, led to a “fusion”, in which class interests asserted themselves over sectoral concerns.

arrangements in the two countries, they largely ignore the historical differences which produced these constitutional differences, which would seem to be just as important.

80 See Fitzpatrick 1949 pp 263-5
81 see Macintyre 1983 p 107
82 Macintyre 1989b p 27
83 It is interesting to note the strong parallels between this development in Australia and Frieden’s (1988) views about the sources of unity amongst capitals around neo liberal in Latin American countries during the 1980s.
However by the time Labor formed a majority federal government in 1910-13 (after a brief period of minority government in 1908-9), thereby forming the first national labour government in the world, it had abandoned all vestiges of support for free trade and had become strongly wedded to a nationalist, as opposed to a socialist, economic policy agenda. Thus many of the elements of the New Protectionism were incorporated in the doctrine of “labourism” which characterised Labor policy in the period leading up to world war one. Notably, Labor in power in Australia saw the prosperity of working people in Australia as being closely tied to the development of domestic industry. Thus, while the rise of political Labour to some extent undermined the New Protectionist coalition, it ensured the interests of manufacturers remained central to the accumulation strategy.

Furthermore, as Cochrane notes, a number of factors ensured that British financial capital acquiesced in, although never fully supported, tariff protection and the development of ‘native’ industry in Australia- a position they never entertained in relation to New Zealand. The reasons for this acquiescence included growing concern by the British about the potential loss of influence to US entrepreneurs in countries like Australia, after their experience in Canada, and the desire to lower trade costs by encouraging raw material processing before shipping. It also reflected an acknowledgement that the Federation of Australia had created an internal market which was large enough to sustain enough manufacturing development (and taxation revenue) to allow existing debt to be serviced.

Table 6.1 Growth of GDP and GDP per capita, Australia 1887-1938

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (1966/7 A$ mil.)</th>
<th>GDP per capita (1966/7 A$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1887</td>
<td>2632.0</td>
<td>928.40</td>
</tr>
<tr>
<td>1897</td>
<td>2591.0</td>
<td>722.73</td>
</tr>
<tr>
<td>1900</td>
<td>3127.0</td>
<td>835.87</td>
</tr>
<tr>
<td>1903</td>
<td>3106.0</td>
<td>802.17</td>
</tr>
<tr>
<td>1907</td>
<td>3707.0</td>
<td>906.14</td>
</tr>
<tr>
<td>1911</td>
<td>4721.0</td>
<td>1066.81</td>
</tr>
<tr>
<td>1913</td>
<td>5076.0</td>
<td>1070.43</td>
</tr>
</tbody>
</table>

84 Macintyre 1989a  
85 Cochrane 1980 p 11
Table 6.2 Manufacturing, Victoria and NSW 1891-1913

<table>
<thead>
<tr>
<th>Year</th>
<th>1891</th>
<th>1901</th>
<th>1913</th>
</tr>
</thead>
<tbody>
<tr>
<td>State</td>
<td>NSW</td>
<td>Vic</td>
<td>NSW</td>
</tr>
<tr>
<td>Number of factories</td>
<td>3056</td>
<td>3141</td>
<td>3367</td>
</tr>
<tr>
<td>Numbers Employed in Factories</td>
<td>51,000</td>
<td>53,000</td>
<td>66,000</td>
</tr>
<tr>
<td>Value of Output (£ Million)</td>
<td>n/a</td>
<td>22</td>
<td>n/a</td>
</tr>
<tr>
<td>Value of Machinery and Plant (£ Million)</td>
<td>4.4</td>
<td>4.5</td>
<td>5.8</td>
</tr>
<tr>
<td>Power of engines (horsepower)</td>
<td>38,000</td>
<td>n/a</td>
<td>63,000</td>
</tr>
</tbody>
</table>

As is shown in table 6.1, Australia experienced renewed, and even rapid economic growth in the first decade of the twentieth century. While this economic growth was originally driven by favourable movements in the terms of trade for agricultural products, after 1907 these terms of trade moved against Australia and it was the growth of manufacturing which drove overall economic growth. Table 6.2 provides an overview of the growth of manufacturing in the two largest states in Australia, New South Wales and Victoria. It demonstrates that between 1901 and 1913 there was a dramatic expansion of the numbers of factories in the two states and the numbers of workers employed in those factories. Furthermore as there was also a significant growth in the capital intensity of manufacturing in Australia during this period with horsepower per factory increasing by 46.0% in NSW and 61.1% in Victoria in the period 1907-1913.

6.6 DIVERGENT DEVELOPMENT AND ARBITRATION IN AUSTRALIA AND NEW ZEALAND

Overall then, it can be argued that differences in the configuration of class fractions and the political and economic context created by Federation meant that the introduction and development of arbitration in Australia took place in an environment in which the interests of domestic manufacturing played a much more significant role than they did in New Zealand, where those of the agricultural export sector was dominant. On this basis it can be argued that what appear on the surface to be small differences between the cases
reflect much more significant differences. This section focuses on four aspects of the early development of arbitration in the two countries: first, the common adoption of arbitration; second, the differences in timing of this adoption; third, differences in the wages policy that developed; and fourth, differences in the reaction of the labour movement to arbitration in the period leading up to world war one. It demonstrates, how an understanding of the divergent responses of the two countries to the crisis of dominion dependency makes it possible to explain both the similarities, which Castles and the comparative literature seize on, and the differences which they are unable to account for and tend to downplay or ignore.

Following Macintyre it can be argued that the common adoption of arbitration in Australia and New Zealand in the late twentieth century reflected the intellectual influence of the new liberalism. In particular, it indicated concern by middle class elements in both countries about the negative social consequences of the unfettered operation of the market and the desire to avoid the level of social and class conflict evident in the two countries during the 1880s and 1890s. This in turn reflected the shared nature of the crisis of dominion dependency.

However while the intellectual response and the nature of the crisis that led to the introduction of arbitration was similar in the two countries, the social bases of liberalism in the two countries differed significantly. Thus differences in the timing and the ease with which arbitration was introduced in the two countries can be said to indicate more general differences in the response of the two countries to the crisis of dominion dependency. In New Zealand, arbitration was introduced as part of a shift towards intensive farming. For this reason, the operation and development of arbitration in New Zealand remained constrained within the demands of the agricultural export sector. In Australia, arbitration was introduced as part of response to the crisis of dominion dependency in which the interests of the domestic manufacturing figured as strongly as the interests of agricultural or foreign financial interests. The later adoption of arbitration in Australia reflected the more complicated nature of the process by which the crisis of dominion dependency was resolved in that country. These differences in the coalition of

89 Schwartz 1989 p 154
90 Macintyre 1989b
The Importance of Small Differences

class interests and the resulting accumulation strategies adopted by the two countries help explain differences in the timing of the introduction of arbitration in the two countries.

These differences in class coalition and accumulation strategy also help explain differences in the development of wages policy in Australia and New Zealand in the period leading up to world war one. As was noted in the previous chapter there were significant differences in the course of real wages in Australia and New Zealand after 1907- with considerable growth in real wages in Australia and stagnant and even declining levels of real wage growth in New Zealand. This in part reflected differences in wages policy promulgated by the arbitration bodies in the two countries. The Australian tribunal, through cost of living adjustments, and the establishment of margins principles, adjusted award wages upwards. However prior to 1913, there were no provisions for award wages, once set, to be adjusted in New Zealand.

As was noted in the previous chapter, Sandlant attributes these differences to the attitude of the Commissioners in the two countries, contrasting the personalities of Simms and Higgins. However the analysis presented in this chapter suggests that the reasons for the differences in wages policy, and the course of real wages more generally, in the two countries during this period, reflect more significant differences in the character and extent of economic development of each in the period leading up to world war one. Thus it can be argued that while in Australia, economic growth spurred by domestic manufacturing allowed more scope for increases in award wages, and the growth of real wages, the course of wages growth in New Zealand was constrained by the need to constrain the growth of domestic sector prices and wages within the more modest economic growth path provided by reliance of the export of meat and dairy products. Furthermore, while increased wages had the potential to drive economic growth in Australia, by increasing demand for domestically manufactured goods, in New Zealand, the dominant fraction of capital saw no benefits associated with increased wages in the domestic sector and thus supported arbitration to the extent that it acted as a mechanism reducing direct action in the export chain and cost pressures from the domestic sector. Schwartz captures these differences in the wage policies that developed when he notes that while in New Zealand:
a minimum wage was established but in real terms it was lower than 1890’s wage level and marginal employers were allowed to pay sub minimum wages which allowed small and inefficient firms to remain in the market. Without pressure to invest, value added per employee fell 33% 1901-1911, not because wages were rising as a percentage of output, but because raw materials costs were.... [Arbitration] consequently created neither demand nor supply pressures accelerating domestic accumulation, as they had in Australia.91

Differences in the balance of class forces on which arbitration was based and the economic context within which it operated also help account for some of the other differences in the arbitration systems that are not covered in any detail in the comparative literature. For example, it is worth noting that while in New Zealand, the arbitration tribunal refused to make an award for rural labourers in 1908, in Australia the AWU obtained a federal award for shedhands as early as 1907. While the award did not grant the AWU preference or give AWU organisers rights of access to sheds, despite protests by pastoralists, it did reject day rates for agricultural labourers and set a weekly wage for shed hands.92 This difference suggests that arbitration operated in fundamentally different circumstances in the two countries and that, as Macintyre puts it, is not surprising that “their common initiative in the field of industrial arbitration developed along different lines and had different consequences.”93

It can also be argued that the higher level of involvement and intervention by the government in the operation of the arbitration system in New Zealand, relative to Australia, which has been a recurrent feature of the system, reflects not just the lack of constitutional impediments to such involvement in New Zealand, but also the differences in the relationship of the dominant fractions of capital to the arbitration system in the two countries. In New Zealand, because of the restrictions placed on scope of operation of the arbitration system, the relationship of agricultural export capital to the arbitration system was largely indirect. As a result high levels of state intervention were required to ensure that the developments within the arbitration system were consistent with the demands of the export sector. In Australia, however, domestic manufacturing capital was directly involved in the workings of the arbitration system. In these circumstances, other than in

91 Schwartz 1989 p 184
92 Merritt 1999 pp 149-50
93 Macintyre 1987 p 157
circumstances where there were collective action problems to resolve, there was far less need for the state to intervene on behalf of the dominant fraction of capital.

Differences in the balance of class forces and accumulation strategies underpinning the arbitration systems also help explain the differences in the attitude of the labour movement to arbitration in the two countries. There has long been notable difference in the attitudes of the union movements in Australia and New Zealand to arbitration. In New Zealand, key elements of the union movement in New Zealand, especially those in the export chain, have historically regarded arbitration as a mechanism for restraining wages and have sought to use direct bargaining to escape its confines.\textsuperscript{94} In Australia, however, while at different times elements of the union movement have regarded arbitration as the “boss’s court” and have sought to challenge the system through direct bargaining, for most of the twentieth century the majority of the Australian union movement have seen arbitration as an effective vehicle for advancing workers’ interests. The argument presented in this chapter suggests that the reasons for this difference lies not in the more radical ideology of the union movement in New Zealand, as some have suggested, but rather material differences in the benefits that workers have derived under the two systems since their inception.\textsuperscript{95}

Thus in New Zealand, while the Red Feds preached a revolutionary doctrine, Olssen argues that it was the combination of declining economic growth after 1907 and the lack of movement in award wages which created the conditions for a widespread revolt by workers, particularly in the export chain, against the arbitration system.\textsuperscript{96} The limited nature of economic growth was a consequence of the accumulation strategy adopted by New Zealand in response to the crisis of dominion dependency and the limited scope for real wage increases reflected the dominant role played by the interests of the agricultural export sector within this accumulation strategy. In Australia, by contrast, during the same period, the economy continued to expand rapidly and there was more scope for the growth of real wages. In these conditions, and in the context of the election of the first Federal labour government, there was more scope for unions in Australia to seek wage

\textsuperscript{94} Roth 1973
\textsuperscript{95} cf Bray and Neilson 1996
\textsuperscript{96} Olssen 1988
increases through the arbitration system and the arbitration was not forced to play the same role of constraining domestic costs as it did in New Zealand.

As will be shown in the following chapters, the greater dependence of the New Zealand economy, and the greater pressure for the arbitration system to set wages which were consistent with the demands of the export sector, in comparison with Australia, have made arbitration in New Zealand much more contested and vulnerable to attack from all sides than its Australian counterpart. While this difference is reinforced by the constitutional differences between the countries, which place limits on the extent to which the Australian state can intervene in the operation of the industrial tribunals, at their heart they reflect more fundamental differences in the interests underpinning the institutions. Thus while institutional differences are important, alone they cannot explain the historical differences in the arbitration system that developed in the two countries.

6.7 THE COLLAPSE OF FREE TRADE IMPERIALISM AND ITS CONSEQUENCES FOR ARBITRATION IN AUSTRALIA AND NEW ZEALAND, 1919-1935

As previous sections of this chapter have noted, viewed through the lens of an interaction approach, the adoption of arbitration in both Australia and New Zealand was one element of broader (although divergent) attempts to resolve economic and political crises associated with dependent development. These crises, in turn, reflected the growing instability of free trade imperialism as a whole in the late nineteenth and early twentieth centuries. This section traces the decline of the regime of free trade imperialism in the interwar period and its consequences for accumulation strategies and the arbitration systems in Australia and New Zealand during that period.

From the late nineteenth century, British economic dominance was threatened by the economic rise of Germany and the United States, and to a lesser extent Japan, as powerful rivals. The decline of free trade imperialism was further exacerbated by the First World War, a conflict Lenin regarded as a consequence of rival capitalist expansion, which saw significant declines in international trade, large reductions in international labour mobility and the collapse of the gold standard.97 The collapse of free trade imperialism in the interwar period was to have important consequences not only for the viability of the
development models adopted by Australia and New Zealand but also for the stability of the cross class coalitions underpinning the institutions of industrial relations in the two countries.

While there was an attempt to reconstruct free trade imperialism after World War one, the interwar period was characterised by economic instability and low aggregate levels of economic growth. Levels of international trade during the interwar period were lower than in the pre-war period. Foreman Peck argues that this decline in international trade, in part, reflected the impact of low levels of domestic demand in key importing countries and, in part, reflected the growth of protectionism. Agricultural products were particularly affected by growing protectionism during the 1920s.98

The First World War also resulted in the final collapse of the gold standard, upon which free trade imperialism was based. The war disrupted the free flow of gold that underpinned the gold standard and meant that currencies began to float. The US dollar was the only currency that remained on gold. During the course of the war Britain and France had become significant debtor nations and the US emerged as the major creditor in world economy. In the immediate aftermath of the war, Britain suspended convertibility between Sterling and the US dollar because of concerns by the Bank of England about the consequences of inflation for its gold reserves. Britain eventually restored convertibility with the US dollar in 1925 and by 1926 an international gold exchange standard was established.99

The decision to restore convertibility with the US dollar at pre-war parity largely reflected the policy interests of British financial capital, hoping to restore the pre-war role of the City of London as the centre of international finance and trade.100 However, as Block notes, in many ways it had the opposite effect of bolstering the position of the New York as a international financial centre.101 It also had adverse consequences for both the British economy and the Dominions during this period. As Eichengreen argues re-establishing pre-war parity of US$4.68 to the pound substantially overvalued Sterling. In

97 Kenwood and Lougheed 1983
98 see Foreman-Peck 1983 pp 186-226
99 for a detailed overview see Eichengreen 1996 pp 45-92
100 Eichengreen 1996 p 60
an effort to defend Sterling, the Bank of England adopted a high interest rate policy. Overvaluation of Sterling meant that British manufactured goods were uncompetitive in the international market. High interest rates also had a deflationary effect on the British economy. Unemployment in Britain in the second half of the 1920s was well over 10% and the demand from imports from the Dominions remained depressed throughout the 1920s.102

Furthermore, the gold exchange standard that was established in the interwar period was relatively ineffective at providing a stable international monetary system and correcting trade imbalances. Some countries like the US and France maintained persistent trade surpluses and the UK had persistent deficits during the second half of the 1920s. With the onset of the Depression in 1929, the international monetary system was faced with a series of speculative capital flows which undermined the viability of the gold exchange standard. This culminated in a series of bank failures and currency crises in 1931 which started in Austria and spread to Hungary and Germany, and eventually led to Britain’s abandonment of gold on September 19th 1931. In the aftermath of this announcement, currencies were allowed to float, there was an escalation of tariff barriers and the international economy became divided into a series of currency and trading blocks, further undermining international trade and world economic growth.103 As Block puts it:

Fluctuating exchange rates made international trade more difficult, as did the growth of tariff barriers designed to protect national markets from cheap imports. The value of world exports fell a third from 1931 to 1932. In addition, the abandonment of the gold standard in its traditional centre dealt a serious blow to international business confidence, already at a dangerously low point. In sum, financial crisis in 1931 had the effect of pushing the world economy deeper and deeper into depression.104

In the case of Britain and her empire, British abandonment of the gold exchange standard resulted in the final collapse of free trade imperialism. In the context of international financial crisis, the declining competitiveness of British goods in international markets and the growth of protectionism, especially in the US with the introduction of the Smooth Hawley Act, the National government in Britain sought to protect itself by abrogating free trade and extending and expanding the system of imperial preference. The creation

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101 Block 1977 p 17
102 Eichengreen 1996 p 58; for a detailed overview see Rooth 1992 pp 9-34
103 Eichengreen 1996 and Block 1977 pp 22-5

243
The Importance of Small Differences

of a Sterling Area was cemented at the Ottawa Conference in 1932 and was to remain in place throughout the 1930s and World War Two.\textsuperscript{105}

Instability in the international financial system, low aggregate economic growth during the 1920s followed by the onset of the depression, the collapse of the gold exchange standard and the emergence of separate trade and currency blocks which restricted international trade, had important implications for Australia and New Zealand both in terms of the viability of their development strategies and the stability of their domestic institutions of industrial relations. As was noted earlier, despite the common adoption of arbitration, the two countries took different approaches to resolving the crises of dependency associated with free trade imperialism. New Zealand shifted its production away from wool towards meat and dairy products, while Australia attempted to overcome the problems of dependency by focussing on the development of secondary industry and providing protection for these industries. While these strategies allowed for the re-establishment of economic growth in the period leading up to world war one, they both became increasingly difficult to sustain in the interwar period.

Despite its shift to meat and dairy production New Zealand remained almost completely dependent on Britain both as an export market and as a source of capital and manufactured goods. Given this reliance, lack of convertibility of the pound after World War One prevented New Zealand from expanding its export markets for foodstuffs in the early 1920s and also limited access to manufactured goods from other sources. The British decision to restore convertibility at pre-war parity reinforced this dependence by making New Zealand exports relatively less competitive in international markets and overvaluing New Zealand’s debt burden which was denominated in Sterling. Thus from the mid 1920s, New Zealand found itself increasingly tied to a depressed British market with few alternatives.

These international developments created increasing inter and intra-class conflict in New Zealand during the 1920s. In particular, from the mid 1920s, conflict emerged between the interests of the rural export sector and the domestic manufacturing sector. In response

\textsuperscript{104} Block 1977 p 25
\textsuperscript{105} for a detailed overview see Rooth 1992
to depressed market conditions in Britain and falling export prices, farmers began calling for reduction of costs imposed on them from the domestic sector. As part of these calls for the reduction of costs, farmers’ groups increasingly began to call for the abolition of arbitration because they argued that arbitration inflated the costs of domestic goods and services consumed by the farming sector.

As Holt notes, while urban employers quickly embraced the arbitration system after its establishment and remained committed to it until the onset of depression, the attitude of the farming sector to the arbitration system was ambivalent. Initially the system did not directly affect the farming sector. In 1908 the Arbitration Court had refused to make an award to cover agricultural labourers and this meant that the majority of workers employed by farmers were not covered by the arbitration system. However, farmers strongly supported moves by the Massey Reform government to force militant Red Fed unions in the export chain back into arbitration in 1912. Indeed many of “Massey’s cossacks”, the militia used to break the strikes and to man the docks, were farmers who had left their land to help combat the threat of militant unionism and support arbitration. Mabbett argues that after 1913 farmers in New Zealand accepted the potentially inefficient craft structure of unions in return for the benefits that the arbitration system provided in controlling militancy in the export chain.

However as Walsh and Fougere argue adjustments made to the arbitration system during World War One meant that by the mid 1920s farmers began demanding the dismantling of the system they so strongly supported in an earlier period. The arbitration system as it operated before 1913 in New Zealand had no mechanism for the adjustment of wages once an award had been made. In the context of wartime inflation, the government gave the Arbitration Court the power to amend award wages in 1918, during the currency of awards and according to cost of living criteria. The Court issued the first Standard Wage Pronouncement (SWP) in 1919. For Walsh and Fougere this change placed issues of relativity and cost of living at the heart of the arbitration system.

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106 Holt 1986 p 165
107 Holt 1986; Olssen 1988
108 Holt 1986 p 111
109 Mabbett 1995 p 53
110 Martin 1974 p 260. It issued SWPs again in 1920 and 1925 during the interwar period.
111 Walsh and Fougere 1987
Table 6.3 Wages, Prices and Terms of Trade, New Zealand 1920-35

<table>
<thead>
<tr>
<th>Year</th>
<th>Weekly Wages</th>
<th>Retail Prices</th>
<th>Import Prices</th>
<th>Export Prices</th>
<th>Terms of Trade</th>
<th>Real Wages</th>
<th>Export/Retail prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>146</td>
<td>178</td>
<td>238</td>
<td>164</td>
<td>69</td>
<td>82</td>
<td>92</td>
</tr>
<tr>
<td>1925</td>
<td>156</td>
<td>162</td>
<td>153</td>
<td>170</td>
<td>111</td>
<td>97</td>
<td>105</td>
</tr>
<tr>
<td>1930</td>
<td>163</td>
<td>156</td>
<td>124</td>
<td>113</td>
<td>91</td>
<td>105</td>
<td>72</td>
</tr>
<tr>
<td>1935</td>
<td>138</td>
<td>133</td>
<td>111</td>
<td>97</td>
<td>87</td>
<td>103</td>
<td>73</td>
</tr>
</tbody>
</table>

(1914=100)

While farmers were prepared to accept these changes in the early 1920s, economic downturn associated with the decline of free trade imperialism and its consequences for commodity prices soon undermined support for arbitration. The dramatic decline in export prices and in the terms of trade in 1926 and 1927, illustrated in table 6.3, led farmers to question the benefits of arbitration.

Farmer attacks on arbitration reflected concern about both the direct and indirect effects of arbitration. In terms of direct costs the introduction of cost of living and relativity principles into the determination of awards created the conditions under which the Arbitration Court was used in an effort to extend award coverage to groups of workers directly involved in farming. These principles also had affects on wage levels in the export chain. In 1926 the Court issued a wage increase for shearsers at a time when wool prices were falling. In both these cases farmers were able to use political means to roll back the direct effects of the arbitration system on the export sector.

However, farmer opposition to arbitration also reflected concern about its indirect costs and was part of a wider conflict between the export sector and the domestic sector in the context of declining export prices during the 1920s. Farmers argued, because they were price takers in international markets, the prices of domestically manufactured and non-tradeable goods should fall to reflect falling commodity prices. However as the figures in table 6.3 demonstrate, retail prices and nominal wages are relatively stable in the second half in the 1920s despite the significant falls in both import and export prices. Farmers

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112 Mabbett 1995 p 41
113 Walsh and Fougere 1987
114 Martin 1994 pp 125-6
increasingly came to see the arbitration system, which took wages out of competition and established relativities independent of capacity to pay, as an important impediment to reducing the price of goods and services from the domestic sector which were consumed by the export sector.\textsuperscript{115} Domestic manufacturers remained committed to the arbitration system, precisely because it prevented unfair competition and also at the same time limited the ability of workers to organise independently of state control.\textsuperscript{116}

With the onset of depression, however, all remaining support for arbitration in New Zealand on the part of capital collapsed quickly. Farmers were no longer prepared to acquiesce in higher wages for urban craft workers in return for control of labour in the export chain because they could now rely on market discipline and direct state intervention to achieve this goal. The benefits manufacturers derived from arbitration, such as taking wages out of competition, were undermined by increased competition from overseas producers and the power of labour to organise independently of the arbitration system was undermined by the economic downturn. As Walsh puts it “government support for arbitration lasted only as long as employers and farmers formed a powerful coalition in its favour.”\textsuperscript{117} As Martin notes:

In June 1930 the Farmers’ Union and the Sheepowners Federation again asked the government to abolish compulsory arbitration. They maintained the pressure and in September, together with other employer groups, they sought across the board wage cuts by amendment of the IC&A Act… While George Forbes’ government was unenthusiastic, the worsening depression conditions forced it to act. By means of the Finance Act, the Arbitration Court was empowered to issue general wage orders to the end of 1932 and to take into account economic conditions explicitly.\textsuperscript{118}

Martin argues that the 10% wage reduction issued by the Court was not enough to satisfy employers and farmers, and that with their election in 1932, the new Coalition government quickly introduced amendments which made arbitration voluntary, thereby making wage bargaining reliant on market power. Thus, in the New Zealand case, international economic developments both disrupted the development model that it had pursued and also undermined the coalition of interests that had formed behind the institutions of arbitration.

\begin{itemize}
\item\textsuperscript{115} Holt 1986
\item\textsuperscript{116} Holt 1986 p 180
\item\textsuperscript{117} Walsh 1993 p 180
\item\textsuperscript{118} Martin 1994 p 128
\end{itemize}
While Australia had adopted a different development path based on the expansion of secondary industry, developments associated with international economic instability in the interwar period also threatened the viability of this development strategy, and forced Australia back into a dependent relationship with the UK. These changes in the international economy had consequences for the balance of class forces within Australia and the direction of state policy—both in terms of broad economic policy and more particularly industrial relations.

While the resolution of the crisis of dependency in Australia allowed domestic manufacturing interests to assert themselves over those of British capital and allied fragments in the agricultural sector, international economic changes created the conditions for the interests of the agricultural export sector to reassert themselves over government policy. Cochrane argues that the introduction of a comprehensive tariff schedule and the establishment of the Tariff Board in 1921, which “placed in the hands of prominent businessmen and guided by a leading manufacturer and effectively constituted manufacturing interests amongst the dominant fractions of capital in the coalition of class forces represented by the Hughes government”, represented the high tide of the influence of nationalist manufacturing on government policy in Australia.\(^{119}\) He argues that the onset of economic downturn in the rural sector and the election of the Bruce-Page government in 1923 resulted in a significant reorientation of government policy towards the interests of export capital at the expense of domestic manufacturing capital. This reflected the contradictions created by growing international economic instability for Australia’s development model and the continued dependency of the Australian economy on primary exports and British capital. As Cochrane puts it:

> The balanced development sought after by the Commonwealth government presumed both overseas loans to lay the basis for secondary industry and an expanding export surplus to service the interest charges on these loans. Thus the need to expand and support exports became increasingly pressing, as the burden of the overseas debt grew heavier from the mid 1920s. The immediate interests of manufacturers were subordinated to this need. The reproduction of British capital in Australia took priority because it was the cornerstone of economic strategy. The growth of the manufacturing sector was tossed around subject to its dictates.\(^{120}\)

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\(^{119}\) Cochrane 1980 pp 125-6

\(^{120}\) Cochrane 1980 p 127
Thus the Bruce Page government set about reducing the effectiveness of the tariff barrier in an attempt to reduce costs on export sector. This exposed domestic manufacturers to increased international competition, at a time of economic downturn. As part of its attempts to constrain the costs of wages and industrial conflict from impacting on exporters, the Bruce Page government also took steps to significantly alter industrial relations outcomes and the functioning of the arbitration system. Starting with an amendment of the Crimes Act that criminalized strike action, and gave the government the power to intervene in disputes, the Bruce Page government introduced a series of legislative measures designed to ensure “industrial discipline”. At the same time it sought changes in the Arbitration system. As Sheridan notes:

…in 1926 it reconstructed the Arbitration Court in a manner which allowed it to punish unions for strikes and other award breaches and simultaneously stacked the then very small court with known conservatives… the new bench was explicitly instructed in 1928 to take account of the economic consequences of its decisions.\(^{121}\)

Having failed in 1926 to centralise arbitration in the federal sphere through a referendum, after the 1928 election Bruce introduced legislation designed to dismantle the federal arbitration system and to devolve wage setting to the state jurisdictions. Cochrane argues that, while these appear to reflect different policy approaches, both attempts can be seen as efforts to “create a region of power within the federal/state complex which could uniformly and effectively deal with industrial disputes and constrain wage costs.”\(^{122}\)

Abandonment of a nationalist development strategy, and growing reliance on the export sector, placed a different set of pressures on the institutions of arbitration in Australia than those under which it had developed and the consequences were similar to those that had characterised arbitration in New Zealand during the early part of the twentieth century. Thus tying award wages to the needs of the export sector by directing the tribunal to have regard for the economic consequences of its decisions resulted in increased conflict in the export chain in which unions sought to challenge the constraints placed on them by the arbitration system.

