

Two ways to skin a cat: government policy and labour market reform in Australia and New Zealand

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1. Introduction

Throughout the 1980s, most OECD nations faced a similar set of economic problems. Low growth, rising unemployment and inflation led many policy makers to focus on labour market reform.¹ A range of approaches emerged as governments evaluated and remodelled policies which regulated the labour market. This paper looks at two particular approaches. We describe, and then analyse, the results of labour market reform in Australia and New Zealand during the 1980s.

Australia and New Zealand provide an interesting comparison of negotiated reform and market liberalisation. The Australian Government adopted a corporatist policy² which relied on negotiation between sectoral groups. The New Zealand Government, with little consultation, foisted a range of pro-market policies on a confused electorate.

The two countries began the 1980s with similar labour market structures. Throughout the decade they also endured substantially the same effects from the international economy. But it was largely as a result of the differences in government policy that the performance of the New Zealand and Australian labour markets were, until the end of the decade, substantially different.

Until 1989, Australian corporatist reforms,³ combined with a degree of reluctance to embrace 'inflation first' restrictive macroeconomic policies, led to reasonable labour market outcomes. New Zealand's whole-hearted adoption of the tenets of supply side economics, combined with progressive deregulation of the labour

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¹ Encompassing the system of wage determination, the organisation of trade unions, training and education policies, assistance to disadvantaged groups in the labour market and immigration policies.

² Corporatism comes in many forms and fulfils many objectives: economic, political and industrial (Harrison, 1980). In this discussion we refer to a formal arrangement between government and the representatives of labour and/or capital over the setting of policy.

³ The form, scope and objectives of corporatist arrangements in Australia were partial and restrictive when compared to those operating in the Scandinavian economies (Australian Council of Trade Unions and Trade Development Council, 1987).

market, led to poor labour market outcomes. The comparison of the two countries provides further support for the proposition that corporatist type institutional arrangements, especially in the labour market, assist in generating improved inflation-unemployment trade-offs (Bruno and Sachs, 1985; Calmfors and Driffill, 1988). We also believe that the differing success of labour market reform in Australia and New Zealand clearly shows some of the disastrous consequences that can result from the unintelligent application of pro-market policies. This should be a clear lesson to reform-orientated policy makers in other countries.

The following comparative assessment of the two countries is conditional upon the following caveats. Firstly, the success of reforms is largely evaluated in terms of macroeconomic objectives such as inflation and unemployment. We do not compare microeconomic conditions such as enterprise efficiency or productivity growth, nor do we consider income distribution and the balance of payments. Secondly, we cannot attribute different outcomes between the two countries exclusively to differences in labour market policy. There were differences in macroeconomic policy setting, taxation policy and demography.

The paper is structured as follows. Section 2 describes the 'Australasian' model of labour market regulation which has operated in both countries for most of the last hundred years. The next section outlines the arguments that were advanced for changing these policies. Sections 4 and 5 then compare the process and content of labour market reform in the two countries throughout the 1980s. The results of these differing approaches are then evaluated using a number of broad macroeconomic aggregates in Section 6. The last section summarises our conclusions.

2. The 'Australasian model' of labour market regulation

The patterns of historical and economic development were similar in Australia and New Zealand. Both countries were heavily influenced by their British colonial heritage. They shared an almost identical culture. Their economies were structured similarly, producing pastoral products for export and using industrial protection to shelter manufacturing for the local market. Although Australia occupies a much greater land mass, population is concentrated in coastal areas, mainly in the east, thus the effective population densities and distances between major centres are comparable. Moreover, there were always close social and political links between the two countries. And, the two labour markets are also quite integrated, with a substantial volume of trans-Tasman migration.

This shared history gave rise to many similarities in the labour market institutions of the two countries. The central role of the State in regulating the industrial relations framework was a unique feature of these similarities. We thus characterise the two countries as having adopted the 'Australasian model'¹ of labour market regulation. The general features of this model were as follows.

1. There were a relatively large number of trade unions organised on an occupational basis.
2. Wages and conditions were regulated through legally enforceable awards made by industrial tribunals.

¹ 'Australasia' refers to the geographical area covering both New Zealand and Australia.

3. Individual enterprises were often characterised by multiple awards, multiple union presence and clear job demarcation.
4. There was scope for payments above award rates, and for enterprise agreements at variance with existing awards.
5. Wage relativities were important and reasonably stable.
6. A minimum wage underpinned the award system and collective bargaining.
7. Immigration was used to augment the supply of labour and overcome shortages of specific skills.
8. A comprehensive system of welfare benefits was available to the unemployed, the infirm, the retired and to solo parents.
9. The government operated a public job placement service.
10. Protection for manufacturing was used to support wages and employment.
11. External events exerted significant effects on aggregate labour demand and its industrial, and therefore occupational, composition.
12. Training was organised on an occupational basis, was firm-specific and based upon the apprenticeship system.

The industrial relations framework, referred to in Australia and New Zealand as the arbitration system, was the key characteristic of the Australasian model. Its central feature was the significant role of the State in providing the framework for collective bargaining, as well as in many cases actually determining workplace rules.

The idea of using arbitration to settle disputes was first discussed in Australia in 1879. Attempts to construct a legislative base for such a system gained momentum in both countries from the 1890s. The use of conciliation and arbitration to resolve industrial disputes did not originate in Australia and New Zealand. France had the *Conseils de Pid'hommes* from the early nineteenth century which were responsible for settling minor disputes over matters related to existing work contracts. In Canada, the province of Nova Scotia introduced the Mines Arbitration Act in 1888 to settle wage disputes in the province's coal mining industry. There were thus international precedents for the introduction of a compulsory arbitration and conciliation into Australasia. However, Australasia went much further than elsewhere in a number of respects. Legislation became all encompassing, covering all industries and all regions. The operating of the legislation was not confined to settling disputes over the interpretation and enforcement of existing employment contracts or wages; it covered future employment conditions. Finally, it introduced compulsion to the system of dispute settlement through compulsory arbitration. This in turn was supported by three institutions (Macintyre and Mitchell, 1989): a system of tribunals to settle disputes, the registration and regulation of trade union and employer associations, and a system of administrative enforcement. In Australia, the first bills that introduced forms of conciliation and arbitration for dispute settlement were in the State legislatures of New South Wales, South Australia and Victoria during the 1890s. These early bills either lapsed because of opposition to compulsion and third-party dispute settlement, or were only partial in that they were confined to existing rather than future employment conditions. New Zealand was thus the first of the Australasian colonies to legislate when the Industrial Conciliation and Arbitration Act was passed in 1894. Similar legislation supporting compulsory arbitration in its

'Australasian' form was passed in Western Australia (1900, 1902), New South Wales (1901) and by the Australian Commonwealth Government (1904).

The impetus for the development of the Australasian model was a particular congruence of interests of workers and employers following the 1890 Maritime Strike. The Maritime Strike was a lengthy and bitter struggle which involved a number of unions in both countries. The trade union movement was seriously weakened by the employers' eventual victory in the strike. This defeat and the depression of the 1890s led trade unions to attempt a political rather than industrial strategy in order to attain better pay and conditions. This involved the formation of political parties with a strong trade union base and reformist agenda based on socialist principles. A specific component of the strategy was to force employers to recognise and bargain with unions. Correspondingly, following the industrial disruption of the Maritime Strike, employers were interested in using state regulation to minimise the incidence of strikes. Employment was rapidly moving away from the agricultural sectors to the newly emergent manufacturing industries in the capital cities. The growth in both trade union membership and in the political influence of trade unions forced manufacturing sector employers to view arbitration and conciliation as a means of controlling this growing trade union power. Thus the conciliation and arbitration system did not arise out of bargaining between employer and employees, it was an imposed political solution to what was perceived of as an intractable industrial problem. Collective bargaining was institutionalised; trade unions gained statutory protection and the ability to force employers to the bargaining table; employers gained an institutionalised disputes resolution procedure and a moderation of the ability of trade unions to strike.

