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- (2) The decision to essay a work value assessment in the metal trades,

can it be said that the laudable cause of achieving a sound and consistent wage policy in Australia has been promoted by the introduction of these complicating factors?

Have not the relatively simple issues of a basic wage and margin assessment on general economic factors been complicated by unnecessary doubts arising from:—

- (1) The extension in all awards of "relief" measures for low wage earners; and
(2) A work value assessment on criteria not yet resolved?

Might not the future wage, therefore, be constructed of at least three elements—

- (1) the "basic" or "foundational" element crystallised in the rate payable to the low-wage earner,
(2) a margin assessed on work value premises,
(3) a revision of both of the above elements (1) and (2) on economic grounds?

One cannot predict the exact place the 1966 decisions will take in the history of wage fixation in this country. They could become the guide lines for future assessments, or the principles referred to might well be discarded in future judgments.

At least one can be sure that the Commission's demonstrably but healthy disregard for precedent in dealing with what has been described as a "dynamic" situation in the field of socio-economic affairs, will enable answers to be provided not only to the questions raised in this paper but to the many questions which have not been asked.

FOOTNOTES

1. Presidential address to the Industrial Relations Society of N.S.W., Aug. 24, 1966
2. *My italics.*

The Present Position of Commonwealth Basic Wage Determination

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1. THE BACKGROUND

UNDER the constitution of the Commonwealth the Commonwealth Parliament may make laws with respect to "Conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State." Mr. Justice Higgins, the second President of the Commonwealth Court of Conciliation and Arbitration established under this plactum, determined in his celebrated Harvester Award in 1907 what became the first Commonwealth basic wage. It was a basic assumption of Higgins that such a basic wage was essential if industrial disputes were to be prevented. "Unless great multitudes of people are to be irretrievably injured in themselves and in their families, *unless* *society is to be kept perpetually in industrial unrest*, it is necessary to keep this living wage as a thing sacrosanct, beyond the reach of bargaining." (my italics) Higgins said in a *Broken Hill* case.¹ The basic wage necessary to prevent industrial disputes must meet the basic needs of the worker and should cover "the normal needs of an average employee regarded as a human being living in a civilized community";² a criterion having strong ethical overtones. This industrial relations/ethical approach informs the whole Australian system of wage determination by compulsory arbitration, of which Commonwealth arbitration constitutes the leading sub-system, and not merely basic wage determination.

The concept, "normal needs of an average employee", has, however, no objective basis. Moreover, how can one be sure that the economy can afford the particular standard decided upon? Higgins solved both these problems by taking as his guide the wages being paid by non-profit-making bodies, e.g. semi-governmental authorities and municipal councils, at the time. Higgins's "needs" standard was the conventional standard of the time as enjoyed by those employed in non-profit-making concerns. He in effect assumed that other employers could meet similar

standards from their profits. Anderson is undoubtedly correct in his view that Higgins's "decision was really based on the capacity of industry to pay that wage."³ Higgins, however, did not have to look at things in this way, as, being concerned in his earlier decisions with a relatively small number of employees, the capacity of industry at large to pay was not an issue. This made it easy for him to stress the ethical aspects of his basic wage.

Capacity to pay did not become an issue in basic wage determination until the depression in 1931, when the Arbitration Court, in accordance with the dominant economic theory of the time, reduced the previously sacrosanct Harvester standard by 10%, because of the reduced capacity to pay of the economy. "For this Court to fix a basic wage at an amount which would procure an average standard of living such as the Court would gladly see prevailing, would be worse than futile if the nation's income was not large enough to maintain the prescribed standard,"⁴ said the Court. It was clear that Higgins's industrial relations/equity considerations could be in conflict with capacity-to-pay considerations, and that in the last resort the former had to give way to the latter. Earlier, in 1922, in a precursor of the later key margins cases, Powers J., largely because of difficulties in the import-competing industries, had reduced margins below the level to which they had been raised in the previous year by Higgins.⁵

But if in times of economic difficulty capacity-to-pay considerations could result in determination of a basic wage below what might be considered desirable on industrial relations/equity grounds they might in more favourable circumstances lead to a raising of this standard. In a case for restoration of the Harvester standard in 1933 the Court said, "What must be sought is the independent assessment and prescription of the highest wage that can be sustained by the total of industry in all its primary, secondary and ancillary forms."⁶ In such an exposition of the concept of capacity to pay, vague though it might be, the latter takes on some of the ethical overtones formerly attaching to the "needs" criterion. Higgins's assumption that if industrial unrest is to be avoided employees must be paid a living wage must be presumed to be expanded into one that employees must receive a large share in any growth in national productivity. In 1937, prosperity loadings were added to the basic wage, thus raising it above the Harvester standard. As early as 1927, however, capacity-to-pay considerations played a decisive part in the reduction of standard hours per week in certain industries from 48 to 44 hours.

