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DETERMINATION OF WAGE RELATIVITIES
UNDER THE FEDERAL TRIBUNAL:
1953-1974

by

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1. INTRODUCTION

The Australian system of wage fixing has long been the subject of debate extending far beyond academe. Whilst this attests to the fact that it is one of the most studied social institutions in Australia, it also explains the existence of a host of stylized facts about the results it has generated; these, like most stylized facts, often represent a combination of myth and reality. As always, the paucity of empirical data provides a natural shelter for mythical stylized facts.

It is often suggested that wage relativities in Australia have been constant, allegedly reflecting the commitment of the various wage tribunals to preserving the structure of relativities.[1] It has also been suggested that the Australian wage structure is exceptionally compressed as a result of its atypical procedure of wage fixing; and in general, it is believed that both the average level of wages and the wage structure are exceptionally sheltered from the impact of unemployment in comparison to the situation in other industrialized countries.

These propositions have not gone unchallenged. A number of studies (e.g. Hughes, 1973, Norris, 1980) compared the dispersion of wage rates in Australia with that in the US and the UK, concluding that no significant differences

1. As is attested by the following passage from Phelps-Brown's well-known monograph (1977, p. 77):"...[the Australian] arbitrators were especially concerned with and generally accepted the claim that it [the skilled/unskilled wage differential] should be maintained percentagewise.".

exist.[2] Withers et al (1986) concluded that the inter-industry structure of wages (as distinct from the average wage level) is insensitive to differences in the incidence of unemployment across industries in the three countries studied (the UK, US and Australia). Finally, Grubb et al (1983) explored the behaviour of the average wage level. They concluded that the sensitivity of the *general* level of wages to unemployment does vary across countries, but, contrary to popular perception, the average wage level in Australia is more affected by unemployment than in either the US or the UK, both countries where decentralized collective bargaining prevails.[3]

Nevertheless, the view that the Australian system of wage fixing produces a more compressed wage structure has reappeared. Mitchell (1984) reaches this conclusion when he focuses on the male/female wage ratio.[4] Similarly, Norris, who earlier (1980) concluded that there is no significant difference between the overall wage structures in Australia and the UK, has recently reversed his position (Norris, 1986).

The debate is thus in a state of flux, with many questions remaining open. It is clear that neither of the extreme views remains tenable. Though unique in its external appearance, the Australian system produces results which share many features with those produced by other systems. At the same time, the possibility that the arbitration system exerts a distinct impact on the level and structure of wages has not been disproved.

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2. See Gill (1987) for a review of this literature.

3. See Withers (1986) for a review of this literature.

4. Note that Gregory et al (1986), who also observe that the female/male wage ratio in Australia was much higher than in either the US or the UK, offer an explanation which assigns the Tribunal no active role in the matter.

The available empirical studies of the structure of wages in Australia tend also to focus on international comparisons. Often a "snapshot" of Australia's wage structure at a particular point of time is compared with similar data for other countries. There clearly is a need for a study which examines the behaviour of the Australian system itself, in a dynamic setting, tracing the pattern of the award wage structure as it has evolved through time. The present study provides an analysis of this pattern, focusing primarily on the period 1953-74.

The empirical results of the present study disclose a cyclical pattern unique to Australia in the structure of wages set by the Federal Tribunal. *Intra-award* wage relativities (i.e. the dispersion of wages within given awards) had a strong tendency to widen in those periods of economic prosperity which were accompanied by sustained low unemployment. This pattern stands in stark contrast to that observed in other countries where wage relativities tended to compress during the upswing phase of the trade cycle (Reder, 1955; Wachter, 1970; Okun, 1973; Vroman, 1977; Ohashi, 1987).[5]

The factors underlying this peculiar cyclical pattern are to be found in the particular notion of a socially-determined minimum wage which is embodied in the *two-tiered wage* system[6] which operated in Australia during the first sixty years of the Federal Tribunal (i.e. between 1907 and 1967). While the notion of an institutionally set minimum wage *per-se* is far from being unique to Australia, the particular form that it assumed under the two-tiered wage system was unusual. It was not simply a minimal level which when changed affected only a

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5. The first four authors concentrate on the US; Ohashi also quotes Japan and some European countries.

6. The term 'two-tiered wage system' in this paper should not be confused with the system which has recently been introduced in Australia.

limited sub-set of wages falling below a threshold. Rather, it was a component (the so called *basic wage*) present in *all* award wages regardless of their size.[7] Consequently, any rise in the average level of the real value of award rates which was not accompanied by a comparable rise in the value of the basic wage by necessity widened relativities *throughout* the award wage ladder, not just between the threshold value and the wages above it.

Indeed, the real value of the *basic wage* component remained largely constant throughout the period 1907-1967. The nominal value was changed sporadically in line with changes in the price level (downward as well as upward) in the early years. Subsequently, from 1921 to 1953, it was was formally indexed for changes in the price level every three months (again in both directions).[8] This "automatic quarterly indexation" was removed (by the Tribunal) in September 1953. In practice, however, the real value of the basic wage remained virtually constant in subsequent years until the demise of the two-tiered wage system in 1967. During the earlier period (1907-1953) increases in the nominal value of the basic wage over and above the increment required to just compensate for price inflation were awarded on only two occasions.[9] The real value of the basic wage component was thus divorced from both the cyclical fortunes of the economy and any long term trends in the average value of real wages.

