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THE HANCOCK REPORT ON AUSTRALIAN INDUSTRIAL RELATIONS

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A Review Article to be Published in The Economic Record

Discussion Paper No. 134

December 1985

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The Hancock Report on Australian Industrial Relations

This report provides a comprehensive and very clear description of the unique, labyrinthine Australian industrial relations system. The report is notably well-written. Surely every student of the Australian economy should be familiar with it. It is also an excellent source for understanding the historical development of the system, and, possibly most important of all, for understanding the sorts of arguments that the practitioners regard as justifying it, and what they regard as problems.

It must also be said in favor of the report that it gives very balanced summaries of points of view that the committee disagrees with, so that there is enough material in this document for a reader to arrive at rather different conclusions from those of the committee. So much for the good news.

There does seem to be a paradox. The Australian Conciliation and Arbitration Commission has always regarded the industrial relations role - ie the settlement of disputes and, more generally, the preservation of industrial peace - as its primary function. For a long time it stressed that
it was not really responsible for the state of the economy, although it has, of course, taken economic considerations - so-called "capacity to pay" - into account, at least in National Wage cases. It also did not seem entirely convinced that its wage determination decisions really affected employment. Similarly, this Committee seems to be skeptical or "unconvinced" about any direct relation between real wages, as maintained by indexation, and employment. Of course one must be careful about generalising here, because both the Commission and the Committee accept a connection between inflation and wages decisions (hence implying some automatic monetary ratification), and they see a connection between inflation and employment through government macroeconomic policy.

Now the paradox is this. On the aspect where the tendency is for the committee to underplay the importance of the system - is its effects on unemployment - Australia's record relative to other countries is, on the average, not clearly inferior. Some countries have done better, but quite a few have done worse at various times. Possibly we are an average "European" country. In terms of employment creation since 1975 we, like European countries, have clearly done worse than the United States, and
all of us have worse unemployment rates than Japan.

On the other hand, there is the aspect which the Committee and all the industrial relations practitioners regard as having primacy. This is the prevention and settlement of industrial disputes, and, in general, the maintenance of industrial harmony. Surely they would wish the system to be judged by that. Yet, on any reasonable judgment, it must be regarded as having failed abysmally on the industrial relations front.

There is a table on page 133 of the report, coming from a paper by Creigh (1964). It refers to twenty OECD countries and to annual averages for the period 1962 to 1981. On the average, in any one year, 23 per cent of Australian employees were involved in a stoppage of some kind. I stress immediately that this could be a very short stoppage. In this respect we were surpassed by one other country, Italy, where 52 per cent were involved in a stoppage. In Britain, the country from which many of us think we got so many of our unfortunate confrontationist attitudes, only 7 per cent were involved in stoppages, and in the United States only 3 per cent. A similar sort of contrast comes out when one looks at the number of stoppages per 1,000 employees. Here Australia had 0.45, Britain 0.11, and the United States only 0.06. Even Italy had only 0.26, and the only two countries that (on the basis of these figures) surpassed us were Finland
(0.51) and Iceland (0.83).

Of course the international comparative figures that are usually quoted are of working days lost (per 1000 employees). Here Italy and Iceland lead the way, then Canada, followed by Australia. Details can be found in the table. Australia and the United States are quite close (497 working days lost for Australia and 474 for the United States, with the mother country at 386). In any case, we are clearly with the "bad" group. Just to show what is possible, the figure for the Netherlands is 25, for Germany 47, and for Sweden 91.

There are lots of problems about these comparative figures. Furthermore, "the system" is only one element in determining the net industrial relations outcome. The structure of trade unions (inherited from Britain), industrial relations attitudes, also rooted in British and Australian history, and social cohesion factors (surely favorable for Australia) must also have played a part. But one conclusion emerges: "by international standards, Australia experiences a high incidence of short-duration strikes" (Report, pp 134). But does another conclusion also emerge? I quote the Report (p 136) again: "Overall, we do not think that experience justifies any strong claim about Australia's success or failure in dealing with industrial disputation". Surely, that sentence is a
little odd.

The figures bear out the casual impression that any newspaper reader can get and every visitor has, that this is an industrial dispute-ridden country. We don't have many lengthy disputes, like Britain and the United States, but then northern European countries with which we have many similarities in other respects, don't either. And in the United States these lengthy disputes tend to be predictable (hence not as disruptive) and confined to very few industries. The Committee is aware of the problem and makes proposals for improving disputes settlement procedures. But (to use the language which one absorbs after reading these 694 pages) one might be drawn to the conclusion that, on balance, there is some tendency to complacency. Yet, to repeat, these international comparative figures don't automatically condemn "the system." With a similar system, New Zealand has a far better record - namely 205 working days lost, which makes it the 10th worst in the group of 20 countries. Perhaps there is something we have to learn from New Zealand, whatever it is. Incidentally, the "bad ten" out of the twenty OECD countries include six English speaking countries.