\(^{121}\) Sheridan 1989a pp 5-9  
\(^{122}\) Cochrane 1980 p 129
The re-election of a Labor government in 1929 saw some reversal of these policies, both in respect to the tariff and to arbitration, but the effects of the depression limited the viability of a nationalist economic strategy. As Bennett notes:

Elected on a platform of restoring employment, the Australian Labor Prime Minister, James Scullin, moved in the first six months of his 1929 ministry to increase tariffs, cut assisted migration from Britain and use arbitration to protect award wages… His strategy however was soon confounded by the erosion of credit-worthiness and a rapid downward spiral of the economy.123

As in New Zealand, in the early 1930s the arbitration tribunal in Australia imposed a 10% reduction in nominal award wages despite opposition from the Federal government. These reductions were also over and above automatic cost of living reductions.124 However unlike New Zealand, the compulsory arbitration system was not abolished and the federal tribunal continued to make awards, albeit under considerable pressure from the Lyons’ UAP government of the 1930s.

The growing pressure on domestic wage costs and thus on the domestic institutions of industrial relations in New Zealand and Australia were reinforced by Britain’s abandonment of gold in 1931. The dependence of Australia and New Zealand on the British market for export earnings and the London market for loans, meant that both countries had little choice but to enter the Sterling block and to maintain a fixed exchange rate with sterling “in order to minimise fluctuations in import prices, export receipts, the value of London balances and the value in local currency of debt repayments to Britain.”125

The heavy indebtedness of the two countries to Britain and the high degree of dependence on the British market also meant that they had little choice but to participate in the expansion of the imperial preference system in the 1930s that accompanied Britain’s rejection of free trade in the early 1930s. As Singleton notes:

At Ottawa, the dominions advocated the retention of unrestricted duty free entry of imperial food stuffs, coupled with protection of the British food market against foreign produce. The British pushed for an increase in their preferential margins in the Dominions …. New Zealand agreed to refrain from protecting local industries unless they had a good chance of becoming efficient. Any tariffs on British goods

123 Bennett 1997 p 317
124 Sheridan 1989a p 9
125 Singleton 1997
would be low enough to permit them to compete on equal terms with local manufacturers. New Zealand widened the preferential margin on about 100 items and undertook not to reduce margins without Britain’s consent.126

As Rooth notes the New Zealand government, which was dominated by farming interests, was a strong supporter of the agreement and quickly set about establishing preferential margins on British imports, in return for concessions on access to the British meat market. As has already been noted the tariff was largely a form of taxation revenue in New Zealand and not seen as a development tool in this period. Rooth notes however that for the Australian government the position of the tariff was not as straightforward. Noting the important role still played by manufacturers in Australia and their (diminished but continued) influence on the UAP government, he quotes a UK official who commented that after Ottawa:

… the manufacturers planted themselves on the Government’s doorstep with a big stick and have stayed there ever since. There is no doubt that this strong and wealthy influence coupled with the furious opposition of the Scullin party and the Age newspaper have made the government increasingly nervous about [reducing tariffs].127

Nevertheless, the Australian government was forced to give British manufacturers access to the Australian market in return for access to British market during this period.128

These developments, which were designed to secure access to British markets and capital, in a time of deep economic distress, placed a series of significant constraints on governments in the two countries and the accumulation strategies they could pursue. In the New Zealand case, the creation of the Sterling Block and the Ottawa agreement reinforced the dependent position of domestic manufacturers and urban labour. In Australia economic uncertainty and depression, including the realignment of trade relations with Britain, did not simply reinforce the existing development strategy. Rather it disrupted the nationalist accumulation strategy that had been a feature of Australian

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126 Singleton 1997 p 169
127 Crituchely 1933 cited in Rooth 1992 p 82
128 Although as Rooth notes, British manufacturers were largely unable to exploit this market access because of reduced income levels, lack of access to Sterling reserves in Australia, competition from other sources, and the rapid development of income replacement manufacturing in Australia. He argues that New Zealand manufacturing was less well established than its Australian counterpart and was therefore unable to respond to the demand for import replacements in the same way. Therefore while exports to New Zealand from Britain increased during the period after the Ottawa agreement, Australian imports fell considerably (pp 250-8)
economic development since the early nineteenth century and forced Australia to adopt a New Zealand type approach to continued accumulation. These developments reinforced the pressures which had led to changes in the arbitration systems and the use of market discipline to control labour in the two countries. Thus international economic developments, associated with decline in the regime of free trade imperialism eroded some of the differences in the arbitration systems that had developed in the two countries.

6.8 CONCLUSION
Following from Castles’ domestic defence model, the comparative literature on industrial relations reform has accepted the view that the reasons for and the consequences of the adoption of arbitration by Australia and New Zealand were so similar that they do not warrant special attention. As a result this literature has tended to ignore or explain away historical differences in the operation of the arbitration systems as variations on a theme. This chapter raises doubts about the validity of such an approach and examines the ability of an interaction approach to provide a more accurate account of the origins and development of arbitration in Australia and New Zealand.

The first two sections of the chapter outlined the main features of domestic defence model. It demonstrated that Castles’ model is largely an artefact of his desire to square the Australian and New Zealand experience with the assumptions of power resource theory and as a consequence seriously distorts the historical record of the two countries. The remainder of the chapter examined the ability of an interaction approach to explain the similarities and differences associated with the origins and development of arbitration in Australia and New Zealand. Section three and four traced the main features of the international economic regime of free trade imperialism and the consequences this regime for the economic development of the Dominions. Following Schwartz, it was argued that while this pattern of development created similar crises of dominion dependency in both Australia and New Zealand, differences in the configurations of class interests in the two countries meant that their responses were notably different. In New Zealand, renewed economic growth was associated with a switch to intensive farming and the growth of exports of meat and dairy products. This accumulation strategy ensured the interests of the agricultural export sector were to dominate economic policy in New Zealand during the twentieth century. It was also demonstrated that in Australia, a different set of
circumstances meant that the interests of domestic manufacturing were far more significant than was the case in New Zealand. Section six argued that differences in the balance of class forces and the accumulation strategies of the two countries make it possible to explain why the two countries adopted arbitration, the difference in timing and ease with which it was adopted, differences in the development of wages policy under arbitration in the two countries and differences in the attitudes of the union movements to arbitration in the two countries. Section seven traced the impact of changes in the international economic regime of free trade imperialism during the interwar period. It noted that, while differences between the two countries remained, international developments eroded the viability of Australia’s nationalist accumulation strategy and to some extent placed the institutions of arbitration in Australia under the same pressures as those that were characteristic of the New Zealand system.

The arguments presented in this chapter have a number of implications for both the comparative literature on industrial relations reform in Australia and New Zealand and the more general debate about the impact of international economic change on the domestic institutions of industrial relations which is the focus of this thesis. First, this chapter raises serious doubts about the adequacy of Castles’ domestic defence model as the basis for comparison between the two countries. At the very least it can be argued that while Castles’ argument may apply to Australia, there are a number of problems in applying it to the New Zealand case. Second, the chapter suggests that rather than representing variations on a theme the introduction and development of arbitration in Australia and New Zealand reflect fundamental differences in the balance of class forces and pattern of economic development in the two countries. These differences may have a role to play in explain contemporary developments in the area of industrial relations in the two countries. Thus it can be argued that the assumption that the two countries are so similar that historical cannot explain contemporary differences between the cases is largely the result of an excessive focus in the comparative literature on institutional variables rather than an accurate depiction of the historical record.

The argument put forward in this chapter also has implications for assessing the validity of the interaction model outlined in chapter three. It demonstrates that an interaction approach is able to explain why changes in the international economy at the end of the
nineteenth century created the conditions of the development of a distinctive set of institutional arrangements for regulating the labour market in Australia and New Zealand. Furthermore, because it concentrates on the pattern of interests and the accumulation strategy underpinning particular industrial relations institutions, the interaction approach is able to explain not just the common adoption of arbitration in Australia and New Zealand but also the differences in when and how easily arbitration was adopted and how the two systems developed in the period leading up to world war one. This represents a major advance on the institutionalist approach, as evidenced in the existing comparative literature, which because it assumes that industrial relations institutions shape industrial relations outcomes either ignores or downplays differences between the two cases.

Section seven, which focussed on the impact of international economic uncertainty during the interwar period and its implications for arbitration in Australia and New Zealand, demonstrated that an interaction approach has the potential to explain not just the development of particular institutional of industrial relations in particular countries but also to explain how changes in the international economy can result in changes in the role played by existing institutions. The following chapter examines this issue in more detail by assessing the impact of reconstruction of the international economic system had on arbitration in Australia and New Zealand in the post world war two period.
CHAPTER 7

ARBITRATION AND THE POLITICAL ECONOMY OF FULL EMPLOYMENT IN AUSTRALIA AND NEW ZEALAND, 1945-1952

I do not doubt that a serious problem will arise as to how wages are to be restrained when we have a combination of collective bargaining and full employment.¹

This would depend on the institutional arrangements of a regime of full employment.²

7.1 INTRODUCTION

The previous chapter examined the relationship between international economic change and the development of distinctive institutions of industrial relations in Australia and New Zealand at the beginning of the twentieth century. This chapter examines the connections between international economic changes and arbitration in Australia and New Zealand in the immediate post world war two period. The chapter serves two purposes. First, it provides a further test of theoretical adequacy of the interaction approach outlined in chapter three. As was argued in chapter two, one of main weaknesses of institutionalist arguments is their inability to explain endogenous institutional change. A theoretical explanation of the relationship between international economic change and the domestic institutions of industrial needs to be able to explain not only the origins of particular institutions of industrial relations, but also changes in these institutions over time. This chapter argues that an interaction approach, which proceeds from an assessment of changes in the international economy and the implications of these changes for the configuration of domestic interests, is able to provide a robust explanation of changes in the institutions of arbitration in both Australia and New Zealand in the immediate post war period.

The second purpose of this chapter is to further interrogate the assumptions on which the comparative literature on industrial relations reform in Australia and New Zealand during

¹ Keynes cited in Glyn 1995 p 37
² Kalceki cited in Glyn 1995 p 38
the 1980s and 1990s is based. As was noted in chapter four, in establishing the comparison between Australia and New Zealand as one of most similar cases, the comparative literature has tended to regard industrial relations outcomes in the two countries as largely shaped or determined by institutional arrangements in the labour market. On this basis, it has generally been assumed that arbitration had similar effects on industrial relations not only across the two countries (across space) but also throughout much of the twentieth century (over time). Thus the comparative literature on industrial relations reform in Australia and New Zealand tends to assume that once established arbitration had a constant impact on the pattern of industrial relations that developed in Australia and New Zealand and that this shared pattern remained largely unchanged throughout the twentieth century, only to be dramatically changed in the 1980s.

This chapter argues that this view of arbitration as stable and unchanging is unsustainable and that in both Australia and New Zealand, international economic changes resulted in significant changes in the role and operation of the arbitration systems in the two countries throughout the twentieth century. This was particularly evident in the immediate post world war two period when the institutions of arbitration in the two countries were transformed from mechanisms for establishing minimum wages and conditions across occupations and industries, to systems of centralised wage determination used to control the growth of real wages in a period of full employment. Evidence of the variability of arbitration in the two countries, and the importance of international economic change and material interests in explaining this variability, suggests that there is a need to question the assumptions on which the comparative literature on industrial relations reform in Australia and New Zealand is based.

The chapter is structured as follows. The next section examines the rebuilding of the international economic order in the post World War Two period, focussing in particular on how US economic hegemony impacted the reconstruction of the international monetary system. Section four examines theoretical arguments about the connections between reconstruction of the international monetary system and the domestic balance of class forces. Sections five and six focus on the impact of international monetary reconstruction on labour governments committed to full employment in Australia and
Chapter 7: The Political Economy of Full Employment

New Zealand in the immediate post war period. The final section examines the consequences of these pressures for the arbitration in two countries.

7.2 RECONSTRUCTING THE INTERNATIONAL MONETARY SYSTEM: U.S. HEGEMONY, BREXTON WOODS AND THE PUSH FOR CONVERTIBILITY

The interaction approach outlined in chapter three notes the potential significance of the international economic regime, national production profile and accumulation strategy for explaining developments in the domestic institutions of industrial relations. In the immediate post world war two period there were significant changes in the international economic order which reflected a shift from a British dominated form of international capitalism to one dominated by the US. These changes were to have important implications for the integration of Australia and New Zealand into the international economy. This, in turn, had consequences for the configuration of domestic interests, the nature of the accumulation strategies pursued by the state and the demands placed on the institutions of industrial relations in the two countries. This section briefly outlines the main aspects of reconstruction of the international economic order in the immediate post war period, concentrating on how reconstruction of the international monetary system reflected and embedded growing US hegemony over the international economy.

Fearing the return of a worldwide depression in the aftermath of world war two, the Allies began planning for the reconstruction of the international economic order from the early 1940s. Given the experience of the interwar period, outlined in the final section of the previous chapter, it was widely accepted that the re-establishment of a stable international monetary system, which provided stability of currency and mechanisms for adjustment between surplus and deficit countries, was a key aspect of preventing the return of depression. However, there were conflicting views about the way in which the international monetary system should be reconstructed and whose interests were to be served by it. These conflicting views played out in the debates between British and US representatives at a series of international conferences between 1943 and 1947.

The US emerged from World War Two as the dominant economic power in the international economy. As Aggrihi notes, this reflected the extent to which,

… the United States acted as the workshop of the Allied war effort and as the granary and workshop of post-war European reconstruction. Moreover, for the
first time in US history, US claims on incomes generated abroad came to exceed by a good margin foreign claims on incomes produced in the United States, so that after the war the current account surplus was much greater than the trade surplus.

As a result of this new and enlarged upward movement in its trade and current account surplus, the United States came to enjoy a virtual monopoly of world liquidity. In 1947, its gold reserves were 70% of the world’s total. Moreover the excess demand for dollars by foreign governments and businesses meant that US control over world liquidity was far greater than implied by this concentration of monetary gold.

The concentration and centralisation of productive capacity and effective demand was equally impressive. In 1938 US national income was already the same as the combined national incomes of Britain, France, Germany, Italy and the Benelux countries, and almost three times that of the USSR. In 1948 it was more than twice that of the above-mentioned group of Western European countries and more than six times that of the USSR.³

Britain, on the other hand, emerged from world war two in a parlous state. In the interwar period Britain had relied heavily on ‘invisibles’, reflecting returns from foreign investments like interest to finance imports. However:

… the war greatly reduced Britain’s international investments and expanded her debts, so that Britain could no longer rely on investment earnings to finance her extensive imports of food and raw materials. This meant that Britain would have to expand her total exports dramatically… This would make her dependent on international credit until exports could be expanded and it gave Britain an interest in trade liberalisation.⁴

In the aftermath of the war, the US wanted to establish an open international economic order. As Block points out:

The structure of an international monetary order tends to reflect the influence of the most powerful capitalist nations. Their military superiority and control of key economic resources- capital, advanced technology, raw materials and access to their large domestic markets- makes it possible for them to leverage over other nations. This leverage is often used to create an international order with a high degree of openness so that capitalists from the strongest economy will be able to take advantage of opportunities in other countries. In short, a world order in which the flow of goods and capital is determined by market forces will maximise the advantages for the country which has the highest level of technical development and with the most enterprising and strongest firms.⁵

³ Arrighi 1995 p 275
⁴ Block 1977 p 47
⁵ Block 1977 p 3
However post war reconstruction of the international monetary system was not a straightforward matter of adjusting international economic institutions to reflect declining British and growing US hegemony. Rather, the international economic order that emerged in the post war period reflected the complexity of the issues associated with re-establishing the international capitalist order in the aftermath of the Depression and the war. Nevertheless, what did emerge, while not open and liberal, was largely dominated by the US and placed a series of important constraints on the types of policies that national governments could follow and impacted on the balance of class forces within countries. These constraints were particularly severe for governments of countries that remained dependent on Britain for capital and markets.

The basis for negotiations over the post war order was Article VII of the Mutual Aid Agreement signed by America and Britain in February 1942 which committed the parties to proposals which would:

… include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries, directed to the expansion by appropriate international and domestic measures, of production, employment and exchange and consumption of goods … to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers.\(^6\)

Beresford and Kerr argue that in this statement the “dominance of the US was confirmed by the ambiguity in the interpretation of the part of the Agreement which related to domestic full employment policies, as compared with the specific nature of the international trade aspects”.\(^7\) They suggest that:

The American urge to impose multilateral tariff reductions on the rest of the world stemmed less from theoretical convictions of its universal benefits than from a desire to find new outlets for United States agricultural surpluses and the belief that, given high levels of productivity prevailing in industry, it would be unusual for a policy which relied on comparative advantage in international trade did not work to the benefit of American manufacturing industry vis-à-vis its main competitors.\(^8\)

The first moves towards post war reconstruction came with the negotiations between Harry Dexter White, from the US Treasury, and John Maynard Keynes, representing the

\(^6\) cited in Beresford and Kerr 1980 p 149  
\(^7\) Beresford and Kerr 1980 p 149  
\(^8\) Beresford and Kerr 1980 p 151
British government that took place in September and October of 1943. These negotiations laid the groundwork for the Bretton Woods Agreement signed in 1944. Block argues that White’s plans, which were to form the basis of the final agreement, reflected his internationalist desire:

…to create an international monetary order in which countries would be able to pursue systematically full employment policies without the danger of exhausting their international reserves… and to avoid the competitive devaluations of the 1930s [by making] changes in exchange rates difficult.\(^9\)

As a consequence, the Bretton Woods agreement contained provisions for the creation of an International Monetary Fund and an International Bank of Reconstruction and Development (the World Bank); a system for maintaining constant exchange rates between currencies; and a series of mechanism that were designed to allow adjustments to trade deficits (the fundamental disequilibrium provisions) and surpluses (the scarce currency clause). While Eichengreen argues that “in retrospect, the belief that this system could work was extraordinarily naïve”, the extent to which the plan could meet White and Keynes’ shared concerns about the need to develop an international monetary order that could underpin trade liberalisation, and at the same time allow adjustment of trade imbalances without undermining domestic full employment policy, was never tested.\(^{10}\)

The compromises that had been made to make the Agreement unpalatable to the US Congress and the configuration of class interests in the US meant that the internationalism of Bretton Woods was stillborn.

In the mid 1940s the Truman administration, the State Department, US bankers and US industrialists focussed on export markets formed an alliance which ensured that Bretton Woods institutions were bypassed and sought to re-establish the international monetary order through the rapid re-establishment of convertibility between the US dollar and the pound- the so called “key currency” plan. This reflected the defeat of a meaningful commitment to full employment in the US and its replacement with the notion of a US export surplus as the basis for post war prosperity.

For Maier the centrality of the surplus to post war American international economic policy reflected the failure of the New Deal to significantly alter the distribution of

\(^9\) Block 1977 p 44
economic power in the US during the 1930s. Debate in the US towards the end of the war, as in most countries, centred on how to avoid the economic downturn and the reappearance of widespread unemployment in the aftermath of the war, especially given the massive expansion of US manufacturing that had occurred during the war. National economic planners, located in Treasury and aligned with the urban labour movement and rural progressivism, advocated a commitment to the principle of full employment and an accompanying expansion of government involvement in economic planning. Business interests in both manufacturing and finance, who had their interests represented by the State Department, recoiled from the prospect of increased state spending and power and argued that full employment in the US could be achieved through the maintenance of an export surplus between the US and rest of the world. The defeat of the 1945 Full Employment Bill and the ascendency of the State Department over foreign policy created the conditions for the principle of a US export surplus to dominate post-war reconstruction of the international monetary order. Thus Maier argues that the “the productionist view of America’s post-war mission arose out of the domestic modes of resolving social conflict, or, rather, the difficulty of resolving conflicts cleanly”.

With the importance of the export surplus in mind, in negotiations over transition arrangements for the establishment of pegged exchange rates, State department officials put pressure on the British Labour government to dismantle or erode the system of imperial preferences and made a reconstruction loan dependent on a rapid restoration of convertibility between the US dollar and the pound. These steps were designed to enhance multilateral trade by re-establishing the pound as an international currency, thus overcoming the problem of dollar scarcity, but at the same time allowing the US to avoid having to make concessions on its levels of protection or to committing the US full employment policies. Given the parlous state of the British economy, and in view of the quicker than expected suspension of Lend-Lease arrangements, the British Labour government had little choice in 1946 but to accept the US condition that it restored convertibility within a year in return for a $3.75 billion dollar loan from the US. Britain restored convertibility on July 15\textsuperscript{th}, 1947. As Eichengreen argues:

\begin{quote}
Under the circumstances the decision to restore convertibility in 1947 was the height of recklessness… the six weeks of convertibility were a disaster. Reserve
\end{quote}

\textsuperscript{10} Eichengreen 1996  
\textsuperscript{11} Maier 1978 p 27
losses were massive. The [British] government, seeing its reserves approaching exhaustion, suspended convertibility on August 20 with American consent. A loan that had been designed to last through the end of the decade was exhausted in a matter of weeks.\textsuperscript{12}

The convertibility crisis made it clear to US policy makers that a rapid return to convertibility and an open international economic order was unlikely, and created the conditions for the approval of the Marshall Plan, which it was hoped would allow the restoration of convertibility and a subsequent growth of multi-lateral trade. Eichengreen argues that the adoption of the Marshall Plan and toleration of the continued current account controls in Europe also reflected the growing influence of US industrialists over US foreign policy, especially in the State department and growing divisions between internationally focused productive and financial capital in the US during the period.\textsuperscript{13}

US recession in 1948-9 further undermined the likelihood of the rapid restoration of convertibility. In the Sterling area, significant reductions in US demand for raw material imports, led countries to draw on accumulated sterling balances to fund dollar imports. This rapidly drained British reserves. On September 18\textsuperscript{th} 1949, Britain devalued. Most Sterling block countries followed suit. While devaluation, together with Korean War boom in the early 1950s, moderated the instability of the international financial system and to some extent alleviated the dollar shortage, it was not until the late 1950s that full international convertibility on the current account was established. It was only on this basis that the Bretton Woods institutions began to function. Thus calling the post-war international economic order the Bretton Woods system is something of a misnomer. While the Bretton Woods agreement established a mechanism for setting currency rates, the international institutions created by Bretton Woods- the International Monetary Fund and World Bank- never operated in the manner expected by those who created them. Rather they were largely bypassed by US negotiators as it sought to create the conditions for the maintenance of a US export surplus.

\textsuperscript{12} Eichengreen 1996 p 103. Helleiner 1994 (pp 55-58) argues that a major contribution to the convertibility crisis was the illicit flight of capital from Western Europe into the US banking system and notes that it was the interests of these same bankers that dominated US policy in this period. He goes on to argue that the main effect of Marshall Aid funding was to (partially) offset the flight of capital from Western Europe in the US banking system (pp 58-62).

\textsuperscript{13} Eichengreen 1996
The effects of the US recession in the late 1940s demonstrated the extent to which the stability of the international financial system in the post-war period was dependent on the US economy, and that full employment in any economy was largely dependent on the economic prosperity and growth of the US. Thus while the US was not able to use its economic hegemony to create a open liberal multilateral trading order during the 1940s and 1950s, the international monetary order reflected and reinforced the dominance of the US in the international economy.

7.4 THE BRETTON WOODS SYSTEM AND POST WAR “SETTLEMENTS”: INTERNATIONAL CONSTRAINTS ON FULL EMPLOYMENT AND THE BALANCE OF CLASS FORCES

This section turns to the connections between the reconstruction of the international economic order, the domestic configuration of the class interests in the market economies and institutional arrangements in the labour market during the post-war period. The interaction approach outlined in chapter two noted that international economic change and the domestic institutions of industrial relations are in part connected by the impact of international economic change on the pattern of material interests that develop within a specific social formation. This section examines the consequences of the particular form taken by the post-war international economic regime for the achievement of full employment in market economies and the implications this had for the domestic institutions of industrial relations.

What were the consequences of the reconstruction of the international monetary system for the balance of class forces and the patterns of industrial relations in capitalist economies in the post-war period? Is there a connection between the reconstruction of the international monetary system and the centralisation of collective bargaining that took place in many countries? Because of its focus on institutions, these questions are not directly addressed in the mainstream industrial relations literature. Rather, there is a widely held view that the centralised institutions of collective bargaining that characterised industrial relations in Western economies during the 1950s and 1960s were a product of post-war settlements reached between labour and capital in capitalist economies which reflected the increased power of the working class in this period. Thelen, for example, argues that in Western Europe national collective bargaining institutions are “key institutional foundations of the ‘post war consensus’ between capital
The Importance of Small Differences

and labour” and “have traditionally been a vital support for labour unity and strength.”

Thus it is argued that the increased political and organisation power of the working class achieved during the 1930s and 1940s created the conditions under which capital accepted increased involvement of the state in the management of the economy, the adoption of Keynesian economic policies designed to ensure the achievement of full employment, the expansion of the welfare state and the centralisation of collective bargaining in return for a continuation of the private ownership of the means of production.

According to this view, national differences in the extent to which particular post-war settlements guaranteed these rights reflected differences in the organisational strength and unity of the working class in that particular nation. Thus, it is argued that the relative weakness of labour organisation and the lack of a genuine working class political party meant that the terms of the post war settlement in the US did not favour labour. As a consequence the US had limited levels of state economic planning, the pursuit of full employment as an economic goal was subordinated to concerns about productivity and the welfare state remained underdeveloped. In the field of industrial relations, it is argued that this explains why the development of centralised collective bargaining was severely constrained and unions were not generally involved in broader aspects of economic management in the US. At the other extreme, it is argued that organisational and political strength of the labour movement in Sweden created the conditions under which labour was able to ensure significant involvement of the state in the management of the economy, broad acceptance of the primacy of full employment as a policy goal and the dramatic expansion of the welfare state. It was also under these conditions, it is argued, that Sweden developed a highly centralised pattern of wage bargaining and unions were integrated into a range of broader economic and political forums as legitimate social partners.