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7. Under the two-tiered wage system the award wage consisted of two components: a *basic wage* and a *margin*. The basic wage was uniform in size across all award wages. The difference in award wages assigned to different jobs hinged on the magnitude of the margin component which was meant to vary according to the level of skill involved in a job.

8. See Forster (1980) for an historical account.

9. For a more detailed discussion of this matter see Gill (1987).

This overall rigidity of the real value of the basic wage component can be traced back to the original notion of the basic wage in 1907 (the Harvester Case) when Mr. Justice Higgins declared that the level of basic wage was to be determined by the needs of a (notional average) family of five (2 C.A.R., p.6). Whether this principle actually guided the choice of the monetary value of the basic wage in the Harvester Case remains contentious.[10] In any event, what matters here is that the notion of the 'basic wage' as meeting 'basic need' precluded movements in its value either upward or downward. The concept of 'needs' or of a 'living' wage,[11] outlasted its formal demise in September 1953 when the Tribunal declared its intent to link the value of the basic wage to the 'economy's capacity to pay'.

An inevitable result of this rigidity was a widening of award wage relativities during periods of general economic growth[12], a fact borne out by the empirical results of this study for the period 1953-1967.

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10. Indeed, Mr. Justice Higgins himself reported a list of items the cost of which he found impossible to estimate (2 C.A.R. p. 6). Having run into this obstacle he turned to the actual rates paid "by public bodies which do not aim at profit", 7 shillings per day, (2 C.A.R. p.6) as "fair and reasonable". See Hutson (1971, pp.44-49) on subsequent inquiries into the basic 'needs' of the average family.

11. Both concepts are used by the Tribunal when referring to the basic wage (e.g 'needs' in 77 C.A.R., P. 487 and 'living' 77 C.A.R. p.488).

12. The counterpart of this phenomenon is a compression of relativities during inflationary periods which are not accompanied by prosperous conditions, i.e. during stagflationary episodes. However, note that indexation of wages for price rise regardless of prevailing labour market conditions, including the practice of plateau indexation (which compresses wage relativities) is not unique to Australia. For instance, they are also present in major collective bargaining agreements in the United States (Hall & Lilien, 1979; LeRoy, 1981).

For the remainder of the period under study, 1967-1974 (the portion coinciding with the *total* wage system[13]) the data disclose a decline in the pace of widening of award relativities. This decline in pace reflects a rise in the incidence of relativity-compressing wage changes at all levels of award wage determination, both at the central level of National Wage Case decisions which were made without "consent", and at the much less centralized level represented by "consent" decisions in individual awards unrelated to National wage cases.[14]

The question then arises whether this change in the later part of the period under study was dictated by changes in the institutional *modus operandi per-se*, or whether the institutional change itself was associated with growing dissonance between the institutionally determined wage structure and the pressures on relativities which are generated in circumstances of sustained low unemployment, such as those prevailing in Australia during the 60s.

This paper argues that the two-tiered wage system was placed under severe strain during the 1960s. It progressively grew out of kilter with the reality of the balance of economic bargaining power in the labour market. It offered a secured minimum wage which was no longer relevant in an economy experiencing a decade of full employment, especially in view of the fact that it was set at the level of a bygone era.

This paper does not suggest that institutionally set wages are merely a veil for market forces. Neither does

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13. The term 'total-wage' conventionally describes the new system introduced in June 1967. This system, unlike the two-tiered system, treated the award wage as a single entity.

14. A more detailed discussion of the nature of consent decisions is provided in Section II below. The feature germane to the matter at hand is the fact that the Tribunal plays a much more passive role in this case.

it propose that market forces leave no latitude for institutional wage setting which is devoid of adverse employment effects. Indeed, a theoretical case can be made for the proposition that such latitude is often available in the labour market. But it is a *bounded* latitude (Gill, 1984). Thus, institutional arrangements which generate results grossly at odds with the drift of the economic tide must sooner or later collapse. Placed in this conceptual framework, the demise of the two-tiered system itself might well have been economically triggered, and the rise in the incidence of relativity-compressing wage changes might well attest to a pent-up pressure which had built up during the decade of the 60s.

The data base of this study contains complete time series of wage rates specified in *awards* made under the Federal jurisdiction.[15] The raw data was collected from the records of the Commonwealth Arbitration Reports (volumes 77 to 161). Ideally, the data set should have covered a longer time span, and should have represented both State and Federal jurisdictions. However, since no readily available data set existed, it was necessary to confine the study to a relatively short period, and to deal with data representing only the Federal jurisdiction. All major awards under the Federal jurisdiction are represented, selected on the basis of a 1974 ABS survey which identified those awards which laid down conditions for at least 10,000 workers each. Together, these awards covered over half of the workforce covered by Federal awards in May 1974.

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15. For the list of awards included in the sample see Appendices I.

2. HISTORICAL NOTES: 1953-1974

Institutional features

The period studied in detail in this paper (1953-74) represents a distinct era in the history of wage fixing under the Federal jurisdiction. In September 1953 the Federal Tribunal abolished the (automatic) quarterly adjustment of the basic wage for changes in the Consumer Price Index. It also did away with the concept of 'the living wage'[16] as a recognized determinant of the basic wage. Formally, the 'economy's capacity to pay'[17] was declared to be the prime criterion used in determining the magnitude of changes in the value of the basic wage.