Conciliation and arbitration, the key components of the Australasian model, were available in the event of disputes. These were administered by various state agencies. Originally arbitration and legal interpretation were carried out by a Court of Arbitration. Later these roles were split between an Arbitration Commission and an Industrial Court. Conciliation, a process of mediation, was intended to achieve agreement between the parties to a dispute. When conciliation failed, the judicial process of arbitration determined a settlement to a dispute. Arbitration and/or conciliation produced awards which were like minor statutes. They codified minimum terms and conditions of employment for workers covered within the membership jurisdiction of the relevant union. The various arbitration tribunals focused both on individual disputes, as well as economy-wide settlements. In New Zealand, General Wage Orders and in Australia, National Wage Decisions adjusted awards to compensate for inflation.

The institutions of conciliation and arbitration were only available to unions that registered with the system. Registration conferred both benefits and limitations on trade unions. By registering, a union had to accept certain restrictions on its rules and its membership. On the other hand it was effectively protected from rival unions because it alone could obtain an award.

The list of features for the 'Australasian' model, which we set out above, tended to be supported and institutionalised through the arbitration and conciliation system in both countries. Trade unions were able to protect their status and authority through award registration. In turn, this perpetuated multi-union presence and a large

number of occupational awards within a single enterprise. This limited occupational mobility and restricted training towards occupational award classifications. As a consequence, wage relativities among different occupations were maintained to ensure equity among the treatment of workers in the same enterprise. This concept of equity was also extended to non-award and over-award payments and conditions. A 'basic wage' was enforced to ensure that all workers shared in the benefits of economic growth and that the wages system delivered minimum wage payments compatible with community notions of a minimum standard of living.

Despite the similarities between the two countries, there were some notable differences. Primarily these relate to differences in the political organisation of the two countries. Australia is a federation while New Zealand is a unitary state. In Australia the allocation of responsibilities between the federal and State governments, as well as the Australian Constitution, limited the ability of federal governments to unilaterally implement national policies across many areas of the labour market. The Australian industrial relations system was therefore based on both federal and State legislation. Within this twofold system, federal law prevailed when there was interstate commerce. Furthermore, there were often significant differences between the Australian States in areas such as training programmes, accreditation and educational systems. These differences even extended to railways with each State developing rail networks, with differing rail gauges, independently of the other States. These factors moderated the ability of the Federal government to implement radical reform.

In contrast, New Zealand Governments faced few policy making constraints because the country is a unitary State with a unicameral parliamentary system. The Government is therefore the sole arbiter of industrial relations legislation. The New Zealand government also has full control over education and training. Moreover, unlike the Australian federal government, it has the power to control incomes and prices—a power which was used extensively from 1971 to 1984.

3. Criticisms of the Australasian model

The survival of the Australasian model of labour market regulation, for almost a century, owed much to its ability to deliver reasonable wages for most workers. By providing legal minimum wages in different occupations and industries, the system moderated the worst excesses of exploitation found in unregulated markets elsewhere. Furthermore, the availability of above award payments and conditions provided flexibility where it was being sought. Further advantages of the system were that collective bargaining was a relatively costless process, and the incidence of industrial disruption was minimised by the provision of procedures for dispute resolution. Finally, the system allowed the government to indirectly implement a centralised wages policy which set aggregate wage outcomes.

The system was not without its problems and critics. In both countries, the system was regarded as too centralised, and organised so as to prevent bargaining and flexible labour arrangements at the workplace (Brosnan, Smith and Walsh, 1990; Niland, 1978). There were also concerns over the apparent conflict of an arbitration commission fulfilling both industrial relations and macroeconomic functions; the

wage rate set to resolve an industrial dispute may not be that suitable for controlling inflation and unemployment (Hancock, 1984). The process was also seen to encourage strikes and industrial disputes, since direct industrial action speeded up the arbitration process. There have also been problems in legally enforcing arbitration decisions on the parties given that sanctions such as fines or imprisonment of officials have only protracted disputes and prevented settlement (Deery and Plowman, 1991; Roper, 1982).

A further criticism was that the system failed to provide freedom of association in that workers had no effective choice of union in most circumstances. Moreover, many awards contained a preference clause which made union membership a condition of employment. This was considerably stronger than any closed-shop arrangement since it applied to a whole industry or occupation. New Zealand took this a step further between 1936 and 1961 when compulsory union membership was required by legislation (Brosnan, Smith and Walsh, 1990; Deeks and Boxall, 1989).

The recession of the late 1970s led to intensified criticisms of the system and pressure for change. Criticisms centred around the level of real wages, the structure of awards, the centralisation of the system, and the manner in which the social welfare system impacted upon the labour market.

With the emergence of increased unemployment, many employer groups and policy advice from the bureaucracy in both New Zealand and Australia began to argue for a reduction in real wages, rather than an increase in aggregate demand. Many believed that the increase in wages in the 1970s had created a gap between the existing award wage rates and the underlying 'equilibrium' wage rates, thus creating a real wage overhang (Hughes, 1980). Others saw the high unemployment rates for particular groups such as teenagers, Australian Aborigines and New Zealand Maoris as evidence of wage rates being set well above equilibrium (Henderson, 1985). They also argued for greater decentralisation in both wage determination and industrial relations, with the call for greater reliance on market forces, especially in the labour market, being a common policy proclamation (Hyde and Nurick, 1985).

Thus the industrial relations system began to be blamed for economic ills because wage rates failed to fall in response to historically high unemployment rates. This criticism is in line with the traditional swing in popularity that the arbitration and conciliation system experienced over the business cycle. In boom times, the system worked to the employers' advantage because it tended to keep wages lower than would occur under direct bargaining. In economic upswings many sections of the trade union movements of both countries had expressed resentment with the system. However in economic downturns, the system enabled workers to maintain wages and conditions which would otherwise decrease. This therefore promoted employer dissatisfaction with the system.

In the 1980s, employer groups, academics and Treasury advisers in both countries also began to express specific criticisms of the structure of the award system. In both countries the share of manufacturing employment was declining as was the level of tariff protection provided to the manufacturing sector. Employers in the manufacturing sector could no longer accept wage increases based on macroeconomic policies supporting full employment and tariff protection. Treasury advisers and a number of academics started to see the wage determination system as a source of poor economic

performance. A number of concerns were raised (Brown and Rowe, 1985). The award system was blamed for increasing inflation. It was argued that awards locked in place relativities which created inflation spirals. This view was supported by the respective Department of Treasury advisers who were promoting an inflation-first strategy along the lines of the Monetarist theories. This resulted in opposition to centralised wage determination, arbitrated wage increases and demand management policies for reducing unemployment (Hughes, 1980). The award system was also asserted to be inflexible because of the craft, rather than industry, basis of many awards. It was thus argued that settlements failed to reflect the ability of individual industries to absorb wage increases. A related criticism was that the award system was cumbersome because many workplaces were characterised by multiple awards and multiple unions. A survey in Australia found that the average enterprise was covered by four different awards and had to negotiate with five unions (Callus *et al.*, 1991). This meant that the craft and occupationally based structure of unions also came under increasing criticism. It was alleged that this created problems in workplace negotiations because any restructuring of awards was made difficult since union organisation and the structure of bargaining tended to mirror one another.

The system was criticised for being too adversarial, too complex and too legalistic. The argument being that the emphasis on dispute resolution led parties towards industrial disputes and hence arbitrated settlements in place of negotiation and collective bargaining. In turn this imposed direct costs on the parties, enabled them to avoid negotiated settlements and imposed costs on the community through the large number of industrial disputes.

At the same time, the social welfare system became another target for business groups. In part this was tied up with a general attack on the size of the public sector and the relevant functions of government in a competitive economy (James, 1987). With increasing levels of social distress and unemployment, the expenditure on social welfare had increased. In a startling reversal of logic, this expenditure began to be blamed for the slow-down in economic growth. Rather than being seen as both the result of, or an important cure for, the recession (by stabilising aggregate demand), social welfare expenditure was argued to promote economic decline because it provided disincentives to work (New Zealand Business Roundtable, 1987).