This view, that the post-war commitment to full employment and development of centralised collective bargaining was a significant political victory achieved by the working class, against capital, largely ignores the role that international economic factors,

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14 Thelen 1993 p 23
15 See Giles 1986 for a discussion of the use of the concept of post war settlement in the industrial relations literature.
16 See for example Fox Piven 1991
like those associated with the reconstruction of the international monetary system, played in shaping the balance of class forces within particular social formations during this period. In effect, this post war settlement model treats all capitalist economies as essentially the same, and explains differences in the outcomes between them as a consequence of differences in organisational capacity of national labour movements.

The revisionist literature on centralised bargaining in Sweden, reviewed in chapter two, once international economic factors and their consequences for configurations of material interests are taken into account then it is possible to develop significantly different explanations for the centralisation of collective bargaining in the post war period. Thus, Swenson and Pontusson suggest that the establishment of centralised collective bargaining in Sweden after 1956 reflected the development of a cross-class coalition of elements of both labour and capital formed in an effort to reconcile the inflationary pressures of a full employment economy with the demands of remaining international competitive. This centralisation was reinforced by the SAP government seeking to ensure a viable accumulation strategy. The literature on the Swedish case, therefore, suggests that the post war settlements were not the unproblematic result of translating increased working class power translating into particular policy configurations and international factors, like the reconstruction of the international monetary system, had significant consequences for the structure of the settlements that were achieved in the post war period, in general, and for the development of the domestic institutions of industrial relations in particular.

What, then, were the consequences of the post war reconstruction of the international monetary system for the balance of class forces within countries? At a very general level, Block notes that the more open the international monetary system, the more it is likely to favour the interests of capital in general. This is because:

The evident need to protect the balance of payments in an open economy serves to reinforce the capitalist class’s resistance to reforms that might damage its interests.\(^{19}\)

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\(^{17}\) Esping-Anderson 1985
\(^{18}\) Pontusson and Swenson 1996
\(^{19}\) Block 1977 p 3
Apple’s overview of the experience of full employment capitalism provides a more
detailed and nuanced answer to this question.\textsuperscript{20} Apple notes that the experience of full
employment capitalism was relatively short lived and constrained. Thus he points out
that that full employment was only really achieved in capitalist economies between 1955
and 1965 and that in the face of increased unemployment in the 1970s, governments were
quick to abandon or downgrade legislative commitments of full employment.\textsuperscript{21} For him
this reflects the fact that the achievement of full employment capitalism was not a
significant political victory won by the working class in the aftermath of world war two.
Rather he argues that full employment was achieved on the back of a series of political
defeats inflicted on elements of the working class across a range of countries.

In virtually all countries the full employment commitment was watered down or
defeated and the labour movement unable to sustain the strategy and organisation
necessary to enforce permanent full employment…. the various roads to full
employment were paved with a series of ideological and political defeats suffered
by the labour movement in the 1945-51 period.\textsuperscript{22}

Central to these political defeats, Apple argues, were the consequences of reconstruction
of the international monetary system for the balance of class forces in particular countries
and the range of policy choices governments could pursue as a result. As he puts it:

The reconstitution of the relationship between capital, labour and the state, in
capitalist economies in the post war period was mainly shaped by the changes that
occurred in the institutional policies, rules, and relations of class and state power
underlying the international monetary system.\textsuperscript{23}

In particular, he notes that the reconstruction of the international monetary system around
the concept of the US export surplus, and the consequential failure to provide an effective
mechanism for deficit countries to adjust their currencies, made it virtually impossible for
countries to pursue policies that could sustain full employment. Apple illustrates this
view by examining the case of the full employment policy of the post war Labour
government in Britain. As he notes Labour was elected in 1945 on a manifesto which
included a comprehensive commitment to full employment and which was seen as

\textsuperscript{20} Apple 1983
\textsuperscript{21} Apple 1983 p 73
\textsuperscript{22} Apple 1983 p 73. This is consistent with Glyn’s view that full employment in the period leading up to
1973 was not the result of Keynesian economic policy (what he calls a Keynesian free lunch) but rather the
extent to which real wage growth lagged behind productivity growth. See Glyn 1995
\textsuperscript{23} Apple 1983
inextricably linked to increased public control of the economy. This policy approach was significantly more radical that the proposals put forward by Beveridge report in 1942, in which the achievement of full employment had been linked to wage restraint. However Apple argues that:

… faced with the forced convertibility of sterling in 1947 and the devaluation of the pound in 1949, the British Labour Party increasingly turned to Beveridge’s wage restraint-social control theory of full employment capitalism. It emerged in Labour’s 1948-50 incomes policy which relied on the loyalty of the trade union leadership to the Labour Party. But such loyalty was granted at the expense of rank and file power in a fully employed labour market.

As will be noted later there are some obvious parallels between the British case and the position faced by labour governments in Australia and New Zealand in the immediate post world war two period, which have significant implications for the development of the arbitration systems in the two countries. However, before addressing this issue, it is important to draw out the connections between this argument and differences in the post war settlements that developed in the different capitalist economies. Giles provides a detailed comparison of the post war settlements that developed in Canada, France, Sweden and Britain. He argues that while that there were common developments in each of the four cases, which reflected a common set of structural conditions and shared conjunctural forces:

… in each case the contours of the post war settlement can be explained in terms of a series of intra and inter class compromises entrenched in state policy. The nature of these compromises was in turn rooted in the economic development strategy favoured by the most important fraction of capital (or hegemonic fraction), as modified, where necessary, by the need to accommodate non-hegemonic fractions of capital and/or fend off the challenges of subordinate classes. Thus of key importance in understanding the course of state policy- in this and any other period- is the balance among various fractions of capital, as well as the nature of the threat posed to capital and the state by the working class and its organisations.

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24 Apple 1983 pp 83-4
25 although, as Black 1984 (pp 36-39) notes, Beveridge’s report envisaged considerable more scope for government intervention in industry and even control of private investment than did the 1944 White Paper on Full Employment.
26 Apple 1983 p 85
27 Giles 1986. As Giles notes the term post war settlement is “decidedly inapposite… [because it] invokes the image of an amicable and balanced compromise [and] the implication that the settlements provided stability is also erroneous ” (p 20).
28 Giles 1986 p 21
He argues that in the British case the dominant economic faction of capital was financial capital centred on the City of London. In the immediate post war period, this faction, by virtue of its economic power, was “able to defeat the more interventionist goals of the labour movement and ensure that the core strategy of accumulation was not put at risk.”

Thus as a consequence:

… the post-war settlement in Britain … involved the marriage of Keynesianism with the ‘bankers’ view’ of economic development. The adoption of the commitment to full employment, and the expansion of the welfare state, were made dependent on, and were articulated with, essentially conservative interests centred on money capital.”

For Giles it is this combination that explains the distinctive features of the post war settlement in Britain- a “stop go” Keynesianism, the development but limitation of welfare provision, voluntarism in industrial relations, and limited involvement by unions in broader forums.

Using this same argument, Giles suggests that the distinctive features of the post war settlement in Canada- a relatively weak form of Keynesianism, halting development of welfare, a concentration of enterprise based bargaining structures and conflict resolution, and a narrow and confined representation of organised labour in broader political arrangements- reflected the dominance of the “staples” fraction of capital and the extent to which post-war development was seen to be dependent on the export of primary products. A staples dominated accumulation strategy manifest itself in state policy in a number of ways including Canadian support for trade liberalisation, the orientation of state funded infrastructure spending towards staple extraction. Thus he argues that:

the central characteristic of the post war growth strategy was the assumption that economic expansion depended primarily on external demand for Canada’s natural resources, a demand which would generate investment and production at home.

For Giles, a number of features explain why the Canadian labour movement was not able to challenge this strategy including religious, regional and ethnic divisions; the lack of an effective labour party; the legacy of weak federalism; the tradition of business unionism.

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29 Giles 1986 p 29
30 Giles 1986 p 30
31 Giles 1986 pp 35-6
32 Giles 1986 p 37
and the strategies adopted by employers to defeat union protest. Thus, he suggests, while in Britain labour had to be accommodated in the post war settlement:

the Canadian settlement ... can be described as the adoption of staples Keynesianism, an accumulation strategy from which labour could be safely marginalised... In the area of industrial relations, the key role for the Federal state was to prevent the disruption of sectors upon which staples growth depended.33

Giles’ focus on the role of dominant factions of capital provides an important insight into understanding cross national differences in the pattern of post war settlements. He does not however effectively address the issue of why and how the interests of these dominant factions were able to assert themselves over state policy. This issue can be addressed by linking Giles argument with the one put forward by Apple about the role of international monetary reconstruction in structuring class forces. Underpinning Apple’s argument is the view that the reconstruction of the international monetary order around the interests of US capital meant that it was only possible for governments to pursue full employment in ways which were consistent with re-establishing and reinforcing profitable private accumulation. Thus, despite the electoral success of labour governments, the structural need for the capitalist state to ensure profitable accumulation made it open to the interests of the dominant faction of capital.34

Thus, in Britain, Apple argues that despite its ideological commitment to public ownership and full employment, because of pressures associated with the reconstruction of the international monetary system, the Labour government found itself having to constrain the demands of the working class in order to achieve full employment by underwriting profitable private accumulation in the financial sector. Thus the shift to imposing an incomes policy reflected an attempt of the part of the Labour government to make its commitment to full employment consistent with the demands of the dominant fraction of capital. It is this insight of how reconstruction of the international monetary system made the achievement of full employment dependent on the renewed private profitable accumulation that provides the basis for understanding cross national differences in post-war settlements, in general, and in industrial relations institutions in particular.

33 Giles 1986 p 35
34 It should be noted that there are strong links between this formulation and Jessop’s (1990) views about the influence of capital fractions through accumulation strategies which was discussed in Chapter 3 above.
7.5 POST-WAR RECONSTRUCTION AND FULL EMPLOYMENT POLICY UNDER LABOR IN AUSTRALIA, 1945-1949

Smyth argues that there has been a tendency to locate the main features of the Australian political economy in the “historic compromise” of the 1890s and to ignore the discontinuities of economic and social policy in Australia before and after World War Two. It has already been noted that this view is firmly entrenched in the comparative literature on industrial relations reform in Australia and New Zealand. Drawing on Castles’ domestic defence model, the comparative literature identifies broad continuities in the patterns of public policy that developed in both Australia and New Zealand throughout the twentieth century. For Smyth the tendency to regard the policy history of Australia as largely continuous throughout the twentieth century ignores the fundamental changes in the Australian political economy which took place in the aftermath of World War two, which he calls the “Keynesian compromise”. Smyth’s main concern is with the consequences of the Keynesian compromise for the development of social policy.35 However the logic of his argument applies equally to industrial relations policy and implies that there were significant changes in the context within which arbitration operated in the post World War Two period in Australia which are largely unaddressed in the comparative literature.

This section examines the connections between international economic factors and the shift in the Australian political economy alluded to by Smyth. In particular it examines the extent to which reconstruction of the international economic order impacted on the range of policies that the ALP government could adopt in pursuit of their full employment objectives and its relations with the union movement and its attitudes towards the arbitration system. Like its British and New Zealand counterparts, the Australian Labor Party that held office during the war faced the prospect of adjusting to peacetime and took steps to avoid the reappearance of depression and mass unemployment. To this end, a Department of Post-war Reconstruction (PWR) was established in December 1942 with J.B. Chifley as its minister and H.C. Coombs as its permanent head. Under the influence of PWR, the main focus of post-war reconstruction in Australia became the continued development of secondary industry which was designed to lessen Australian reliance on the British market and to generate sustainable

35 Smyth 1998 pp 87-91; see also Smyth 1994
full employment. It was this development policy which shaped the involvement of the Australian government in international conferences on post-war reconstruction of the international monetary order; influenced its attitudes towards the Sterling Area and imperial preference; guided the nature of the full employment commitments embodied in the 1945 White Paper of Full Employment; and which, above all, influenced the relations between the government and the unions and shaped its attitude towards the arbitration system.

As was noted in the previous chapter, the collapse of the gold standard and the subsequent demise of free trade imperialism had disrupted Australia’s nationalist economic strategy developed in the early twentieth century. Rather developments in the international economy placed the interests of the agricultural export sector at the forefront of economic policy during the interwar years. This situation was reversed by developments associated with the war. 36 The expansion of manufacturing during the war bolstered the relative strength of manufacturing capital and provided the wartime Labor government with an alternative accumulation strategy to one dominated by agricultural exports which entailed continued dependence on the British for markets and capital. As Johnson notes as early as 1942/3:

> The value of secondary industries production was 352 million pounds compared with a value of primary industry production of only 278 million pounds. In other words, which primary industry ‘retained significance’ in the Australian economy, ‘a new emphasis had been placed on factory activity. In particular, the engineering industry underwent a massive development. While there had been three non-governmental tool rooms in Australia before the war, at the height of war-time production there had been 188 in production. There was also significant growth in other areas of production including industrial chemicals. 37

An accumulation strategy based on continued expansion of secondary industry promised to provide a solution not only to the problems of dependency on a declining economy but also offered the prospect of providing higher wages for the urban workforce and removing the prospect of the re-emergence of unemployment with the fluctuation of commodity prices. Furthermore the positive experience of wartime planning by the

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36 Although Beresford and Kerr 1980 p 168, note 23, pace Butlin, suggest that the trend towards import substitution began during the Depression in the 1930s because of the shortage of foreign exchange to finance imports.

37 Johnson 1986p 44. This passage includes quotes from a 1947 Secondary Industries Division report.
The Importance of Small Differences

government and Keynesian economic theory offered the prospect that the government
could play an active and positive role in this post-war economic development.

It was this nationalist industrialisation strategy which shaped the stance taken by
Australian government officials, nearly all of whom were drawn from PWR where the
strategy had been developed, who took part in international negotiations over the
reconstruction of the international economic order during and after the war. Beresford
and Kerr provide a succinct outline of the main features of the development strategy and
how it influenced Australian involvement in the post war reconstruction of the
international economic order.

The insistence by Australian negotiators, at every major conference on matters
arising from Article VII, on the inclusion of a clause which would definitely
commit the major countries to expansionary domestic policies, must be seen in the
context of the Labor government’s own domestic programme. This involved an
extensive policy of import substituting industrialisation and immigration, as well
as state financing of the welfare state- expanding social services and other
infrastructural projects. The social services programme and other infrastructural
programmes were to provide a further means of expanding markets for the output
of new secondary industries…. Under a protective tariff, the growth of a
secondary sector which could eventually become internationally competitive
would reduce Australia’s reliance on primary product exports whose prices,
determined on a world market typically fluctuate from year to year.38

This development strategy placed Australia neither fully in the US nor the British camps
in negotiations over the shape of post war economic order. Australian negotiators
regarded the commitment of all countries, especially the US, to domestic policies that
promoted full employment as paramount. They believed that failure on the part of the US
to commit to full employment would hamper the expansion of trade and access to new
export markets.39 They were also conscious of the problems of US protectionism for the
expansion of trade in commodities needed to fund industrialisation. As a consequence,

38 Beresford and Kerr 1980 p 152; Johnson 1986 provides a detailed analysis of the encouragement that the
Curtain and Chifley Labor governments gave to private industry. She contrasts the support given by Labor
to secondary industry with the hostile nature of its policy towards the banks and argues that Labor’s
“opposition to the banks was not just an historical left over. Nor was it incompatible with the Curtin and
Chifley Labor governments’ support for private industry or their plans for industrial development. On the
contrary, Labor parliamentarians expressed opposition to the banks precisely because they believed the
banks would undermine their economic policies” p 47
39 Butlin and Schedvin 1977 pp 630-5; Butlin and Schevdin argue that this “Employment Approach” to
negotiations over international economic reconstruction reflected the view of Australian officials that
industrialisation alone was not likely to be enough to ensure development in Australia and that it was
Australian officials shared with British negotiators the view that erosion of imperial preference should be made dependent on the reduction of tariffs in the US and the commitment by the leading countries to expansionary domestic policy. Post-war planners were also aware that industrialisation in Australia would require imports of capital goods and inputs from the US and therefore would require access to US dollars. For this reason Australia had an interest in a rapid return to convertibility between the US dollar and the pound Sterling and the growth of multilateral trade. However Australia had also accumulated significant Sterling balances in London during the war. A rapid return to convertibility threatened these balances. The continuation of the Sterling Area however would allow Australia to use its Sterling balances to access the dollars earned by the British colonies which were pooled in the Sterling Area.  

The Bretton Woods Agreement met few of Australia’s post-war objectives. As Beresford and Kerr note, Australia had favoured Keynes’s international clearing union proposals and Melville, the Australian government representative at Bretton Woods, advised Chiefly against signing the agreement because of the lack of flexibility in exchange rates, the lack of commitment to expansionary domestic policy by the major industrial powers and the lack of penalties against surplus nations. They also note the Agreement faced domestic opposition from Lang and Ward, and others on the left both inside and outside the ALP, on the grounds that it would raise the spectre of the Money Power having control over Australia. Chifley, according to Beresford and Kerr, was concerned about the prospect of interference by the International Monetary Fund (IMF) in domestic politics in the event of a balance of payments deficit but at the same time was conscious of the likely future need for dollar exports and loans to finance development. Thus they argue that:

… the decision to delay in signing the agreement until March 1947 was partly a consequence of the need to persuade the opposition within the Labor Party and partly in the hope that the negotiations still proceeding to establish the ITO [International Trade Organisation] would result in a commitment, by the major powers, to something resembling a full employment policy.  

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40 Beresford and Kerr 1980 pp 152-155; on the advantages to Australia of dollar pooling in the immediate post war period see Robertson 1997 and Rooth 1999
41 Beresford and Kerr 1980 p 164
However, Australian hopes for an international commitment to full employment in negotiations over the ITO were to remain unfulfilled. Capling provides a detailed overview of the involvement of Australian officials in the post war negotiations over trade policy.\textsuperscript{42} She demonstrates that as a result of the key role played by Australian officials in the various meetings they were able to have considerable influence over the proposals for the international trade agreements. In particular, she notes that Australian officials were able to help prevent a wholesale attack on imperial preference and was also able to get agreement that developing countries should be able use protection to encourage industrial development.\textsuperscript{43} At the first round of multilateral trade negotiations in Geneva in 1947, they were also, through the most favoured nation mechanism, able to secure commitments by the US to increase access to their market for agricultural exports in return for relatively minor concessions which left industrial protection in Australia largely untouched.\textsuperscript{44} However as Capling notes:

> The US business community had been critical from the outset: protectionists believed that that Charter went too far while many others thought that the Charter made too few inroads into the British preferential system, provided protectionists with too few protections for foreign investment, and allowed far too many exceptions and let out c clauses.\textsuperscript{45}

As a result the ITO Bill never passed the US Congress and the ITO was never formed. While some of the concessions Australia gained were preserved in the General Agreement on Tariffs and Trade (GATT), there was no mechanism for ensuring enforcement.

As a result of the failure of the Bretton Woods Agreement to create a rapid return to convertibility and the slow progress on establishing a system of multi-lateral trade liberalisation, Australia’s post-war development strategy was pursued within the confines of the Sterling Area. There has been considerable debate about Australia’s participation in the Sterling Area and its relationship to the post war industrialisation strategy. Zappala argues that the Chifley Labor government was a loyal member of the Sterling Area and took steps to ensure its viability in the period 1945- 49. He argues, noting the irony, that

\begin{footnotesize}
\textsuperscript{42} Capling 2000
\textsuperscript{43} Capling 2000 pp 7-13
\textsuperscript{44} Capling 2000 pp 13-16; these are the negotiations that were to form the basis for the General Agreement on Tariffs and Trade (GATT).
\textsuperscript{45} Capling 2000 p 20
\end{footnotesize}
it was the conservative Menzies’ coalition government after 1949 which pursued policies that led to a “decline of economic complementarity”.\textsuperscript{46} Robertson rejects Zappala’s characterisation of Australian policy in this period and argues instead that Australia had never intended to follow a policy of complementarity after the World War Two. Rather he suggests that a development strategy based on industrialisation was a constant throughout the post war period and what changed in the late 1940s was Australia’s assessment of the extent to which this development strategy could be pursued within the confines of the Sterling Area.\textsuperscript{47} Initially, membership of the Sterling Area was seen to be compatible with Australian development aims because it allowed Australia to overcome dollar scarcity through the dollar pooling system. At the same time it provided a mechanism to protect Australian manufacturers from competition. Thus Robertson suggests that until mid 1947, membership of the Sterling Area was seen to be compatible with Australia’s industrialisation strategy.

By late 1947, however, it became clear that the reconstruction of the international monetary system, and the difficult position it put Sterling in, meant that that membership of the Sterling Area had important consequences of the domestic economic policy options available to the Chifley Labor government. As Zappala notes, as a result of the 1947 Sterling convertibility crisis, the Australian government took steps to curtail dollar imports and agreed to sell all of its gold production to Britain.\textsuperscript{48} Robertson notes however that while the government tried to limit the impact of these reductions had on manufacturing, through classifying inputs as essential items, by 1948 the shortage of imports from dollar sources had begun to impact on the expansion of domestic manufacturing. As Robertson puts it “there is no doubt that the development programme was damaged by the import cuts.”\textsuperscript{49}

In the absence of convertibility and a mechanism for multilateral trade liberalisation, the continuation of the industrialisation strategy became dependent on Australia’s ability to use its London balances to draw on the Sterling Area dollar pool. While the extension of

\textsuperscript{46} Zappala 1994. “economic complementarily” refers to view underpinning imperial preference that Australia and the other Dominions should specialise in the production of food and that the UK would provide manufactured goods in return. For a more detailed discussion see Rooth 1992
\textsuperscript{47} Robertson 1997
\textsuperscript{48} Zappala 1994 pp 8-9
\textsuperscript{49} Robertson 1997 p 97
the Marshall Plan in 1947 to cover some Sterling balances alleviated this problem in the first half of 1948, the impact of the 1948 US recession on the supply of dollars to the Sterling Area placed further constraints on post-war development policy in Australia. Recession in the US resulted in a severe downturn of exports from the Sterling Area to the US in 1949. This dramatically limited the supply of dollars available in the Sterling Area to finance imports of capital goods and inputs from the Dollar Area. Britain initially tried to manage its way through this crisis by calling on countries in the Sterling Area to limit their imports from the dollar zone. However, with no end in sight to its economic problems, in September 1949 Britain decided to devalue Sterling by 30 percent against the dollar.\textsuperscript{50} Australia, and most of the other Sterling Area countries, matched the devaluation. Zappala suggests that Chifley’s decision to match the devaluation of Sterling was influenced by both domestic political concerns about the effects of deflation in the lead up to an election and loyalty to the Sterling Area. He suggests that in the end Chifley’s loyalty to the Sterling Area was a more significant factor but does not provide evidence to support this assertion. However, regardless of the reasons for the decision to devalue the currency, the effect on the Australian economy was significant. It increased the price of imports from the Dollar Area and added to already significant inflationary pressures. It also forced Chifley to seek a $20 million dollar loan from the World Bank to finance existing import orders from the Dollar Area. In Crisp’s words this was “a last ditch expedient … to prevent economic and industrial breakdown”. Thus on the eve of the 1949 election the Labor government found the continuation of its industrialisation strategy severely constrained by international economic developments associated with post-war reconstruction of the international economic system.

The consequences of these international developments meant that the Chifley government came to see the success of post war industrialisation and the achievement of full employment as largely dependent on its ability to constraining wage costs in an inflationary context. This was to have significant consequences both for the relations between the government and the unions but also on the role played by the institutions of arbitration in Australia in the post war period.

\textsuperscript{50} Robertson 1997 pp 98-100; Zappala 1994 pp 10-12
While much the planning for the post-war period had been made with a view to preventing the return of depression, in the immediate post war period the main economic problems facing the country related to shortages of goods and inflation, and to this extent represented a continuation of the economic problems encountered during the war. In these conditions the achievement of full employment was regarded not as a function of increasing aggregate demand, the Depression problem, but rather as a function of the ability to restrain demand within the existing supply of goods and thereby avoid inflation. It was in this context that the industrialisation strategy and sustainable full employment came to be seen as dependent on the ability to control wage increases, under conditions of increased bargaining power for labour.

The need for wage control figured prominently in the development of the Labor government’s post war full employment commitment. Sheridan argues that “evidence that post war planners saw wage control as central to post-war economic policy is plentiful- as is their awareness of the political delicacy of the issue.” Coombs, the head of PWR, addressed the issues of ‘the problems of a high employment economy’ in his Joseph Fisher Lecture at the University of Adelaide in 1944. As Rowse notes, while in his speech Coombs acknowledged that maintenance of full employment required controls over the behaviour of both capital and labour, he envisaged only limited constraints on private enterprise in the post war period. He placed rather more emphasis on the need to control labour. In particular Coombs argued that under full employment “there would be pressure from wage earners for increased wage rates greater than justified by rising productivity” and canvassed the means available to government to control that pressure. These included a wages policy based on a frequent review of the Basic Wage, the use of an employment service to redistribute workers and subsidies on basic commodities.

The connections between the achievement of full employment and wage control were reinforced in the final form of the White Paper of Full Employment introduced to parliament in 1945. As Black notes this White Paper went through a number of drafts between Coombs speech and its introduction to parliament. She notes that while earlier drafts included specific policy proposals, including some commitment to government

51 Sheridan 1987 p 100
52 Rowse 2000 p 5
intervention in the allocation of private investment, the final version of the paper contained few specific policy proposals about how full employment was to be ensured. Of the White Paper Black says:

… whilst it claimed to address itself to the task of achieving full employment … the Australian White Paper, like the British, fell far short of this objective…. Like the British paper it assumed the continuation of fluctuations in total expenditure … [and] relied heavily on the cooperation of private capital…. The timidity and ambivalence of the Paper was determined not only by … the unwillingness of the Government to confront private capital with measures regulating the level of its activity, but also by the Government’s assiduous solicitation of class and the Opposition.”

However as Sheridan argues that the bluntness of the White Paper “so carefully concealed the Cabinet’s true intentions that the central issue of wage control is simply not mentioned anywhere in the White Paper although every other item to be controlled is clearly listed in paragraphs 101-106”. However the thrust of the White Paper meant that wage control was to be seen as the central element of ensuring the success of the industrialisation policy and achieving sustainable full employment. Labour’s post war industrialisation strategy required both growth of traditional exports to finance imports of capital goods and private investment in secondary manufacturing industry. This meant that it was not prepared to impose control on the allocation of private capital. At the same time its efforts to ensure a favourable international economic framework for the expansion of trade and the growth of export markets had largely failed. This meant that wage control was one of the only levers available to the Chifley government in its efforts to foster industrialisation and achieve sustainable full employment.

Thus generally speaking it can be argued that the failure of Australian efforts to secure a commitment to full employment policies in the reconstruction of the international monetary system and the ensuing failure of the International Trade Organisation talks to provide a mechanism for multilateral trade liberalisation, trapped Australia within the Sterling Area and placed a series of constraints on the viability of its reconstruction strategy. This, in turn, created a situation in which the maintenance of full employment in Australia was seen to be largely dependent on the ability of the government to

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53 Coombs 1944 cited in Rowse 2000 p 5
54 Black 1984 p 48
55 Sheridan 1987 p 103
constrain the growth of wages and inflationary pressures. Thus international economic developments created the conditions for significant conflict between the ALP government and the union movement, and were to lead directly to significant changes in the nature and functioning of the arbitration system in the late 1940s and early 1950s.