The period under study ended with the formal reintroduction of indexation of wages for changes in the Consumer Price Index in 1975.[18] This study, therefore, covers the period September 1953 to December 1974, when no formal indexation arrangements were in place.

This period also saw the transition, in June 1967, from the two-tiered system which had operated since 1907 to the total-wage system. These two systems have rather distinct features. Whereas the first consisted of two

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16. Describing the notion that the real value of the basic wage component should meet the basic needs of a family of five.

17. The Federal Tribunal coined this term and defined a set of seven indicators which were to gauge 'the economy's capacity to pay' (77 C.A.R. pp 509-510). The 'economy's capacity to pay', however, was to remain a rather elusive issue despite the impression of exactitude which might be conveyed by the phrase "seven indicators".

18. Note, however, that this reintroduction of wage indexation did not usher in anything as regular as the system which had been in place during the period 1921-1953.

components, the *basic wage* (a component uniform in size in all wages) and *margins* (which were to vary according to the degree of skill), the second involved the concepts of *total-wage* and *minimum* wage. The similarity of the terms *minimum* and *basic* can be misleading. Whereas a change in the value of the basic wage affected every single award wage, changes in the minimum wage affected only a small subset of the workforce.

Hence, increases in the value of the basic wage compressed relativities throughout the award wage ladder, whereas increases in the value of the minimum wage affected only the position of the lowest wage earners *vis a vis* the remainder of the workforce. Since margins were changed much more sporadically and less frequently than the basic wage the combined effect on the structure of wage relativities was not obvious.

In contrast, the total wage system is inherently much more transparent in terms of the impact of wage changes on the (vertical) structure of relativities.

The period under study had also witnessed another, perhaps less well known, change in 'institutional behaviour patterns' - a rise in the incidence of '*consent*' decisions in the processes of 'award-making' and 'award-varying'.[19] The formal term 'consent decision' refers to the situation where the decision is reached by employers and workers' representatives with only limited input from the Tribunal.[20] The parties decide on the terms of the award in a largely autonomous manner. The Tribunal, in turn, agrees to ratify such decisions provided it deems them to be compatible with its

19. And in the incidence of *agreements* which are, by definition, 'consent decisions'.

20. See Dabscheck and Niland (1981), p.141.

guidelines.[21] Quite clearly, both parties must agree to use consent procedures rather than arbitration, and the Tribunal must be willing to encourage this avenue of wage determination.

Although there were isolated instances of decisions made by consent in the very early days of the two-tiered system, this avenue appears to had been little used until the very late 60s and early 70s. Statistical data compiled in the present study show that consent decisions were made in only a few awards until the late 60s, and only on a few occasions. In the later part of the period under study, consent decisions spread into all of the awards in the sample.[22] Furthermore, the number of consent decisions (as a proportion of total decisions made) rose sharply in all the awards throughout the period 1968-1974.

It is not possible here to explore fully the reason why consent decisions became more frequent. What is important is the impact that these decisions might have had on the structure of relativities.

Finally, a somewhat better known feature of the late 60s and early 70s is the increase in the frequency of award wage changes which took place altogether outside the National Wage Cases. These are hearings where conditions specified by awards, including wages, were changed individually. Whereas wage changes flowing on from National Wage Cases are characterized by a large degree

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21. See Dabscheck and Niland (1981), p.246.

22. Eleven perçent of all decisions instituted during the period 1950-1959 were consent decisions. After a lull, involving a slight decline in the period 1962-1967 (to eight percent of decisions), the incidence of consent decisions accelerated from 1968 onward, reaching a level of forty seven percent in the period 1968-1974.

of uniformity across awards, this other category exhibits a marked diversity in the rate of wage change across awards.

The economy

The years 1953-1974 are in many ways a subject for envy in the mid-80s, especially in terms of the employment record. Australia, like most other Western economies, had experienced almost three decades (excluding World War II) in which the average rate of unemployment was extremely low, and the departures from this rate were extremely small and short-lived (see Figure 1). This experience stands out as exceptional when compared with both the inter-war period (the 20s and the 30s) and the current period of stagflation, and also with the statistics available for the 19th century (see Layard, 1986, p.2).

One particular feature of the unemployment data for the period covered by the present study is the marked difference between the cyclical profiles of unemployment in the 50s and 60s. In the 50s, the unemployment rate, though very low by current and previous standards, fluctuated around a slightly ascending trend line. As Figure 1 shows, this pattern was entirely reversed during the period 1962-1972. The average rate of unemployment was even lower than in the 50s (1.5 per cent during 1963-1972 vs. 2.2 percent during 1953-1962) and variations of the rate were virtually nil in the period 1963-1971. This experience has no parallel in recorded economic history.

Economic growth, as represented by productivity measures, was also very significant. Productivity measured in terms of added value per unit of labour (so called *single-factor productivity*) grew at an annual rate of 4.8% from 1954/5 to 1959/60, at 4.9% during 1959/60-1964/5 and then at 3.6% during the period

1959/60-1969/70; the corresponding estimates for total factor productivity are: 2.4% 2.9% and 2.5%.[23]

The final element in this sketch of the economy is the course of movement of the general price level. The average annual rate of price inflation during the 60s was just below 3 percent. It then rose above 6 percent during the early 70s, and made a sudden jump in the December quarter of 1973 to 13 percent. The rate of increase in the nominal value of wages prescribed by the awards covered in the present study made a sudden leap from 15 percent in 1973 to almost 30 percent in 1974.