By the middle of the 1980s, both Australia (1983) and New Zealand (1984) had elected labour governments. At the same time, interest groups arguing for labour market reform had become a significant force in the political system. Remarkably, the two governments adopted different responses to their similar range of economic problems. The once similar systems of labour market regulation began to diverge in the face of different policy responses.

4. Australia

The close relationship between the Australian Council of Trade Unions (ACTU) and the Labor Government led to the development, in 1983, of a process of corporatist consultation labelled the Prices and Incomes Accord. Reform was implemented from the centre on a consultative basis utilising both existing and new institutions. The Australian Accord used the centralised wage determination system to produce

significant changes in a range of areas directly and indirectly related to the labour market. The Accord enabled the Government to both address the problems of inflation and unemployment, and promote award restructuring and labour market reform.

The Government also embarked on a number of other labour market reforms. In particular there was extensive change made to education, training and the social welfare systems. In contrast to the institutional focus of the Accord, many of the policy innovations in these areas (such as the reductions in unemployment benefit entitlements to young people) were based on human capital theories. Nevertheless, the Accord was the centre-piece of government policy, and the process of wage determination, award restructuring and trade union amalgamations which it brought about, were the most significant institutional reforms to the Australian labour market this century.

The Accord process contravened many long-held wage determination principles and procedures such as comparative wage justice, real wage maintenance and uniform productivity wage gearing. These changes occurred without fanfare and with accompanying off-sets. For example, although real wages did decline under the Accord, there were negotiated income tax cuts introduced as compensation. The important feature of the reform process was that it was orchestrated from the centre as a result of consultation between the Federal Government and the ACTU. Ironically, the existing institutional arrangements, especially in the wage determination and industrial relations area, which many critics (Moore, 1989) see as being in need of reform, were themselves used to promote institutional reform.

The Accord was negotiated between the ACTU and the Australian Labor Party in 1982 while the Labor Party was in opposition. Its political aim was to permit a Labor Government to maintain some control over the labour market while allowing unions to have some influence over government policy. Under the terms of the Accord, the unions agreed to moderate the growth of award wages while the Labor Party promised that, as government, it would boost the social wage and promote employment. While the Accord was being negotiated, the conservative Coalition Government had imposed, in December 1982, a 12-month wages freeze on the public sector (with the agreement from State governments) and it asked the Arbitration Commission to impose a similar freeze on the private sector (Plowman, 1984). In the event, the Commission imposed a 6-month 'wage pause', which was to be reviewed in June 1983. By March 1983, however, the Labor Government was in office and the Accord in place. To reinforce the new era of consultation and consensus, the Federal government established tripartite institutions encompassing government, business and trade union representation. Since 1983 there have been six variants of the Accord.

The Accord process was launched in 1983 in a blaze of publicity. Representatives of state and national governments, employers, unions and other interest groups were invited to the Conference to present their view of the way that the economy should proceed. The Conference provided general support for a centralised wage-fixing system and endorsed the consensus approach to economic management.

Holding the Conference was a clever political device for it engineered employers into committing themselves to the principles of the Accord, despite their not being

involved in its negotiation. As the Accord developed, the ACTU showed itself to be accommodating and innovative. In most respects it showed itself to be ahead of the employers, 'always keeping the initiative, always maintaining the momentum of change' (Mathews, 1990).

Following the National Economic Summit, the Arbitration Commission convened a separate Wage Fixing Conference which met from April until June. This conference identified a long list of issues which needed addressing and some agreement 'regarding the need for a centralized system . . . [but] . . . differences as to the way in which the system should operate' (Moore, 1983). The ACTU wanted indexation to maintain real wages while the Confederation of Australian Industry (CAI) argued that wage increases should be tied to productivity increases.

The matter was brought to a head in August when the ACTU submitted national wage claims. At stake were the issues of centralisation and extension of the wages pause which had been obtained by the Coalition Government. The new Labor Government strongly supported a return to centralised wage fixing and wage indexation.

The Commission accepted the government arguments and formulated five guide lines for wage determination which became operational on October 6 1983:

1. Half yearly indexation in relation to the CPI 'unless it was persuaded to the contrary by those seeking to oppose the adjustment'. The form of indexation was to be 'uniform percentage adjustment unless the Commission decides otherwise in the light of exceptional circumstances'.
2. Upon application the Commission would consider whether there should be any improvements in wages or working conditions on account of national productivity. No applications on this ground would be considered before 1985.
3. Unions seeking national wage increases had to give an undertaking to comply with the principles.
4. Limiting and strenuous provisions were provided for wage increases on account of changes in work value—changes in the nature of the work, skill and responsibility required, or the conditions under which the work is performed.
5. Procedures were established for dealing with wage anomalies and inequities. These were to be processed through peak union and employer bodies by a Full Bench of the Commission (Plowman, 1991, p. 75–76).

Those unions prepared to give the required undertakings would have their award wages increased by the rate of inflation.

This formula provided the basis of wage fixing for 1983, 1984 and 1985. In most respects it seemed a resounding success. Unemployment fell from 9.9% in 1983 to 7.9% in 1985. The number of industrial stoppages reached record low levels; the Australian industrial dispute record not only improved compared to the pre-Accord period but improved relative to international experience over the 1980s (Beggs and Chapman, 1987). Unit labour costs fell while retail sales and private investment both increased, and there was minimal wage drift. On the other hand, there was a sharp depreciation of the Australian dollar. Debate over the Accord thus moved to the effects on the CPI of the depreciation, and whether this should be taken into account in the wage indexation process.

The ACTU agreed to discounting for international factors and thus was born the Accord Mark II. The Accord Mark II, agreed to in November 1985, provided for a full national wage adjustment of 3.8% in the November 1985 Case and deferring any discounting for devaluation to the next national wage case. A 4% productivity claim would be pursued by way of an improvement in occupational superannuation.

The Accord Mark II improved the credibility of the Labor Government. It showed that it could extract a major concession from the union movement, namely, the discounting of wage increases at less than the inflation rate. Also, by having the productivity increase taken in the form of superannuation, the Labor Government was able to achieve its objective of reducing the dependence of the ageing population on the State.

At the National Wage Case heard in February 1986, the Arbitration Commission extended the Wage Fixing Principles to July 1988. An important modification was a new principle which provided for the certification of agreements providing employer contributions to approved superannuation funds.

Despite the improved macroeconomic performance associated with the Accord, a continuing deterioration in the current account balance put enormous pressure on the Accord agreement. The ACTU realised that in this situation they could now expect only partial indexation at best. Thus, rather than risking the destruction of the system, they suggested a modified approach which involved a two-tiered system of generalised wage increases from National Wage Cases with a second tier of specific increases for increased efficiency. Thus the centralised system was used to generate flexibility at the level of the individual enterprise with a process of award restructuring. This new system was adopted by the Commission in March 1987.

Plowman (1991) describes this decision as marking 'a major change in traditional National Wage determination'. Historically such wage determination has adjudicated upon income distribution. This National Wage decision called for cost offsets. Thus it was as concerned with income generation as income distribution. Further, the decision attempted to decentralise the second tier. Though it considered that nationally agreed guide-lines could assist in the proper processing of enterprise-based restructuring and efficiency exercises, it stressed that 'it [was] primarily at the enterprise level that the objective of this principle [would] be achieved' (p. 82).

There was a range of experience from these reforms. While there were improvements in workplace efficiency and productivity for some enterprises, the pace and extent of the reform process was not uniform across industry. In many cases the reality of the reform process fell short of expectations (Frenkel and Shaw, 1989). The Commission however modified the 'Structural and Efficiency Principle' with a view to providing greater flexibility. Since 1987 the process of award restructuring has developed through several phases. Fundamental to the process has been the tying of restructuring reforms and demonstrated progress with award restructuring to wage increases. It was intended that change should occur along the following lines:

1. A simplification of awards and re-classification of jobs. The number of separate awards and recognised occupations within each enterprise or occupation is to be

reduced. This will simplify the industrial relations process, reduce job demarcation disputes, reduce the number of unions and awards at each workplace.

2. The development of more flexible work organisations. This encompasses the removal of restrictive work and management practices, the encouragement of more flexible working arrangements including part-time employment, and the removal of discriminatory provisions from awards.