The meaning of "capacity to pay" is to be considered further later

in this paper but it is clear that in the period discussed the Court developed a pragmatic approach, considering many factors that might have a bearing on a decision. Study of the cases cited, however, among others, suggests that from 1922 onwards the situation of the export industries, or of the import-competing industries, or of both, were the main criteria of capacity to pay in major cases. It may be noted that these criteria are indirect ways of looking at the balance of payments.

2. AFTER WORLD WAR II.

After World War II the Court followed established principles in awarding an interim basic wage increase in 1946 and a 40-hour week in 1947. It soon became apparent, however, that the achievement of a full employment economy was giving rise to a new problem, that of inflation. In principle, there is perhaps no reason why the Court should not have dealt with inflation in terms of its traditional categories. Capacity to pay a given wage must still be assessed in terms of the situation of the export and import-competing industries, and capacity might exist notwithstanding the existence of inflation. As, however, the development of inflation could be expected to put increasing pressure on these industries, and perhaps leave the economy vulnerable in the long run, it is understandable that some judges should have sought to establish a new sub-criterion for wage determination, prevention of inflation.

As a result, conflict between industrial relations/equity and capacity-to-pay considerations again arose. It appeared very sharply in the 1950 basic wage case when Foster J., one of the majority judges granting an increase of 20/-, stressed the prosperity of primary producers and the high price of wool, while Mr. Justice Kelly, in a minority judgement refusing an increase, stressed the threat of inflation.⁷ In 1952, when Mr. Commissioner Galvin refused a rise in margins because of inflationary trends in the economy, the Kelly view prevailed, as also did it in 1953 when the Court abolished automatic cost-of-living adjustments. At this time also the High Court affirmed the power of the Arbitration Court to take economic considerations into account in its determinations. In the words of Dixon C.J., "It would be absurd to suppose that it was to proceed blindly in its work of industrial arbitration and ignore the social and economic consequences of what it was invited to do."⁸

The industrial relations/equity-capacity to pay conflict then subsided for a time as a marked decline in the rate of price increase occurred. The abolition of automatic cost of living adjustments had made more

frequent basic wage hearings desirable and basic wage cases occurred annually from 1956 to 1961. In this period the basic wage was increased in every year except 1960. General increases in margins occurred in 1954 and 1959. The Commission's⁹ approach to the relation between wages and prices during this period may be illustrated by the following passage from the 1957 basic wage decision. "Because most critics of an increase in wages seem to suggest that the tribunals responsible for the increase are not aware of the fact [i.e. that prices will increase as a result] it is stressed that the Commission is aware that any increase in wages must of itself alone mean some increase in costs, but while attention has been paid to this fact and some hesitation caused because of it the conclusion reached is that it is in the best interests of the whole community and constitutes industrial justice that the worker under federal awards should receive an increase of 10/- in his basic wage."¹⁰ Broadly, if the situation of the export and import-competing industries were such as to permit of wage increases the Commission would grant them even though this would result in price increases.

This being the Commission's approach it is not surprising that during this period it was subjected to criticism on account of the alleged inflationary effects of its decisions. In 1959-60 the rate of price increase accelerated and boom conditions developed in the economy. Many considered that the system of annual basic wage cases meant a multiplying of pressures on the Commission for wage increases. Another aspect that aroused attention was the growing gap between minimum award wages and earnings.¹¹ Stronger groups of workers were obtaining over-award payments by various types of direct bargaining while *real* minimum award wages were remaining almost unchanged.¹² This was a development of great importance for the Commission's work. Some modification of its approaches seemed necessary if it was not to abandon its traditional function of maintaining the relative standards of weaker groups of workers.

The Commission in 1961 attempted to provide an answer by introducing a new procedure. Major revisions of the basic wage were to occur only every three or four years instead of annually. In between basic wage cases the basic wage was to be adjusted annually for cost of living changes, not automatically, but subject to any representations the parties might wish to make to the Commission. It was doubtless hoped by this means both to reduce the pressure on the Commission for wage increases and, at the same time, to increase the protection given to weaker groups. In the event, prices were stable over the first two years of the new approach, and no cost of living adjustment was necessary either in 1962 or 1963.

