The Wages Push and Macro-Economic Policy: The Dilemmas Ahead*

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Discussion Paper No. 43
February 1982
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ISBN: 0 949838 43 8
ISBN: 0725-430X
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EXTRACTS FROM:

THE WAGES PUSH AND MACRO-ECONOMIC POLICY: THE DILEMMA AHEAD

The Wage-Price Spiral

"The apparently chaotic developments in the labour market in the last seven months... were essentially a response to improved economic conditions - a response which... may kill these very conditions."

"If very many of the wage and salary earners of Australia insist on higher real wages ahead of productivity growth - many trying to keep up with the metal workers - while the others will not accept any decline in real wages, then we are in for trouble."

"The more that people were certain in advance about the government's determination not to ratify a wage push the sooner the message would get through that wage increases would lead to unemployment and that firms would not be able to afford to pay such increases. The less painful, thus, would be the process of slowing down inflation. If a government is going to be firm, it is better that this is widely understood well in advance. It is particularly important that people do not misunderstand what sort of policy a party now in opposition might pursue if it seems to have a strong chance of getting into power, and if it would actually follow a firm policy."

Currency Depreciation

"...if there is a wages push, depreciation is no more a true 'solution' than is monetary expansion. It is essentially a choice in favour of inflation and against short-term unemployment, probably at the cost of unemployment later."

Tax Cuts

"The argument is widely put that tax cuts would reduce wage demands, and it is on this aspect of tax-cut advocacy that I shall focus here. It is suggested that a tax-wage bargain should be struck with the trade union movement, perhaps under the auspices of the Arbitration Commission. Alternatively it is argued that, even without any explicit bargain, wage demands would moderate if taxes were lower. In my view there is no real solution here."

"A responsible government must hesitate to embark on the sort of massive short-term deficit policy that would be required to make an impact on wage demands. The extent of the deficit may in due course fall - if all goes well in this gamble - but meanwhile the implications of the deficit must be considered."

"...one should not be fanatical about budget deficits. But these things can get out of hand, as they might in the United States under the influence of Reaganomics. So-called supply side economics is not a useful basis for short or medium term macro-economic policy."

Bargaining Power v. Comparative Wage Justice

"...at the heart of all the macro-economic problems posed by undue wage increases are industrial relations questions, matters of wage relativities, of industrial peace and war, and the central institutional issue currently much discussed in Australia: should a centralised wage determination system be maintained or should we move into a regime of wholesale collective bargaining?"
"It is particularly important to distinguish the operation of (the) bargaining power principle from the free market principle. At a time when there still seems to be considerable unemployment of unskilled people, notably young people, nevertheless substantial wage increases are obtained by categories of workers, many of whom have relatively low skill levels."

"...comparative wage justice is patently opposed to the bargaining power principle, and it is the competition between the two that leads to so many of our troubles."

"The collective trade union movement speaks for the comparative wage justice principle and claims that it wants a centralized wage determination system that will implement such a principle. Yet it has no remedy for the partial operation of the bargaining power principle and opposes all measures that would weaken the strong unions, even though these obtain their gains at the expense of the weak... It is this competition that is at the heart of the macro-economic dilemma."

The Central Issue

"...anyone who looks at some South American countries will find that ample resources in relation to population, geographical remoteness and a good climate are not enough. There has to be an element of social discipline and collective commonsense."

"The immediate problem - for the next two years perhaps - is that wage increases could get out of hand, and so will upset the macro-economic balance. Above all, unemployment may increase. Surely it needs to be shouted from the rooftops at present that one man's or woman's wage increase is another man's or woman's job, if not immediately then in a year or so."
This lecture is about a possible problem, one that may become evident later this year and explode next year. It is too early to be sure whether various alarm bells that have been ringing are false or true. But even if a fire has not actually been started, it seems desirable to remind ourselves what would happen if it were started.