3. An increased emphasis on job training and education in line with reducing employee turnover, allowing for the development of enterprise based career paths, promoting greater equity within the workplace and the development of a multi-skilled workforce.

While the ACTU and the government have been enthusiastic about the potential of award restructuring, others (Bramble, 1989; Burgess and MacDonald, 1990) have not been so sure of the effects of the proposed reforms. The 1987 structural efficiency principle amounted to a cost cutting exercise by firms without any advances in workplace reform. In a review of case studies of award restructuring, Rimmer and Verevis (1990) found a wide range of experiences from no progress to significant progress.

Award restructuring has been complemented by policy developments elsewhere, including: the phased amalgamation of trade unions in order to reduce the number of unions from over 300 to less than 50 (and to reduce the number of unions present at each enterprise), the 1990 introduction of a minimum training expenditure requirement for all firms, and equal employment opportunity legislation by both federal and State governments.

As part of the reform process, a new Industrial Relations Act 1988 was enacted. The new legislation replaced the Arbitration Commission with a new tribunal, the Industrial Relations Commission, which had wider powers. The new legislation was designed to give the Commission more flexibility in dealing with new situations. The Act was also designed to meet the ACTU's objective of restructuring the union movement into a small number of large industry unions (as opposed to the employers' objective of enterprise unions). To this end, the Commission was given greater powers to resolve demarcation disputes, and the Act also introduced as a new requirement for union registration that unions would have a minimum of 1000 members. This was subsequently amended in 1990 to a minimum of 10,000 members.

When the National Wage Bench met in February 1989 to review the Structural and Efficiency Principle, it expressed dissatisfaction with the uneven progress between industries and enterprises. Consequently, the ACTU argued for a national 'blue-print' for restructuring which would provide 'consistent, coherent award structures' based on training and skills acquired, and which 'would bear clear and appropriate work value relationships one to another' (Plowman, 1991, p. 84). The ACTU wanted a set of structured wage relativities spanning the building, metal, warehousing, road transport and clerical industries.

By the beginning of 1990, the Accord had been modified for a sixth time. The strategy remained basically the same despite the many adaptations of the Accord over the previous seven years. The Accord Mark VI, negotiated in 1990, was to provide for: income tax cuts from January 1991, a national wage increase tied to the

September 1990 quarterly increase in the cost of living, a \$12 per week increase by mid-1991 and increasing employer contributions to occupational superannuation by May 1991. While the income tax cuts were implemented, the impact of the 1990 recession saw a very low (0.7%) increase in the September cost of living index and a deferment of the national wage increase. Subsequently, both the ACTU and the government attempted to obtain the agreement of the Commission in linking wage increases to workplace productivity increases. In its April 1991 decision, the Commission rejected the \$12 national wage increase, the extension of occupational superannuation and enterprise based productivity bargaining. It did allow a 2.5% increase to those industries which were implementing the structural efficiency principle under Accord Mark V. Both the ACTU and government were very critical of the decision, suggesting that they would circumvent the Commission if necessary. The decision has been subsequently reversed. The government legislated for an increased occupational superannuation coverage by mid-1992. In its October 1991 decision the Commission did allow for enterprise based productivity bargaining. The system is now moving towards enterprise based bargaining, but within a national framework. This direction will be reinforced by government proposals to amend the Industrial Relations Act to allow for enterprise bargains to not require endorsement by the Industrial Relations Commission (Business Council, 1991).

Opinions differ on the success of the Accord. Fallick (1990) suggests that the Accord is an unequivocal success according to the conventional criteria used to assess incomes policies. Certainly, the Accord was successful both in job generation and in labour matching—reflected in a sharp decline in the unemployment to vacancies ratio. Chapman, Hanlan *et al.* (1991) state that 'the prices and incomes Accord has delivered both lower wage inflation and lower real wages than would have occurred if institutional arrangements for wage setting had not been altered'. In turn they suggest that this structural break in nominal and real wage growth was responsible for an additional 150,000 jobs in 1989. Elsewhere Beggs and Chapman (1987) highlighted the significant improvement in the industrial relations record under the Accord.

However, Chapman, Hanlan *et al.* (1991) temper these favourable inflation/unemployment outcomes for the Accord by three qualifications. First, similar employment and wage outcomes conceivably could be achieved by a movement away from centralised wage determination. Second, there is the suggestion that low rates of productivity growth over the 1980s were in part explained by the effects of the Accord in lowering the cost of labour relative to capital (Chapman, 1990; Hughes *et al.*, 1991). Third, there is the view that by exclusively controlling wages, the Accord redistributed income away from labour to capital and to higher income groups in the distributional profile (Lombard, 1991).

Nonetheless the Accord has kept the industrial relations system intact while showing that the criticisms of that system have not necessarily been valid. Specifically, the Accord process has shown that the system of wage determination in Australia can: (1) deliver real wage restraint and reductions over a prolonged period; (2) use social wage offsets to support the real wage reductions and to move income support out of the industrial relation/wage determination system and into the social welfare budget; (3) through delayed and staggered wage adjustments across industries and occupations, produce non-uniform wage settlements which are not in

accord with the concept of comparative wage justice; (4) allow negotiated productivity based rewards to labour which are no longer distributed uniformly, nor to labour, nor paid in the form of wage increases (e.g. employer contributions to superannuation schemes).

At the industry and enterprise level, the Accord has promoted an examination of work and management practices, a rationalisation of the award system, introduced training and education into the industrial relations agenda, extended access to occupational superannuation and facilitated a reduction in the number of unions. From 1987, the process of award restructuring through the Accord enabled the Government and the ACTU to reduce job demarcation, allow for broad-banding of job classifications, increase job training expenditure and reduce employee turnover. An industry training levy was introduced in 1990 to reinforce the training/education content of award restructuring.

The Accord has had to contend with the separate approach of some State governments. In 1984 a conservative Queensland Government implemented far-reaching legislation along the lines of current New Zealand reforms. These reforms were specific to the electricity supply sector (Guille, 1985). However, the conservative New South Wales government has just introduced legislation that effectively introduces enterprise based bargaining, enterprise unionism and curbs trade union rights within the jurisdiction of New South Wales.

Despite the significant changes achieved under the Accord, it is subject to criticisms from two perspectives. First, the pro-market lobby see the centralisation of the labour market and the pre-eminence of the Industrial Relations Commission and the ACTU as being conducive to a misallocation of labour resources. Most media commentators and editorialists frequently claim that the labour market remains rigid in the face of such impediments as national wage determinations, the award system, compulsory arbitration, multi-union enterprises and craft based unions. These business lobbies and the Federal Opposition are pushing for greater deregulation of the labour market by proposing enterprise based agreements, enterprise based unions and greater emphasis upon productivity based wage determination (McLaughlin, 1989; Howard, 1990).

Secondly, institutional critics of the Accord and its range of labour market reforms (Bramble, 1989; Schofield, 1989) claim that it has eroded many wage determination principles, compromised equity in favour of efficiency, done little to address the problems faced by disadvantaged groups in the labour market and impaired long-term productivity growth. Particular problems identified in the mid-1980s including regional labour market imbalance and inadequate pre-school and child care facilities have been either ignored or only slowly acted upon. Many of the macroeconomic objectives of the Accord arrangements such as increased capital accumulation, higher productivity growth and an improved trade balance have failed to materialise. Furthermore, the onus of restraint has been very one-sided with non-wage incomes and executive and senior public service salaries not subject to the same controls or evaluative criteria as wages. The critics of the deregulation, supply side approach (Stilwell, 1986) see the potential for the erosion of living standards for many workers, greater segmentation of the labour market and growing inequality in the distribution of income.

The April 1991 rejection by the Commission of the Accord wage principles, the imposition of restrictive monetary and fiscal policies, together with the massive increase in unemployment over 1990 and 1991 placed the future of the Accord in considerable doubt. However, in early 1992, the Prime Minister indicated that the government would relax both monetary and fiscal policy in order to stimulate the economy, and reaffirmed the key status of the Accord in government policy setting. The upshot is that despite the growth in the labour force size and quality over the 1980s, by 1991 the economy had returned to the double digit unemployment rates that had characterised the pre-Accord period. This reversal endorses the observation of Chapman, Hanlan *et al.* (1991) that 'the recent growth in unemployment with continued wage restraint underlines the fact that other factors (besides real wages) influence unemployment' (p. 49). The fundamental understanding behind the Accord, that of jobs for wage restraint, had been virtually abandoned by 1991.