7.6 POST-WAR ADJUSTMENT AND FULL EMPLOYMENT IN NEW ZEALAND, 1945-1952
Like Australia New Zealand emerged from World War Two with a Labour government concerned at the prospect of a return to Depression. However, unlike Australia, even though the war had resulted in an increase in manufacturing activity, the Labour government in New Zealand never seriously entertained the option of an accumulation strategy based primarily on national development through industrialisation pursued at the expense of the agricultural export sector.\(^{56}\) International economic developments associated with post war reconstruction reinforced the dependence of the New Zealand economy on agricultural exports and the British market. Thus as its sought to safeguard the social reforms it had introduced the 1930s, the major economic task facing the post war Labour government quickly became that of constraining the demand and inflationary pressures that had built up in the domestic economy during the war within the traditional foreign exchange constraint. Unlike its Australian counterpart, the New Zealand Labour government was able to rely on a continuation of wartime controls for longer during the post war period. However as in Australia, the contradictions of reliance on private capital for economic growth meant that the major focus of this policy quickly became wage control and created the conditions under which the institutions of arbitration were recast as a mechanism for wage control and economic stabilisation.

Like its Australian and British counterparts, the New Zealand Labour government which had held office since the mid 1930s, was concerned that the end of the war would result in a reappearance of depression. In particular, the Labour government was concerned that the end of the war would threaten the social reforms that it had introduced in the 1930s. Olsen argues that while many of leaders of the First Labour government had been involved in the Red Fed movement, by 1935 they had learnt the limits of union power and sought to bring about change through political control.\(^{57}\) In keeping with this reformist

\(^{56}\) Sutch 1966
\(^{57}\) Olssen 1987
outlook, Labour introduced a sweeping array of social democratic reforms designed to ameliorate the inequities of capitalism. These reforms included the introduction of the first integrated, universal social welfare system in the world (the Social Security Act 1938); an extensive public housing programme; land reform and rural income support schemes; extensive public works and one of the first attempts to use deficit financing to manage the national economy.\(^{58}\) Labour’s reform programme also included amendments to the IC&A Act reintroducing compulsory arbitration; legislating for “compulsory union membership”—a form of unqualified preference—and the formation of national trade unions. It also encouraged the development of a national peak trade union body.\(^{59}\)

However it was not long until Labour’s reform agenda was threatened by the reappearance of the foreign exchange constraint which had punctuated and constrained social and economic development in New Zealand economy since the 1880s. The lagged effect of the international recession in 1937 resulted in a dramatic decline in foreign exchange reserves in 1938. Not prepared to sacrifice its reform agenda, on December 7\(^{th}\) 1938 the government introduced comprehensive exchange and currency controls to avoid a major currency crisis.\(^{60}\)

The ability of these controls to protect Labour’s reforms was not seriously tested due to the outbreak of war. War alleviated the foreign exchange constraint. Nash, Labour’s finance minister, negotiated a series of bulk purchase agreements with the British almost as soon as the war began. The British were keen to avoid the effects of rapid increases in primary products that had affected them during World War One. At the same time, these agreements were seen by Nash as a means of reducing dependence on the banks in London.\(^{61}\) While export prices and volume did not increase much during the war, the reduction of traditional imports ensured a favourable trade balance for New Zealand throughout the war.

As in Australia, war created the conditions for rapid development of manufacturing industry in New Zealand. As Jones puts it:

\(^{59}\) see Woods 1963 for details.
\(^{60}\) Hawke 1985 pp 164-5
\(^{61}\) Sinclair 1980
Shut off from traditional imports and, from December 1941, with the need to support the Allied forces in the Pacific with food and other materials, the manufacturing economy was transformed. Between 1938/9 and 1945/6 manufacturing output increased at around 4% per annum and although this was no faster than in the recovery of the mid 1930s, a wide range of new industries came into being. Some were directly related to the war effort, such as the production of Bren gun carriers, gas masks and bombs, but capabilities were also developed in rubber, plastics, hardware and cutlery, building products, batteries, electrical appliances, food chemistry and a host of other areas.\(^{62}\)

Despite this, unlike its counterpart in Australia, the New Zealand Labour government did not regard nationalist industrialisation as a viable accumulation strategy in the immediate post war period. While elements in the Labour Party have favoured an industrialisation strategy during the 1930s, in government the Labour Party had resisted the development of comprehensive industrialisation, in part because of the dependent nature of the New Zealand economy. While Savage presented the introduction of import licensing and restrictions on capital controls in the late 1930s as an assertion of economic sovereignty, Jones argues that it represented an ad hoc reaction to immediate economic problems at the end of the 1930s and was never designed to foster national development. The limited character of industrial policy was reinforced by the reaction of London. Immediately after the introduction of import licensing in 1938, Nash went to London to convert loans for 17 million pounds that were about to fall due. In order to secure the support of the City and the British government for the conversion loan, Nash had to accept severe limitations of the licensing policy and guarantee access to the New Zealand market in line with the Ottawa agreement.\(^{63}\) Sutch, a staunch supporter of industrial development in New Zealand in the 1950s and 1960s, argued that, in accepting these limitations:

\[...\] Nash and Fraser had been influenced by the home backgrounds, the prevailing economic doctrine of free trade, and the need to conciliate the makers of press opinion in New Zealand- the importers, merchants, bankers, professional people and farmers. By their substantial social changes they had improved the working of the economic system and made it more stable, profitable and productive. They had not tried to change the structure of the economy by developing an industrial sector and yet the ‘chambers of commerce and the bureaux of importers’ had rejected them. Both the political leaders and the traders were prisoners of the past. This fact and the financial control from London had put further limits on the further social and economic development of New Zealand.\(^{64}\)

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\(^{62}\) Jones 1999 p 201

\(^{63}\) for a detailed overview see Sutch 1966 pp 229-35

\(^{64}\) Sutch 1966 p 235
Thus, the post war Labour government, dominated by Nash and Fraser regarded industrial development, the achievement of full employment and the survival of its social reforms of the 1930s as largely dependent on the success of traditional agricultural exports and the continued dependence on the British market. As a result while New Zealand shared with Australia an interest in an international economic system that was underpinned by the commitment by the US and other leading countries to full employment, unlike Australia, whose support of the Sterling Area and imperial preference was contingent on the extent to which it was consistent with their industrialisation strategy, New Zealand’s continuing reliance on agricultural exports meant that little scope for her to escape the system of imperial preference and “economic complementarity”.

For this reason, despite differences in the dominant fractions of capital and the accumulation strategies that the two countries were to pursue, as in Australia, Labour’s ability to safeguard its social reforms and to ensure the prospects for full employment in New Zealand came to be associated with the ability of the government to control inflationary pressures. This was quickly translated into the need of the government to control wage militancy in the agricultural export chain and wage push inflation from the protected domestic sector and set the stage for widespread industrial conflict and fundamental changes to the arbitration system in New Zealand.

7.7 FROM WAGE SETTING TO WAGE CONTROL: POST-WAR INFLATION AND THE RECASTING OF ARBITRATION IN AUSTRALIA AND NEW ZEALAND, 1945-52

As the previous two sections have shown, while Australia and New Zealand adopted different accumulation strategies in the immediate post war period, developments associated with the reconstruction of the international economic order meant that in both cases the main focus of full employment policy became the ability of the government to control levels of wages. Despite differences in the fractions of capital which dominated the accumulation strategy in the two counties, in both cases measures initiated by labour governments to control industrial conflict and suppress inflation were to result in significant defeats for important sections of the labour movement and dramatic changes

65 for details about New Zealand involvement in negotiations over reconstruction of the post war international economic order see Hawke 1985 pp 227-9
in the operation of the arbitration systems in the two countries. While begun under labour in the immediate post war period, in both cases, these changes were cemented in place by conservative governments and were to subsequently have a lasting impact on industrial relations outcomes in two countries throughout the 1950s and 1960s.

“DIVISION OF LABOUR”: POST WAR INDUSTRIAL CONFLICT AND THE CENTRALISATION OF ARBITRATION IN AUSTRALIA, 1945- 1949

As was noted in section five above, the limited success Australia had in achieving an open international economic order based on US full employment had significant consequences for the range of policy options open to the Chifley government. In particular, it made post war industrialisation largely dependent on the willingness of domestic and foreign manufacturing interests to invest. This meant that for Labor the ability to deliver sustainable full employment became closely associated with its ability to restrain wage costs. This created the conditions for widespread industrial conflict and led to a situation in which the Chifley Labor government used the power of the state to quell labour protest and instituted a series of changes to the arbitration system which led to the centralisation of wage fixation during a period of full employment.

As in a number of other countries, while there was concern about the potential for a return to depression, the major economic problems facing Australia in the immediate aftermath of the war were inflationary in character. This reflected delayed expenditure and shortage of consumer products. However it was further exacerbated by the post-war industrialisation policy which saw scarce dollars being allocated to the purchase of capital goods rather than consumer goods.

The potential for post-war inflation was aggravated by pressure for wage increases from workers as the war came to an end. To some extent this pressure reflected the impact of wartime controls. With expanded powers during the war, the government had put in place a series of measures designed to prevent inflation. Starting in 1940 regulations were

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66 This subheading is drawn from title of Sheridan’s 1989 book Divisions of Labour: Industrial Relations in the Chifley Years, 1945 – 1949 which is the most complete study of this period. This section draws extensively from the empirical detail outlined by Sheridan in this book and a series of journal articles on related issues published around the same time- most notably Sheridan 1987, Sheridan 1989band Sheridan 1994. Textual references to these works are only included where there is a direct quote or the argument draws on Sheridan’s interpretation of the events.

67 Rowse 2000
introduced which made certain award rates maxima as well as minima. In 1942 a more elaborate system of price stabilisation was introduced including price controls, subsidies and the pegging of the basic wage to movements in the “C” series price index. The wage peg was relatively successful at controlling wage growth during the war. However, by the end of the war there were growing demands from workers for wages increases. While the government held firm to the wages peg during the war, provision was made for the adjustment of wages to deal with “anomalies”. However, as Butlin and Sheviden note, while this “permitted upward drift in wages… more important[ly], [it] aggravated resentment among those workers who were unable to benefit from the loophole”.68 Thus in addition to growing desire to recapture lost wages, there was also pressure for the reestablishment of relativities and margins between some occupations and industries.

In 1943 the ALP Congress passed a series of resolutions committing a post-war Labor government to the introduction of a forty-hour week within six months of the end of the war, the lifting of the wartime peg and an increase in the basic wage. At the end of the war the ACTU also issued formal demands for increased leave entitlements, increases in the basic wage and a joint conference to establish new criteria for the basic wage and a reform of the “C” series price index.69 Furthermore, while the ALP enjoyed “unprecedented authority, both political and constitutional, to implement the basic expectations of the workforce”, the defeat of the powers referendum in 1944 meant that their were limits to which to the federal government could use direct measures to control pressures for wage increases.

It was in this context, faced with growing labour unrest in the immediate post-war period and determined to prevent wage increases from damaging the post war industrialisation strategy, that the Chifley Labor government adopted an industrial relations strategy designed to limit union demands for improved wages and conditions. Strikes in the steel industry in New South Wales in 1945 and the Queensland meat industry in 1946 were met with threats by the federal government that they would deregister the unions involved. At the same time Chifley delayed the hearing of the forty hours case by the

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68 Butlin and Schedvin 1977 p 557. It is also worth noting that there were substantial increases in the wages of some groups of women workers during the world war two, although these gains were uneven and quickly eroded into post war period. For more details see Butlin and Schedvin 1977 pp 557-61.

69 Sheridan 1989b p 4
Arbitration Commission. The Commission eventually began hearing the 40 hours case in May 1946. Sheridan argues that the government and employers took a number of steps to delay proceedings. In response to these delays and growing demands for wage increases a number of unions in the Victorian metals industry including the Amalgamated Engineer’s Union (AEU) launched campaigns of direct action designed to deliver lower working hours and increased margins. In this case too the government, with the support of employers, intervened to threaten deregistration and to force the parties back to arbitration. While the government was largely forced to back down in this dispute, it was not until early 1948 that the Court accepted the engineers’ claims for the reintroduction of margins and forty hour clauses, moderated by the allowance for ‘reasonable overtime’, were not read into awards until well into 1948.

At the same time as the Chifley government intervened directly in industrial disputes and delayed proceedings in the Arbitration Court, it also set about amending the Commonwealth Conciliation and Arbitration Act in ways designed to constrain the growth of wages. Sheridan argues that:

… the folklore that its 1947 amending Act incorporated the union movement’s major proposals is quite false. In fact, a major aim of the legislation was to cushion the economy from the unions’ post-war drive for improved wages and conditions in a labour market characterised by overfull employment. The government refused to decentralise the system to allow market forces greater play and it further refused to abolish the legalism associated with the Commonwealth Court of Conciliation and Arbitration (CCCA) from its birth. Instead the judges appointed to the court continued to play the dominant role in the federal system.  

While the Act established a Conciliation Commission, with the power to settle disputes involving margins amongst other things, the Arbitration Court retained control over the setting of the basic wage and determination of basic conditions. The Act also retained many of the sanctions that had been introduced in wartime to control industrial conflict including provisions for the deregistration of unions involved in illegal strike activity. The Act also failed to address union demands for a reduction in the impediments to union amalgamation and improvements in right of access provisions. In addition the

70 Sheridan 1989bpp 3-4
71 Sheridan 1989b p 10
government continued to appoint conservative candidates to the Arbitration Court who were receptive to the government’s warnings about potential dangers of inflation.\textsuperscript{72}

It was these developments that created the conditions for a seven week Coal Strike in 1949. The main events that led to the Coal Strike can be summarised as follows.\textsuperscript{73} There had been a number of major disputes between the coalminers and oligopolistic coalmine-owners before and during the war over rates of pay and working conditions. Because of the importance of coal to the war effort a specialist tribunal was established to try to ameliorate this conflict. While the Miners advocated nationalisation of the coal industry and the ALP Congress adopted this as official policy during the war, because of its reliance on private investment and the central role that coal played in its industrialisation strategy, the post war Labour government never entertained this policy. Instead the 1946 \textit{Coal Industries Act} made provision for a permanent tribunal in the industry.

In the aftermath of the war, employers in the industry attempted to re-establish managerial prerogative over the industry, while workers in the mines demanded shorter working hours, improved working conditions and increased wages. An industry wide stoppage was narrowly averted in 1948 but by 1949 issues came to ahead. On June 27\textsuperscript{th} 1949 the miners went on strike. The government response was swift. On June 29\textsuperscript{th} the government rushed retrospective legislation, the \textit{National Emergency (Coal Strike) Act} through the Parliament. This froze union funds and made the giving of financial aid to striking miners an offence. On June 2\textsuperscript{nd} the Arbitration Court ordered union leaders to lodge union funds with the Commission and on July 7\textsuperscript{th} began imprisoning union officials for contempt. By the end of July the shortage of coal meant that electricity production had become severely curtailed and over 200,000 workers had been stood down or laid off. On July 28\textsuperscript{th}, in a dramatic departure from Labor Party tradition, 13,000 troops entered the NSW coal fields and on August 1\textsuperscript{st} began working the open cut mines. Faced with growing opposition from laid off workers, the defeated miners abandoned their strike and returned to work August 15\textsuperscript{th}.

\textsuperscript{72} Sheridan 1989a pp 155-61
\textsuperscript{73} As with the Waterfront dispute in New Zealand, which is discussed below, the 1949 Coal Strike is widely documented in the Australian labour history literature. For details and references see Derry 1995 and Sheridan 1989a. The following discussion is drawn from these sources. The intention here is not to provide a comprehensive account of the issues involved in the strike but rather to examine the connections
While the Coal strike is often painted as a communist inspired plot, and there were certainly evidence that many involved in organising the strike had Communist Party of Australia affiliations, the militancy of the coal miners and the ferocity of the government’s response can also be explained in terms of both the economic and political situation facing the country.\(^{74}\) The Coal strike was taking place at precisely the same time as the impact of the US recession was aggravating the dollar scarcity in the Sterling Block and Chifley had been forced to go to the IMF for a loan. In this context, the spectre of independent industrial action by workers in a key sector of the economy was particularly significant. Success on the part of Miners had the potential to both increase the costs of a key input into post-war industrialisation and also to create pressures for increased wages across the rest of the economy. Derry argues that it was this economic threat, rather than concern about communism per se, which explains Chifley’s willingness to use troops to break the strike.\(^{75}\)

Having defeated the Coal Miners, and in light of the amendments made to the CCCA in 1947, the government was in a position to be able to rely on the Arbitration Court to control the growth of wages. As Sheridan puts it:

The Chifley government fulfilled the classic integrationist role of social democratic ministries. Fearful of the effects on the economic and social status quo and hence on the political milieux in which the ALP had become so dramatically successful, the government sought to restrain labour market forces. Instead of fulfilling its platform and legislating for shorter hours and higher wages, it chose the opposite course. It sought to hold down wage costs in a variety of ways. These included moral suasion; direct emergency regulation; manipulation of the cost of living index; conservative amendments to the centralised wage fixing system; the use of special tribunals to regulate the most strategic labour markets; increased regulation of trade unions; and eventual deployment against labour of repressive legislation backed by the naked power of the state.\(^{76}\)

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\(^{74}\) This is not to argue that ideological factors were not important but rather to suggest that these differences developed in a particular economic context. For an interesting discussion of the role of communism in Australian unions and the split in the industrial and political wings of the labour movement in the late 1940s and early 1950s Ellem 1993

\(^{75}\) Derry 1995

\(^{76}\) Sheridan 1989a p 318
Thus by 1949, with the defeat of the direct challenge from the Miners, the arbitration system in Australia had developed into a mechanism for centralised control of wage growth in an inflationary context. It was this centralised system of wage control that the conservative Menzies government inherited after 1949. As Hancock notes after 1950, the Arbitration Court, under the influence of Kelly, adopted an extremely conservative stance of wages policy and between “1951-53, there were no significant increases in award wages … or improvements in conditions”.77 Configured in such a way, federal arbitration was to continue playing a role in restraining wage pressure in Australia well into the 1960s.

ON THE WATERFRONT: POST-WAR INFLATION, INDUSTRIAL CONFLICT AND THE RECONFIGURATION OF ARBITRATION IN NEW ZEALAND, 1945-52

Despite differences in the accumulation strategy adopted, similar pressures were to produce similar results in New Zealand, although with even more significant consequences for the development of arbitration. As Condliffe notes “the New Zealand economy emerged from the war taut with suppressed inflation”.78 The war had resulted in increased real incomes especially in the farming sector, and there was considerable deferred spending and savings in most sectors of the economy. At the same time consumer goods remained in short supply and this shortage was exacerbated by the attempts of the New Zealand government to defend the Sterling zone. Resumption of deferred gross capital formation especially in the area of housing and electricity further added to this overheating of the economy. While there was some concern that the end of the bulk purchase agreements would lead to economic downturn, favourable terms of trade for agricultural products in the immediate post war period further added to post war inflation.79

Changes made to the wage fixation system during world war two, which had alleviated inflationary pressures during the war, added further pressure for wage increases in the post world war two period. In 1939 Labour had introduced the Strikes and Lockouts Emergency Regulations (SLERs) which expanded the definition of a strike and gave the Minister of Labour the power to deregister a union involved in illegal strike activity and

77 Hancock 1979/84 p 151
78 Condliffe 1959b p 99
79 see Gould 1982 pp 48-67
register a new union in its place.\textsuperscript{80} In December 1942 Labour also introduced the Economic Stabilisation Emergency Regulations (ESERs). The ESERs placed 110 goods and services under price control and subsidized their production; instituted a Wartime Price Index (WPI) which was “designed to mute the measurement of price increases”; and gave the Arbitration Court the power to adjust award wages in line with movements in the WPI. From 1942 to 1945 there was no appreciable increase in the WPI and therefore the Arbitration Court did not issue a GWO.\textsuperscript{81} In effect, then, the ESERs operated as a wage freeze.

While the SLERs and the ESERs were successful at constraining wage costs during the war, their operation was to lead to greater pressure for wage increases in the immediate post war period. First, as Sutch argues, the wartime stabilisation not only froze wages but also resulted in a significant redistribution of national income away from workers and towards manufacturers and farmers. Thus he notes that in the period 1938/9 to 1944/5 wage and salary payments as a percentage of private income declined from 55.6% to 43.4%, while company income increased from 9.8 to 11.2 percent. He argues that in the post war period workers expected a Labour government to reverse this pattern because:

\begin{quote}
While workers accepted sharing the sacrifices to win the war, they did not accept as corollaries that cost plus contracts and high profits were an indication of equality of sacrifice… During the war years farmers were able to repay millions of pounds in mortgage money, manufacturers considerably increased the valuation of their assets and traders and financial institutions made substantial profits.\textsuperscript{82}
\end{quote}

A second consequence of wartime controls was major disruption in the structure of wages. Relativities between wages were disrupted by wage increases granted to workers covered by specialist tribunals and in the public sector. At the same time there was a significant decline in the margin for skill – from 26% in 1936 to 15.9% by 1945.\textsuperscript{83} Together these factors meant that there was likely to be considerable pressure for wage increases and the recovery of lost margins from both craft workers, who had traditionally

\textsuperscript{80} Woods 1975 pp 66-7. Once registered the new union could use the provisions of the 1936 IC&A Act to gain an award from the Arbitration Court, obtain exclusive jurisdiction and enforce compulsory union membership provisions. The SLERs were only used twice during the war- in the freezing works in March 1942 and in the coal mines in September 1942. However the threat of deregistration was used repeatedly throughout the war to constrain strike action and as will be shown later was used extensively in the immediate post war period.

\textsuperscript{81} Quote from Lang 1953 p 45. On the ESERs see also Woods 1963 and Sutch 1966

\textsuperscript{82} Sutch 1966 pp 302-3

\textsuperscript{83} see Woods 1963 pp 156; Sutch 1966 pp 354-5; Walsh 1984b pp 82-87
supported the arbitration system, and from workers in the export chain, who had traditionally been hostile to it.

In the immediate post war period, because of its concern about the impact of inflation for the sustainability of full employment, Labour continued the wartime controls and resisted efforts by workers to push for lost margins. Loyal to the government, the FOL resisted calls from its members for applications for a GWO and a shift to direct bargaining. Despite this, as table 7.1 indicates, there was considerable growth in direct bargaining and industrial conflict in the immediate post war period.

**Table 7.1 Industrial Disputes. New Zealand 1946-1951**

<table>
<thead>
<tr>
<th>Year</th>
<th>Strikes and Lockouts (n)</th>
<th>Workers involved</th>
<th>Working days lost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>96</td>
<td>15,696</td>
<td>30,393</td>
</tr>
<tr>
<td>1948</td>
<td>N/a</td>
<td>N/a</td>
<td>93,464</td>
</tr>
<tr>
<td>1949</td>
<td>N/a</td>
<td>N/a</td>
<td>218,172</td>
</tr>
<tr>
<td>1950</td>
<td>N/a</td>
<td>N/a</td>
<td>271,475</td>
</tr>
<tr>
<td>1951</td>
<td>105</td>
<td>N/a</td>
<td>1,157,390</td>
</tr>
</tbody>
</table>

This growing conflict in the immediate post war period culminated in a dispute involving carpenters in Auckland in 1949. In late 1948 the carpenters union made an application to the Arbitration Court for the restoration of lost margins. The court refused the application on the grounds that it would flow on to other skilled workers and also removed a travel allowance from the existing award. In subsequent negotiations between unions and employers 900 employers agreed to pay the margins and travel payment with only 30 holding out. In reaction to go slows by workers on those sites where only award rates were being paid, employers put in place an industry wide lockout. The dispute escalated as drivers, waterside workers, railwaymen, labourers and other unions joined the boycott. The Employers Federation further escalated the dispute by announcing its members would not employ the locked out workers. Under government pressure, F.P. Walsh, the president of the FOL, requested that the dispute be handed over to the peak union body. When the carpenters refused, the Minister of Labour used the SLERs to

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84 all figures from Roth 1973 p 40 except for working days lost 1948-1950 taken from Woods 1963 p 181
deregister the union. A new union was formed and immediately recognised by the FOL. However the deregistered union continued to enjoy considerable rank and file support.  

It is worth noting the strong parallels between this dispute and the building industry lockout in Sweden during the 1930s described by Swenson and reviewed in chapter three above. In both cases the prospect of wage increases in the construction sector had implications for the international competitiveness of export products (manufactured goods in the Swedish case and agricultural exports in the New Zealand case) because of the prospect of wage increases flowing on to other groups of workers and also because increased costs of construction were likely to impact on the cost structure of the export sector. While the strike action by carpenters in New Zealand did not have as much potential to increase direct labour costs in the agricultural export sector, as was the case in the Sweden, the prospect of wage increases flowing thorough to increased wage costs in the export chain- transportation, distribution, processing and shipping of agricultural exports- meant that this action posed just as much a threat to the New Zealand post war accumulation strategy and motivated a similar response from employer groups and even more direct intervention on the part of the New Zealand state than in Sweden.

It was in reaction to the continued strength of the deregistered Carpenters’ union that the Labour government introduced the 1949 *Industrial Relations Act*. The Act made possible for the government to declare a deregistered union illegal. It also made provision for the formation of locality unions. This meant that it was possible for a union to registered and gain an award for a particular locality rather than an industrial district. Thus the government was able to fragment an existing union. Sutch argues:

> It was the carpenters strike which finally made the arbitration system into a complete state machine, for the Minister of Labour now had the power to fragment, ???, and register unions to which all employes must belong… (and) the FOL proved to be the partner of the state … By 1949 Fraser, Nash, McLagan and Walsh had built a framework in which a strong independent union movement could no longer exist.

It was these provisions, introduced by a Labour government seeking safeguard its post war accumulation strategy from inflationary wage pressures, which were used by a

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85 see Roth 1973 pp 71  
86 Sutch 1966
conservative government to smash the Waterside workers several years later. In part as a consequence of the Carpenters’ strike, but also because of growing dissatisfaction at the continuation of wartime controls, a conservative National government was elected in 1949 promising an end to wartime controls and ‘a return to normalcy’. As part of the return to normalcy, National removed most of the supply side controls that had been put in place during the war, although it kept the wage controls in place. This ‘dash for freedom’ coupled with growing farm incomes from export receipts produced unprecedented levels of inflation in the early 1950s, as indicated in Table 7.2 below.  

Table 7.2 Movements in Prices, New Zealand 1949 - 53

<table>
<thead>
<tr>
<th>Year</th>
<th>Export Prices</th>
<th>Import Prices</th>
<th>Consumer Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>2740</td>
<td>2044</td>
<td>1009</td>
</tr>
<tr>
<td>1950</td>
<td>3843</td>
<td>2168</td>
<td>1066</td>
</tr>
<tr>
<td>1951</td>
<td>4999</td>
<td>2528</td>
<td>1183</td>
</tr>
<tr>
<td>1952</td>
<td>3580</td>
<td>2850</td>
<td>1275</td>
</tr>
<tr>
<td>1953</td>
<td>3941</td>
<td>2709</td>
<td>1333</td>
</tr>
</tbody>
</table>

It was in this context that the Waterfront dispute developed and the conservative National government was able to use controls developed by a Labour government to defeat independent unionism in the export chain. The main details of the Waterfront dispute are as follows. In the aftermath of the Carpenters’ strike the Waterside Workers Union (WWU) and a number of other unions had disaffiliated from the FOL and formed the Trade Union Congress (TUC). Under the leadership of Jock Barnes, the WWU attempted to enter into direct negotiations with employers. Concerned about the potential impact of independent unionism under conditions of full employment on the post war accumulation strategy, and under pressure from farmers, the government intervened in negotiations. The ‘wharfies’ responded with an overtime ban. This was met by an employer led lockout. The dispute rapidly escalated and spread to other industries. In an effort to end the dispute the National government used the full range of power available to it. It declared a state of emergency and made public expressions of support for the wharfies illegal. Troops were used to break picket lines and to man the wharfs. Eventually the

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87 Gould 1982 pp 68-73
88 Woods 1963 p 170 index 1942= 1000
government deregistered the Waterside Workers Union and replaced it with a number of locality unions. Despite widespread rank and file opposition, the FOL supported the government’s intervention. All in all the Waterfront dispute lasted for 151 days. In the aftermath, employment conditions on the waterfront were dramatically eroded and management were given a free hand in reorganising production.