Indexation came to an end in July last year, and by that time it seems that the Arbitration Commission had lost control of the wage determination process. It is clear that the principle reason lay in the improvement in economic conditions: fundamental economic forces were at work, and stronger unions exploited their improved bargaining power, resting above all on improved profits, actual and prospective, in the private sector. It is worth remembering that the financial year when indexation broke down - 1980-81 - was the best for seven years in terms of growth. Employment increased by 2.6 per cent, growth (non-farm) was about 4 per cent, and - as a result of this - real earnings increased by 3 to 4 per cent. The apparently chaotic developments in the labour market in the last seven months - "chaotic" only if one regards anything out of the control of the Arbitration Commission as chaotic - were essentially a response to improved economic conditions - a response which, as I shall stress, may kill these very conditions.
In December 1981 about 400,000 metal workers, representing about 9 per cent of the work-force, obtained a settlement which represents an average increase in hourly wages of about 24 per cent. It was agreed that part of the increase was to come immediately and part in July. In addition the length of the working week was reduced, the effect of this being included in the 24 per cent figure I have given.

In 1980 and 1981 there was widespread disruption caused by the metal trades unions in their 38 hour campaign, and a much highlighted feature of the agreement was that the unions kindly agreed to let it stand for a whole 12 months — not to press for any extra claims on wages or hours. I suspect that this extraordinarily liberal settlement may have been influenced both by excessive expectations about the early benefits of the resources boom and by a confidence on the part of employers that the monetary and exchange rate policies of the government would ratify the consequences — a matter to which I shall come below.

As for other wage settlements since indexation broke down, it is difficult to get a really clear picture. It seems that these have been more moderate, perhaps around 10 to 13 per cent in cases where larger numbers of workers are involved. The question is how long these settlements will last, the extent to which the acceleration in price inflation generated by these and other wage increases will lead to further wage increases, and above all, what the Arbitration Commission will decide at the forthcoming National Wage case. There are plenty of forecasts around that by the end of the year wage inflation could be up to 16 per cent, and this does not seem at all implausible.
Wage-price spiral or once-for-all adjustment?

The question really is whether there is a fundamental problem, or whether we are just going through a once-for-all adjustment involving some changes in relativities and rises in real wages for limited parts of the workforce.

If very many of the wage and salary earners of Australia insist on higher real wages ahead of productivity growth — many trying to keep up with the metal workers — while the others will not accept any declines in real wages, then we are in for trouble. As the various "flow-on" raise prices, those, like the metal workers, who believed they had obtained substantial real wage rises will want to get further nominal wage increases. The usual wage-price-wage spiral will ensue, at least provided economic conditions do not deteriorate — a proviso to which I will come back later. There is then no reason why the rate of wage increase should stop at 16 per cent by 1983. Price rises will be fuelled by inflationary expectations which will affect not only wage demands but also asset prices of all kinds and, of course, the exchange rate. The process could well be helped along through the Arbitration Commission either granting a general increase, or by the Commission helping the weaker sections of the work-force to catch up.

This may be a pessimistic scenario. The alternative is that the weaker parts of the workforce will accept not only deteriorations in their relative positions but even absolute falls in real wages sufficient to make possible the rises for others. Also, it is at least conceivable — barely so, I might say — that those who have made significant gains will be content to see those gains eroded by price
rises, so that in real terms we will get back to the relativities and real wage levels of 1979 or so, perhaps with some all round real wage increases of a modest level to allow for productivity improvements.

To ratify or not to ratify?  

The pessimistic inflation scenario that I have just sketched out was based on the crucial assumption of unchanged economic conditions. In other words, it was assumed that the monetary authorities ratify the wage push. If prices rise at an accelerating rate while monetary growth stays at the modest rates projected - say 10 to 13 per cent for M3 and somewhat more for M6 - then there would not be ratification. This would then yield an alternative scenario. While the nominal money supply would keep on increasing, the real money supply would fall. There would be a credit squeeze, interest rates would rise, not just in nominal terms but in real terms, and real aggregate demand would fall (at least in relation to potential output at the original unemployment rate). After a lag there would be a profits squeeze and unemployment. Furthermore, inflationary expectations would moderate, and in due course one might expect the price and wage inflation to decline.