5. New Zealand

The New Zealand experience was completely different. Although a labour government was elected in New Zealand only one year after Australia's, the policies adopted in New Zealand were almost the complete opposite of those followed in Australia, and opposite to those which the New Zealand electorate had expected. New Zealand labour governments, unhindered by the constitutional limitations imposed on their counterparts in Australia, had frequently initiated radical reforms. The Fourth New Zealand Labour Government did go in for radical change, but radical change associated with the policies of the New Right. The result was a traditionally left wing Labour Government implementing 'free market' policies.

New Zealand had had conservative National Party governments since 1975. In 1982 a National Government had imposed a stringent wage and price freeze in an attempt to halt inflation. This and their foreign policies made them extremely unpopular and by July 1984 they had been voted out of office in a snap election, and a new Labour Government installed. Given the suddenness of the snap election, the Labour Government had been elected largely without a manifesto. Partly as a result of this, and what the Reserve Bank claimed was a 'foreign exchange crisis', a one-sided struggle—what Jesson (1989) called a bureaucratic coup—developed over policy within days of the election (Collins, 1987). Initially a series of consultative 'summits' were held as those on the left of the Party attempted to transplant Australia's corporatist framework (Collins, 1987; Jesson, 1989). However the debates within these forums soon became irrelevant as policy making was hijacked by a small group of economic advisers (Jesson, 1989). The new Labour Government soon began to unfold a programme of monetarism and economic liberalism (Bollard and Buckle, 1987), eagerly assisted by influential business interests and right wing officials (Treasury, 1984, 1985; Zanetti *et al.*, 1984; Zanetti, 1985).

The Labour Government faced little opposition from the Left when implementing their pro-market policies. Alternative policies were seldom debated. This was partly as a result of the Left being distracted by international issues. Also, many traditional Left wing groups were confused. Some trusted the government and accepted the changes as 'necessary'. Some opposed the thrust of policy but did not fully articulate their opposition to policies because of their continued support of the Labour Party.

However, the most important reason for the ease with which pro-market policies were implemented was the fact that the Government developed a 'blitzkrieg' style of reform which tended to overwhelm critics.

The scope of the Labour Government reforms were considerable. Within the first year of office it began implementing policies which internationalised and deregulated the economy, reduced the size and functions of the government administration, and radically reformed the nature of the State's welfare and taxation systems (Bollard and Buckle, 1987). Most importantly for the general state of the economy, the Government effectively destroyed large sections of the manufacturing sector through the removal of import protection, increased unemployment with massive state redundancies (Brosnan and Rea, 1991), and forced the economy into a monetarist recession in order to reduce inflation.

The impact of these policies on the labour market was considerable. Government policy was largely informed by the ideas of officials from the Treasury and the Reserve Bank. These institutions argued that the effects on the labour market of unaccommodating monetary policy, State sector reforms, and economic deregulation would be transitory (Treasury, 1987). This surreal optimism led to a blind adherence to the goal of reducing inflation, with little thought to the unemployment consequences. Unlike Australia, there were no formal consultative mechanisms or input from trade unions or business.

The Government also embarked upon a series of specific changes to the legislative environment of industrial relations. Yet in contrast to change in other areas, Labour's restructuring of private and State sector industrial relations represented one of the few areas where the agenda of the New Right (Jesson, Ryan, and Spoonley, 1988) was modified because of opposition and lobbying from other groups (Walsh, 1989; Oliver, 1989). This provides a contrast with Australia where more far reaching and comprehensive labour market reforms were implemented under the Accord process with trade union support.

The Labour Government instituted their first phase of changes in 1984. A Wage Fixing Reform Bill was introduced within months of attaining office. The aim of this legislation was to produce an orderly breakout from the wage freeze. It implemented an annual Tripartite Wage Conference to precede the annual wage round. This was meant to be a forum for consultations on the economic environment in which wages would be negotiated, as well as to specifically consider the interests of the low paid. The new Act directed the Arbitration Court not to take historical relativities into account when arbitrating an award. At the same time compulsory arbitration of interest disputes, the heart of the industrial relations system since 1894, was abolished. This allowed employers in weakly organised industries to refuse to settle an award and, on its expiry, to revert to individual contracts or in-house agreements.

These new arrangements may have made the breakout from the freeze more orderly than it might have been, but there were so many anomalies to be addressed especially in the public sector that wages exploded when free bargaining was restored in 1985. The mean increase in awards and agreements over 1985 and 1986 were 15.8% and 17.2% respectively (Harbridge, 1990). Concern over the re-emergence of inflation, given the experience in 1985-1986, was to dominate the Government's approach to the industrial relations system for the next five years.

The second and more comprehensive phase of reform was the enactment of the Labour Relations Act 1987. The passage of this Act, unlike the later State sector reforms, was preceded by a lengthy period of public debate and consultation. In this process, the major goal of the Federation of Labour (FOL) was to ensure that the existing bargaining structure, and in particular the national award system, was protected. The New Zealand Employers Federation's position, however, was somewhat schizophrenic. While it argued for extensive reforms, it was also required to adopt a politically pragmatic position and address its arguments to the realistic limits of potential reform. The far Right position in the debate was represented by the New Zealand Business Roundtable (1988), which, like the H. R. Nichols Society in Australia, argued for much greater deregulation of the labour market. They argued for a return to the common law (Brook, 1990) as the primary means of regulating employment relations, the abolition of conciliation procedures and other legislative dispute procedures, and the abolition of the Labour Court with its jurisdiction passing to the ordinary courts (Kerr, 1991). The debate was also reflected within Government and in particular, the different approaches taken by Treasury and the Department of Labour (Walsh, 1989).

The eventual Act was less radical than many had imagined, and on balance the union movement's view probably prevailed. Nevertheless significant changes were made to the legal structure of labour relations. The most significant change was the introduction of a requirement that a worker could be covered by only one registered award or collective agreement. This discontinued the previous situation of 'over-award bargaining' where some stronger groups of workers were able to significantly improve their pay and conditions by negotiating a collective agreement on top of an existing award. The primary concern was over the presumed inflationary consequences of over-award bargaining. The argument ran that the over-award settlements set the rate for the following award round and that these higher settlements were then topped up with an over-award settlement which set an even higher rate for the next round. As it turned out, though, the loss of the over-award bargaining reduced the flexibility of settlements.

Initially, the Act gave the power to cite out an employer from award coverage, and thus to be covered by separate negotiations, only to unions. This had the effect of significantly reducing the number of over-award agreements, as unions were reluctant to lose industrially strong groups of workers from their award negotiations. However, in many ways, the intent of the legislation was subverted by awards containing 'enabling clauses' which permitted those stronger groups of workers to receive a higher rate of pay. Just as in Australia such over-award payments continue to be negotiated on a collective basis outside of the Commission.

The formal industrial relations institutions were modified to reflect a clearer distinction between interest and rights disputes. An Arbitration Commission with supervisory jurisdiction over the settlement of disputes of interest and the registration of awards and other instruments was created. This body was given various powers to facilitate the settlement of disputes. It had the power to arbitrate, but only with the consent of the parties to the dispute. The role of the old Arbitration Court which had jurisdiction over both interest and rights disputes was significantly altered. The new Labour Court lost jurisdiction over interest disputes and had its

jurisdiction expanded in both the area of actions in tort arising out of a strike or lockout, and in the area of judicial review.

The 1987 reforms also altered the structure and powers of trade unions. The new act greatly increased the role of unions in personal grievance actions and many other areas which had previously been the responsibility of the Department of Labour. Registered unions were required to have a minimum membership of 1000. This requirement was much tougher than the equivalent legislation which would be introduced in Australia—aside from the different scales for New Zealand which had only one-fifth of Australia's population—since unions which did not have 1000 members within two years would be deregistered. At the same time, the new legislation provided an added disincentive for unions who wanted to exist outside the registration requirements of the Act. Collective agreements were no longer made enforceable like an award.