Immediately after the dispute National called a snap election. Campaigning on the issue of anti-communism it won a landslide victory. One of the first acts of the new parliament was to amend IC&A Act to incorporate the expanded definition of illegal strike action, contained in the SLERs, and the deregistration provisions from the 1949 Industrial Relations Act. In addition it charged the Arbitration Court with the sole responsibility of ensuring economic stabilisation.89

Thus in New Zealand the growing concentration on the need for wage control created the conditions for an explosion of conflict between and within the industrial and political wings of the labour movement. Steps taken by the Labour government to disarm union challenges to wage controls in the late 1940s, set the stage for the National government to use the institutions of arbitration to inflict a massive defeat to workers on the waterfront (and throughout the export chain) in a way which significantly constrained the bargaining power of these workers during the 1950s and 1960s. Thus despite the existence of unprecedented levels of full employment during this period, the institutions of arbitration acted to constrain the problems of full employment capitalism identified in the quote from Keynes at the beginning of this chapter. Thus international developments, and their impact on New Zealand, saw the transformation of the institutions of arbitration from a mechanism for setting minimum wages and settling disputes to one of centralised wage control.

7.8 CONCLUSION
This chapter has argued that the pattern of post war reconstruction and in particular the reconfiguration of the structure of the international monetary system had significant

89 As with the Coal Strike, there are a number of accounts of the waterfront dispute, from a range of perspectives. See for example Bassett 1972. For more detailed accounts of work on the New Zealand waterfront in the lead up to the dispute see Green 1994 and Barry 2001. The intention here is not to provide a detailed account of the dispute itself but rather to focus on the connections between it, international economic change and changes in the domestic institutions of industrial relations in New Zealand.
The Importance of Small Differences

implications for the accumulation strategies governments in the Australia and New Zealand were to adopt in an effort to secure full employment. This in turn was to have important consequences for the domestic institutions of industrial relations in both countries. Despite differences in the configuration of class interests and the nature of the accumulation strategies adopted by the two countries, developments associated with the reconstruction of the international economic regime were to have similar consequences for the institutions of arbitration in the two countries. In both cases the unfavourable context created by the international economic reconstruction and the reliance of the state on private capital for investment meant that the pursuit of full employment came to be associated with the ability of the state to control wage costs. In both cases the reactions of governments to industrial conflict created the conditions for increased centralisation of wage fixing through the arbitration system. Thus, the Australian and New Zealand cases can be said to be consistent with Apple’s views that the centralisation of bargaining in the post war two period was not a consequence of labour strength but rather built on the back of defeats for significant sections of the labour movement.

The argument put forward in this chapter has implications for both the comparative literature on industrial relations reform in Australia and New Zealand and the more general debate about the relationship between international economic change and the domestic institutions of industrial relations, which forms the focus of this thesis. As was noted at the beginning of the chapter, in part because of its emphasis on the causal role of institutions in shaping the industrial relations outcome, the Australia and New Zealand comparative literature has tended to assume that once established arbitration had a consistent effect in both Australia and New Zealand. This chapter has demonstrated that there were significant changes in the institutions of arbitration in both Australia and New Zealand in the immediate post war period and has shown that these changes were closely associated with international economic factors.

These findings not only raise doubts about the assumptions on which the Australia New Zealand comparative literature is based but also have implications for assessing the validity of different approaches to international economic change and the domestic institutions of industrial relations. This chapter provides further empirical support for the interaction approach outlined in chapter three. In particular, the argument in this chapter
suggests that an interaction approach is able to overcome the problems that institutionalist arguments have for explaining endogenous change in institutions. By focussing on the impact of international economic change on material interests, it is able to explain why, despite differences in the balance of class forces and the accumulation strategies adopted by the two countries in the immediate post war period, the arbitration systems in the two countries were to experience similar types of changes.

However, despite these similarities there were some important differences between the two countries which were to prove to be significant in the late 1960s and in the context of the end of the long boom in post war capitalism were to produce quite different outcomes. It is to this period that the next chapter turns.
CHAPTER 8


8.1 INTRODUCTION

The previous chapter examined developments in arbitration in Australia and New Zealand in the immediate post-war period. It noted that an interaction approach, which focussed on changes international economic regime, and the consequences of these changes for the configurations of material interests, was able to account for both similarities and differences in the development of the arbitration systems in the two countries in the immediate post-war period. This chapter turns to the analysis of industrial relations in the two countries in the post-war period and focuses, in particular, on the end of the post-war boom and its consequences for the institutions of industrial relations in the two countries.

As has already been noted the comparative literature on industrial relations reform in Australia and New Zealand, which provides strong empirical support for an institutionalist approach to the relationship between international economic change and the domestic institutions of industrial relations, treats the two countries as most similar cases. As a consequence, it tends to downplay the role of historical differences between the two countries may play in explaining the policy divergence between the two cases during the 1980s. Previous chapters have questioned the validity of this assumption on a number of grounds. Chapter six demonstrated that even though the arbitration systems in Australia and New Zealand share a common heritage and were introduced in response to similar problems, the context within which arbitration developed in the two countries differed significantly. Chapter seven expanded this critique by showing not only that the two arbitration systems were not identical in character from their inception, but also that the nature of two systems was not fixed as is often assumed in the comparative literature.

In both chapters it was argued that the tendency for the comparative literature to focus exclusively on institutional and polity centred variables, meant that it overlooks the
complex interaction between international factors, interests and institutions that shape the domestic institutions of industrial relations. Both chapters demonstrated that an interaction approach, which stresses the connections between the structure of the international economic order and the coalitions of material interests that develop around the domestic institutions of industrial relations, could explain both similarities and differences between the two cases in both time periods.

This chapter expands the critique of the comparative literature on industrial relations reform in Australia and New Zealand and provides a further test of the theoretical adequacy of the interaction model. It does so by questioning the view that the divergence in industrial relations policies in Australia and New Zealand that occurred during the 1980s was solely a reflection of institutional differences. As was noted in chapter five, one of the major limitations of the Australia and New Zealand comparative literature is that while it identifies institutional differences in the operation of the arbitration systems between the two countries it does not adequately explain the origins of these institutional differences. Indeed, many of the institutional differences identified as sources of policy divergence in the comparative literature—most notably differences in trade union organisation, employer organisation and the functioning of the arbitration systems—can be said to have their origins in developments in industrial relations in the two countries during the 1960s and 1970s. This chapter suggests that, because of its institutionalist character, the comparative literature has largely ignored the divergence that developed between the two countries in the late 1960s and early 1970s and which produced many of these institutional differences. In particular it argues that this divergence has been largely ignored because, rather than having its origins in institutional differences that affected the capacity and autonomy of interest groups in the two countries to mobilise in the face of uniform pressures from the international economy, it origins lay in the differential impact of international economic change on patterns of class interest underpinning these institutional arrangements.

The chapter is structured as follows. The next section examines the role that the favourable economic conjuncture in the international economy during 1950s and 1960s played in deferring potential intra- and inter-class conflict and masking differences in the cross-class coalitions underpinning the arbitration systems in the two countries. Section
three examines the consequences of the collapse of the long boom for the viability of the accumulation strategies and the balance of class forces in the two countries. Section four compares the consequences of these differing patterns of distributional conflict for the institutions of arbitration in the two countries. In particular, it compares and contrasts the collapse of arbitration after the 1968 Nil Wage Order and the introduction of the statutory incomes policies during the 1970s in New Zealand with the Australian experience from the 1967 Total Wage decision to the introduction of wage indexation in 1975. It argues that this earlier and forgotten divergence in industrial relations policy in the two countries plays a key role in explaining the events of the 1980s. The chapter concludes by tracing the implications of this earlier, interest-based divergence for both the contemporary comparison of industrial relations reform in Australia and New Zealand and also the broader theoretical analysis of the relationship between international economic change and the domestic institutions of industrial relations, which is the central focus of this thesis.

8.2 Papering Over the Cracks: The Long Boom and Arbitration in Australia and New Zealand During the 1950s and 1960s
The comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s pays relatively little attention to developments in the two countries before the 1980s. This reflects the view, common to both the institutionalist approach and the historiography of industrial relations in Australia and New Zealand, that industrial relations outcomes are largely determined by the institutional framework. Since the two countries shared the same institutional arrangements (and other elements of the domestic defence model), the argument goes, there is nothing to be gained analytically from looking at the period after the establishment of arbitration in the two countries. However, on the basis of the critique of institutionalism in chapter two and alternative theoretical framework outlined in chapter three, it can be argued that focussing on institutions separate from the economic context in which they operate and the configuration of material interests which underpin them is likely to distort the analysis of the relationship between international economic change and the domestic institutions of industrial relations. Thus the arguments put forward in this thesis suggest that apparent similarities in institutional arrangements may mask more fundamental differences in the configuration of interests around which these institutions form.
**DISPARATE ACCUMULATION STRATEGIES**

As was shown in the previous chapter, in the context of reconstruction of the international economy after World War two, the steps taken by both labour and conservative governments in Australia and New Zealand to control wage costs and to prevent full employment from disrupting post-war development plans produced significant defeats for sections of the labour movement and a consequent shift of the arbitration systems away from wage setting and towards wage control. However, while both countries shared this experience, the configuration of material interests and the accumulation strategies which underpinned wage control arbitration in the two countries differed significantly. Thus in New Zealand, wage control arbitration functioned to constrain the impact of wage militancy and full employment on the agricultural export sector. At the same time it put a floor under the wages of white collar and domestic sector workers. In contrast the terms of the bargain that underpinned arbitration in Australia in the immediate post war period were structured around the interests of domestically focussed manufacturing capital and the desire to foster rapid industrial development.

In this regard the coalition of interests underpinning arbitration in Australia exhibited more of the characteristics of a classic Keynesian compromise than was the case in New Zealand. Thus in Australia increases in the general wage level secured through arbitration fed into domestic demand for domestically produced goods. This in turn drove the development of the domestically focussed (but increasingly not domestically owned) manufacturing sector and thus increased the scope for real wage increases, albeit within the constraints of the balance of payments. In the New Zealand case, domestic demand and the general wage level remained largely and directly dependent on the returns to agriculture in the export sector. Thus wage increases in the domestic economy did not play the same role in driving demand that was the case in Australia and the scope for increases in the general wage level were wholly rather than partially constrained by exogenous factors.

These differences in cross-class coalitions and accumulation strategies between Australia and New Zealand can in turn be associated with differences in both the relative size of their domestic economies and the level of economic dependence experienced by the two countries in the post war period. Figure 8.1 provides an indication of differences in the
size of the economies in the post war period. It demonstrates that whilst by 1973 New Zealand’s nominal GDP had more than tripled to $7.9 billion from its level in 1960, Australia’s nominal GDP increased from the equivalent of $15 billion to over $49 billion dollars in the same period. While this is a very rough measure, it does illustrate significant differences in the absolute sizes of the two economies. It was the greater size of the Australian domestic economy which made an accumulation strategy based around the needs of domestically focused manufacturing viable, whereas a similar approach would have been unsustainable in New Zealand, given the smallness of the domestic market.

Figure 8.1 Nominal GDP, Australia and New Zealand 1960-1973

Figure 8.2 indicates significant differences between the countries in terms of their relative trade openness. Thus, in accordance with the overwhelming dependence of the New Zealand economy on exports of agricultural products and the continuation of the Ottawa agreement, under which British manufacturers enjoyed privileged access to the New

1 The figures in the graph are not directly comparable because they are denominated in Australian and New Zealand currency. However it is important to note that throughout this period both Australian and New Zealand maintained fixed exchange rates with the Sterling. Furthermore inflation rates in the two countries were very similar from the mid 1950s until the late 1960s.

2 source OECD Various. While nominal GDP figures are not ideal for cross national comparisons, the pegging of both the Australian and New Zealand dollars to sterling and the similarities in the course of inflation in the two countries throughout much of this period, means that the figures are more comparable than would be the case between other countries or in other periods.
Zealand market, New Zealand exhibited considerably higher levels of trade openness than was the case for Australia during this period. While Australia continued to rely heavily on exports of commodities in the post-war period as an important driver of economic growth and was relatively trade dependent compared with some of the larger advanced capitalist economies, in comparison to New Zealand, the post-war Australian economy was more insulated and domestically focussed.\(^4\) This difference in the level of trade openness can be regarded, in part, as a product of differences in the accumulation strategies and cross class coalitions that emerged in the two countries in the post-war period.

Figure 8.2 Trade Openness, Australia and New Zealand 1960-1973\(^5\)

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3 Trade openness is a ratio of exports and imports to GDP and provides a measure of the extent to which economic activity in a country is dependent on international trade.

4 Australia’s relatively low level of trade openness is noted by Castles 1988. Castles claims that the same is true for New Zealand. However the data presented in figure 8.2 raise a number of doubts about the extent to which the domestic defence model can be generalised to the New Zealand case.

5 Source OECD Historical Abstracts- Main Economic Indicators 1960. Paris, OECD, 1960-1973. Trade Openness figure for New Zealand calculated as the ratio of exports f.o.b (freight on board) and imports c.i.f (cost in freight), both seasonally adjusted, to nominal GDP. Trade Openness figures for Australia calculated as the ratio of exports f.o.b. and imports f.o.b, seasonally adjusted, to nominal GDP. While this difference means that the figures are not directly comparable, the differences between c.i.f. and f.o.b. figures are miniscule relative to the overall value of imports and the differences between the results for the countries cannot be accounted for by this factor.
Differences in the nature of integration into the international economy and the accumulation strategies adopted by the two countries in the post war period are also evident in the tariff protection regimes adopted by each country. As was noted in chapter four, one of the grounds for treating Australia and New Zealand as most similar cases is that similar arguments have been made about the effects of tariff protection on the development of the manufacturing sectors of the two economies. Thus in both countries it has been argued that tariff protection produced a domestic focussed manufacturing sector which was not competitive in international markets. However, closer examination reveals significant differences in the tariff regimes of the countries.

As was noted in chapters six and seven, prior to the late 1930s New Zealand already had significantly lower tariff levels than Australia. Increased restrictions of imports, in the form of import licences, were not introduced in New Zealand until the late 1930s. Hawke argues that this was not part of a policy of industrial development but rather represented a reaction to a balance of payments crisis. Despite some liberalisation, the post war Labour government retained these controls, in concert with a series of price controls, in an effort to ensure economic stabilisation and to avoid a balance of payments crisis, although some elements of the Labour party, looking to the Australian example, stressed the role such policies could play in industrial development. The election of a National government in 1949 resulted in a substantial liberalisation of the import restrictions in keeping with the views of the government that “import controls prevented the country from exploiting its comparative advantage [in agriculture], thereby restricting growth”. It was not until a balance of payments crisis and the election of a Labour government in 1957, that import restrictions were reimposed in New Zealand and attention of government policy turned to using import selection to promote industrial development. W. B. Sutch, the permanent secretary of the Department of Industries and Commerce, forcefully advocated a policy of industrial deepening and the Labour government initiated a number of large-scale projects including oil and metal refining plants. The election of a National government in 1960 saw a continuation of this policy stance, albeit with a shift in emphasis to export promotion. However, while this shift did result in an increase in

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6 Condliffe 1959a p 251
7 Hawke 1985 p 163
8 Jones 1999 pp 200-3
9 Jones 1999 p 204
manufacturing employment in the early 1960s, Jones characterises the support given to manufacturers by New Zealand governments during the 1960s as “lukewarm” and sees a basic continuity in government policy from the late 1940s until 1967.\textsuperscript{10}

Singleton argues that the limited use of tariffs to pursue industrial deepening by New Zealand governments in this period reflected the relatively weak and dependent position of New Zealand in international trade negotiations with Britain. He demonstrates that because of the overwhelming dependence of New Zealand on the British market for agricultural exports, in negotiations between New Zealand and Britain throughout the 1950s, Britain was consistently able to ensure maintenance of the imperial preference given to British manufacturers (vis-à-vis exporters from other regions) and sought to minimise the use of tariffs to protect local manufacturers from competition with their British counterparts. Thus unlike Australia which was able to reduce its dependence on the UK during the 1950s, New Zealand remained firmly tied to its dependency on Britain, despite the declining benefits of access to the British market. As Singleton notes:

\begin{quote}
Australia made numerous cuts in British preferences following its renegotiation of the Ottawa agreement in 1956. But New Zealand did not hasten to reduce actual preferential margins… There was no great change in average British preferential margins in New Zealand between 1952 and 1967. It was estimated that, in 1961-2 Britain’s tariff preferences in New Zealand were worth between £21.3 million and £23.3 million, while New Zealand’s preferences in the UK were worth £7.1 million, giving Britain a net gain of £14-16 million. The UK’s estimated net gain from its preferential relationship with Australia was only £9 million.\textsuperscript{11}
\end{quote}

Taking into account differences in the sizes of the economies of Australia and New Zealand, these figures suggest substantial differences in the levels of trade dependence. In Australia, where the post war accumulation strategy was focussed around the needs of domestic manufacturing interests rather than ensuring access to market for agricultural exporters, as was the case in New Zealand, the tariff protection system was much more directed towards the aim of industrial development. Thus unlike New Zealand, the nature of Australia’s integration into the international economy allowed it to both reduce the

\textsuperscript{10} Jones 1999 pp 205 In November 1967, the National Party’s Finance Minister, Robert Muldoon, broke with this pattern by responding to a 12% devaluation of Sterling against the US dollar by the Bank of England with devaluation of the New Zealand dollar by 19% against the $US and 5% against Sterling. The consequences of this move for the balance of class forces underpinning arbitration in New Zealand is discussed in section 8.4 below.

\textsuperscript{11} Singleton 1997 p 175
preference accorded to British manufactured goods in the Australian market and introduce a tariff regime which facilitated import substitution.

As Rooth notes, by the early 1950s Australia was in a position to go outside the confines of the sterling block and the Ottawa agreement in order to satisfy its demand for the foreign capital, capital goods and immigrants needed to sustain post war industrialisation. He argues that this reflected both the international strength of Australia, provided by the high price of wool, and the inability of the British economy to provide the inputs Australia required.\(^{12}\) It was in this context that Australia introduced substantial import controls in 1952 which shifted the focus of the protection policy away from supporting the sterling zone towards import substitution. As Zappala notes, whereas in 1951, only about 30% of imports were controlled and these were mainly imports from dollar sources, the 1952 controls covered 98% of imports from all sources.\(^{13}\) Furthermore Australia did not participate in the Kennedy and Dillon rounds of the GATT, which reduced tariff levels on a multilateral basis. Rather its system of import licensing remained in place until 1960, when qualitative controls were finally withdrawn and tariffs again bore the whole weight of protection. However, the Industries Assistance Commission estimated that by 1968 the tariff alone provided the manufacturing sector in Australia an effective rate of protection of 36%- one of highest in the developed world.\(^{14}\)

Australia’s domestically focussed post war accumulation strategy was reinforced and underpinned by two factors. First, the growth of foreign investment behind the tariff wall meant there was less opposition from US and UK manufacturers to the tariff policy. Second the policy of “protection all around”, championed by the leader of the Country Party, “Black” Jack McEwen, compensated the agricultural sector for having to endure potentially higher costs for goods and services from a protected domestic sector. As Bulbeck puts it:

> It was not until a post war consensus was reached between manufacturers for the local market and exporters of primary products – a compromise further strengthened by McEwen- that high tariffs became acceptable to the right. Two factors underlie this change. Firstly, overseas capital entered Australia to produce behind tariff walls, thus reducing the conflict between foreign and local

\(^{12}\) Rooth 1999 pp 33-44  
\(^{13}\) Zappala 1994 p 16  
\(^{14}\) Anderson 1987 pp 175-9; Bell 1993 pp 26-34
manufacturing capital; and secondly, an accommodation was worked out with primary interests. As a result, Labour’s strategy of protectionism became incorporated in the Liberal Party’s post war strategy for industry, and so incorporated the labour movement into the policy of protectionism.\(^{15}\)

Thus it can be argued that differences between the Australian pattern of tariff protection and the pattern that developed in New Zealand, reflected fundamental differences in the accumulation strategies, and balance of class forces that underpinned these strategies, in the two countries.

These differences in accumulation strategies and cross class coalitions had potentially significant, and divergent, consequences for the pattern of economic development in the two countries. These differences are evident in a comparison of the development of the manufacturing sectors of the two economies. In the context of an accumulation strategy focussed on the demands of the agricultural export sector, the domestic manufacturing sector in New Zealand experienced slow and limited development throughout the 1950s. W. B. Sutch, one of the chief advocates of import substitution and industrial deepening in New Zealand in the early 1960s, characterised the New Zealand manufacturing industry in the following terms:

… by 1950 New Zealand’s manufacturing industry had developed into new fields because of the war and post-war scarcities; [but] industries conducting the last stage of processing, screwing together, or packaging had been encouraged. The encouragement had come from the rationing of foreign exchange and not from the application of a protective tariff…. Most factory development was therefore still at a superficial level…. New Zealand had expanded manufacturing of consumer goods mainly because it had to not because it wanted to.\(^{16}\)

As Gould notes:

the manufacturing sector [in New Zealand] changed relatively little during the earlier post war years…. Factory industry, together with electricity, gas and water supplies, accounted for well over a quarter of total employment in 1946, as compared with less than a fifth in 1936. But thereafter, until the late 1950s, there was no further increase in this proportion, manufacturing employment growing barely as fast as the labour force as a whole.\(^{17}\)

\(^{15}\) Bulbeck 1983 p 226; for an overview of the development of “protectionism all round” see Bell 1993 pp 30-4

\(^{16}\) Sutch 1966 p 413

\(^{17}\) Gould 1982 p 73
The limited development, and contingent nature, of manufacturing in New Zealand during the 1950s and into the 1960s can be contrasted with the dramatic growth in the manufacturing sector during this period in Australia. Davidson writing in the late 1960s was moved to make the following assessment “the story of Australian manufacturing is an encouraging and even inspiring one”.\(^{18}\) Bell summarises the growth of manufacturing in Australian during the 1950s.

An initial post war surge (in which 149,000 manufacturing jobs were created between 1945 and 1949) was more or less sustained throughout the post-war boom with manufacturing employment growing from 890,000 in 1949 to 1,315,000 in 1967. Also between 1946 and 1960 the annual rate of growth of manufacturing production averaged 6.5 per cent (this was 2.3 percent more than the period 1939-46, 1.1% higher that 1960-73, and a full 4.9 percent higher than the period 1973-81).\(^{19}\)

Ewer et al argue that the growth of manufacturing was sustained by a number of factors including chronic balance of payments problems during the 1950s and 1960s, which encouraged tariff protection and import substitution, and immigration, which both fuelled consumer demand and allowed firms to expand their operations and introduce significant economies of scale.

Economies of scale combined with technological change to produce an overall rate of productivity growth [in Australian manufacturing] three or four times greater than before the war. Productivity increased income and stimulated further investment. Thus… it was the stimulus of private investment generated by these factors- rather than ‘Keynesian’ policies, as is commonly supposed- that lay behind the expansion of manufacturing in the long boom. In this period the [manufacturing] sector’s contribution to GDP grew from 16% in the early 1950s to a plateau of 22% in 1964/5, where it remained until decline set in at the end of the 1960s.\(^{20}\)

While Keynesian demand policies may not have been responsible for the growth of Australian manufacturing after the war, the state did play a central role in the growth of the manufacturing sector. Bell argues that while the Labour governments of the 1940s had envisaged interventionist micro-level planning of industrial development, “sheer weight of circumstances”, opposition from manufacturers themselves and constitutional limitations of state power meant that by the late 1940s what he calls Labor’s “micro-

\(^{18}\) Davidson 1969/72 p 41; however as Bell notes the timing of this claim by Davidson was somewhat ironic given the dramatic decline in manufacturing that Australia was to experience from the late 1960s. See Bell 1993 pp 42-43 for more detailed discussion.

\(^{19}\) Bell 1993 p 24

\(^{20}\) Ewer et al. 1987 p 27
economic interventionist push” was thwarted.\textsuperscript{21} In its place he argues the Liberal and National Coalition governments used three policy instruments to foster manufacturing development in the post war period- the use of protection, liberal policies towards foreign investment and arms length intervention.\textsuperscript{22} For Bell:

… it would be difficult to overstate the facilitative role played by the federal state in promoting post war industrialisation in this country [Australia]. Through state action the economy was cast in a new form. An important basis for this was Australia’s domestic market with its large and growing demand for manufactured goods. By applying protectionist policies, as well as liberal foreign investment and immigration policies, the federal state was able to screen off this lucrative domestic market and thus arrange powerful incentives of manufacturing investment from local and foreign sources…. Yet if the state was able to orchestrate a massive growth in manufacturing investment during the post-war era, it nevertheless played only a very limited role in overseeing the details of the sector’s development.\textsuperscript{23}

Differences in the accumulation strategies adopted by the two countries and the subsequent development of the manufacturing sector had important implications for the challenges facing the arbitration systems in the two countries. Important differences between the cases related to the scope within which the arbitration systems in the two countries could function. In New Zealand the ability of the arbitration system to deliver real wage increases was tightly constrained by the overwhelming economic dependence on commodity exports in which New Zealand producers were price takers. In Australia, however, the economic constraints on arbitration system were not as stringent. Because of the domestic manufacturing industrialisation policy there was greater scope for wage increases within the confines of arbitration.

These differences also meant that relationship between key elements of the union movement and the arbitration system were fundamentally different. In Australia the key elements in the union movement became those associated with domestic manufacturing, metal workers and even though at key periods they challenged the arbitration system for

\textsuperscript{21} Bell 1993 pp 20-23
\textsuperscript{22} Bell 1993; Bell 1994. The role of multinationals and foreign companies in post war industrialisation in Australia and its implications for the nature of the manufacturing sector is a key theme in the literature on industrial policy in Australia. See, for example, Crough et al. 1980
\textsuperscript{23} Bell 1993 p 25. Indeed Bell argues that each of these policies- high levels of protectionism, the dominance of foreign direct investment and arm’s length interventionism- had important consequences for the long term viability and health of Australian manufacturing. Nevertheless he suggests, in an fashion consistent with the argument advanced in this chapter, that “… the internal defects of Australia’s
most of the post-war period they were able to articulate a strategy within its confines. In New Zealand, however, key elements in the union movement, including workers in the export chain and skilled workers, found it increasingly difficult to seek their interests within the confines of a much more restrictive wage system. Thus while both countries had what seemed like similar sets of institutional structures in the labour market, and similar principles of wage determination, below these there were quite important differences which would impact on the long-term development and stability of these institutions.

**The Moderating and Homogenising Impact of the Long Boom**

As has already been noted, the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s has tended to overlook these variations preferring to stress the historical similarities between the two cases in the period leading up to the 1980s. In part, this oversight is a reflection of the tendency of the comparative literature to focus on institutions rather than the material context which helps shape the functioning of these institutions. However, the tendency to ignore differences in the configuration of interests underpinning the institutions of arbitration in the two countries in the post-world war two period may also be said to reflect the impact of an intervening variable which muted the impact of these differences on the operation of the arbitration systems and industrial relations outcomes in the two countries. This intervening variable is the easing of the external constraint provided by the long boom in post-war capitalism.