The more that people were certain in advance about the government's determination not to ratify a wage push the sooner the message would get through that wage increases would lead to unemployment and that firms would not be able to afford to pay such increases. The less painful, thus, would be the process of slowing down inflation. If a government is going to be firm, it is better
that this is widely understood well in advance. It is particularly important that people do not misunderstand what sort of policy a party now in opposition might pursue if it seems to have a strong chance of getting into power, and if it would actually follow a firm policy.

People thinking in Keynesian terms would blame the government for deflating the economy. But of course nominal demand would still be expanding. The only reason a continuous expansion of nominal demand would be associated with growing unemployment would be that wages were increasing too much. So, one might just as well blame the unions. It is the interaction between the two that would create the unemployment - one party pushing up wages and the other controlling the money supply, each party, of course, having only imperfect control over its "instrument". But it is the forces behind the wages push that are generating the fundamental dilemma for the government - the need to choose between allowing inflation to accelerate and allowing increased unemployment.

Put in this simple "Phillips curve" way it appears that the wages push creates a simple inflation-unemployment trade-off dilemma for the government. But this is too simple. The choice of inflation now would inevitably mean the choice of more unemployment later. An Australian government, or the people it represents, may be content with a 15 to 20 per cent rate of inflation if it stabilised at this rate. But it is unlikely to stabilise once inflationary expectations get out of hand and if the problem of incompatible income claims has not been resolved. On all past experience in Australia and elsewhere, once an inflation gets going a point will come when a government - any government - will feel obliged to pull in the reins. And the greater
the inflation the sharper the pull-up. Thus, if there really is a
wages push and not just a one-off adjustment, the real choice for
the government is deflation and unemployment now or deflation and
unemployment later. For those who are more interested in interest
rates than in employment, the choice is between higher real interest
rates now and high real interest rates later. Of course a government
may compromise, pulling in the reins a little in 1982 and 1983 and
then, after the elections, in 1984 if or its successor would pull in
more. The precise balance of policy involves various fine judgements,
but I would suggest that the costs in terms of average unemployment
over a longer period may well be less if the process is reined in
early.

To complete the picture another option must also be noted. This
is to resist the wage increases, at the cost of industrial unrest.
The Commonwealth government can practise such resistance directly with
regard to its own employees, but with regard to the private sector and
the States this is an option to be chosen in a decentralised way,
though possibly influenced by Commonwealth encouragement or otherwise.
It is relevant here that the primary duty of the Arbitration
Commission has always been seen as preserving industrial peace,
presumably even at the cost of increased inflation and unemployment.
So the bigger its role in the wage determination process the less of
the "resistance" option would be chosen. Rightly, "resistance" is an
option that everybody chooses reluctantly, primarily because of the
costs in terms of productivity, inconvenience to society and, perhaps
most important, social harmony. But perhaps it is the only way in
which increased unemployment - either now or later - can be avoided.
In any case, it has to be remembered that the wages push - if there is
one - is the fundamental reason why such unpleasant choices may have to be made.

**Is depreciation a solution?**

Let me now turn to the exchange rate. The first point to make is that if monetary expansion accelerates significantly depreciation will become inevitable, or at least much more likely. Now, I am not advocating depreciation. It is not a solution to anything. It is just part of the ratifying process.