The 1987 Act recognised that a collective bargaining system implies a right to strike, and for the first time specifically stated that right in positive terms. The Act provided that a strike was lawful if it related to a matter that was the subject of a dispute of interest given there was no current award or agreement, or the current award or agreement's date of expiry was not more than 60 days after the commencement of the strike. There was additionally the possibility of a strike over 'new matters' or to obtain a redundancy agreement if there was no existing agreement.

Prior to 1987, the State sector's industrial relations system was largely separate from that of the private sector. The essential features of the State sector system were that wage fixing was based on the principle of 'fair relativity' with the private sector which meant in practice that the average wage rise received by private sector workers was passed on to State sector workers. The 1988 State Sector Act significantly changed State sector wage fixing arrangements and altered the nature of government departments. Departments which had previously belonged to a unified public service became more like separate corporations. The emphasis was changed from 'administration' to 'management' and market principles were expected to be employed. The former permanent heads were styled as chief executives and were given greatly enhanced powers over resources and staff. State sector trade unions were deemed by the Act to be unions registered under the Labour Relations Act 1987. The bargaining procedures of that Act were made to apply to the State sector with the important exception of a process of final offer arbitration.

With the implementation of the Labour Relations Act, the traditional bargaining system remained largely intact. Despite the opposition of the Business Roundtable to the award system, many employers, especially smaller ones, indicated their wish to maintain the national award system. Nevertheless, changes to working time arrangements, the breakup of some large awards, and employer aggression in the State-owned-enterprise sector gradually became apparent. Significant levels of unemployment, and a recessionary economy, enabled strident employer groups to use the Labour Relations Act to their advantage. Excepting 1988, every wage round since 1984 has seen a decline in real wages. Thus restructuring and economic reform has had a severe impact upon workers, particularly the low paid (Brosnan and Rea, 1992).

The decline in real wages went hand in hand with a severe increase in unemployment. Closures in manufacturing and construction, and the restructuring of the Public Service, in particular the sale and corporatisation of State assets and departments, substantially reduced the stock of jobs. The different measures of unemployment demonstrate this fact. By 1990, the registered unemployment rate was 11.8% of the full time (over 20 hours) labour force. Unemployment, as measured by the Household Labour Force Survey, was 7.8% of the measured total labour force. A third measure, the jobless, recorded twice as many persons again without jobs in 1990. What is more, the distribution of unemployment was relatively uneven, so that a disproportionate share was borne by women, young people, Maori and Pacific Island workers (Brosnan and Rea, 1992).

As in Australia, the increasing rates of unemployment were a stimulus to cut back on the benefit programme (New Zealand Business Roundtable, 1987). The Labour Government cut the unemployment benefit for teenagers, and means tested it against parental income. Temporary employment projects were scrapped and unemployed young people were forced onto training schemes. Benefit waiting times were increased and beneficiaries were expected to work for the dole plus a small supplement.

The Labour Party's reforms would have to be assessed as a failure in terms of the Government's desire to increase labour market flexibility. Over-award bargaining had provided a source of flexibility in both wages and conditions. Since this had been outlawed by the Labour Relations Act 1987, the pattern of settlements had showed less variation from the mean than those that had occurred under earlier legislation (Harbridge, 1990).

The New Right, through its capture of the Labour Government, was extremely successful in many areas. However its failure to implement pro-market industrial relations policies of significant stringency led many adherents to view the National Party as a more effective political vehicle. By the end of the decade, political infighting amongst the Labour Cabinet, combined with the general economic malaise, led to substantial disillusionment amongst the Labour constituency. The coalition, which had dominated New Zealand politics until the early 1980s, began to re-emerge. Of major importance in this coalition were both rural and big business interests. Both groups became increasingly vociferous in their lobbying for increased 'labour market flexibility'.

By 1989, this opposition led to a strengthening of the Left within the Labour Government. In stark contrast to its previous focus on decentralised labour market policies, the Government again attempted to build a corporatist framework modelled on the Australian Accord. Initially known as the 'Compact', and subsequently as the 'Growth Agreement', the intended aim of the policy was to enable trade unions to have a greater input into policy formation, in return for giving the Government more control over wage setting.

However the 1990 election was a landslide victory for the National Party, and Labour's Growth Agreement became largely irrelevant. It was replaced by National's rather vague election promise of labour market reform. The union movement feared the intentions of the National Government. Their main argument for continuing to support Labour had been that 'National would be worse'. However,

what was to unfold was worse for the unions than most of them had imagined. After a period of sustained lobbying by Treasury, the State Services Commission, the Business Roundtable and the Employers Federation, the more pragmatic in cabinet were convinced of the need for radical labour market deregulation. This was accomplished with the passing of the Employment Contracts Act 1991 (Anderson, 1991; Boxall, 1991).

The National Government's Employment Contracts Act makes a sustained break with the past in relation to the process whereby workers and employers bargain and negotiate about employment. The new legislation creates a competitive process of individualised contracting. The blanket coverage of awards has been removed, and replaced by individual and collective contracts. The new legislation requires that every worker must now have their pay and conditions of employment encapsulated in a contract. Individual contracts exist solely between the worker and employer, while collective contracts cover a number of workers. The legislation aims to make the legal rights and obligations established in employment contracts as similar as possible to other commercial contracts. Thus employment will be regulated by the law of contract, rather than special labour law. Towards this end, the legislation makes a strike illegal if it is during the term of a contract of employment.

The Act is also designed to sideline trade unions. The Act gives the traditional bargaining role of unions to 'bargaining agents'—an individual or group appointed by workers (or employers) to represent them. Bargaining agents negotiate contracts of employment (Walsh, 1991). The legislation turns trade unions into incorporated societies who along with other bargaining agents have to compete for the right to represent workers.

The new industrial relations environment maintains, and in some cases improves, most of the minimum statutory entitlements which existed previously. This minimum code of employment conditions covers such issues as statutory holidays, sick leave and minimum wages (Brosnan and Rea, 1991). Importantly, the code requires that every contract of employment contains an adequate personal grievance procedure.

The Act maintains a specialist quango, called the Employment Tribunal, whose function is to provide mediation and arbitration in the event of disputes over employment matters. An Employment Court both hears appeals from the Tribunal, and adjudicates on breaches of the Employment Contracts Act (Hughes, 1991).

The general effects of the new legislation are yet to become apparent due to transitional arrangements which maintain the coverage of awards until their expiry date. Despite this, it is possible to predict the effect upon the political system and the labour market of the changes.

In times of recession, the old system of industrial relations always drew criticism because it slowed the decline of real wages and, in a limited manner, protected the low paid. The Employment Contracts Act will effectively deunionise substantial portions of the labour force. Areas where trade unionism is already weak, or which have relied on the arbitration system to support unionism, will find it extremely difficult to force employers to negotiate. Those workers who lose union representation, or whose union is unable to negotiate a collective employment contract, will have to rely on their own resources to negotiate an individual employment contract. However, since collective bargaining advantage is related to individual bargaining

advantage, these disadvantaged segments can expect a further decline in their wages and conditions.

Farming and business interests, the traditional National Party constituency, have generally welcomed the prospect of the erosion of wages and conditions. However, removing legislative protection for trade unions and workers will also have a significant impact upon the political system. Perhaps cynically, this is a major reason for National's labour market reforms. Trade unions have traditionally been tied financially and politically, to the Labour Party. Weakening the Labour Party's trade union base will have a profound effect on the Labour Party's political strength. Correspondingly, this may also weaken the ability of workers to represent themselves within the political system.

6. The comparative economic performance of Australia and New Zealand

Historically the experience of both countries had shown close parallels. However, over the last decade, the difference in restructuring strategies led to a clear divergence in economic outcomes, despite both economies becoming increasingly integrated and experiencing similar negative effects from the international economy. As can be seen from Figs 1 to 5, the trends in a number of economic variables were remarkably similar until 1985. However since then the pattern in these variables has clearly diverged.