As the figures in Table 8.1 demonstrate, from the early 1950s until the late 1960s the capitalist world economy enjoyed an unprecedented period of economic expansion. From the early 1950s to the late 1960s, advanced capitalist economies enjoyed high levels of economic growth, relatively high levels of profitability, increasing real wage levels and relatively low levels of unemployment. The strength of the world economy during this period can be seen by the comparison with the 1970s and 1980s indicated by the figures in brackets in Table 8.1.

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manufacturing sector were largely disguised during the 1950s and 1960s by the buoyant economic conditions of the post war.” p 43
Table 8.1 The Long Boom in Post War Capitalism, 1950-70

<table>
<thead>
<tr>
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<th></th>
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<td>3.0 (2.4)</td>
<td>2.7 (0.5)</td>
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</tr>
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<td>10.2 (5.1)</td>
<td>6.3 (2.7)</td>
<td>1.6 (2.1)</td>
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<td>3.0 (1.7)</td>
<td>5.7 (2.4)</td>
<td>2.3 (5.7)</td>
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<td>*</td>
<td>3.2 (2.3)</td>
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<td>*</td>
</tr>
<tr>
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<td>*</td>
<td>2.7 (1.8)</td>
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<td>*</td>
</tr>
<tr>
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<td>*</td>
<td>*</td>
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<td>3.9 (3.1)</td>
<td>*</td>
<td>3.1 (6.2)</td>
<td>*</td>
</tr>
<tr>
<td>DMEs</td>
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<td>*</td>
<td>4.5 (2.3)</td>
<td>*</td>
<td>*</td>
</tr>
</tbody>
</table>

* data not available

This period of expansion is commonly known as the long boom. There are a range of views about the origins and nature of the long boom. One of the most influential accounts stresses the central role of working class power in producing an autonomous increase in effective demand in the post war period. Marglin, for example, argues that:

Internally the welfare state, the new power of trade unions to raise wages and demand management combined to maintain high capacity utilisation and stable profits. Internationally, American hegemony maintained a smooth flow of raw materials from the less developed countries at stable and low prices (the commodity price shocks of the Korean War were a flash in the pan). Within the OECD countries, the excess demand for the dollar and the disposition of the United States to recycle trade surpluses initially allowed growth to proceed unconstrained by problems of external balance.29

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26 Data for US, Japan, Germany refers to average annual increase in labour productivity in manufacturing. Source Brenner 1998 p 5, p 14. Data for UK, Australia and DMEs from “Phases of Productivity Growth (GDP per man hour), 1870-1987” Maddison 1991 p 51. Figure for DMEs- arithmetic average of all countries in data set.
29 Marglin 1990 pp 16-17; see also Armstrong et al. 1984, Bowles et al. 1990; and Glyn et al. 1990. For a detailed critique see Brenner 1998 pp 10-24
As such centralised collective bargaining, the development of the welfare state and the adoption of Keynesian economic policy are treated as outcomes which unambiguously benefited labour movements in DMEs, and as a result produced an autonomous expansion of aggregate demand. This approach can be regarded as an extension of power resources theory, discussed in chapter three, because it treats the long boom as a consequence of the growth and extension of labour’s organisational and associational power during the war and in the immediate post war period.

There are a number of reasons to question this view. As the previous chapter noted, in part because of the impact of the reconstruction of the international monetary system, the development of economic policy in DMEs in the immediate post-war period was shaped in the context of labour division and weakness rather than labour strength. In both Australia and New Zealand, as elsewhere, the configuration of the international economic system which emerged in the post war period both limited the commitment to full employment through Keynesian demand management and created the conditions under which wage control came to be seen as central to economic growth. Thus the centralisation of bargaining in these two countries that took place in the immediate post war period built on the political defeat of sections of the labour movement in the context of full employment and was not as a simple expression of labour strength.

Brenner provides an alternative account of the origins of the long boom. He argues that it was the relatively unbalanced nature of economic growth in the post war period which produced the prolonged period of economic dynamism that characterised the DMEs during the 1950s and 1960s. Brenner argues that the very factors which allowed the US to become the dominant political and economic power in the post-war period made it difficult for the US to sustain high levels of economic growth. Thus he suggests that in the US high levels of sunk capital in earlier technologies undermined innovation and productivity growth during the 1950s. Coupled with high levels of unionisation in the US manufacturing sector, Brenner suggests that these factors resulted in slower levels of growth in the US in the 1950s (vis-à-vis the US in the first half of the twentieth century and in comparison with Germany and Japan during the 1950s and 1960s). However the

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30 This paragraph is drawn from Brenner 1998 pp 39-63
same factors, which undermined economic growth in the US, also created the conditions for rapid economic development in Germany and Japan in the 1950s and 1960s. Thus he notes that in both Germany and Japan, the absence of fixed capital investment created the conditions for significant increases in productivity through catch up and innovation through learning by doing. This was often aided by the influx of US multinationals and investment capital. Also Brenner notes that, unlike the US, industrial and financial fractions of capital in both Germany and Japan united behind a policy of state intervention in export oriented industrial development. This allowed the manufacturing sector in these countries to gain economies of scale and scope. The industrial development of Germany and Japan was further aided by the free trade policies followed by the US government which allowed Japanese and German firms to aggressively compete for market share with US producers. Profitability, and therefore investment, was also encouraged by plentiful supplies of relatively cheap skilled and unskilled labour in the two countries and the relatively slow growth of wages in the post-war period. Taken together these factors created the conditions for a dramatic expansion of both the German and Japanese economies during the 1950s and into the 1960s. While this pattern of uneven growth created the conditions for an unprecedented boom in world capitalism it was also a highly unstable one.

On the basis of Brenner’s account, and in view of their size and position in the international economy, it can be argued that the primary effect of the long boom for Australia and New Zealand was exogenous. The long boom eased the external constraints that traditionally impacted on the two countries and created the conditions necessary to ameliorate the potential inter and intra class conflict inherent in the post-war accumulation strategies each had adopted. For this reason differences in the material interests underpinning arbitration in the two countries were muted.

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31 This paragraph is drawn from Brenner 1998 pp 39-48. For a more detailed analysis of Germany see pp 63-76 and Japan pp 76-90.
32 Brenner 1998 p 46
33 In their overview of the origins and development of the new institutionalism in comparative politics, Thelen and Steinmo (1992) argue that prosperity during the 1950s and 1960s masked the extent of institutional diversity in advanced capitalist nations and suggest that it was not until the 1970s, when common economic pressures produced divergent policy responses in advanced capitalist countries, that comparativists began to focus on the importance of institutional differences for explaining cross national patterns of variation. This thesis suggests that this argument can be reversed for the Australia New Zealand comparison. Thus it can be argued that the international prosperity of the 1950s and the 1960s masked differences between Australia and New Zealand which were not institutional in character but rather related.
Maddock provides an overview of the experience of the long boom in Australia. He notes that annual growth of real GDP in Australia averaged 4.5% from 1947-57 and 4.7% between 1957-67. This rapid growth was coupled with historically low levels of unemployment. He suggests that, in general, “Australia’s post-war economic performance paralleled that of many other economies. A small trading economy could hardly avoid it.” Nevertheless he argues that Australia’s post-war economic growth was “idiosyncratic” for a number of reasons. First, Australia experienced a significant increase in labour supply during this period, as a result of increased immigration. Second, despite the fact that the growth of world trade was much faster than the growth of world production during the 1950s and 1960, Australia experienced only “sluggish” growth in the contribution of trade to GDP. Third, the influx of foreign capital and technology played an important role in increasing Australian capital stock in the post war period. Each of these factors can be said to reflect the impact of the accumulation strategy adopted by Australian governments around domestic manufacturing in the post war period.

While Maddock suggests that a domestically oriented strategy was likely to have long-term consequences for Australian economic development, he notes that during the 1950s and 1960s a number of factors allowed such a strategy to be consistent with high growth. These included the increase in international flows of capital investment and the growth of multinational companies; the relatively favourable terms of trade for Australian goods; the ability of the wool producers to increase export volume in the face of steady declining prices; the reorientation of trade away from the UK and towards Japan from the mid 1950s, and the subsequent change in the composition of exports away from pastoral products and towards minerals. It was these favourable external conditions that made it
possible for Australia to sustain high levels of economic growth and which prevented the re-emergence of widespread intra and interclass conflict.

While the long boom provided the space for Australia to successfully pursue a domestically oriented accumulation strategy during the 1950s and 1960s, the same international economic conditions meant that New Zealand was able to successfully accommodate the contradictions of a development model based on the continuation of the Ottawa agreement and reliance on agricultural exports for economic growth. As Easton notes the trend rate for New Zealand’s commodity terms of trade from 1950 to 1966 were more that 20% higher that the trend for the period 1925-1945 and in the period from 1975 to 1995.\(^{37}\) Easton argues that these favourable terms of trade were largely a consequence of the historically high prices for pastoral exports—dairy, meat and wool—throughout this period. For example he notes that in the period 1950-1966 the wool terms of trade were 72% above the rest of the 1926-1990 period.

Easton demonstrates the effects of high commodity terms of trade on the New Zealand economy using a two legged model of the economy, reproduced below in figure 8.3.

**Figure 8.3 New Zealand Economy Under High Pastoral Terms of Trade.**\(^{38}\)

![Diagram of New Zealand Economy Under High Pastoral Terms of Trade](image)

Easton argues that in New Zealand, under conditions of high commodity terms of trade:

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\(^{37}\) Easton 1989b pp 76-7. Commodity terms of trade refers to the ratio export prices of commodities to import prices.

\(^{38}\) Source Easton 1989b p 83
The pastoral pillar was large and productive, measured in terms of its ability to earn foreign exchange, the proceeds of which were used to pay for the imports required for production inputs for the second pillar, which was mainly protected manufacturing. While its apparent function was to provide goods and services for the rest of the economy, the practical role of the non-pastoral tradeable sector was to create jobs. Because it was relatively less productive than the rest of the world, it needed protection against import competition, which transferred part of the surplus (especially land rents) from the pastoral pillar to the other.39

Thus high commodity terms of trade during the 1950s and 1960s created the conditions under which counteracted the dependent position of New Zealand vis-à-vis Britain externally and the dependent position of the domestic sector vis-à-vis the export sector internally.

This in turn allowed the arbitration system to operate effectively in New Zealand. The external situation eased the situation facing the Arbitration Court in New Zealand both in absolute terms and in relative terms. Higher prices in the agricultural sector provided greater scope for increasing the general wage level in the domestic sector. Buoyant external conditions also made it easier for the Arbitration Court to hold the pattern of wage relativities. This was because employers could afford to introduce wage drift through over-award bargaining for skilled workers. This both prevented skilled workers from seeking to disrupt the arbitration system and at the same time ensured that wage drift did not flow through the entire wage structure but rather remained contained to particular workplaces and sectors. This lessened the potential for conflict between both employers and workers and also conflict between different groups of workers. As can be seen from the figures in table 8.2, real wage increases in New Zealand were relatively low and increased at a rate lower than productivity throughout the 1950s and 1960s. This despite extremely full employment and comparatively slow growth of productivity throughout this period. Indeed Mabbett notes that during the 1950s and 1960s New Zealand had lower levels of wage drift and wage drift compensation than Sweden.40

| Table 8. 2 Wages and Productivity Growth, New Zealand, 1956–7541 |

39 Easton 1989b p 82
40 Mabbett 1995 p 162
41 Source Mabbett 1995 p 162
Chapter 8: The Forgotten Divergence?

<table>
<thead>
<tr>
<th>Period</th>
<th>Award wages</th>
<th>Actual wages</th>
<th>Consumer Prices</th>
<th>Real Wages</th>
<th>Productivity</th>
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</thead>
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<td>1961-65</td>
<td>3.2</td>
<td>4.4</td>
<td>2.7</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>1966-71</td>
<td>4.7</td>
<td>5.4</td>
<td>4.9</td>
<td>0.5</td>
<td>1.1</td>
</tr>
<tr>
<td>1971-75</td>
<td>15.1</td>
<td>14.5</td>
<td>10.2</td>
<td>4.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Overall, then, it can be argued that the long boom helped created conditions which helped to both ameliorate the potential for inter and intra class conflict in both Australian and New Zealand and to obscure the (different) contradictions embedded in their post-war accumulation strategies. Thus during the long boom similar institutions in Australia and New Zealand produced what seemed to be broadly similar outcomes, despite important differences in the coalition of class forces that underpinned these institutions in the two countries.

8.3 THE END OF THE LONG BOOM AND THE RE-EMERGENCE OF DISTRIBUTIONAL CONFLICT IN AUSTRALIA AND NEW ZEALAND

However, while the long boom ameliorated potential inter and intra class conflict during the 1950s and 1960s, and masked the differences in the coalition of material interests on which the arbitration systems in the two countries were built, the erosion of the favourable international conjuncture in late 1960s resulted in an re-emergence of distributional conflict in both Australia and New Zealand. It was in this context that differences in the configuration of material interests underpinning arbitration became evident and the apparently similar institutions of arbitration were faced with dramatically different challenges.

It is generally accepted that the long boom in post-war capitalism started coming to an end in the mid 1960s. In keeping with their emphasis on the importance of relative working class power in explaining the origins of the long boom, power resource theorists stress the importance that profit squeeze associated with working class militancy played in undermining the conditions for the post war boom.. Armstrong et al argue that this

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42 Armstrong et al. 1984. See also Glyn et al. 1990
The Importance of Small Differences

profit squeeze was a product of increased working class militancy which reflected both the impact of continuously high demand for labour and extent to which the growth of the welfare state has decommodified labour and reduced the costs of militancy.\(^{43}\) Thus they concentrate on the connection between the “resurgence of class conflict” in the late 1960s and the crash in the international economy in the early 1970s.

Arguments of this type have been used to explain the end of post war economic growth in both New Zealand and Australia. In an interesting analysis, Roper dismisses the view that declining terms of trade were responsible for the end of the post-war economic growth in New Zealand, on the basis such an explanation is not able to account for the end of post-war growth across all the DMES.\(^{44}\) Rather he argues, following Armstrong et al and others, that declining economic growth in New Zealand and the comparative decline of the New Zealand economy reflect a rising organic composition of capital and the resulting tendency for the rate of profit to fall (TRPF).\(^{45}\) As a consequence Roper treats the impact of declining the terms of trade as aggravating an existing tendency rather than the primary source of economic decline in New Zealand. Kuhn and O’Loughlin provide a similar, although less detailed, account of the end of the long boom in Australia based on a profit squeeze analysis. Thus for Kuhn and O’Loughlin:

… movements in the rate of surplus value [in Australia] can be related to the course of industrial struggles”, [they suggest] … the decline in the rate of surplus value during the late 1960s coincides with the rising levels of industrial militancy, especially within the metals industry. Industrial struggle remained at high levels during the early 1970s until the fall of the Whitlam government.\(^{46}\)

Brenner argues that this full employment profit squeeze explanation of the end of the long boom is logically and empirically flawed. He suggests that the view that full employment inevitably produces a profit squeeze is based on a Malthusian premise. As such it ignores a number of countervailing forces which impact on profitability and productivity. These include increases in profitability associated with full employment; the productivity and

\(^{43}\) See Armstrong et al. 1984 pp 235-308 for a more detailed treatment. It should be noted that Armstrong et al differ from the power resource theorists in their views about the ability of the working class to be able to move from reformism to socialism. Power resource theorists argued that working class power could fundamentally alter capitalism, while Armstrong et al predicted that the declining rate of profit would prevent such a transformation.

\(^{44}\) Roper 1993 p 5; see also Roper 1997

\(^{45}\) on TRPF see Weisskopf 1979. There are some formal differences in the TRPF and the concept of “profit squeeze” advanced by Armstrong et al, however, for the purposes of the following argument it can be assumed that they are equivalent arguments.
labour demand effects of the substitution of labour for capital and the growth of the labour supply associated with the export of capital. Furthermore while Brenner acknowledges that working class power can lead to a downturn in profitability in the short run, he questions whether it can cause a systemic crisis in a capitalist system. Rather he notes that “firms can generally circumvent and thereby undermine the institutionalised strength of workers at any given point by investing where workers lack the capacity to resist. Indeed, they must do so are they will find themselves outflanked and competitively defeated by other capitalist who will”. 

For Brenner the reasons for the end of the long boom are not to be found in the institutionalisation of working class power but rather in the dynamics of competition amongst capitals. In particular he argues that in capitalist economies, the introduction of cost cutting technology creates a tendency towards over-capacity and over production. This tendency is exacerbated when there are high levels of sunk capital because this encourages existing producers to continue production at reduced prices. For Brenner it was this dynamic which led to the end of the long boom in the late 1960s. Following reductions in trade barriers in the late 1950s, Brenner argues that US producers were faced with increased competition from lower cost producers, especially Japanese producers. This result was over-capacity on a world scale and a fall in profitability across the manufacturing sector. He argues that this reduction in profitability led to the end of the long boom because US producers, with high levels of sunk investment, did not go out of business but rather continued to produce at lower prices, exacerbating the system wide fall in profitability.

One implication of this argument is that the “resurgence of class conflict” that characterised most advanced capitalist economies in the late 1960s and early 1970s can be seen as a consequence and not a cause of the end of the long boom. Faced with increased competition and reduced margins, employers in the manufacturing sector in developed countries sought to increase productivity and reduce costs by increasing work intensity. For example, Pontusson argues that it was an attempt by Swedish employers to

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46 Kuhn and O’Loughlin 1989 p 47
47 Brenner 1998 pp 17-8
48 Brenner 1998 p 20
intensify work, in the face of declining profitability, that sparked the increase of wildcat strikes in Sweden in the late 1960s and early 1970s and which led to the radicalisation of Swedish social democracy during the 1970s.\footnote{\ref{footnote:cost-cutting}}

On the basis of Brenner’s account it can be argued that the main reasons for the end of the long boom were related to developments in manufacturing in the US, Europe and Japan and its impact on the New Zealand economy was primarily in terms of an erosion of the favourable external conditions that New Zealand had enjoyed during the 1950s and 1960s.\footnote{\ref{footnote:external-shocks}} This external shock came in the form of a dramatic decline in the terms of trade in the late 1960s. Easton provides a detailed account of the impact of the external economic shocks on the New Zealand economy in the late 1960s and their effects on long term economic growth. He even nominates a day on which the long boom came to an end.

It may seem fanciful to nominate the day on which New Zealand’s post war boom came to an end [but] …on 14 December 1966, in rooms of the Wool Exchange in Auckland, the Wool Commission found itself buying all the bales of wool offered for auction…. The fourteenth day of December, 1966, was the end of the golden wether. The hairline crack in the economy was becoming evident, although few realised it at the time, and those who did were inclined to use a sticking plaster. However fanciful the choice of day that day, the event has a nice piece of symbolism to it. That wool was being auctioned illustrates how dependent New Zealand was on commodity exports.\footnote{\ref{footnote:wool-auction}}

Using a two legged model Easton demonstrates the impact of a fall of the terms of trade on the New Zealand economy (this is reproduced below in figure 8.4). In comparison

\footnote{\ref{footnote:cost-cutting} for the formal derivation of the relationship between cost cutting and systemic crisis see Brenner 1998 pp 24-35. For a detailed account of this process see pp 93-137}
\footnote{\ref{footnote:external-shocks} Pontusson 1987}
\footnote{\ref{footnote:wool-auction} It should be noted that this view stands in stark contrast to Roper’s view that the “basic causes of the economic crisis in New Zealand are located within the economy itself- they are not considered to be exogenous (external shocks) nor to be located within the sphere of government” Roper 1993 p 12. There are a number of positive aspects to Roper’s analysis, including his to overcomes the tendency to treat economic outcomes as the product of government policy alone and independent of the balance of class forces and the dynamics of capitalism. However it does not follow that because the origins of the end of the long boom are to be found in the processes of capitalism itself, rather than government management of the economy, that the sources of crisis in the economy have their origins in capitalist processes within each and every economy. In addition there is an issue of timing. New Zealand experienced an exogenous terms of trade shock before rather than after the decline in the rate of profit and the increase of real wages which Roper regards as the primary cause of end of the long boom in New Zealand. Thus it is impossible to argue, as Roper does, that the decline in the terms of trade aggravated an existing tendency of the rate of profit to fall. Rather as the analysis presented below attempts to show, increased working class militancy and real wage increases in New Zealand were a consequence of the inter and intra class distributional conflict which accompanied the erosion of favourable economic conditions in the late 1960s}
with figure 8.3 (see above) it can be seen that the pastoral ‘leg’ of the model is less able to support the domestic tradeable sector of the economy in terms of its purchases from the domestic sector, its ability to generate foreign exchange to finance imports and its ability to generate rents that can be transferred to the domestic sector through the mechanisms of protection. While Easton notes that in the short run foreign borrowing can fill the gap left by the decline in the pastoral sector, in the long run there are two options, either the domestic tradeable sector can shrink to reflect changes in the export sector or it can develop its own sources of foreign exchange by shifting it focus to exporting.  

Figure 8.4 New Zealand Economy Under Low Pastoral Terms of Trade.  

This fall in the commodity terms of trade undermined the favourable economic conditions which had ameliorated the inter and intra class conflicts that were inherent in New Zealand’s post war accumulation strategy. Declining terms of trade translated into a loss of income for the agricultural export sector. Unable to affect the prices of their goods in world markets, the agricultural sector began questioning its ability to absorb the costs imposed on it by both the domestic sector. Thus farming groups began to question both the levels of protection provided to industry and costs associated with wages set through the arbitration system. Thus declining terms of trade led to a reappearance of intra class conflict between agricultural exporters and domestic manufacturers.

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52 Easton 1997 p 74  
53 Easton 1997 p 83  
54 Source Easton 1989b p 83
It also created the conditions for increased interclass conflict. Faced with decreased demand from the export sector, as a result of the decline in the terms of trade, domestic producers attempted to constrain wage costs in an effort to preserve profit margins. This created the potential for increased conflict between workers and employers over who bore the costs of decline in real income associated with a fall in the terms of trade.

Because of differences in its post war accumulation strategy and its integration into international economy, the effect of the end of the long boom on Australia was more complicated than was the case in New Zealand, although the consequences were broadly similar. Australia experienced a similar fall in the commodity terms of trade in the late 1960s to the one that impacted on New Zealand. This had the same effects of the lessening the demand for products from the domestic sector; reduced the supply of foreign exchange available to purchase inputs and reduced the rents that were available to transfer to the domestic sector. However this effect was less significant than in New Zealand because of the smaller relative contribution of agricultural exports to the Australian economy as a whole and the greater diversification of Australian exports away from pastoral products towards mining.

However there was a second impact of the end of the long boom on Australia which was to prove significant in the long run. Because Australia had placed greater reliance on domestically focussed manufacturing for economic growth in the post war period, it was more directly impacted by over-capacity and over-production in manufacturing on a global scale which Brenner identifies as central to the end of the long boom. The most obvious impact of this development was that, as overcapacity and overproduction became prevalent on a world-wide scale, the level of protection required to keep Australian goods competitive in the Australian market increased because of falls in the world price of manufactured goods. As Anderson notes rates of effective protection increased dramatically in Australia in the second half of the 1960s and in the early 1970s. This in turn increased the burden of protection on the public purse and on other sectors of the economy.

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55 Anderson 1987
The problem that overcapacity and overproduction posed for the Australian manufacturing sector and its post war accumulation model was further exacerbated by the overwhelming reliance of Australia on foreign capital to build up industrial capacity. As a result of liberal foreign investment laws, multi-nationals set up Australian based manufacturing to take advantage of the protection regime to service the Australian domestic market. While this had helped increase the pace of industrialisation in the 1950s, by the late 1960s the foreign ownership of Australian manufacturing was to become a major source of weakness. As world prices for products fell, some multinationals were in a position to shut down their Australian operations and to service the Australian market from lower cost production facilities. While this trend was not to become significant in Australia until the 1980s, another aspect of reliance on foreign ownership which did begin to impact in the 1960s and 1970s was low levels of investment in capital equipment and up to date production techniques.

It has often been argued that the one of the reasons for the poor performance of the Australian manufacturing sector since the late 1960s is the low levels of investment in new technology.56 This can be regarded as a consequence of the end of the long boom. Under conditions of overcapacity and overproduction, multinationals, who had invested sunk capital in Australia when average world prices were higher, were unlikely to invest in new plant and capacity or upgrade existing capacity. Rather they were more likely to invest in areas with lower cost structures. This refers not just to wage levels but also economies of scale which are hard to achieve in the relatively small Australian market. This was to make it increasingly difficult for Australian manufacturers to compete with imports for the domestic market and with other producers for export markets.

Thus while favourable economic conditions during the long boom had dampened the potential inter and intra class conflict associated with a domestically oriented industrialisation strategy in Australia, the end of the long boom exposed this latent conflict. Thus for the dominant fraction of capital, declining commodity terms of trade and declining manufacturing profit rates, created the potential for conflict with the protected agricultural sector as manufacturers began to question their ability to absorb the costs of “protection all round”. It also created the potential for conflicting interests

56 see Crough et al. 1980
between manufacturers and particularly between domestic and multinational capital. Domestic capitals retained an interest in the continuation of tariff protection. However, multinational capitals interests in the tariff regime was impacted by the exit options available to them and capacity to service the Australian market from other countries. In addition to conflict within and between fractions of capital, the end of the long boom created the potential for conflict between workers and employers, and also between different groups of workers in Australia. Thus with the end of the long boom domestic manufacturers in Australia became increasingly focussed on the need to minimise both direct wage costs and the indirect impact of increased wages in the non-tradeable sector. Furthermore they became sensitive to the destabilising effects of wage drift in the capital-intensive export sector, especially metalliferous mining.\(^{57}\)

The end of the long boom also raised the potential for increased conflict between different groups of workers in Australia. In this situation unions in the manufacturing sector, the sector that bore the main brunt of declining profitability, were likely to become increasingly sensitive to the impact of costs from wage increases in other sectors of the economy on the viability of their own industry.

Overall then it can be argued that the end of the long boom exacerbated the contradictions associated the post-war accumulation models of the two countries and created the conditions for renewed, but divergent, distributional conflict. It was under these circumstances that broadly similar arbitration systems in the two countries were faced with different pressures and sets of interests. It was differences in the nature of the interests that were brought to bear on these institutions and in the ability of the institutions to respond to these pressures that led to the first and most significant divergence of the arbitration systems in the two countries.

8.4 THE DIFFERING FATES OF ARBITRATION IN NEW ZEALAND AND AUSTRALIA, 1966-1982

While differences in the accumulation strategies and the cross class coalition that underpinned the institutions of arbitration in Australia and New Zealand during the 1960s had been partially obscured by the favourable conjuncture that characterised the international economy during the 1950s and 1960s, they became manifest with the end of

\(^{57}\) Buchanan 2000
the long boom. The reappearance of distributional conflict was to have significant consequences for the arbitration systems in the two countries throughout the 1970s. Because of the greater dependence of the New Zealand economy and the more fragile nature of the cross-class coalition that underpinned arbitration, the end of the long boom led to a dramatic collapse of the arbitration system and the introduction of a regime of statutory incomes policies that was to persist throughout the 1970s. In Australia however differences in its integration into the international economy and the nature of the material interests that underpinned the arbitration system meant that while the end of the long boom placed strain on the institutions of arbitration, by the mid 1970s it was possible for the Arbitration Commission to reassert its authority over wage determination. The differing fates of arbitration in the two countries together with the effect of the end of the long boom on the organisation of employers and unions created the conditions for the developments during the 1980s which are the focus of the existing Australia-New Zealand comparative literature. This section examines the different fates of arbitration in the two countries during this period.