3. THE STRUCTURE OF INTRA-AWARD (VERTICAL) WAGE RELATIVITIES: 1953-1974

It is widely believed that the Australian system of wage fixing generates a rather rigid structure of relativities. Moreover, some would argue that workers' attitudes themselves exert a strong pressure in that direction.[24]

Australian wages might have been less flexible than some would have expected them to be; they have definitely not lived up to the Marshallian vision of the marketplace. However, vertical wage relativities in post World War II Australia were far from rigid.

Under the two-tiered regime, relativities were of course periodically compressed and widened because of the very structure of the system. But analysis of the data reveals that these changes were not simply short term

23. See Economic Advisory Council (EPAC) (1986), Table 5.

24. This is an observation made in Western countries in general, not just in Australia.

oscillations around a given fixed structure. Rather, the thrust of wage changes during the period under study was a progressive widening of vertical wage relativities. As Table 1 shows, decisions which awarded a larger percentage increase to higher wage earners dominated the whole period.

TABLE 1. AVERAGE QUARTERLY PERCENTAGE RATE OF CHANGE IN THE REAL VALUE OF AWARD WAGES PRESCRIBED FOR MALES (By skill* group)

Skill* group	1953-74	1953-67 (2-tiers)	1967-74 (total-w.)
1	0.29	0.26	0.50
2	0.26	0.16	0.53
3	0.23	0.12	0.49
4	0.19	0.08	0.49

* Groups of jobs arranged in descending order of pay levels within their awards; it is a skill-within-award group.

The widening of relativities was especially pronounced during the period 1953-1967, when the two-tiered system was still in operation. Award wages at the top of the ladder (skill group 1) grew at an average quarterly rate of 0.26 per cent (in real terms), whereas award wages at the bottom of the wage ladder (skill group 4) grew at only 0.08 per cent.[25] Table 1 shows that there was a positive correlation between the absolute wage level and the rate of change of the wage throughout the wage ladder, both in 1953-1974 and in 1953-1967.

On first glance, the widening of relativities during the period 1953-1974 is entirely dominated by the widening which occurred under the two-tiered system, since the data for the *total wage* period (1967-1974) disclose a virtually uniform rate of increase across the wage

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25. For a description of the selection of skill groups see Appendix II. The method of calculation of the average quarterly rate of change in the real value of the award wage is described in Appendix III.

ladder, implying constant relativities. However, on closer examination of the data, it transpires that the pattern disclosed by the 1967-1974 data is dominated by the exceptional features of the 1974 wage increase.

TABLE 2. AVERAGE QUARTERLY PERCENTAGE RATE OF CHANGE IN THE REAL VALUE OF AWARD WAGES PRESCRIBED FOR MALE WORKERS TWO-TIERED PERIOD vs. TOTAL-WAGE PERIOD

'Skill' group	1953-67 2-tiered	1967-73 t-wage excl.1974	1967-72 t-wage excl.Labour govt.
1	0.26	0.41	0.57
2	0.16	0.41	0.47
3	0.12	0.32	0.32
4	0.08	0.34	0.36

As Table 2 shows, when 1974 is excluded from the total-wage data set the uniformity over the various skill groups is replaced by disparity. This disparity, however, is much weaker than in the earlier period.

The pattern of wage change in 1974 was exceptional in two respects, both of which are generally well known. First, the average wage increase was exceptionally high. In part, this must have been a response to the jump in the inflation rate mentioned above; however, the nominal increase was in the neighbourhood of 28 percent, and so the 1974 award wage increase was exceptionally high even in real terms. Secondly, the rate of increase in the award rate of pay in 1974 was larger the lower the job position was in the wage hierarchy.

The contribution of the 1974 wage decisions, therefore, was a marked compression of wage relativities. Earlier years, however, were dominated by decisions which had the opposite impact, even though the incidence of 'relativity-compressing' wage changes had progressively increased since the late 60s (see Tables 3 and 4). The pattern of widening relativities is sustained even when the period 1967-1974 is divided into somewhat shorter sub-periods. As Table 2 shows, when the total-wage era is divided into two sub-periods (the pre-Labour years 1967-1972, and the remainder of the period) the data reveal that relativities continued to widen under the total wage system after its introduction in 1967.

These data establish that departures from a given structure of relativities were definitely not short-term phenomena. Relativities widened in a striking manner during the period 1953-1967.[26] An average quarterly rate of increase of 0.26 percent represents a total rate of growth of 14 percent between 1953 and 1967 - this was the increase in the real value of wages of the top jobs in the award wage ladder. In contrast, during the same period the value of real wages at the bottom of the wage ladder grew by only 4 percent. Taking the 1953-1974 period as a whole, the real value of wages at the top grew by 24 percent, whereas those at the bottom grew by only 16 percent.

Viewed against this background the persistence of the view that in the long run the structure of award wage relativities in Australia is virtually constant is puzzling.

As mentioned above, relativities continued to widen under the total wage system between 1967 and 1973, though at a much weaker pace in comparison to the period 1953-1967. This weakening of the pace, as Table 3 below shows, reflects the progressive rise in the the incidence of relativity-compressing (award) wage changes between 1967 and 1974.

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26. Specifically, this period extends from October 1953 to June 1967, containing a total of 54 quarters.

Unlike the two-tiered system, the total wage system could, technically speaking, have awarded uniform percentage increases in wages across the wage ladder in every single decision introducing a change in the award wage, but this was not often the case.