The position of the Committee is fundamentally conservative. Let
me paraphrase it. We have a going system, long-established and not obviously unsuccessful. There is no clear evidence that an alternative system would be better, certainly not an alternative system which is feasible in Australia given our trade union structure and attitudes, and, above all, the strength of the unions. Running right through the Report there is a realistic awareness of industrial relations considerations, meaning (in my language) union muscle. Of course the committee makes many suggestions for changes, many of which seem to be needed, though others would strengthen the centralising tendencies of the system, as well as the extent to which it concerns itself with what goes on within enterprises.

The key argument in the conservative position does seem overwhelming. Public opinion strongly supports the system. The Committee sponsored an opinion poll which showed that 56 per cent favored the Commission continuing to play the major role in determining wages, salaries and working conditions in Australia. Furthermore, earlier polls showed even bigger support. In this latest poll 66 per cent thought that the Commission has performed fairly or very well in fixing wages and conditions. Several times the Committee comes back to this public endorsement. It also refers to how the public sees the Commission -
essentially as the umpire in a sporting contest. This strong public support must affect one's views as to what changes are possible, though attempts to change public opinion (if one concludes that radical changes are needed) are surely not ruled out. But, like removing tariffs and import quotes completely, no doubt "the time is not ripe" for such a "leap into the dark" (to use a phrase from the Report). But now I come to a contradiction.

The Committee is somewhat selective about its attitude to public opinion. Let me quote some other figures from the poll it sponsored. With regard to ending industrial disputes, 37 per cent think that the Commission does a fairly poor or very poor job, 30 per cent think it does a fairly good job and 5 per cent a very good job (the last perhaps immigrants from Iceland and Italy?). Public opinion is hardly giving a ringing endorsement, and yet one never gets the impression that the Committee feels that there is a serious industrial relations problem.

But let me go on with public opinion. Only 26 per cent of males and 17 per cent of females regard strikes as an acceptable trade union activity. (For some reason a combined figure for "persons" is not given). And then there was a crucial question, concerning which penalties are
perceived as acceptable. Only 17 per cent wanted to jail trade union leaders, but 47 per cent favored fining a union, 43 per cent favored stopping the union representing its members and 34 per cent regarded abolishing the union as acceptable. The other penalty listed was removing part of an award. (21 per cent). Only 2 per cent wanted none of these penalties used in dealing with a disobedient union. The Australian people clearly believe that the umpire should have some powers of enforcement.

This leads to what seems to me, and must seem to any detached reader, the most amazing aspect of the report. One works through this document and begins to believe that there is a province for law and order here, that all these legal arrangements, not to speak of highly paid legal people, are probably doing some good, judging and arbitrating from On High on what is to go on within our firms and public bodies. Perhaps these economists are overplaying their concern with the market, and in any case the system may replicate, in a more peaceful way, what the market would have produced. Australia may not be a haven of industrial peace, but because of our strong and somewhat difficult trade unions (and perhaps less than competent management?), and our craft-based trade union structure, things would be even more fierce and disruptive without the system.
And so one comes to page 631, which deals with "sanctions". I recommend the few pages that follow to all readers of this review, since I do not wish to misrepresent the committee. It has to be explained for the benefit of any foreign readers that the Commission makes "awards" for various categories of labour. These awards are normally minimum wage rates, and are binding on employers, and enforced with the full authority of the state. Of course private employers are free to make over-award payments, so that there is some scope for the market in an upward direction. But if unions don't like the outcome they can still strike. The rules of the system say they should not do so, but the last time a union was fined was in 1969 - and that led to a big strike (when the union refused to pay, and the state secretary, the famous Clarrie O'Shea, was imprisoned). A union can be deregistered, which means that it does not get the benefit of awards, but this is quite rare. In general, sanctions on unions have not been enforced, at least since 1969, because it was believed they were not enforceable.

It is thus rather an odd province of law and order where judgments are only enforced on one of the parties. The committee recommends facing reality and abolishing all provision for penalties, other than deregistration. On page 632-4 an argument concerning civi
liberties is also given, and it appears to be suggested that the proposal to
abolish penalties on unions (even though employers would still have to
obey awards) has some inherent justification, and does not just
represent an acceptance of "industrial realities".