In the meantime, however, very strong academic criticism of the Commission's procedures and determinations had developed on the ground of their inflationary effects. Dr. (now Professor) Keith Hancock suggested "that the principal economic objective should be to award such increases in wages as are consistent with the maintenance of full employment and a stable price level. This objective should be qualified by reference to the overseas trading position. The attainment of stable prices requires that the rate of increase of money wages would approximate the rate of productivity increase."¹³ Professors Downing and Isaac argued similarly, and were also very critical of the new system of three to four yearly reviews. They argued that the latter approach rested on "the belief that somehow the accumulation of *past* productivity increases is still available for distribution to wage-earners by wage increases", whereas in fact "The loss of wages suffered by wage-earners *in the past* cannot be recaptured from future profits, unless it can be assumed that employers would be willing to lower their future profit rates."¹⁴ Downing and Isaac advocated a quarterly productivity adjustment. Against these views, however, Professor Edwards and K. M. Laffer argued that the reasons for adoption of the three or four year review, with quasi-automatic annual cost of living adjustments in between, were still valid. They considered that under Australian conditions adjustments for productivity had no clear-cut superiority over cost of living adjustments. In their view the Commission should develop in the direction of concentrating its attention more on the weaker groups of workers.¹⁵

In a margins decision in 1963 and in its 1964 basic wage determination the Commission, although it rejected automatic adjustment for price and productivity increases as a principle, in effect adjusted for both. Kirby C.J. and Moore J. in their majority judgement awarding 20/- increase in the basic wage in 1964 said that, "To reject now the implications of the 1961 judgement might in our view be properly regarded particularly by the unions as a breach of faith by the Commission."¹⁶ A return to annual basic wage cases was foreshadowed. In minority judgements awarding only 10/- Gallagher J. and Nimmo J. attached considerable weight to the desirability of price stability.

3. BACK TO START?

Sure enough, the day of the triennial review was over, and there was another basic wage case in the following year, 1965. In a change in the balance of power on the Commission reminiscent of that between 1950 and 1952-53 the previous minority approach became the majority one. The monetary difference between the majority and minority judgements was not great, and, waiving the fact that the majority award was not

strictly a basic wage increase, has been estimated at between 1/- and 3/- for most manual workers.¹⁷ But the conflict in principle was considerable. The majority judgement gave priority to price stability considerations: "In the present state of our economy the Commission should not deliberately grant increases which it considers likely to be incompatible with price stability."¹⁸ The minority judges, however, gave priority to industrial relations considerations. "It is," said Moore J., "a question of competing priorities; whether the Commission should act as if its primary function were to attempt to create or sustain a favourable economic climate and its secondary function were to attempt to resolve problems of industrial relations or whether the last is the Commission's primary function and the first its secondary. In my view the Commission should always give priority to problems of industrial relations."¹⁹ Both majority and minority judgements, however, considered that the state of the economy was not such as to permit of large wage increases being awarded and in that sense the conflict was less acute than in 1950.

Shortly after the 1965 wage decision the Committee of Economic Enquiry, under the chairmanship of Sir James Vernon, made its report and in its Ch. 7 on "Costs, Prices and Wages" it supported, with some qualification for industrial relations considerations, the objective of price stability in wage determination. In support of its view the Report referred to the very small variation in the share of wages, salaries and wage supplements in gross national product at factor cost, with primary production, mining and quarrying excluded, over the years 1948-49 to 1961-62, after elimination of the exceptional years 1951-52 and 1952-53. The Committee concluded: "There is virtually no correlation between the rate of increase of wages and changes in wages shares. Even if an increase in the share of income going to labour were considered desirable, wage increases could hardly be considered an effective technique for achieving it . . . This stability of distributive shares has been observed in many countries . . . The proposition that, if average earnings move in line with the growth of national productivity, locally determined prices will be approximately stable appears to be correct . . ."²⁰

The Vernon Report represented the high-water mark of the price stability interpretation of capacity to pay. At the A.N.Z.A.A.S. conference in Hobart in August, 1965, this approach was subjected to very severe criticism by Professor Russell.²¹ Russell cast doubt on the view "that the rate of growth of earnings is substantially at the discretion of the Commission."²² He argued that "the reduction in the rate of increase of earnings obtained by checking the rate of increase of awards is . . . not a permanent achievement—it buys time, but creates growing pressures for the relaxation of wage restraint or for by-passing the arbitra-

tion procedure."²³ Even if award wages did determine the rate of growth of earnings economists could give no assurance that increases in prices associated with excessive increases in non-wage incomes would not occur, he said.²⁴ The complications for a productivity wages policy arising from Australia's overseas trading had not been adequately analysed.²⁵ If earnings per adult male employee had increased in step with productivity from 1945-46 to 1963-64 "the share of wages and salaries in national income would have been severely depressed"²⁶ as a consequence of the increases in import and export prices that had occurred. Seen in perspective "the Commission's performance in the postwar period has been quite impressive."²⁷