**THE NIL WAGE ORDER, THE COLLAPSE OF ARBITRATION AND SHIFT TO STATUTORY INCOMES POLICY NEW ZEALAND, 1968-1975**

As has already been noted New Zealand experienced a dramatic decline in the commodity terms of trade in 1966/7. This external shock sparked a series of events that led to the collapse of arbitration system in New Zealand. In the 1967 budget the National Government introduced a series of measures designed to dampen the effect of the fall of commodity prices on the balance of payments. These included increased government charges, reduced subsidies and increased indirect taxes. Partly as a consequence of these steps, in the first half of 1967 consumer prices rose 5.3% and unemployment reached a post-war peak. The situation was made worse by the devaluation of the New Zealand dollar. In November 1967 the New Zealand government devalued its currency by 6% against Sterling and by 19.5% against the US and the Australian dollars. While this policy was designed to give a spur to export diversification, its immediate impact was to increase the costs of imports by almost 18% and increase consumer prices by 5% during 1968. Workers were therefore faced with a significant reduction in real wages and there
was a widespread belief amongst unions that the costs of adjustment to the fall in terms of trade were being unfairly shifted onto workers.\textsuperscript{58}

While the FOL resisted applying for a General Wage Order (GWO) for much of 1967, under pressure from its affiliates and having failed to convince the government of the need to reform the Consumer Price Index, in December 1967 it applied for a GWO 7.6%. The government put considerable pressure on the Arbitration Court to hold wage increases down as much as possible so as not to undermine the impact of the budget and devaluation. During the course of 1967, both the head of the Department of Labour and the Minister of Labour met with Justice Blair, who had been recently appointed to the Arbitration Court, to discuss the need for changes to the Economic Stabilisation Regulations that governed GWOs. While changes were not made “Blair had certainly been left in no doubt as to what was expected of him, and, as a relatively new Arbitration Court judge, it may have been thought unlikely to resist the government’s blandishments.”\textsuperscript{59}

In June 1968 the Arbitration Court announced that there would be no general wage increase in response to the FOL’s claim. In justifying what became known as the Nil Wage Order, Justice Blair conceded that in costs of living terms there were grounds for a GWO but argued that the external economic situation and the potential impact of a wage order on government economic policy overrode cost of living concerns. In effect the Nil Wage Order represented an assertion of the interests of the export sector (both the existing agricultural sector and the nascent manufacturing export sector that the National government had hoped to engender) over those of the domestic sector in the context of an external economic shock.

The Nil Wage Order decision put enormous strain on the arbitration system and its ability to hold the support of both workers and employers. However as a result of developments during the 1960s, the arbitration system was in no condition to bear these strains. Walsh argues that by 1967, New Zealand had developed a highly unstable three-tiered bargaining structure. The first tier consisted of rates set in awards and agreements

\textsuperscript{58} Boston 1984 pp 90-1; Mabbett 1995 pp 120-1 and pp 166-8
\textsuperscript{59} Walsh 1994 pp 180-1
Chapter 8: The Forgotten Divergence?

arbitrated by the Court. The second tier consisted of over-award payments directly negotiated between employers and unions at individual workplaces. The third tier consisted of the increasingly regular use of GWOs by the court to increase basic wages in awards and agreements. The Nil Wage Order disrupted this unstable system and unleashed a series of events which were to lead to its collapse.

While second tier bargaining had provided flexibility to the wage bargaining system during the 1950s, and had allowed employers to introduce wage drift for scarce labour without it translating through the entire wage structure, by the late 1960s it threatened to undermine union commitment to the arbitration system. Walsh suggests that the primary drivers of the growth of second tier bargaining were the conservative stance of the Arbitration Court and limited power unions had to ensure wage increases through arbitration and GWOs in the post war period. Thus Walsh notes that “over the whole decade 1950-60 the rate of increase of real wages set through the arbitration system was less than that for the previous two decades, despite the depression of the 1930s and the rigid stabilisation policies of WWII.” 60 The result of growth of second tier bargaining was that there was an ever- increasing gap between award rates and “ruling rates” of pay. The gap between award and ruling rates for tradesmen increased from 7.2% in the early 1950s, to 17.4% in early 1960s and was between 25 and 30% by the late 1960s.

Under these conditions significant sections of the union movement began to question their commitment to the arbitration system. As Walsh notes the achievement of wage increases through the second tier was uneven and were confined to certain occupations and regions. Many of the leaders of the FOL represented unions that relied on award rates. However, in addition to the limited increase of wages through award setting and GWOs, the commitment of the union movement as whole to the arbitration system had been disrupted by government attempts to abolish compulsory union membership in 1961. 61 Walsh argues that one of the main reasons for the introduction of unqualified preference in 1961 was farmer concern over strikes in the freezing works in 1959. In response to a refusal by the Arbitration Court to amend the freezing workers award in line

60 Walsh 1993 p 18. Walsh suggests that the growth of second tier bargaining was also encouraged by the publishing of ruling rates surveys by the Department of Labour and the increased pace of industrialisation during this period. See also Walsh 1984a

61 Walsh 1984b pp 127-136; Walsh 1986
with the 1959 GWO, the Freezing Workers Union launched a widespread industrial campaign. As Walsh puts it,

the dispute and the industrial action taken by the union were widely seen as a
defiance of the Court, as exemplifying a growing loss of confidence in it by
unions, and, more generally, as a test of the arbitration system itself. Farmers were
outraged, not just by the union’s action, but by what they saw as connivance by
the employers to circumvent the Court’s original decision.  

The push for the abolition of compulsory union membership reflected a desire by farmers
to undermine the strength of unions and their ability to mount independent action. This
can be regarded as an early example of the inter- and intra-class conflict that was to
undermine the arbitration system in New Zealand in the late 1960s.

Furthermore, and just as significant in terms of the coalition of class forces that formed
around arbitration, the support craft workers had historically given to the arbitration
system was eroded by the growing controversy over margins for skill that came to head in
1965. In the post war period there had been a significant decline in the tradesman’s
award wage rate relative to that of the unskilled worker. According to FOL figures the
award margin of a skilled craftsman over a general labourer had fallen from 34.9% in
1909 to 19.4% in 1965. As a result there were growing disparities in the wages paid to
tradesmen whose rates were by direct bargaining over industrial agreements and those
tradesmen who relied on the award. In response to these developments the FOL took a
general case for margins to be restored to the Arbitration Court in 1965. Walsh argues
that the Court rejected the option of restoring margins in awards because of the relativity
implications for the rest of the wage structure and attempted to quarantine the assessment
of margins of skill to particular awards. While in the long run the issue was addressed
with the spread of a range of qualification payments, the immediate effect was to:

undermine the confidence of craft unions in the Court and the arbitration
system… Above all craft unions were confronted throughout with the disparity
between award margins for skill and what they could achieve in direct bargaining.
In this sense the margins for skill issue was important in giving a boost to the loss
of trade union faith in the arbitration system during the 1960s, and in contributing
to the eventual breakdown of the system, but in this period they too turned against
it.  

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62 Walsh 1986 p 151
63 Walsh 1984b pp 136-47
64 for details of the margins for skill case and the Arbitration Courts decision see Walsh 1984a pp 84-6
65 Walsh 1984a p 86
This was a significant development given the historical role that the support of craft unions had played in bolstering the arbitration system in New Zealand. By the late 1960s there was a broad coalition forming within the New Zealand union movement forming against arbitration and in favour of direct bargaining. As Walsh puts it:

By 1968 it was evident to trade unions active in second tier bargaining that they did better through that than through the arbitration system. Unions saw the Arbitration Court as co-operating with employers to maintain unrealistic award rates, suppressing margins for skill, continuing to issue conservative GWOs and keeping alive the prospect the return to award minimum should unemployment increase.66

It was against this backdrop of significant real wage reductions (associated with the fall in commodity terms of trade, the 1966/7 budget and the 1967 devaluation), on the one hand, and growing union dissatisfaction with an increasingly unstable arbitration system that the Nil Wage Order produced a hostile union response. As Walsh notes the Nil Wage Order was met by an industrial campaign of direct action in support of the 7.6% wage increase coordinated through the Trades and Labour Councils. This industrial campaign surprised both employers and the FOL in its strength, and the NZEF soon came to realise that there was little chance of compelling its affiliates to hold out against these claims.67

Concerned about the implications of the collapse of the arbitration system for weaker unions, the FOL joined with employers in attempting to prevent the descent into industrial chaos and to resurrect the authority of the Court by submitting a second GWO to the Court in July. Despite opposition from the government and the objections of the Judge on the Arbitration Court, the workers’ representative and the employer representative issued a 5% GWO in July 1968, less than a month after the Nil Wage Order. Nevertheless, this wage order and the subsequent changes to the regulations governing the setting of GWOs introduced in 1969 were largely ineffective in re-establishing the authority of the Arbitration Court. Attempts by the court to incorporate ruling rates into awards were not able to re-establish stable patterns of relativities. Instead there was a surge in industrial action as workers sought to regain real income shares and to re-establish historical relativities.68

66 Walsh 1994 p 181
67 Walsh 1984b pp 178- 180; Walsh 1994 p 184
The immediate effect of the collapse of the arbitration system was an erosion of the most of the economic benefits the National government had attempted to achieve in its policy response to the fall in the terms of trade. As Boston notes by late 1970, there had been a restoration of real income shares back to those that had prevailed in the early 1960s and the erosion of virtually all the price effects of the (ill considered) 1967 devaluation because of the reappearance of double-digit inflation for the first time since the Korean war boom.\(^{69}\)

The long term impact of the Nil Wage Order was a shift in government policy away from relying on arbitration to ensure economic stabilisation to direct government intervention in the setting of wages and prices. While the government rejected the option of price and incomes policies initially, in part as a reflection of ideology and in part because of the British experience, by late 1971 the government devoted its attention to statutory incomes policies. Walsh argues that this change in policy reflected the view of the government that the main reasons for inflationary increases were not the result of contractionary policy or external shocks, but rather reflected the operation of wage bargaining system itself. Starting with the 1971 *Stabilisation of Remuneration Act* the National Government set out to construct a set of institutions that could administer a statutory incomes policy and replace the discredited (and in their view increasingly dysfunctional) Arbitration Court.

In many ways this change of policy highlighted the extent to which the coalition of class forces behind the institutions of arbitration had unravelled in the context of the end of the long boom. While, the arbitration system had proved able to constrain the development of domestic sector wages and had been able to contain wage militancy under conditions of full employment during the 1950s and for most of the 1960s, it was only able to do so under favourable external conditions. The external shocks associated with the end of the long boom not only made it impossible for the arbitration system to balance the demands of the domestic sector with those of the export sector, but it also exposed the contradictions that had been incorporated into the system as a result of twenty years of trying to achieve this balance.

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\(^{68}\) Walsh 1984b pp 183- 196  
\(^{69}\) Boston 1984 pp 91-4 and Walsh 1984b pp 183- 196
While those representing domestic sector employers, wary of the implications of direct bargaining, and those representing workers who relied on arbitration for bargaining power attempted to rescue the system in the aftermath of the Nil Wage Order, the support for arbitration of two of the key groups of workers was dramatically undermined in the events of the late 1960s. It has already been noted that there was a growing disillusionment by craft unions in arbitration because of the decline of margins for skill and it was craft unions who were at the forefront of direct bargaining and industrial campaigns in the aftermath of the Nil Wage Order.

But perhaps, more importantly, the aftermath of the Nil Wage Order, which saw domestic wages and prices expanding rapidly, led to a fundamental rejection of arbitration by the agricultural export sector. As has been noted throughout this thesis the support for the arbitration system by the agricultural export sector in New Zealand has always been contingent on the ability of arbitration to directly control militancy and wage pressures in the export sector and to indirectly constrain costs on the export sector from the domestic and non-tradable sectors of the New Zealand economy. In the aftermath of the Nil Wage Order both of these conditions were breached. Much of the industrial militancy of the period was concentrated either in key parts of the export chain- the freezing works and distribution- or in areas which would lead to increased costs for the export sector- food and beverages, construction, and local distribution. Furthermore farmers were faced with the potential of increased domestic costs associated with inflationary pressures. It was widely argued that these inflationary pressures reflected the willingness of domestic sector employers to concede higher wages in direct bargaining because, given tariff protection, they were able to pass on these increased costs to consumers (including the export sector).  

Farmers concern with developments in the arbitration system also therefore concentrated on the role that arbitration played in escalating inflationary pressures and costs from the domestic sector. Direct government intervention in the setting of wages and prices represented one means through which the demands of the

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70 for a clear outline of this argument by a then Director of Advocacy for the NZEF and later the Minister for Labour in National government (which introduced the Employment Contracts Act) see Bradford 1982 p11
The importance of small differences could be asserted over the domestic sector.\textsuperscript{71} The reaction of farmers to the nil wage order thus signalled the death knell of arbitration in New Zealand.

\textbf{FROM TOTAL WAGE TO WAGE INDEXATION: THE RETREAT FROM AND RETURN TO ARBITRATION IN AUSTRALIA, 1967-75}

The end of the long boom also placed the arbitration system in Australia under pressure. However, differences in the nature of Australia’s integration into the international economy, the coalition of interests which underpinned arbitration as well as differences in institutional arrangements meant that these pressures played out very differently. From the mid 1960s the arbitration system faced challenges from employers, unions and the state itself. However, unlike in New Zealand, the institutions of arbitration in Australia survived and were even bolstered during this period. Thus while external economic pressures led to the collapse of arbitration in New Zealand similar pressures led to the return to arbitration in Australia during the 1970s and set the stage for the Accord during the 1980s.

As with New Zealand, Australia experienced significant decline in the terms of trade for agricultural products during the late 1960s. As Rowley notes “between 1966-7 and 1969-70 the net income of wool growers had plunged from about $760 million to $290 million of which one third was required simply to meet interest payments of debt”.\textsuperscript{72} However during the 1960s there had been significant growth in the exports of mining products to Japan in particular which more than offset the declining terms of trade in agricultural products. Minerals more than doubled as a percentage of all Australian exports during the 1960s (from 5.5% in the first half of the 1960s to 11.5% in the second half).\textsuperscript{73} Indeed unlike New Zealand, Australia’s economic growth remained reasonably steady in the late 1960s and it was not until the mid 1970s that Australia experienced significant falls in its overall terms of trade and reductions in GDP growth.

\footnotetext{71}{The other option, of course, is to control costs of the domestic sector by removing its protections and throwing it over to international competition. However it was not until the 1980s that this option was pursued by New Zealand governments in an attempt to rebalance the external and domestic sectors of the economy. See Blyth 1987}

\footnotetext{72}{Rowley, 1972 #584} p 274

\footnotetext{73}{Meredith, 1999 #585} p 214
Chapter 8: The Forgotten Divergence?

The growth of the mining sector did have other, adverse, effects on the Australian economy. As Gregory notes one of the main consequences of the minerals boom was that it produced an overvalued exchange rate. This made Australian produced manufactured goods less competitive than imported goods. It also made it more difficult and costly to ensure the effectiveness of tariff protection. In addition the minerals boom helped fuel inflationary pressures in the Australian economy which had an adverse effect on both the profitability of the Australian manufacturing sector and real wages.\textsuperscript{74}

At the same time there was growing concern about the structure of Australian manufacturing and the continued viability and benefits of the tariff protection regime. The Vernon Committee Report, released in 1965, argued that the Australian manufacturing sector was uncompetitive and raised doubts about the economic benefits associated with tariff protection. In its 1965/6 report the Tariff Board, under the leadership of G. A. Rattigan, argued that industries should be classified into low cost, medium cost and high cost industries in terms of the costs of tariff protection and that there be a reassessment of the level of protection afforded to high cost industries. Furthermore it was argued that decisions about tariff protection should be uncoupled from concerns about levels of employment.\textsuperscript{75}

Thus, while the impact of external economic developments was not as severe as in New Zealand it did produce a retreat from arbitration. In the context of declining terms of trade and profitability, growing inflation and uncertainty about the continuation of tariff protection employer bodies in Australia began to pressure the Arbitration Commission to counter inflationary pressures from the wage determination system. As in New Zealand the Australian system of wage determination had developed into a three tiered system during the 1950s and 1960s. The first two tiers- national wage cases and margins cases- were controlled by the Commission. The third tier- over-award bargaining- took place outside the formal institutions of arbitration. By the mid 1960s over-award bargaining was assuming greater significance.

\textsuperscript{74} Gregory 1976
\textsuperscript{75} Bell 1993 p 46-54; Bulbeck 1983 p 226-7
As part of the consolidation of wage control arbitration in Australia in the post war period, the Commission abandoned quarterly cost of living adjustments to the basic wage in the 1952/3 Basic Wage Hearing. According to Hutson, the abandonment of automatic cost of living adjustments and the adoption of seven economic indicators as the basis for determining the basic wages spelt the end of the connections between the basic wage and the living wage in the Australian arbitration system. As Hancock notes there had been a long term shift away from the needs principles towards concern with economic issues in the setting of basic wages but the abandonment of quarterly cost of living adjustment signalled the eventual dominance of capacity of the economy to pay in basic wage determinations.

While Bob Hawke, the ACTU representative at Basic Wage Cases in the late 1950s and early 1960s proved to be quite successful in gaining increases in the basic wage under the formula of prices plus productivity, concern about the capacity of the economy to pay placed serious constraints on the extent to which wage increases could be gained through the basic wage mechanism. Indeed by 1965 the Basic Wage had not increased in real terms since its first introduction in 1907. Furthermore during the 1950s and 1960s the legal status of the basic wage had become increasingly uncertain following a series of High Court decisions.

Faced with these constraints, unions in Australia concentrated on the secondary wage and the determination of margins as the main arena for securing wage increases through the arbitration system during the 1950s and 1960s. In this context, margins cases associated with the Metal Trades Award came to dominate the determination of wages through the arbitration system. As Plowman puts it:

"The logical union strategy in such a context was to concentrate resources on achieving marginal variations in one dominant award from which flow-ons could be expected. The Metal Trades Award served this purpose admirably. The award contained the major benchmarks for tradesmen (fitters’ rate) and ‘semiskilled’ (machinists’ rate) as well as for process workers and tradesmen’s assistants. In addition the large number of occupational classifications in the award made it likely that other awards had identical or comparable classifications through which flow ons could easily be affected."

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76 Hutson 1971 p 13  
77 Hancock 1979/84 p 52  
78 Hutson 1971 p 14  
79 Plowman 1986 p 19
However, as Plowman notes, because of the number of industries it applied to and the large employees working under its provisions, national considerations about the capacity of other industries to pay came to dominate Metal Trade margins cases as well.

This created the conditions for the development of third tier-over-award bargaining. Growing union dissatisfaction with constraints placed on the basic wage and the secondary wage, especially amongst unions representing well organised skilled and semiskilled workers in the domestic manufacturing sector, meant that they increasingly resorted to direct bargaining to gain wage increases. While there is only limited evidence on the extent of over-award bargaining in Australia during this period, the available evidence suggests that by the early 1960s over-award bargaining was quite common in the metals industry and represented a significant proportion of workers’ wages. Furthermore while there was considerable variation in the level of over-award payment within and between occupations there was some attempt by unions to coordinate and institutionalise over-award agreements and link these to the other two tiers of wage determination.80

Under conditions of full employment and continued economic growth individual employers had little incentive to oppose pressures for wage increases through direct bargaining. Indeed faced with shortages of skilled labour, over-award bargaining made it possible for employers to attract and retain workers without it leading to an increase in the general wage level. Thus, there were a number of similarities in the operation of the Australian and Swedish systems of wage determination, discussed in chapter three, during this period. And just as declining profitability and the generalisation of wage drift led Swedish employers to question the benefits of the centralised bargaining system in the early 1980s, similar developments in Australia led employer groups to push for changes in wage determination in Australia.

The combination of declining profitability in the domestic manufacturing sector, which was exacerbated by the overvalued exchange rate, and concerns that gains made by strong unions in over-award bargaining were being translated through to less productive sectors

80 see Plowman 1986 pp 23-29; Brown and Fuller 1978
of the economy by the adjustment of margins meant that employer representatives in Australia overcame their traditional disunity to push for changes in the setting of wages. At the NWC hearing in 1964 the employer representatives pushed for the introduction of a total wage which brought together NWCs and margins cases. While the Commission initially rejected the total wage concept, faced with federal government pressure about the need to take into account the country’s economic situation and reduce inflation and a solid line from employer representatives, it accepted the principle of a total wage in its 1966 NWC decision and officially abandoned the bifurcated wage system in its 1967 NWC decision. In the 1967 Metal Trades Margins Case the Commission went further and attempted to absorb over-award pay.\(^81\)

As Hutson puts it “the [total wage] decision was rightly seen by unions as an attempt to close off the third tier in the wages system by the tribunal which had already emasculated the results of the first two tiers in a period of demonstrable capacity to pay.”\(^82\) This produced a concerted attempt by some unions to bypass the arbitration system and pursue direct bargaining. In early 1968 metal trades unions led a campaign of direct action designed to counter the absorption of over-award payments. As Sheridan notes “in the first two months of 1968 there were 400 separate stoppages of work and on 6 February 180,000 metal workers went on strike for 24 hours.”\(^83\)

In the face of the union campaign, employer associations took a number of steps to help its members hold the line on the absorption of margins. These included taking advantage of the section 109 penal powers of the Industrial Court to bring contempt proceedings against union officials. However as the conflict escalated individual employers found it increasingly difficult to hold out against union demands. Both the Commission and the Federal government attempted to diffuse the conflict. In a second decision the Commission announced that 70% of the work value increase should be granted automatically. The Federal government also took a more moderate line on the penal powers issue fearing a significant increase in collective bargaining.\(^84\)

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81 Sloane 1967; Dabscheck 1994 p 147-8; Tsokhas 1984 pp122-6
82 Hutson 1971 p 21
83 Sheridan 1994 p 106
84 Hutson 1971 pp 196-206; Tsokhas 1984 pp 126-7
However these attempts came too late. Conflict over the total wage decision and the attempt to absorb margins significantly undermined the authority of the commission and led to the rapid growth of direct bargaining. The absorption struggle also saw the end of the employer unity that had led to the introduction of the total wage. In an attempt to gain control over wage bargaining, the Metal Trades Industries Association broke ranks with other employer bodies and entered into direct negotiations with the AMWU.\textsuperscript{85} Between 1968 and 1975, less than 40% of wage increases came from national wage case decisions, with only 19.1% of the increase in 1973/4 coming from the NWC.\textsuperscript{86} The Commission had effectively lost control of wage determination.

Thus by the late 1960s external economic pressures associated with the end of the long boom produced a retreat from arbitration in Australia. However differences in the configuration of sectoral and class interests as well as the institutional differences between the two countries, meant that unlike in New Zealand, by the mid 1970s there was a return to arbitration. While to some extent the campaign against penal powers and the growth of direct bargaining represented a victory for Australian unions, by the early 1970s there was a growing concern about the consequences of the retreat from arbitration amongst sections of the labour movement. The retreat from arbitration and the rise of direct bargaining was particularly significant for industrially weak unions in the non-tradeable sectors of the economy which had traditionally relied on arbitration. In the early 1970s the potential problems this raised for these unions were initially offset by the willingness of the Commission to flow on gains in the Metals Trades Award to other awards and the Whitlam Labor governments’ willingness to give public sector workers considerable nominal wage increases. However with rapidly increasing inflation and the deterioration of the external economic environment, there was an increasing prospect that these unions would be unable to maintain the real wages of their workers.\textsuperscript{87}

At the same time, while the retreat from arbitration allowed well organised militant unions to exploit their bargaining power, by the mid 1970s there was growing concern amongst these unions about the consequences of direct bargaining for economic performance and wage levels. While they had been able to secure wage increases,

\textsuperscript{85} Tsokhas 1984 p 129
\textsuperscript{86} Dabscheck 1989 p 148
The Importance of Small Differences

Concern about the effects of wage increases in the non-tradeable sector of the economy for the competitiveness of manufacturing sector, in the context of rapidly increasing inflation and declining economic growth.\textsuperscript{88} These concerns were further exacerbated by the decision of the Whitlam government, without consultation with the unions, to introduce a 25% across the board tariff cut in tariffs. Faced with the prospect of a serious decline in domestic manufacturing, militant unions became increasingly concerned about the need to control wage increases in non-productive sectors of the economy.\textsuperscript{89}

With a rapidly deteriorating external environment and the appearance of stagflation, the Whitlam government abandoned its commitment to free wage bargaining and attempted to introduce wage and price controls. In its submission to the 1974 NWC the government pushed the Commission to reintroduce indexation for the first time since 1953, although argued that full indexation should only apply to low paid workers. The ACTU initially opposed indexation but eventually conceded the need for wage restraint. This provided the opportunity for the Commission to re-establish control over the wage system and reassert its authority. In early 1975, the Commission announced that it would make quarterly cost of living adjustments to awards. In return it demanded that wage rises from other sources be kept to a minimum.

The Commission pursued a policy of wage indexation from 1975 until July 1981.\textsuperscript{90} While assessments of the success of the wage indexation experiment are mixed, as Rimmer notes, its significance was that it demonstrated how, under certain circumstances, the Commission could effectively administer an incomes policy. The significance of this lesson was underlined by the experience of deregulated bargaining after the collapse of indexation. While the Fraser government had intended to use tight monetary policy to control inflation, the impact of the resources boom on the early 1980s, meant that there was a “wages breakout” especially in the metals industry.

As Sheldon and Thornthwaite note, this experience reinforced the views of metals industry employers about the dangers of decentralised bargaining and the need for a

\textsuperscript{87} Sheridan 1994 p 107
\textsuperscript{88} Bramble 1989pp 375-6
\textsuperscript{89} Briggs 1999 Chapter 4
\textsuperscript{90} for more details and assessments see Lansbury 1978; Plowman 1982; Plowman 1978; McGavin 1985
strong centralised wages policy. This placed metals employers at odds with other employer bodies who favoured deregulation.91 Briggs argues that the experiences of the late 1970s and early 1980s also produced a fundamental change in the attitudes of the AMWU, and other militant unions, towards wages policy and created the conditions for the ACTU to pursue an Accord. Concern about the impact of inflation and indirect costs for on the competitiveness of the domestic manufacturing sector meant that they were prepared to consider the abandonment of direct bargaining and the adoption of an incomes policy. However they were only prepared to do this if they were could ensure control of wage growth in other sectors of the economy. Increasingly they saw the ACTU as a vehicle for ensuring this restraint.92

IMPLICATIONS FOR THE COMPARATIVE LITERATURE AND THE INSTITUTIONALIST APPROACH

The analysis presented in this chapter has a number of important implications for the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s. As was noted in chapter 5 the comparative literature attributes differences policy divergence in Australia and New Zealand during the 1980s and 1990s to a set of institutional variables- including differences in the operation of the arbitration systems and in the collective organisation of labour and capital. While the comparative literature acknowledges that many of these differences have their immediate origins in the 1970s, there is little attempt explain why these differences emerged. The analysis in this chapter suggests that these institutional differences reflect the impact of international economic changes on the balance of class forces in the two countries.