Economic issues are discussed in Chapter 4, entitled "Industrial
Regulation and the Economy". This chapter surveys the issues well and is
informative. There is a general discussion of the macro-issues. Perhaps
the main conclusion is that "the evidence as to how the ...Commission has
affected Australia's experience...is less than decisive, but certainly does
not support confident assertions about ill-effects due to the
Commission's presence and its policies." (p 169). On the micro-issues
connected with wage relativities (has the system affected them and how
do relativities affect employment?) the Committee concludes that "the
available evidence supports few firm conclusions". This Committee will
never be accused of subscribing to elasticity optimism.

At this point one should note the excellent Appendix II on "Wage
Relativities and the Allocation of Labour", which admirably reviews the
empirical literature and the main issues in this field. The main
conclusions are that the evidence suggests that arbitration has not
compressed relativities, that wage relativities in Australia are not
entirely rigid, that "changing pay relativities played a minor role in determining the labour market experiences of demographic groups," and that, more generally, "the allocation of labour is insensitive to changes in relativities between the wage levels of major categories of labour."

There is a discussion of "international competitiveness" and the Committee wrestles with the problem that this depends both on the nominal exchange rate and on nominal wages. With a floating exchange rate it is hardly possible for wages to adapt to every change in the exchange rate to attain a desired level of the real exchange rate. This is a complex subject and this reviewer will try and deal with it on some other occasion.

An interesting passage (pp 187-92) deals with "productivity bargaining." The committee does not favor it because "it raises acutely the problem of distributing the benefits of productivity growth." The Australian tradition has been to distribute these benefits nationally, and "if productivity gains were to be distributed on a sectional basis, the danger of 'double-counting' would arise." If the Commission were to make allowances for the fruits of such bargaining, there would be inequities.

This discussion really highlights a central problem with our
whole system — although I do not claim to have a solution. Productivity bargaining within firms seems an obvious way of making the economy more productive, and the system — the whole logic of the system — stands in the way. Perhaps it must be so. There is also a discussion of over-award payments. This also highlights the internal contradictions and complications in our current, apparently inevitable system.

The most important conclusion in this chapter is that the system affords a mechanism for a centralised wage policy — i.e., an incomes policy which can restrain wages, hence reduce inflation, and so permit a less restrictive macroeconomic policy stance. That, as the committee sees it, is the principal merit of the system from an economic policy viewpoint.

In this chapter the Committee discusses the real wage issue, and appears to suggest that there is no necessary or significant relationship between real wages and employment. The nexus between employment and the general level of nominal wages, determined by (or heavily influenced by) the Commission is seen as running from nominal wages to inflation to macroeconomic policy and then to employment. The general level of real wages plays no role in this sequence. This approach is quite popular. Implicit is the idea that a rise in the general level of nominal wages brought about as a result of a National Wage case is likely to raise prices
to the same extent (ie the mark-up is constant) relative to what would have happened otherwise.

This raises the question of what was the point of the increase in nominal wages. We are not concerned here with unions in competition with each other raising sectional wages, as in a collective bargaining system. If the Committee really believed in the implicit model that I have just outlined, it ought to point out the basic ridiculousness of the whole procedure where the general level of nominal wages is raised regularly after lengthy discussions which imply that the Commission is granting a rise in the real wage level (relative to what it would have been in the absence of a National Wage case). If these across-the-board nominal wage increases did not raise real wages, why do the unions work so hard to get the increases?

In fact, in the short-run the real wage level is increased and profits fall as a result. It then depends on macroeconomic policy and on macroeconomic conditions generally how quickly the real wage gain is eroded and the profit level is restored. The quicker the real wage gain is eroded (through expansion of nominal demand which raises prices), the less likely is it that there will be an adverse effect on employment. But if the real wage does stay up, profits will be lower than they would have
been otherwise, and (eventually, though not necessarily immediately) employment will be lower. Ergo: other things equal, including underlying productivity, the higher are real wages, the lower will be the level of employment. Other things are rarely equal long enough to test this simple process, but when the nominal wage increase for the whole Australian labour-force is large enough (not necessarily brought about directly by the Commission), we do get our laboratory experiments - i.e. 1974-75 and 1981-82.

At present the legislation requires the Full Bench in National Wage cases to take the public interest and economic considerations into account in its deliberations. The sensible recommendation is made that this requirement should apply to all the tribunals, i.e. also those concerned in determining wage relativities. But another recommendation is more questionable. "We do not favor a more detailed specification of economic criteria to be taken into account." (p 206). The trouble about this recommendation is that it would leave it to the persuasive abilities of the various advocates (often using briefs written by less well-paid economists) to get the legal or other persons on the Full Bench and the various tribunals to accept particular and obvious economic objectives.