Award wages may be changed through four main types of decisions. Placed along a spectrum representing degrees of centralization of the decision-making process, these will appear in the following (descending) order: decisions implementing National Wage Cases (N.W.C.s) made without consent, implementation of N.W.C.s with consent, decisions changing individual award wage rates which are unrelated to N.W.C.s, and finally the same as the latter category except that the decision is made by consent. The "Non N.W.C.s" category of Table 3 thus represent the lower end of the spectrum, while the previous column represents the the more highly centralized levels.

TABLE 3. IMPACT ON RELATIVITIES OF NATIONAL WAGE CASES AND OTHER AWARD CHANGES
(Total-wage era)

	Decisions implementing National Wage Cases	Decisions implementing Non N.W.C.s
	Wage changes tending to compress relativities as a percentage of all decisions in category	Wage changes tending to compress relativities as a percentage of all decisions in category
1967	36	43
1968	69	9
1969	90	38
1970**		
1971	86	36
1972	86	56
1973	93	25
1974	100	82

* Total number of decisions made regarding changes of the awards in the sample. ** No wage changes were recorded for the awards in the sample for 1970.

Table 3 shows that the impact of the majority of National Wage Case decisions, representing the more centralized end of the spectrum, was towards compressing relativities. In contrast, wage changes where individual awards 'go it alone' (represented by the "Non N.W.C.s" section in Tables 3 and 4) reveal a weaker tendency towards compression of relativities.

TABLE 4. INCIDENCE OF "CONSENT DECISIONS" IN DECISIONS TENDING TO (a) COMPRESS AND (b) WIDEN RELATIVITIES (Total-Wage era)

	Decisions implementing National Wage Cases		Decisions implementing Non N.W.C.s	
	Consent decisions as a percentage of decisions in which relativities were:		Consent decisions as a percentage of decisions which relativities were:	
Year	compressed	widened	compressed	widened
1967	10.0	12.5	0.0	0.0
1968	12.5	0.0	33.3	60.0
1969	0.0	100.0	33.3	60.0
1970*				
1971	50.0	100.0	40.0	0.0
1972	66.0	0.0	40.0	25.0
1973	78.6	0.0	50.0	91.7
1974	76.9	0.0	92.6	100.0

* No wage changes were recorded for the awards in the sample for 1970.

A partitioning of the data into two sub-sets, one containing all consent decisions and the other containing the remainder, sheds some light on the question of whether the compression of relativities enjoyed a measure of agreement among employees' and employers' representatives. Table 4 indicates that an increasing proportion of the decisions which compressed relativities involved consent decisions. The data also shows that this pattern is shared by both the National Wage Case decisions and the decisions reached by the less centralized avenue. The data therefore tend to suggest that a pull towards compression of relativities existed outside the Tribunal and not just at the peak organization level.[27]

4. THE UNDERLYING CURRENTS

In summary, a number of features differentiate the total wage years from the two tiered years in the period under study. First, the noted slackening in the pace of widening of relativities, which appears as a totally arrested process when the period 1967-1974 as whole is considered. Second, consent decisions become progressively more prevalent, having been scarcely present in the 50s and the early 60s. Finally, non National Wage Case wage changes are increasingly important, in terms of both the frequency and the relative magnitude of the wage changes in comparison with National Wage Case decisions.[28]

At first glance, therefore, the rise in the incidence of decisions which compressed relativities which is evident in the period 1967-1974 could be associated with either the move towards the less-centralized end of the spectrum (as manifested in the rise of both consent decisions in

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27. Moreover, in the earlier years of the total wage system the incidence of relativity-compressing wage changes was higher amongst consent decisions outside National Wage Cases. Only in the years 1971 through 1973 was this incidence higher in the group of National Wage Case changes implemented by consent (see Table 4).

28. The comment on the magnitude of wage change involved is based on processing of data not reported here.

general and the importance of non National Wage Case wage changes in particular) or with the shift to a total wage system *per-se*.

However, the tendency towards compression of relativities cannot simply be linked to either of the above for, as mentioned earlier, the incidence of relativity compressing decisions is not exclusively associated with either. Neither is it exclusively associated with consent or non-consent decisions. Rather, both compression and widening of relativities occurred in decisions at both the very centralized and less decentralized levels. Similarly, both compression and widening of relativities occurred among consent and non-consent decisions.

Should the change, therefore, be attributed to the shift from the two-tiered to the total-wage system as such? This, in turn, raises the question of whether the concept of 'total wage' is inherently biased in favour of the earners of lower wages; or in more general terms, whether the total wage system more readily allows compression of relativities throughout the wage ladder. If the tribunal and workers themselves are intent on the maintenance of a rigid structure of relativities, as it is often argued, then departures from constant relativities are much less likely under the 'total wage' system.[29]

In any event, the shift from the two-tiered to the total-wage system was only one of a number of elements which in principle could have affected wage determination. One of these is the change of government in December 1972. Another important factor is the economic environment, particularly the state of the macroeconomy.

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29. As mentioned above, the latitude for systematic discrimination in favour of lower (or higher) wages across the wage scale was readily provided by the two-tiered system, where the genuine impact on relativities over time is much harder to discern. In contrast, the total wage system is much more transparent in this respect.