There are advocates of depreciation now who see it as a "solution" to Australia's cost increases. It is no more a true solution than is the monetary expansion with which it would be associated. Let me spell this out further. In 1981 a whole lot of manufacturing firms in the metal trades area agreed to steep wage increases. Perhaps they had no option, seeking to avoid industrial unrest. So their costs go up and in due course they lose competitiveness relative to imports. So they try and get themselves protected through higher tariffs, quotas or depreciation. It has to be stressed here that depreciation also raises costs of imported materials, so that some manufacturers may well find that, on balance, a depreciation hurts rather than helps them. This is an important qualification. But let us grant the broadly "protective" effect of the depreciation. Of course it raises prices and - as I said - costs of many firms. Thus profitability in these industries may be temporarily restored by a method that adds to inflation.
It is the old trade-off between inflation and unemployment again. The higher prices in due course lead to further wage increases to "compensate". In an economy with an exchange rate that is flexible — it does not have to float for this effect to take place, but can be managed in a flexible way — the wage-price spiral and the inflation-unemployment trade-off manifest themselves to a great extent through the exchange rate. First wages go up, ahead of productivity and of world price trends. This creates a profits squeeze and eventually unemployment. So the exchange rate depreciates — possibly even before these adverse effects come about. So prices rise, wages rise further, the exchange rate depreciates further, and we are on the roller-coaster. To see where this leads I advise a study of the economic history of Argentina, a resource-rich country which became over-addicted to protectionism, to trade unions, and to the search for soft options, and which is now in the sort of trouble that I hope we will never get into.

In a system of a pure floating exchange rate there would not need to be any exchange rate "policy". There would simply be a monetary policy and this — along with other factors, such as capital inflow associated with the resources boom — would determine the exchange rate. But assuming there is some element of intervention and hence of "policy", two points can be made. Firstly, if there is a wages push, depreciation is no more a true "solution" than is monetary expansion. It is essentially a choice in favour of inflation, and against short-term unemployment, probably at the cost of unemployment later. Secondly, the right exchange rate must be much influenced by monetary policy.
If the exchange rate gets too much out of line with domestic monetary policy speculation will eventually force changes. Furthermore, distortions between that part of the economy which competes in world markets and the sheltered part will be set up. For example, if monetary growth is fairly modest — as it possibly is now, at least relative to prospective wage increases — a squeeze on the sheltered sector of the economy will result while a sufficient depreciation would protect the tradeable goods sector (import-competing and export industries) from the squeeze. But if it is decided to allow a squeeze it is not sensible to focus it all on the non-tradable sector. On the other hand, if there were a ratifying monetary expansion in line with the wages push it would be desirable for the exchange rate to depreciate, so that the "ratification" also benefits the tradeable sector. In fact, holding the exchange rate fixed in such a situation would be impossible for any length of time. The balance of payments would go into steadily increasing deficit and, in any case, speculation would in due course force depreciation.

**Tax cuts or moderate wage increases?**

I now turn to fiscal policy and the possibility of tax cuts. When I refer to tax cuts I refer to real tax cuts, involving a fall in the ratio of tax collections to G.N.P. At a time of inflation constant nominal tax rates in a progressive tax system mean that real tax rates are rising. Hence reductions in nominal rates may be appropriate. The question I am concerned with is whether real tax
rates should be reduced. Clearly, in the abstract, income tax cuts are desirable. Australian rates are high compared to many other countries, and it is obvious that a marginal rate of 46 per cent for many people – and 60 per cent for moderately rich people – will have disincentive effects. More important perhaps are the bad effects of tax avoidance – both the social waste presented by the avoidance industry and the social injustice which uneven opportunities for avoidance creates.

The argument is widely put that tax cuts would reduce wage demands, and it is on this aspect of tax-cut advocacy that I shall focus here. It is suggested that a tax-wage bargain should be struck with the trade union movement, perhaps under the auspices of the Arbitration Commission. Alternatively it is argued that, even without any explicit bargain, wage demands would moderate if taxes were lower. In my view there is no real solution here. First, there is no certainty – hardly even a likelihood – that a bargain could be struck that the ACTU or the Arbitration Commission could deliver. In any case it is a risk for a Government to give away at the tax front without any firm delivery on the wages front. And there is even less assurance that without an explicit bargain wage increases would moderate sufficiently to justify significant tax cuts. One would have to be careful that, once fiscal policy is tied to industrial relations considerations, the authorities do not lose control over fiscal policy.