An obvious consideration that should be taken into account in
the making of awards is the unemployment situation prevailing in the particular category of the labor force affected by an award. Thus the level of unemployment of unskilled young people would affect particular awards, for example in the "hospitality" industries. Furthermore, in the case of awards affecting the public sector - where awards are not only minima but also maxima - account should be taken of any excess demand situations (as in the case of nurses at present). Information about unemployment or excess demand at the micro-level would have to be sought by the Tribunals. This requirement could be written into legislation, but one may guess that at present at least "industrial relations considerations" would stand in the way. It might also be difficult to persuade members of the commission that there is some connection between relative wage levels and unemployment at the micro-level.

One might conclude with another issue which is not discussed. An awareness of trade union power underlies the whole report and many of its recommendations. The members of the committee live in the real world and not in an airily-fairy theoretical world like so many academic economists who wish to free markets while ignoring trade union power, or like those big businessmen who seem to be advocating the same sort of
thing, presumably not because they don’t live in the real world but because
they are interested parties. Australia has powerful unions, not atomistic
labor market actors (as, to some extent, has the United States). The
committee, wise and experienced as its members are, works within that
constraint, one that public opinion does not seem fully to accept.

But the question arises whether this power is given. One could
argue, and it has been argued, that our system actually strengthens trade
union power. Furthermore, the particular reforms the committee proposes
and that are likely to be implemented, will strengthen it even more.
Making it more difficult for new unions to be established appears to have
some benefits (to reduce demarcation disputes) but would also increase
protection for existing unions. Extending the scope for the Commission’s
activities to involve various matters so far regarded as being within the
scope of management (subject to constraints imposed by legislation) is
another proposal that, presumably, would strengthen union power.

Supporters of the system might argue that, when the unions are
reasonable, it is best to have strong unions, and for the government to
work with them in a corporatist arrangement, such as we have at present.
Furthermore, weak unions can lead to more shop-floor power, which has
been a problem in Britain. (At least when militant shop stewards do not
really represent the views of their membership, as was the case in British Leyland. Others, particularly those influenced by the United States alternative, would regard trade union power as the central problem, and regard any system that strengthens this power as having, at the minimum, an adverse by-product.

No doubt this matter will be resolved by public opinion. At the time of writing (late 1985) the union movement is, in effect, on probation. It appears at this moment that we may be entering a new era of harmony and of moderation, where the ACTU is aware of the limits to what the country can afford and is concerned to keep its own political party in power, and where (more difficult) it is able to keep its constituents in check. With this happy state goes currently a low level of industrial disputes in the private (though not the public) sector. Then the system, like the government, has a fine future and we should be most grateful for the tidying up that the Committee is sponsoring. Even then, there must be some concern about the microeconomic effects of the system, concerns that the Committee hardly shares. Furthermore, some basic questions arise (which the Committee does discuss, if briefly) as to what role remains for the Commission or its successor body when the main decisions are made in a social contract between the government and the ACTU.
Seven years ago, in Corden (1979), I wrote on the subject of wages and unemployment, and concluded as follows. "Progress in this field may require a genuine partnership between an imaginative government and cooperative trade unions in which the safely-employed citizens of Australia - especially in their capacity as organized employees - are willing to make sacrifices for the minority who are unemployed or whose employment is less secure." We are fortunate to have the government, and, thanks to the recession, the lessons of the wages explosion of 1981-82, the lessons of 1974, and some impressive political skills, we seem to have the cooperative unions for the moment, or at least they have been bought at (possibly) only moderate short-term cost.

But just in case we are not going to enter a longer-term nirvana, it will be necessary for some of these issues to be thought about much more. The most obvious research that is required is to take a close look at arrangements in other countries to see what we can learn, not working from the starting point that major changes are out of the question. I would agree that they are out of the question at present, but nothing is for ever. The changes, of course, may concern not just the details of the conciliation and arbitration system, but also the laws and restraints on trade unions, as well as any arrangements that prevent
positive decentralised initiatives that have a good chance of raising the productivity of the economy, such as productivity bargaining.
References


Footnotes


2. The figures are by no means entirely comparable. See Creigh and Makeham (1982). Thus they should be read with caution. They appear to do an injustice to Iceland and Finland. The comparisons are
quite complex. Thus for Australia, New Zealand and Canada a stoppage is included if ten or more working days are lost, while for Britain it is "ten workers and one day", for the United States "six workers or more or one full day or shift" and for Germany, "one day and ten workers involved". For Sweden, surprisingly, the criterion is "one hour".

3. Fred Gruen has suggested to me that the implicit theory may be that a rise in nominal wages does raise real wages and reduce profits, but that the reduction in profits does not affect employment. Everything is of course possible in theory. Implicit would be a horizontal product supply curve, the position of the demand curve (which is perhaps vertical) determining output and employment. The price-level is determined, for a given nominal wage, by some non-constant mark-up policy. But I leave it to the believers to specify their model.
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