The change of government does not offer a sufficient explanation. Although the 1974 wage changes stand out as representing a striking egalitarian turn of events, suggesting a 'Labour-effect'[30], the data presented in Tables 3 and 4 do not warrant the establishment of a strict pre-/post-Labour cleavage. Against the background of these data, the change of parties in government appears as a catalyst for events already well under way rather than being a force which imposed a sharp break with the past.

The present study argues that the economic environment played a major role in the progressive arrest of the widening of award (vertical) wage relativities.

As the discussion presented in Section II above pointed out, the 1960s experienced sustained growth of productivity and a very low level of national unemployment. Total factor productivity grew at an annual rate of well above 2 per cent throughout the 60s, and unemployment was not only exceptionally low, but also sustainably so, remaining below 2 per cent throughout the decade following 1962. Against this background, the rise of only 4 percent in the real value of wages at the bottom of the award-wage ladder (over a period of fourteen years taken as a whole) is extremely meagre, especially so in view of the fact that the September 1953 abolition of automatic indexation of the basic-wage introduced the principle of linkage of the real value of the basic wage to the changes in the economy's capacity to pay.[31]

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30. See Table 3.

31. The real value of the basic wage grew by less than 2 percent in real terms over these fourteen years (note this is not a per annum figure), a fact already documented by Keith Hancock (Hancock, 1969, p.67). What is less well known is that there were a significant number of jobs whose award wages depended on the value of

As mentioned above, this pattern of compression in the wage structure during a prolonged period of low unemployment is extremely uncommon among Western economies. Overseas immigration might have facilitated the widening of relativities engendered by the Tribunal, but it could not have sustained it of its own accord, given the pressures generated by very tight labour markets.

The tightness experienced by the Australian labour market involves not only the strikingly low average rate of unemployment during the 60s, but more particularly the marked change between the cyclical profile of unemployment in the 60s and the 50s. Towards the late 60s, therefore, the perception must have crystalized that 'good times are here to stay'.[32] The perception that times have changed for the better must have fed not only the aspirations of unions regarding average levels of award wages, but also into pressure by the occupants of jobs at the bottom of the wage ladder for recognition of the change in their relative market power.

One form in which such pressure is given effect is through high rates of labour turnover. Economists have suggested that labour mobility is enhanced in periods when the general level of unemployment is low (e.g. Arrow, 1959), but the extent of labour mobility is not

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the basic wage to the extent that their real value grew by only 4 per cent during the period 1953 to 1967.

32. It is increasingly recognized by economists that in many cases changes in the economic environment are not followed by modification of behaviour (prices among them) until agents are confident that those changes do not simply signify random aberrations in an otherwise stationary environment. Schultze (1985, p.6), for instance, suggests that "...the interest of both firms and workers dictates that those [wage] changes occur only after enough information has been accumulated to warrant a high probability that the change [in the economic environment] is permanent.".

uniform across the workforce. Highly paid workers with long job tenures are typically in command of significant firm-specific skills and, therefore, they typically are recipients of large site/employer economic rents (Gill, 1984, pp.531-533; Schultze, 1985. p.2). These rents which by definition are forgone upon mobility, barely accrue to workers occupying jobs at the lower rungs of the pay ladder. Lower paid workers within a given establishment are, therefore, more likely to take advantage of an upsurge in labour demand than their more senior brethren.

Okun (1973) advanced a similar, though not identical, theoretical argument which yields the proposition that rates of pay at the lower rungs of the pay ladder will enjoy larger percentage increases when unemployment becomes sustainably low. The thesis involves a dual labour market model suggesting that with an upsurge in labour demand employers in the advanced sector of the economy begin to recruit workers from the relatively backward sector, whereupon the backward sector, in an attempt to retain its workers, is forced to raise their rates of pay. Consequently, the rate of pay of unskilled labourers across the economy is raised relative to the remainder of the workforce. Okun's argument rests on employers' initiative, whereas the argument above rests on employees' initiative, but the two arguments naturally complement each other.[33]

Both arguments predict relatively high labour turnover rates among the lower paid, and related compression of pay relativities. The progressive widening of vertical award wage relativities in Australia, I therefore argue,

33. Reder (1955) pioneered the investigation into the cyclical pattern of wage relativities at both empirical and theoretical levels. Okun's analysis is a variant on Reder's (Okun, 1973, p.235). More recently Ohashai (1987), affirming the empirical generalization that relativities compress in tight labour markets, advanced a more formal model building on Reder (Ohashi, p. 279).

fell ultimately out of kilter with the realities of the labour market.

Over-award payments could, in principle, fill in the gap between the minimum rates prescribed by awards and actual rates at which workers are paid, thus deflecting the course charted by award wages. But if over-award payments had actually generated a strikingly different structure of relativities and if, in particular, market rates of pay at the bottom of the wage ladder were markedly above the award rates, then that would only have served to emphasize the dissonance between the award wage structure and the currents generated by market forces.[34]

In effect, the two-tiered system continued to treat the basic wage as an insurance device. Formally, the basic wage was linked to the economy's capacity to pay, yet in reality it just kept pace with the value of the Consumer Price Index. It thus continued its historical function, albeit in a sporadic fashion and without the certainty provided by a formal promise to index its value to changes in the cost of living.