Thus the comparative literature suggests that the Australian arbitration system was more robust than its New Zealand counterpart. This chapter has shown an important reason for this difference was the differential impact of the end of the long boom in the two countries and the coalition of class interests that underpinned arbitration. The greater reliance of New Zealand on primary product exports, and the dominant role of the interest of agricultural capital in shaping the New Zealand state’s accumulation strategy, constrained the activities of the arbitration system during the 1950s and 1960s and led to the development of a highly unstable three tier bargaining system. The dramatic decline

91 Sheldon and Thornthwaite 1999
92 Briggs 1999 Chapter 4
of the terms of trade for agricultural products in 1966/7 exposed the contradictions of this system and undermined the unstable coalition of interests that had underpinned arbitration. In these circumstances the state intervened directly into wage setting in an effort to protect the interests of the dominant fraction of capital.

In Australia, however, less reliance on agricultural exports and the greater role of domestic manufacturing in post-war economic development led to a different configuration of class interests around the institutions of arbitration and meant that the end of the long boom played out differently. In particular while external economic pressures produced a retreat from arbitration in the late 1960s, significant elements of capital and labour had an interest in a return to arbitration from the mid 1970s. While it is true that the constitutional limitations on the Australian federal government prevented both the Whitlam and Fraser governments from directly intervening in the setting of wages, as was the case in New Zealand, it is also important to remember that it was not just these institutional differences but also divergent interests amongst elements of capital and labour which sealed the fate of arbitration in the two countries.

The comparative literature on industrial relations reform also focuses on the importance of differences in the organisation of capital and labour in explaining policy divergence in the two countries. These differences in turn can be attributed to the differential impact of the end of the long boom on material interests in the two countries. Thus the increasing authority of the ACTU during the late 1970s and in the early 1980s can be said to reflect not just structural changes in the organisation of the ACTU but also a growing awareness by key elements in the union movement about the need for centralised coordination of wage bargaining. As Briggs argues the experience of free wage bargaining and wage indexation during the 1970s meant that the AMWU was prepared to transfer substantial authority to the peak union body in order to secure centralised wage determination. In New Zealand, however, the collapse of the arbitration system eroded the possibilities for this type of outcome and there was little scope for the FOL to play a similar coordinating role in wage setting. While the structural division between public sector and private sector industrial relations in New Zealand may have further exacerbated the situation, it was not the only factor. Thus the differences in the organisational unity of the labour

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93 Briggs 2001 pp 34-35
movements in the two countries can be said to in part reflect the differential impact of the end of the long boom on the interests of key elements in the labour movement.

Equally it can be argued that differences in the organisation of employer opinion in Australia and New Zealand during the 1980s and 1990s reflected their experiences with arbitration in the late 1960s and 1970s in two countries. Thus the reorganisation of NZEF in the early 1970s, which centralised employer representation reflected the rejection of the traditional arbitration system by both export oriented agricultural and domestic focussed capital in the context severe economic dislocation. While the way the New Zealand arbitration system had traditionally registered employer bodies facilitated this process, it was this underlying rejection of arbitration by many employers which produced the increasing organisational unity of employer opinion in New Zealand. The Australian experience did not produce the same widespread rejection of arbitration amongst all fractions of capital. In particular the experience of wage bargaining during the 1970s and early 1980s meant that key elements in the domestic manufacturing sector saw advantages in a system that was able to centralise wage determination. Thus while the existence of a wide variety of state and federal bodies complicated the process, central to the collapse of the CAI in the late 1970s were fundamental disagreements between different fractions of capital in Australia about the benefits of the institutions of arbitration.

These findings have significant implications for the institutionalist approach to globalisation and industrial relations. It has been noted throughout this thesis that the Australian New Zealand comparison represents a critical case for the institutionalist approach. Given the similarity between the countries across a wide range of variables, the institutionalist approach needs to be able to explain policy outcomes in the two countries. While the comparative literature has demonstrated that institutional differences were important in explaining policy diversity in the two countries during the 1980s and 1990s, the focus on the institutionalist approach on institutional variables and its tendency to downplay the impact of economic and material factors means that the comparative

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94 see Chapter 4 above
95 see Chapter 4 above
The importance of small differences

The literature has ignored the impact of the earlier interest based divergence in industrial relations policy in producing these institutional differences.

The implication is that an exclusive focus on the role of national level institutional variables in mediating the impact of international economic change on the domestic institutions of industrial relations provides on a partial explanation of the Australian and New Zealand comparison. Rather the institutional differences which attributed such a prominent role in explaining policy divergence in Australia and New Zealand during the 1980s and 1990s, had their origins in the interaction between interests and institutions in the context of the differential impact of the end of the long boom in the international capitalist economy on the two countries. This suggests that an analytical model which incorporates a role for interests and examines the impact of international economic change on these interests provides can provide a more coherent explanation of the Australian and New Zealand cases.

8.5 CONCLUSION

This chapter has argued that the end of the long boom in the international capitalist economy produced a divergence in industrial relations policy in Australia and New Zealand in the late 1960s and early 1970s- a divergence which has been downplayed in the comparative literature. Building on the analysis outlined in chapter seven it argued that the two countries adopted disparate accumulation strategies in the post war period and that as result the institutions of arbitration were underpinned by different coalitions of class interest. While the long boom in international capitalist ameliorated the distributional conflict attendant in these accumulation models, the end of the long boom associated with overcapacity in the core capitalist economies, eroded the viability of these accumulation strategies and the led to the reappearance of inter and intra class conflict around the institutions of arbitration.

Because of differences in the integration of the two countries into the international economy, the consequences for arbitration in the two countries were very different. The continued reliance of New Zealand the export of agricultural export products in the post war era meant that it was affected earlier and more severely by the end of the long boom and that the institutions of arbitration were placed under more severe pressure. This produced an irrevocable collapse in the institutions of arbitration in New Zealand and
shaped the subsequent development of employer and union organisation. Thus, as Boxall has argued, in many ways the radical deregulation of the labour market in New Zealand in the early 1990s had its origins in the collapse of arbitration in the late 1960s. In Australia, the emergence of a significant mining sector and the greater significance of domestic manufacturing meant that the end of the long created the conditions for a return to arbitration in the mid 1970s. This return to arbitration shaped the development of union organisation and employer opinion in Australia during the 1970s and 1980s and the laid the foundations for the introduction of the Accord in 1983.

The analysis provided in this chapter provides empirical support for the interaction approach, on the one hand, and further demonstrates the limitations of an institutionalist approach to globalisation and industrial relations. In particular the chapter demonstrates the key role that changes in the international economy played in shaping the interests that underpinned the institutions of arbitration in the two countries. While institutional differences are important in explaining the particular pattern of industrial relations that emerged by itself a focus on the role of institutional variables in mediating the impact of international economic change on national patterns of industrial relations is unable to explain industrial relations developments in these two countries.

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96 Boxall 1990 p 525
CONCLUSION:

THE IMPORTANCE OF SMALL DIFFERENCES

“it may happen that small differences in initial conditions 
produce very great ones in the final phenomena”
Henri Poincare

As noted earlier in this thesis, recent debates in comparative industrial relations scholarship have raised significant questions about the impact of changes in the international economy on national patterns of industrial relations. It has been argued that qualitative changes in the international economy associated with globalisation are likely to produce a universal ‘race to the bottom’ in labour standards across all economies. Thus, it has been suggested that pressures associated with globalisation have eroded the scope for continued national differences in patterns of labour market regulation and set in train pressures for convergence in national institutions of industrial relations.

The globalisation thesis has been broadly criticised in the comparative industrial relations literature. Critics have argued that the pressures associated with globalisation are exaggerated and that the relationship between international economic change are not as simple as globalisation theorists would have it. Rather, a growing body of comparative industrial relations literature has pointed to evidence of continued diversity, despite the common pressures associated with changes in the international economy. This literature has focussed on the importance of national level institutional variables play in explaining diversity and have suggested that continued differences in national level institutional variables are likely to produce cross-national divergences rather than convergence.

While the institutionalist approach represents an important corrective to the globalisation thesis, and has become increasingly significant in comparative industrial relations scholarship, there are a number of reasons to question the ability of an institutionalist approach to satisfactorily account for the contemporary patterns of continuity and change in national patterns of industrial relations. In particular, the institutionalist approach has difficulty explaining similarities in patterns of industrial relations change across countries, despite institutional differences between them, and is largely unable to explain
changes in these institutions themselves. These problems suggest that relationship between international economic change and domestic institutions of industrial relations requires further explanation.

The major contribution of this thesis is the development of an alternative theoretical approach—entitled the interaction approach. The thesis has sought to demonstrate that an interaction approach, which draws on concepts from the international political economy literature, is able to explain industrial relations developments in two closely matched countries in three separate periods of significant change in the international economy. In doing so, it highlights the importance of small differences between cases. This conclusion reviews the critique of the institutionalist approach and summarises the main features of the interaction approach developed in this thesis. It also examines the application of the interaction approach to comparison of industrial relations in Australia and New Zealand. Finally, it discusses the implications of these findings for both the Australia and New Zealand comparison and further research on globalisation and industrial relations.

A CRITIQUE OF THE NEW INSTITUTIONALISM IN COMPARATIVE INDUSTRIAL RELATIONS

Rejecting the view that globalisation produces pressures for convergence, a number of comparative industrial relations scholars have argued that national level institutions play a key role in refracting common pressures associated with international economic change. Accordingly, they predict continued diversity and divergence in national patterns of employment relations. The institutionalist approach has highlighted the role that national institutional variables play in shaping the relationship have and has been instrumental in discrediting the claims associated with the globalisation thesis.

As an example, the comparative literature on industrial relations reform in Australia and New Zealand during the 1980s and 1990s has highlighted the key role institutional differences between these two countries played in producing a significant policy divergence, despite broad similarities between them. In particular, this comparative literature demonstrated that differences in the operation of the arbitration systems, the structure of the union movements, the organisation of employer opinion and the autonomy and capacity of the nation state all help explain the industrial relations policy divergence that developed between these countries during the 1980s and 1990s. Thus, the
The Importance of Small Differences

institutionalist approach, and its application to the Australia and New Zealand case, has provided some important insights into the relationship between international economic change and the domestic institutions of industrial relations.

However, there are a number of limitations associated with the institutionalist approach which suggest the need for further analysis. Generally speaking, institutionalist approaches focus on differences in industrial relations patterns across countries and have problems explaining similarities between them. More specifically, in the Australia-New Zealand comparison, it was shown that an institutionalist approach to comparison has a number of unfortunate consequences. First, the comparative literature ignores the role of small, but potential important, differences in the cases, particularly those associated with non-institutional factors. Second, the institutionalist approach exaggerates the differences in industrial relations outcomes between the cases. Third, this literature is largely unable to explain why institutions that mattered so much in one period, were less significant in a later period.

This thesis has argued that these limitations reflect the intellectual origins of the new institutionalism in comparative politics. The rediscovery of the role of structural factors in comparative politics reflected both the growing inability of theories of behaviouralism to explain increased economic and political diversity in developed market economies, during the 1970s, and the increasing sophistication of neo-Marxist analysis of capitalist crisis and the role of the state in contemporary society. The new institutionalism has its origins in attempts by liberal theorists to respond to these twin challenges. As a result, there is a false dichotomy drawn between polity and economy at the heart of the new institutionalism. The consequence is that the new institutionalism treats preference formation inconsistently, oscillating between a calculus view, that sees institutions as one of a number of factors influencing political and economic outcomes, and a culturalist view, which treats the preferences of actors as entirely shaped by their institutional context. In many cases, empirical evidence which supports a calculus view of preference formation is used by institutionalist to justify a culturalist conclusions.

This false dichotomy and inconsistent treatment of the role of institutions in preference formation has a number of consequences for institutionalist analyses and helps explain
the limitations identified in the Australia-New Zealand comparative literature. First, in cross-national analysis, institutionalist analysis privileges the explanatory significance of polity centred institutions and systematically downplays the role of non-institutional variables, like those associated with economic structure or social class. Second, because of their focus on institutions, institutionalist accounts tend to exaggerate the differences between countries and have difficult explaining similarities them. Third, because institutionalist accounts treat preference formation as endogenous, they are largely unable to explain changes in institutional arrangements themselves.

THE INTERACTION APPROACH
In light of this critique, this thesis has advanced an alternative theoretical approach to explaining the relationship between international economic change and the domestic institutions of industrial relations. The interaction approach is derived from the international political economy (IPE) literature. The defining feature of a political economy approach is treats institutions as a reflection of, but not necessarily fully determined, by material interests. An international political economy approach treats the national factors which shape these material interests as embedded in an international structure of accumulation. While there is an identifiable political economy tradition in the industrial relations literature, it has tended to focus at the level of the nation and the workplace, and there have been few attempts to integrate a role for the international dimension in this tradition. The interaction model, therefore, draws on concepts developed in the IPE literature to explain cross-national variations in trade policy and economic policy.

This thesis argues that an analysis which focuses on the interaction between interests and institutions in the context of international economic change is able to account for both similarities and differences between countries, thereby overcoming the limitations identified in the institutionalist approach, while retaining its key insights. The interaction model focuses on four variables which impact the relationship between international economic change and the domestic institutions of industrial relations: the international economic regime; the production profile; the accumulation strategies of the state and the impact of institutions.
The concept of an international economic regime overcomes the tendency of existing the
globalisation debate to separate out international economy from national polity. Rather, it
suggests that national level industrial relations institutions, and the material interests
which underpin them, have always been shaped by developments at the international level
which are both political and economic in character. The current wave of globalisation
can, thus, be seen as the last in a series of shifts in this pattern of governance and not an
unprecedented change.

To examine that impact of these changes on the domestic institutions of industrial
relations it is important to identify the structure of material interests that underpin these
institutions. The structure of material interest in any particular country is influenced by
the nature of its integration in the international economic regime. The concept of a
national production profile provides a mechanism for disaggregating societal interests,
both in terms of class and sector, and identifying the potentially differential impact that
changes in the international economy may have for policy coalitions underpinning
industrial relations institutions across countries.

The third aspect of the interaction model is the focus on the accumulation strategy of the
state. Based on a reading of Jessop’s treatment of the capitalist state, the concept of an
accumulation strategy explains why the state tends to exercise its autonomy in the
interests of the dominant fraction of capital. However, it also suggests that, at times of
significant international economic change, the accumulation strategy itself is contested by
various interests who can co-opt the agency of the state. This approach overcomes the
limitations of the autonomous treatment of the state in the institutionalist approach to the
state, on the one hand, and reductionist and instrumentalist treatment of the state that
characterises much of the interest-based literature.

The final feature of the interaction approach, which distinguishes it from both the
political economy tradition in the industrial relations literature and much of the interest-
based literature in the IPE, is its acceptance of the importance of institutional effects. In
keeping with the insights associated with the new institutionalism, it accepts that
institutional arrangements matter in the sense that they have an independent effect on
political and economic outcomes. However, unlike the institutionalist approach, it adopts
a dualist conception of institutions which does not downplay the potential role of non-institutional variables in shaping economic and political outcomes. Rather, it treats the relative significance of institutional and non-institutional variables as an empirical question to be studied rather than *apriori* asserting the primacy of one set of variables over another. Thus, the interaction approach seeks to examine the interaction between interests and institutions in the context of international economic change.

**TESTING THE INTERACTION APPROACH: THE AUSTRALIA NEW ZEALAND COMPARISON**

This thesis has used the comparison between Australia and New Zealand to test the explanatory power of the interaction approach. As was noted in chapter four, there are a number of reasons why the comparison of these two cases provides a favourable context within which to test theoretical explanations. These include a significant number of historical similarities between the countries across a number of dimensions that can be expected to impact industrial relations reform. Thus, throughout most of the twentieth century, the two countries relied on national systems of conciliation and arbitration to regulate wages and working conditions. Second, the two countries experienced similar patterns of economic development and were integrated in the international economy in similar ways. As a consequence these two comparatively small countries, which remained highly dependent on international trade, experienced international changes associated with the contemporary wave of globalisation in particularly dramatic fashion. Third, in the early 1980s newly elected labour governments, faced with similar economic pressures, introduced dramatic reforms aimed at reducing the role of the state in the economy in response to international economic pressures. Despite these similarities, during the 1980s and 1990s, there were significant differences in the direction of industrial relations policy in the two countries.

This apparent divergence between similar cases created the conditions for industrial relations scholars to deploy a most similar case research design. The resultant literature, produced explanations for the apparent divergence which focussed heavily on the role institutional variables played in accounting for policy divergence. This thesis has identified a number of flaws in the institutionalist approach to the comparison of these two countries. These include a tendency to downplay historical differences the cases, a tendency to ignore differences in the external economic imperative confronting the two
countries during the 1980s and 1990s, and an inability to explain similarities in industrial relations outcomes and policies despite continued institutional differences.

The thesis examined whether the interaction approach could explain both similarities and differences in the domestic institutions of industrial relations in the two countries in three separate periods of international economic change- the late nineteenth and early twentieth centuries; the immediate post world war two period and in the late 1960s and early 1970s. In so doing, it examined whether what appear to be small historical differences between the cases, which are largely dismissed in the existing comparative literature, in fact point to more fundamental differences between these cases. In each of the three periods examined in the thesis, it was shown that an interaction approach was able to explain both similarities and differences in the institutions of industrial relations between the cases. Furthermore, in each period, it was shown that the assumption that the historical experience of the two countries is so similar that it does not warrant significant attention needs to be questioned.

Chapter six examined the origins of arbitration in Australia and New Zealand. It demonstrated that a focus on the impact of the free trade imperialism on the development of the Australian and New Zealand colonies not only explained why these two countries adopted arbitration but also the differences in the subsequent development of arbitration in the two countries. The comparison of the origins and development of the institutions of arbitration in the early twentieth century not only provides empirical support for the interaction approach but also raises serious doubts about the validity of Castles’ domestic defence explanation on antipodean exceptionalism, upon which much of the existing Australia-New Zealand comparative literature is based.

An interaction approach, which focuses on the connections between international economic change and the accumulation strategy of that state provides insight into not just the origins of arbitration in the two countries but also helps explain change in these institutions over time, a major weakness of the institutionalist approach. This was demonstrated in chapter seven which examined the connections international economic reconstruction after world war two and the centralisation of wage determination in the arbitration systems of Australia and New Zealand. It demonstrated that in both cases,
international developments left labour governments to focus on wage control in an effort to safeguard full employment. Thus, rather than ignoring the historical variability of arbitration in the two countries, an interaction approach is able to explain changes in the institutions of industrial relations.

While international economic pressures produced similar changes in both Australia and New Zealand in the immediate post war period, as shown in chapter eight, they were to have dramatically different consequences in two countries in the late 1960s and early 1970s. An interaction approach, which focuses on the impact of the international economic change on the institutional preferences of fractions of capital and labour, explains not only the differing fates of arbitration in the two countries since the late 1960s but also many of the institutional differences to which the existing institutionalist literature attribute the policy divergence between the countries that developed during the 1980s.

**IMPLICATIONS OF THE INTERACTION APPROACH: RETHINKING INDUSTRIAL RELATIONS REFORM IN AUSTRALIA NEW ZEALAND**

While not its primary aim, the theoretical arguments and the empirical evidence contained in this thesis suggest that there is a need to revisit explanations of industrial relations reform in Australia and New Zealand during the 1980s and 1990s. At one level they suggest that the reasons for the apparent industrial relations policy divergence that developed in the two countries is more straightforward than the existing literature reveals. As was noted in chapter four, the comparative literature on industrial relations reform treats the election of labour governments in Australia and New Zealand in the early 1980s (1983 in Australia and 1984 in New Zealand), which ushered in what Castles *et al* have called the “great experiment”, as a major dividing line in the history of industrial relations in the two countries. The assumption is that prior to this date the shared heritage of arbitration in the labour market and the broader domestic defence policy pattern makes it possible to disregard the role that historical differences between the cases may play in explaining policy outcomes during the mid 1980s.

The arguments presented in this thesis provide a strong refutation of this assumption and point to a number of small but important differences between the cases on the eve of the great experiment. Despite important similarities in the factors that led to the introduction
of arbitration, the broader contexts within which arbitration developed in the two countries differed significantly from their very inception. While pressures associated with the reconstruction of the international economy in the immediate post-war period produced similar changes in the functioning of the arbitration systems in the two countries, the underlying differences in the production profiles and coalition of class interest underpinning arbitration remained. With the collapse of the favourable economic conjuncture, that obscured these differences in the late 1960s, differences in interests had dramatically different consequences for arbitration in the two countries. By privileging the role of policy-centred institutional variables in explaining political and economic outcomes, the existing comparative literature has largely ignored both the historical differences between the functioning of the arbitration systems and the divergent fates of arbitration from the late 1960s. On the eve of the great experiment, there were significant differences between the two cases. Hence it not surprising that industrial relations policy diverged in the two countries in the ensuing decades.

The theoretical arguments outlined in this thesis also suggest that industrial relations reform in Australia and New Zealand, during the 1980s and 1990s, have been influenced by a broader range of variables than those identified in the institutionalist literature. Understanding the roles that both interests and institutions played in shaping policy can explain both the policy divergence between the two countries during the 1980s and the subsequent convergence of policy during the 1990s.¹ In New Zealand, the pressures associated with the current wave of globalisation eroded virtually all employer support for the arbitration system. By contrast, in Australia, the existence of a relatively large and economically important manufacturing sector in Australia created the conditions for the formation of a cross-class coalition between employers in the metals trades, unions in the metals trades and the Labor government behind the existing institutions of industrial relations during the second half of the 1980s. It was under these conditions that institutional differences between the two countries proved to be important.

¹ The contours of such an argument are only briefly sketched out here. For more detailed analysis of the role of played by interests, and their interaction with institutional factors, in shaping similarities and differences in industrial relations policy in Australia and New Zealand during the 1980s and 1990s see Wailes 2000a; Wailes and Ramia 2002 and Wailes et al. 2003.
As occurred in New Zealand during the 1980s, external economic pressures played a significant role in undermining the conditions for a stable coalition of interests behind the traditional institutions of industrial relations in Australia in the early 1990s. The failure of the Accord to bring about a significant restructuring of the domestic manufacturing sector, adverse developments in Australia’s external balance and the adoption of tight monetary policy shifted the institutional preferences of manufacturing employers towards labour market deregulation. At the same time, these economic pressures eroded the commitment of the AMWU to centralised bargaining. These shifts in preferences created the conditions for the industrial relations policy in Australia to converge on New Zealand, despite continued institutional differences. While institutional and organisational differences between the two countries are important for explaining differences in the speed and scope with which these changed interests have been translated into policy, a model which externalises the importance of economic variables and material interests could not explain the pattern of divergence and convergence between the two cases.

GLOBALISATION AND INDUSTRIAL RELATIONS
There have been a number of dire predictions made about the impact of globalisation on national patterns of industrial relations. It has become commonplace in many countries for employer advocates and policy makers to argue that it is no longer possible to provide protections for workers in the face of the forces of international competition. It is argued that globalisation is such an irresistible force that national economies, in order to remain internationally competitive, must remove impediments to market forces and reform their labour markets. These predictions are both exaggerated and simplistic. As a number of authors have shown, there is no simple relationship between international competitiveness and institutional arrangements in the labour market and national patterns of industrial relations are shaped by a complex variety of factors.²

Institutionalists argue that one of the most important factors shaping national patterns of industrial relations are the institutional arrangements for the representation of employers and employees, bargaining, dispute resolution and wage determination. These institutional arrangements are the result of unique national struggles between capital and labour and particular interventions by nation states in these struggles, and therefore vary

² See, for example, Traxler et al. 2001
markedly between countries. Institutionalists have rightly pointed out that no matter how irresistible the pressures associated with globalisation, continued national institutional differences mean that globalisation is unlikely to have a uniform effect on national patterns of industrial relations. More generally, institutionalists have questioned the view that globalisation erodes the autonomy of the nation state. Thus, they argue that governments continue to have a range of policy options at their disposal and that it is possible for them to combine international competitiveness with labour market institutions that balance efficiency and equity.

The institutionalist counter-argument to the simple globalisation thesis is important. It recognises the ideological nature of the arguments by employers and policy makers about the need for change in the face of globalisation. It points to the importance of national politics and suggests that there is still scope for workers and their representatives to defend hard won rights and protections. However, by stressing the importance of national level institutions and national politics, institutionalists have tended to adopt a position that suggests that globalisation is unimportant and that the international does not matter. They imply that industrial relations practices and outcomes are so deeply embedded in a national institutional context, that international economic pressures have little role to play in shaping these practices and outcomes. This is an unsatisfactory argument. There are clearly important changes taking place, not only in the industrial relations outcomes, but also in the institutional arrangements themselves across a number of countries. These changes are intimately associated with changes in the international economic order and their consequences for the relations between employers and workers.

While institutionalists seek to counter the conclusions drawn from the globalisation thesis, they do not challenge the fundamental premise on which it is based. Thus, institutionalists fail to provide an alternative conception of the international dimension and its impact on national patterns of industrial relations. In effect, they accept the view that globalisation is an unprecedented change in the world economy with no historical precedent. This presentation is deeply flawed. It points to the need to both reconceptualise the current debate about globalisation and rethink the relationship between the international and the domestic, more generally, in industrial relations scholarship.
What is often referred to as globalisation, namely: increased international trade, growing international flows of short-term and long-term capital; and, the greater interdependence of international financial markets, are, rather, the consequences of shifts in the structure of the international economy. These developments have been taking place since the late 1960s and represent a response to the end of the long boom in post-war capitalism. Since the late 1960s, capital has increasingly looked to cross-border organisation of trade and production as a means to counter declining profitability in developed market economies. Rather than standing separate from it, capitalist states have played an active role in this process. They have participated in changes to the international trade rules that have allowed increased cross border trade; they have deregulated and opened up their financial markets in ways that encourage increased integration of international financial markets; and they have relaxed rules about foreign ownership in an effort to encourage foreign investment. Thus, the current wave of globalisation, rather than being an unprecedented development represents a complex re-authoring of the international economic order. It seems obvious that these developments have important implications for the social relations of production and are likely to affected national patterns of industrial relations and need to be taken seriously.

However, the international economic order has always had important consequences for the relations between employers and workers in all countries and the institutional arrangements that develop to govern these relations. The current debate about globalisation, and its impact on industrial relations, illustrates the extent to which industrial relations scholarship has traditionally ignored the role of the international dimension in shaping industrial relations institutions and outcomes. National economies do not stand separate from the structure of the international economy. Nor are national politics completely divorced from international concerns. Hence, international factors have always and will continue to play a role in shaping the development of national industrial relations.

For a more detailed account of the different aspects of this process see, for example, Eichengreen 1996; Panitch 1994 and Radice 1999
The Importance of Small Differences

As the empirical analysis provided in this thesis has demonstrated, the structure of the international economic regime and the integration of the Australian and New Zealand economies into it has had an important influence on the form of labour market institutions they adopted at the end of the nineteenth century and beginning of the twentieth century. The international economy has also influenced how these institutional arrangements developed in the post World War Two period; as well as the stability of these institutional arrangements since the late 1960s. Thus, the origins of the small, but important differences, between Australian and New Zealand industrial relations are to be found in an analysis of the changing international economic order and its impact on the relations between employers and workers in the two countries. However, the impact of the international dimension on the domestic institutions of industrial relations in the two countries has neither been simple nor has it solely created pressures for convergence.

In order to explain the impact of the current changes taking place in the international economy for the national patterns of industrial relations, it is necessary to go beyond treating the international dimension as a separate sphere of activity. The approach outlined in this thesis, which examines the interaction between interests and institutions in the context of changes in the international economy, provides one way that the international dimension can be integrated into an analysis of the consequences of globalisation for national patterns of employment relations. The ability of the interaction approach to explain both similarities and differences in industrial relations developments in two very similar countries, during three periods of significant change in the international economy, suggests that it may have broader relevance for analysing the impact of contemporary changes in the international economy on national patterns of employment relations in a variety of countries.
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