In both countries the governments were under economic and political pressure. Both governments had to deal with unstable commodity prices and a secular decline in the terms of trade. As with other OECD economies in the 1980s, the problem of unemployment had to be faced. Politically both governments were faced with a sustained pro-market challenge to traditional demand management policy and the public sector from within the bureaucracy and by well-funded business think tanks—collectively labelled as the New Right. The major reform agenda for the New Right was the labour market and the system of wage determination. In Australia the response of the Accord partners was to introduce labour market reforms within the corporatist context on a gradual basis, the purpose being to control the reform agenda and to undermine the New Right reform proposals. In contrast, the New Zealand Labour Government resisted labour market and wage determination reforms. However given its adoption of pro-market reforms elsewhere in the economy, it left the labour market conspicuously exposed to the incoming National Government. The way was open for a wholesale adoption of the New Right agenda and for reforms to be imposed without consultation.

There are a number of econometric studies for Australia over the 1983–90 period that are unanimous in their findings on the impact of the Accord. The Accord contributed to a reduction in the unemployment rate and wages growth, and contributed to significant employment growth over the period (Chapman, Dowrick *et al.*, 1991; Chapman, Hanlan *et al.*, 1991).¹

¹ These studies only assessed wage and unemployment outcomes, they did not consider other effects of the Accord such as income distribution. They also compared the Accord outcomes with forecasts based on a continuation of wage determination policies from the pre-1983 period. That is, the Accord did not generate better outcomes than all possible wage systems.

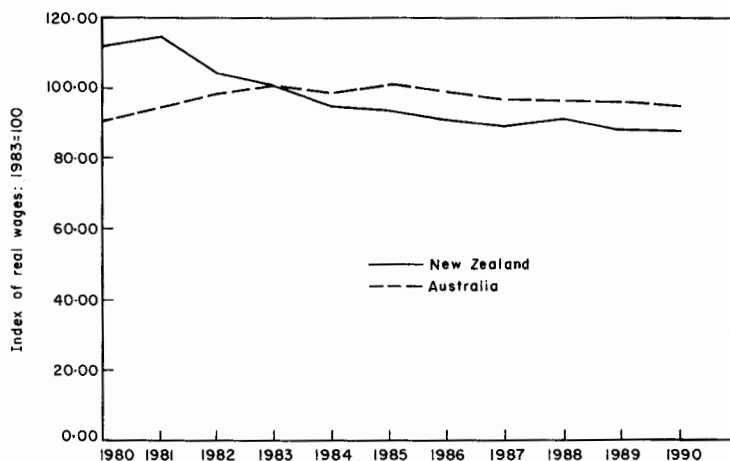


Fig. 1. Index of real wages.

Source: Foster and Stewart, 1991; New Zealand Department of Statistics, 1991.

Notes: Australian data uses June based year and is based on average weekly earnings. New Zealand data uses December based year and is based on the prevailing wage index. The two indexes are not completely similar. The New Zealand index is based on a survey which records actual paid rates, and thus shows the movements in actual wages accurately. In contrast the Australian index is derived from a measurement of average earnings. It is thus susceptible to composition effects.

Australian policies of corporatism were also more effective than the New Zealand policies of deregulation over the period 1984–90. On virtually every indicator, except inflation, the New Zealand economy became worse as the decade proceeded. The relative effectiveness of corporatist policies is also reinforced by the very recent Australian experience. By 1989 the Australian Government began moving away from its commitment to economic growth and job generation. Instead it embarked on a more restrictive, supply side approach to macroeconomic policy. As can be seen from Fig. 3, the result was a significant increase in unemployment by 1990.

As we have described, a central focus in both countries was the method used to constrain wage growth and introduce greater responsiveness in the labour market. The labour governments in both countries effected some reductions in real wages. The relative paths of real wages can be seen from Fig. 1. Since 1985, Australian real wages have declined slightly. However over the entire decade they have remained relatively constant. In contrast, New Zealand real wages have declined significantly. This was largely as a result of the wage and price freeze in the first half of the decade. Since 1985, the decline in real wages has occurred at a slower rate (except for 1988 when real wages increased) and this has paralleled the Australian experience.

In Australia, the system of centralised wage determination was used to constrain nominal wages growth and to introduce a range of measures to promote internal flexibility in the labour market. In New Zealand, the changes introduced by the Labour Relations Act 1987 had the effect of constraining wage growth, yet reduced the degree of wage flexibility because of the elimination of over-award bargaining. Given the current recession in New Zealand, and the bargaining regime of the Employment Contracts Act, there is likely to be a further decrease in real wages.

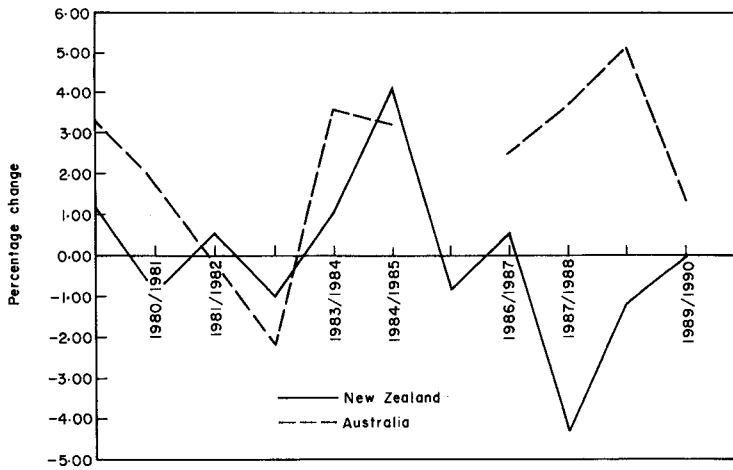


Fig. 2. Percentage change in employment.

Source: Foster and Stewart, 1991; Key Statistics, 1991; INFOS, 1991.

Notes: Australia data use annual August based yearly average. New Zealand data pre-1985–1986 are derived from the QES and uses a February based year. From 1985–1986 and after, the data are derived from the HLFS and use a December based year.

In contrast to the similar pattern of real wage decline, the growth in employment was radically different in the two countries. This is shown in Fig. 2. Since 1985, employment in New Zealand has largely continued to shrink as the Labour government experimented with monetarism and New Right economics. Over the last half of the decade, Australian rates of employment growth have remained largely positive. However, significantly, the rate of employment increase has declined since Australia adopted a very tight monetary policy position in 1989.

Unemployment rates are shown in Fig. 3. With the drastic decrease in employment in post-1984 New Zealand, the unemployment rate increased sharply. At the same time, the actual labour force also decreased. This was due to ongoing emigration (much of it to Australia), and a significant rise in the numbers of discouraged workers. In Australia, the growth in employment gradually reduced the unemployment rate after 1983, despite a continuing high rate of immigration, and increases in workforce participation. From 1983 to 1988 employment growth in Australia was among the highest in the OECD countries (OECD, 1989). However as with employment, the trend reversed in 1990.

The growth in labour force numbers, shown in Fig. 4, demonstrates a similarly poor New Zealand performance. In 1985–1986 and 1987–1988, the labour force actually became smaller. Overall, throughout the latter part of the decade, the growth in the New Zealand labour force was smaller than in Australia. In contrast, until 1989, Australia's increasing rate of labour force growth was one of the highest in the OECD (OECD, 1989).

The impact of the recession in New Zealand had a significant effect on labour force participation rates. The trend of increasing female labour force participation was reversed, and the trend of decreasing male participation was accentuated. However

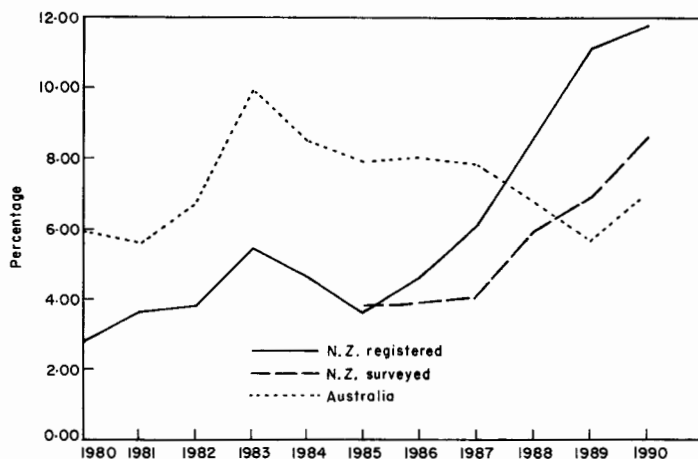


Fig. 3. Unemployment rates.