Economic theory, it should be pointed out, provides a rationale for such an institutional arrangement. The theoretical analysis of risk-bearing suggests that (risk-averse) agents will be willing to pay a premium, that is they will permanently settle for a wage lower than the expected (i.e. the uninsured average over time), *provided* that the associated premium (explicit or implicit) is

34. We do not have data which allow a detailed examination of the actual behaviour of over-award payments across various level of award rates of pay. However, it is worth noting that available qualitative evidence suggests that the average rate of over-award payments (evaluated as a percentage of the award rate of pay) did not accelerate until the early 70s (Gill, 1985).

within certain limits.[35] Given the economic environment of the 60s and the virtual constancy of the basic wage, the implicit premium was steadily growing.

This analysis is not intended to imply that any of the participants are consciously aware of an insurance deal, let alone in possession of an estimate of the implicit premium. Nevertheless, there is no doubt that some elements of this insurance notion were embodied in the notion of 'the living wage', and that in some intuitive sense workers, even those workers who had never heard of the 'living wage', sensed that the system was securing a certain minimum level of real wages. This security, however, became increasingly irrelevant given the state of employment of the 60s and the historical level at which the basic wage was maintained.

The irony of this situation is that most of the rise in the incidence of decisions bringing about compression of intra-award relativities came belatedly. By the time this pattern had become pronounced the writing was already on the wall; unemployment rates for both the young and labourers experienced a sharp jump in 1972, with no relief in sight. Indeed, 1974 emerges as a tragic irony in the historical account presented in this paper. The progressive widening of relativities, and the very low rate of change in all award wages during the booming 60s, understandably generated pent-up pressure. The inflationary jump of the October quarter of 1973 added fuel. But the wage rises of 1974 came too late, the compression was very ostentatious, and the average rate of wage increase too large to be digested either politically or economically.

35. In addition, 'implicit contract' models suggest that employers, in turn, have an incentive to supply insurance service (Azariadis, 1975; Baily, 1974).

5. CONCLUDING COMMENTS

The foregoing argument has challenged certain myths about the nature and development of the wage structure in Australia. It shows that the commitment of the tribunal system to the maintenance of a rigid structure of relativities has been overstated.

The rhetoric which accompanied wage changes under the 1907-1967 two-tiered wage system has played a significant role in sustaining the popular view. This rhetoric, which involved an expressed concern for the maintenance of relativities, was an inevitable outgrowth of the inherent nature of the basic-wage-cum-margins system. This system involved a commitment to the preservation of the real value of the basic wage and consequently it periodically brought about *unintended* changes in the structure of relativities; in the post World-War II period this involved compressing relativities whenever the basic wage component was adjusted for price rises.[36] Changes of margins, presumably designed to restore relativities, actually widened them.

Margins were changed much more sporadically, but, it transpires, they represented virtually all the increase in the real value of award wages. The basic wage remained virtually constant in real terms during the period 1953-1967, despite the announced intent of the policy shift in September 1953 to link the basic wage to 'the economy's capacity to pay'.

The empirical data reveal that two consequences flowed from this asymmetry between basic wage and margins. First, there was a widening of relativities; secondly,

36. The notion of the basic wage as component rigid in real terms, it is argued, outlasted the formal indexation commitment (which was withdrawn in September 1953).

the increase in the award wages of the group of lowest paid job classifications amounted to only four per cent in real terms over the period 1953-1967, only marginally above the increase of just under two per cent in the real value of the basic wage.

In effect, the two-tiered system represented an insurance arrangement, but its implicit terms progressively fell into dissonance with the labour market reality of the 60s. The persistent widening of relativities during the period 1953-67 was not a development characteristic of an upswing of the trade cycle.

Thus, this paper argues that the slackening in the pace of widening of relativities which occurred during the later part of the period under study is, at least in part, linked to the exceptional fortunes of the macroeconomy during the 60s.

There are lessons to be learned from this experience. Attempts to pursue distributional goals simply by setting prices by decree may not advance the underlying cause very far. Understandably, societies which find outcomes generated by unfettered market forces incompatible with some basic ethical tenets wish to interfere with the market. The issue taken here is not with market intervention as such, but with the particular form it assumed.

The effects of major structural economic adjustment and the shocks of contractionary macro policy, like poverty, do not hit at random. Political pressure is therefore bound to be exerted, either by those primarily bearing the brunt of adjustment or by those finding certain distributional patterns offensive to their sense of justice. But if society seeks significant distributional changes, attention must concentrate on human capital formation, with the aim of moving people out of the overcrowded low-paid jobs and equipping them with skills which genuinely open up new job opportunities.

This may entail large, indeed very large, increases in certain budgetary outlays. The educational system would need radical change, aiming both at entrusting the training of tradespersons to vocational high schools and at achieving a steep rise in tertiary enrollment. At the present Australia (together with the UK and New Zealand, admittedly) has secondary and tertiary enrollment rates falling far behind most other OECD countries.

A society which is seriously concerned about the distributional patterns generated by unfettered market forces must consider major changes to supply and demand conditions themselves. Dictation of wage levels alone, either by arbitration or by conciliation, can only produce limited distributional results.