Nevertheless, just to go on, let us assume some bargain is struck. What about the resultant budget deficit? Here the possibility must be noted that really genuine wage moderation
sustained over a long period could have a stimulating effect on the economy — leading to higher profits, output and employment — which is sufficient for the increase in the tax base to compensate for the lower tax rates. Such an effect would take place after a lag, and the extent of it is quite uncertain. Above all, it is conditional on wage moderation. A responsible government must hesitate to embark on the sort of massive short-term deficit policy that would be required to make an impact on wage demands. The extent of the deficit may in due course fall — if all goes well in this gamble — but meanwhile the implications of the deficit must be considered.

One possibility would be to avoid a deficit by sufficient expenditure cuts. But this possibility need only be mentioned to be dismissed as politically ridiculous. A moment's look at budget figures will tell us it is not on. It is instructive to look at Statement No 6 in last year's Budget Papers. In 1980-81 "social security and welfare" accounted for 27.3 per cent of total Commonwealth budgetary outlays, and "payments to the States" for 22 per cent, with the third largest item being "health", at 10 per cent. Social security and welfare expenditures have risen the most, having been 18 per cent of total outlays in 1971-72. If there had to be big expenditure cuts something would have to happen in these areas, including presumably transfers to persons under the social security heading. Of course, I do not dare advocate a cut in any single social service item. A genuine concern for tax avoidance would lead to a switch to sales or value added taxes, but we know that this is not the most widely supported proposal. In any case, such tax increases would surely offset the effects of income tax reductions on wage demands (though this shift in the tax pattern might succeed in taxing more of
the self-employed and so, on balance, reduce the burden on wage and salary earners).

In any case, we would be left with a deficit - a big deficit if tax cuts were to be large enough to make an impact on wage demands. Now, essentially there are two possibilities. One is to finance such a deficit from domestic savings and the other from foreign savings. Two alternative stories can thus be spelt out. First, the deficit is financed by the sale of securities. This raises interest rates. If capital inflow were somehow prevented, domestic users of funds would be crowded-out. I need hardly say that this is not a soft option for politicians. Perhaps more stress should be put on the sad truth that tax cuts would raise interest rates. There is much concern with this in the United States at present.

Alternatively (or at the same time) foreign capital might flow in, so that foreign savings would, in effect, be financing public dissaving. The same result comes about when the government borrows directly abroad. There is, of course, some case for Australia borrowing abroad whether by selling securities in the Australian market and this leading to capital inflow through the rise in interest rates, or through direct borrowing abroad by the government. But the social rate of return has to be sufficient to justify interest rates to be paid (all in real terms). If the borrowing takes place not to finance infra-structure expenditures where careful cost-benefit calculations have been made, but to maintain levels of post-tax real wages that are higher than a non-borrowing nation could support, and especially if higher wages are used primarily for consumption rather than investment, then this may be an occasion for caution. If private
individuals wish to borrow to sustain consumption levels, knowing that eventually they will have to pay it back with interest, then this may be acceptable. One hopes that they know what they are doing. But to what extent should a government borrow on behalf of its people to sustain consumption rather than to finance fruitful investment? Still, it must be said, the only soft option that is genuinely available - one that is politically acceptable - is to go the road that many countries - from Turkey to Poland - have gone. Presumably Australia could borrow a lot more, of course at increasingly high interest rates. In my view it would be an unwise road to follow, though, obviously, I do not exclude appropriate borrowing for well-conceived investment purposes.