Source: Foster and Stewart, 1991; Key Statistics; Labour and Employment Gazette.

Notes: Australia data use August based year. New Zealand registered unemployment is based on December year monthly averages. New Zealand surveyed unemployment use December quarters.

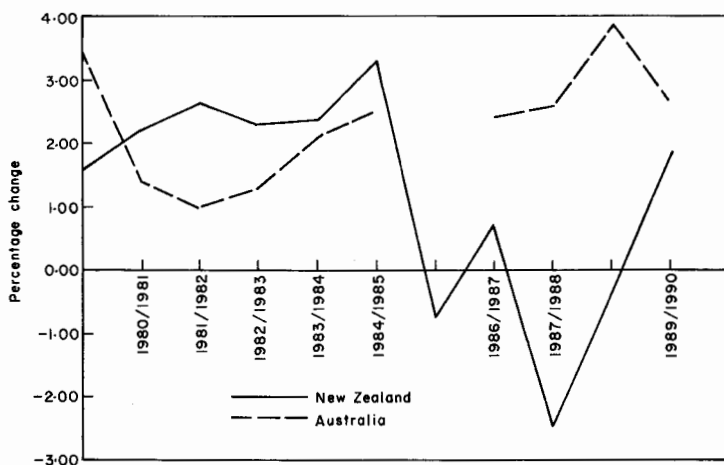


Fig. 4. Labour force growth.

Source: Foster and Stewart, 1991; Labour and Employment Gazette; Key Statistics.

Notes: Australian data use August based year. New Zealand data pre-1985/86 are based on the QES. This measures full-time workers and is a December year average. From 1985/1986, the New Zealand data are based on December quarters from the HLFS. This includes both part-time and full-time workers.

once the data are disaggregated further, the picture becomes worse. Disadvantaged ethnic groups within the labour market bore the brunt of the unemployment (Brosnan and Rea, 1992). Consequently, there was a significant decline in the

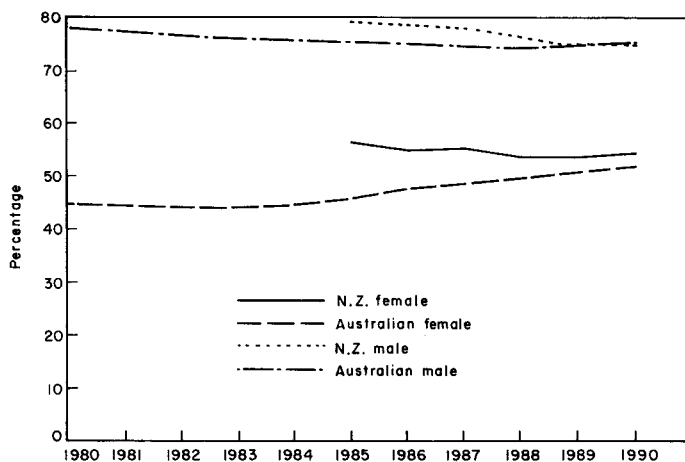


Fig. 5. Male and female participation rates.

Source: Foster and Stewart, 1991; Key Statistics.

Notes: Australian data use August based year. New Zealand data use December based year.

participation rates of these ethnic groups. This was a major component of the change in overall participation rates.

Figure 5 shows the contrasting Australian experience. Australian participation rates maintained their historic trend. Female participation rates have continued their traditional pattern of increase, and male participation rates have continued their pattern of slow decline.

7. Conclusion

The policies of Australia and New Zealand governments, as well as the social, economic, and labour market institutions of the two countries, have traditionally been very similar. Yet in the mid-1980s the two countries undertook different strategies in an attempt to achieve labour market reform. At the beginning of the 1980s the trend in labour market indicators in the two countries showed close parallels. However, as a direct result of the differences in Government policy, there was a clear divergence in labour market performance over the period 1983–88.

The Accord process was the centre-piece of the Australian Government's reform of the labour market. In turn it was an integral component for the setting of macro-economic policy. Inflation and growth were targeted through controlling nominal wages growth and reducing real wages, and at the same time setting growth goals that would reduce unemployment rates. The wage restraint was largely accepted by the trade union movement in exchange for an improvement in the social wage and the generation of new jobs together with the successive reduction in the unemployment rate. The results were encouraging, yet by 1989 the process of consensus and achievement began to break down as the New Right became more influential in the policy-making process. A 1990–91 recession engineered through very restrictive monetary policy terminated economic growth and generated increasing unemployment. The Australian Government now favours both the dismantling of industry

assistance, and low inflation as macroeconomic priorities, despite the opposition from the ACTU. On top of this, the momentum of award restructuring and workplace reform was stalled by the March 1991 decision of the Industrial Relations Commission not to proceed with the details of Accord Mark VI. The depth of the recession, together with a change in Labor Party leadership, have led the Government in 1992 to re-examine its policies and the role of the Accord. Unemployment has been given priority, fiscal and monetary policies have been relaxed and the Accord has been given centre stage in the Government's policy approach. With elections due in early 1993, the electorate is being given a choice between the corporatist type approach of the Government versus the deregulationist approach of the Opposition parties.

The New Zealand Government on the other hand, readily accepted the emergent hegemony of monetarism and neoclassical economic ideas in 1984. A wide range of government policies adversely affected the stock of jobs in the economy. Most importantly, there was a single-minded pursuit of low inflation. As a result, the economy was forced into recession in an attempt to lower inflation because the labour market was believed to be an important transmission mechanism for price increases. The labour market bore the brunt of the anti-inflationary policy. Unemployment, resulting from high exchange and interest rates, was used to force a decline in real wages. The gradual evolution of labour market 'deregulation' was a consequence of an attempt to make real wages more responsive to unemployment, as well as the ideological desire to make the labour market function like that of the textbook model.

In both countries the political pressure exerted on the Labour Governments by the New Right was considerable. The labour market was central to the reformist agendas of the pro-market lobby groups. In particular, the arbitration system was seen as supporting trade unions, limiting workplace reforms and setting unrealistic wage rates. The Accord was used in Australia to introduce gradual and controlled reforms to the labour market. The New Zealand National Government was more abrupt and direct in its approach to labour market reforms.

It is debatable whether the corporatist approach used to shape the reform agenda can protect labour and trade unions from the pro-market lobby. The recession of 1990-92 in Australia has been used as proof of the failure of the Accord and has been seized upon by the Opposition parties with their introduction of an election manifesto which, apart from significant cuts to the public sector and a massive privatisation programme, outlines the wholesale deregulation of the labour market and wage determination system (Liberal Party, 1991).

The relative experience of Australia and New Zealand over the late 1980s provides a general lesson for policy makers in other countries. The differing performance of the two countries mainly reflects both different policy objectives and different policy instruments employed. The success of the Australia Accord *vis-à-vis* New Zealand policies clearly demonstrates the potential effectiveness of corporatist policies as endorsed by studies of comparative economic performance across OECD economies (Layard, Nickell and Jackman, 1991). It supports the hypothesis that policies based on negotiation between sectoral groups, although difficult to sustain, are more successful than the equivalent monetarist and pro-market alternatives. Compared to New Zealand, Australia was more successful at achieving both sustainable structural

change in the labour market and an appropriate balance between inflation and unemployment in the period 1983–90.

Subsequently, both economies have seen significant increases in unemployment. This indicates that while corporatist arrangements may generate better outcomes with all other factors constant, once governments impose restrictive fiscal and monetary policies to support the current account, then growing unemployment queues are inevitable, regardless of incomes policy arrangements.

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