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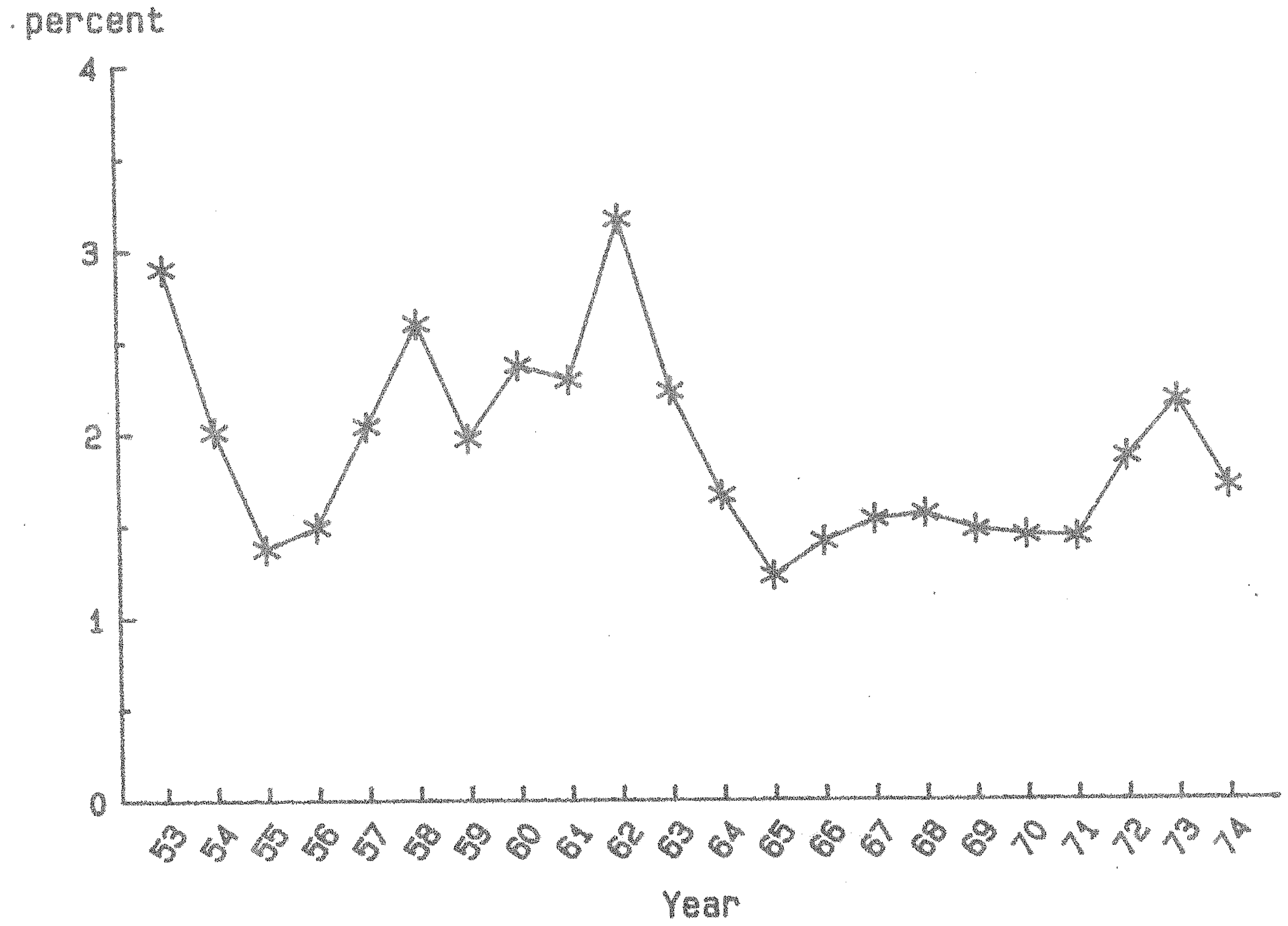
Figure 1. Unemployment Rates
1953-1974



Source: Butlin (1977) , Table iv.5

APPENDIX I. SAMPLE OF AWARDS

The calculations reported in Tables 1, 2 and 3 are based on the following 13 awards:

Clothing Trade; Footwear; Furnishing Trades; Graphic Arts; Hotel, Retail and Liquor Industry; Metal Trades; Rubber, Plastic etc; Railway Metal Trades; Railway Miscellaneous Grades; Railway Salaried Officers; Railway Traffic, Permanent Way & Signalling Wages Staff; Textile Industry; Transport Workers.

The sample was restricted to these awards since, amongst the 'major awards' identified by the May 1974 ABS survey, they were the only ones in continuous operation throughout the period 1953-1974.[1]

APPENDIX II. SAMPLE OF JOBS

The sample of jobs for which the complete time series of award wage rate was constructed is designed to represent the entire wage ladder within each award. Four clusters of job-classifications were selected from each award, representing the group of highest paid jobs, second highest paid etc. Investigation of the awards in the sample revealed that the rank order of job classification in terms of the magnitude of the award rate of pay remained virtually unaltered during the period 1953-1974; the four 'skill groups' should therefore unambiguously represent vertical (intra-award) wage relativities.

APPENDIX III. CALCULATION OF THE QUARTERLY RATE OF CHANGE IN THE REAL VALUE OF THE AWARD RATE.

The basic data set consists of the time series of award rates of pay by *operation date*. The latter is a formal term which specifies the date on which any given change in the level of pay takes effect. This time series readily yields the time series of *nominal* award rates of pay by quarters. To derive the series of *real* award rates of pay (for each job in the sample) by quarter, the nominal series is simply deflated by the *Consumer Price Index* series (which is available on a quarterly basis). The quarterly and average quarterly rates of change for any given time interval are calculated from the real award rates of pay series.

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1. It should be pointed out, however, that a comparisons of the structure of wage relativities for sub-sets of the period under study reveals that the remainder of the 21 awards share the the overall pattern of relativities evinced by the 13, above listed, awards.

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