To conclude on the subject of tax cuts, one should not be fanatical about budget deficits. But these things can get out of hand, as they might in the United States under the influence of Reaganomics. So-called supply side economics is not a useful basis for short or medium term macro-economic policy. This is as true for Australia - where the soft options are based on an optimistic view of how wage demands would respond to tax cuts - as for the United States, where the Reaganites' undue optimism concerns the response to tax cuts of incentives to work and to invest.

In the final analysis a responsible government can make significant tax cuts - and I mean here genuine and large reductions in the ratio of the tax-take to G.N.P. and not just cuts in nominal tax rates at a time of inflation - if it can find ways of cutting expenditure. Surely anyone who advocates large income tax cuts in real terms at present - if this is what is being advocated - is
obliged to tell us where the expenditure cuts are to be. Alternatively he must tell us which other taxes are to be increased, whether interest rates are meant to rise further, or whether foreign loans are meant to come to our rescue.

Bargaining power versus comparative wage justice

So far I have simply taken a possible wages push as given, and considered its implications. But at the heart of all the macro-economic problems posed by undue wage increases are industrial relations questions, matters of wage relativities, of industrial peace and war, and the central institutional issue currently much discussed in Australia: should a centralised wage determination system be maintained or should we move into a regime of wholesale collective bargaining? While I am mainly concerned with the implications of a wages push rather than these matters, a few words might be said on these issues here.

It seems useful to distinguish three rival principles of wage determination.

Firstly there is the free market principle. This is concerned with avoiding involuntary unemployment without inflation and argues, essentially, that wages should move as they would in a reasonably perfect labour market. When there are excess demands for labour wages should go up (or hours for a given wage reduced, or conditions improved) and when there is excess supply of suitable labour, wages
should go down. In my view, the failure of this principle to operate sufficiently is the reason for the long-term persistence of involuntary unemployment in Australia, especially since 1976. The principle operates to some extent in an upward direction, mainly through over-award payments, but, with regard to downward movements, in general it is not a principle that guides actual wage determination because the unions are not particularly interested in the unemployed, whether registered or hidden. But it is certainly the principle which, over and over again, economists advocate.

Some of the results of the principle to be discussed next are similar to what should come out of the operation of a free market. But the whole system of fairly rigid minimum real wages, penalty rates, etc., characteristic of the Australian situation is inimical to full employment. Insofar as award wages (which are minima) have been adjusted by the Arbitration Commission there is little evidence that sectional labour market conditions were thought very relevant. Here I only note this "principle" in an academic sort of way. In the real world, sadly, it is the competition between the next two principles that has ruled the roost.

So I come to the bargaining power principle. Wages respond to bargaining power of unions. Expected profitability of employers would be highly relevant here. Obviously, labour market conditions must also have some influence. It is likely that both these factors explain the metal industry award of last year. Also relevant is something slightly different: the ability to hold firms or the nation to ransom. In Australia, Britain, Italy, and some other countries, some key unions are in a position similar to that of the military in
many countries. I need hardly mention oil tanker drivers, transport workers of various kinds, power workers, air line pilots, and so on. Coal miners in Britain brought down one and possibly two governments, though the real power of such unions is manifested not in the strikes that actually take place but in the high wages and favourable conditions - relative to what a non-monopolised labour market would yield - that are obtained without the guns actually going off. In Britain newspaper employees have been notably effective.

It is particularly important to distinguish the operation of this bargaining power principle from the free market principle. At a time when there still seems to be considerable unemployment of unskilled people, notably young people, nevertheless substantial wage increases are obtained by categories of workers, many of whom have relatively low skill levels. Perhaps this is a matter for some research, and it could be argued that in time the free operation of bargaining power would lead to a result similar to that of a genuinely free market - i.e. that bargaining power and labour market conditions are closely related.

There are clearly two sides when judging the free operation of this bargaining power principle. On the one hand, if one regards the elimination of involuntary unemployment as a first priority the principle must be regarded as desirable insofar as it leads to a relative wage pattern broadly similar to what a free labour market would yield. For example, it would have to lead to reduced real wages for unskilled or low-skilled work (including reduced overtime and penalty rates) where the work is not particularly unpleasant and is located conveniently. It is my impression that it is this type of
work that many of the unemployed could and would readily step into. On the other hand the naked exercise of group power, with a frequent readiness to bring out the heavy artillery, does seem undesirable in a civilised society. It is in reaction to such situations that the Arbitration system in Australia was designed to create "a new province for law and order".

The third wage determination principle is that of comparative wage justice. Essentially it is concerned with maintaining relativities at some historic benchmark. The choice of the benchmark can, of course, lead to infinite debate, and even when this principle dominates, somehow relativities do change. In fact, one element in this "ethical" principle seems to be an aim to "bring-up" lower paid workers - which means compressing margins for skills. In any case, comparative wage justice is patently opposed to the bargaining power principle, and it is the competition between the two that leads to so many of our troubles. First the metal workers exploit their bargaining power, aiming at a real and not just a nominal wage increase, and believing that they will improve their relative position. Then others come in, claiming and getting "flow-ons" on the grounds of "comparative wage justice". Gradually the metal workers find their gains in real terms eroded, and no doubt will start the whole sequence again. The collective trade union movement speaks for the comparative wage justice principle and claims that it wants a centralised wage determination system that will implement such a principle. Yet it has no remedy for the partial operation of the bargaining power principle and opposes all measures that would weaken the strong unions, even though these obtain their gains at the expense of the weak.
It is this competition that is at the heart of the macro-economic dilemma with which I am concerned here today. The competition will be resolved in a messy way by a combination of inflation and unemployment. As the weaker unions fight to restore their position relative to the strong - perhaps not succeeding completely - the real losers are, first the weakest of all, namely the unemployed, and second, the whole collective of the nation - including all unionists - as the inevitable deflation, not to speak of the productivity losses resulting from industrial disputes, reduce national output.

There does not seem to be any simple solution to this problem. Wage restraint eventually obtained by prolonged deflation is hardly an ideal solution, even though it may be the only one available. The belief in comparative wage justice is deeply ingrained in most countries, none more so than Australia, I suspect. Labour market conditions and a concern for the unemployed seem of less concern. The Arbitration Commission, under the influence of the applicants before it, notably the ACTU, has clearly been committed to comparative wage justice.

Coming to the present situation it would seem that in 1981 the bargaining power principle took over, essentially because economic conditions improved. Now comparative wage justice is stirring again. If the Arbitration Commission and the various state tribunals played no role at all, so that we had a new-model collective bargaining system, comparative wage justice principles would still affect the final wage structure outcome to some extent. This is clear from the examples of other countries like the United States and Britain where collective bargaining prevails. Thus there would still be the
competition between two principles from which we, and many other
countries, have suffered. But it seems highly likely that the
centralised system is relatively more committed to comparative wage
justice. As long as the Commission and the State tribunals stay in
the game and yet are unable to discipline the strong unions the
competition between the two principles will be worse than if they
stayed right out. The "flow-on" will be more rapid, the general wage
push therefore greater, and thus unemployment and inflation more
severe. 5

The central issue: one man's wage increase...

It is time to conclude and focus again on the central issue. In
talking to the Economic Society presumably I am talking to the
converted when saying that, short of borrowing from foreigners, the
ability to raise our real incomes is limited by our productivity. We
are the proverbial Lucky Country where it takes considerable effort to
destroy prosperity. But anyone who looks at some South American
countries will find that ample resources in relation to population,
geographical remoteness and a good climate are not enough. There has
to be an element of social discipline and collective common-sense. I
have just said that I could not see any simple solution, since
deflation is hardly simple or desirable, but perhaps collective common
sense will prevail, and is even now prevailing. We must hope that a
concern for their own long-term interests as well as the interests of
the present and potential unemployed will have some moderating
influence on trade union members and the people who press and act on
their behalf.

Sometimes one is told that to urge wage restraint is to accept double standards. If tax avoiders can get away with it, why should not wage-earners? Here three comments must be made. Firstly, the wages problem concerns people at all income levels, even those who, like the members of the union to which I belong, regard themselves as earning a salary. Secondly, in terms of magnitudes the effects of a wages push — if it comes about — could outweigh the effects of most other conceivable "evils". We may be able to afford some overpaid and over-superannuated politicians and even a hundred people unjustly making half a million a year; we could not so easily afford two million average income people wanting to raise their real after-tax incomes by 10 per cent in one year. Thirdly, to focus on one problem is not to ignore others; the battle for economic efficiency and common sense must be fought on many fronts. But the people who oppose a switch from income tax to sales or value added tax — which would certainly reduce tax avoidance — are sometimes the same people who think wage increases are justified because of tax avoidance. It must also be noted that the trade union movement seems to be committed to continuous protectionism, even though this clearly reduces the size of the national cake through bad use of the nation's skills, and very directly raises the cost of living of so many workers. But we can live, even if at a slightly lower standard of living, with protection. The immediate problem — for the next two years perhaps — is that wage increases could get out of hand, and so will upset the macro-economic balance. Above all, unemployment may increase. Surely it needs to be shouted from the rooftops at present that one man's wage increase is another man's or woman's job, if not immediately then in a year or so.
FOOTNOTES

1 See, in particular, the Melbourne Institute's forecast at the end of 1981, in The Australian Economic Review, 4th Quarter 1981. The Institute highlights some of the policy dilemmas I am stressing. There was a compendium of forecasts in The Age, of 7th January, reflecting a general expectation that wage inflation would accelerate. (The average forecast of the 25 forecasters surveyed was for a 14.7 per cent increase in average weekly earnings for the calendar year, but of course, this is compatible with an acceleration much above this during the year.) An article in The Financial Review, of January 12, entitled "The economy is still waiting for the wages push" is much less pessimistic and suggests that wage increases so far have been quite modest.

On the breaking down of indexation, see Australian Bulletin of Labour, September 1981, and on labour market conditions in the metal trades, particularly interesting is Sue Richardson, "Skilled Metal Tradesmen: Shortage or Surplus", Australian Bulletin of Labour, September 1981.

2 Some of the discussion here is not very rigorous. A fuller and more formal analysis of many of the issues is in W.M. Corden, "Wages and Unemployment in Australia", The Economic Record, March 1979.


4 The issues here are complex, and, of course, I am over-simplifying in order to focus on some key considerations. There is a large literature on wage determination and labour market regulation in Australia. Much of this is surveyed (with many references) in "The Economics of Regulation" by J.J. Pincus and G.A. Withers, to be published in P.Gruen (ed.) Surveys of Australian Economics Vol III. See also a forthcoming book by Richard Blandy.

In formulating my thinking on these matters, and especially in appreciating the role of ethical notions in the labour market - i.e. comparative wage justice - I have benefited from reading, "Equity and Wage Determination", by Dr J.E. Isaac, the Deputy President of the Arbitration Commission, Australian Bulletin of Labour, September 1981.

5 A key question for Australia is what difference the Arbitration Commission has made. There has been much discussion of this. See the references cited in the Pincus-Whithers survey and the forthcoming book by Blandy. Does the Commission just reproduce the effects of collective bargaining, producing the same sort of impact of free market forces, bargaining power and ethical notions? The answers are not simple. Clearly the Commission's equal-pay decisions made a difference, and in the short-run general wage levels are surely influenced by National Wage Cases. There is more doubt about the impact on intra-industry and inter-industry relativities, on which see W. Brown et al., "How far does Arbitration Constrain Australia's Labour Market?", Australian Bulletin of Labour, September 1975.
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