By the time of the 1966 basic wage case these ideas were being widely discussed. In the case itself the unions presented evidence that the share of wages and salaries in gross national product, after excluding primary production, mining and quarrying, far from being approximately constant, as the Vernon Committee had argued, had, on revised figures, actually declined significantly over the period 1948/49-1963/64.²⁸ Three subpena'd members of the Vernon Committee gave evidence that largely accepted the unions' submissions on this point.²⁹ The assumption that, because the share of wages and salaries in G.N.P. was always the constant anyway, there was no need to increase wages to maintain the share of labour, seemed to be destroyed. Two of the three judges were obviously impressed by this argument, although they did not make their judgements depend directly upon it. Thus Gallagher J. said, "In relation to this aspect of the proceedings, I have formed the opinion that the necessity of providing for constancy of shares is a matter to be taken into account in the determination of the claims now before the Commission."³⁰ All the judges felt that some adjustment of wages for price increases was desirable and all felt that the economy was able to support wage increases. Moore J. also felt that an increase "should give some desirable stimulus to consumer spending."³¹

The notion of a productivity-gearred wage policy, with its over-riding emphasis on price stability, was in effect rejected by all the judges. Referring to his decision the previous year, Gallagher J. explained "the majority was influenced by economic circumstances existing at the time of its judgement."³² The prices-plus-productivity approach was also rejected, although Moore J. reiterated his view that priority should be given to problems of industrial relations and stated that the Commission "should take into account both price movements and productivity."³³ Gallagher J., in a most important statement, indicated the significance of incomes policies, or lack of them, for the Commission's determinations. "There is no doubt", he said, "from the point of view of estab-

lishment of their respective cases, things could be made easier for the unions if there were adoption of the 'prices and productivity' formula and for the employers if there were adoption of their theorem of keeping wage rises within a range determined by productivity growth. But in the absence of an incomes policy designed to make either formula practicable the longstanding method of forming a judgement upon what the nation can afford cannot safely be subordinated. Real economic capacity to pay must always remain the dominant consideration.³⁴ This statement is very important not only in itself but also because of its similarity to the views of the two minority judges in the 1965 basic wage case, thus indicating the development of some consensus, where previously there had been conflict, on this important issue of principle.

In the event the Commission unanimously awarded a basic wage increase of \$2.00. Cost of living adjustments were again refused. All members of the Commission indicated willingness to consider a total wage approach in future.³⁵ As regards margins the Reference Bench (i.e., the Presidential Bench with the addition of Mr. Commissioner Winter) decided that Commissioner Winter should undertake a work value investigation into the 330 classifications listed in the Metal Trades Award. Meanwhile the 31 lowest classifications, having margins of between 90c and \$3.60, are to be paid a uniform minimum margin of \$3.75, provided they are not already receiving over-award payments that take them above this minimum. Thus a man on a margin of 90c will receive a basic wage increase of \$2.00 plus a margins increase of \$2.85, totalling \$4.85.

4. ECONOMIC ASPECTS OF BASIC WAGE DETERMINATION

The conflict between economic and industrial relations/equity aspects of basic wage determination appears therefore to be at least temporarily resolved. As the unanimity of the judges in the 1966 case is expressed more in their decisions than in their reasoning, one cannot be too confident, but at least the opposed positions of price stability and prices-plus-productivity have been rejected. The judgement of the Commission in the 1966 case is very similar in its approach to those in the annual wage cases of 1956 to 1960, which in turn have much in common in principle with major pre-war cases. This approach is pragmatic, with considerable attention being given to whatever economic factors seem important at the time, though with ultimate regard for balance of payments considerations.

A more precise notion of capacity to pay seems, however, to be most desirable. To help solve its problems here the Commission should consider making more direct use of the theory of incidence of wage

increases.³⁶ This theory indicates broadly that when wage increases occur in excess of productivity increases they tend to be passed on through cost and price increases to those sections of the community which cannot pass them on any further. Wage increases may, of course, be paid for wholly from productivity increases, and even if they exceed the latter they may be paid for partly by wage-earners themselves through price increases. Usually, however, some gain accrues to wage-earners and a varying proportion of the burden is borne ultimately by other groups who cannot pass on to others the cost increases falling upon them. These include fixed income groups, though some of these eventually receive some measure of adjustment. Mainly, however, they will be the unsheltered export industries and import-competing industries. The analysis could be carried further. For example, farm export industries might be able to pass their burden on to land-owners, but as Australian farmers and graziers usually own their own land, this aspect may be neglected. Such considerations may, however, be of limited relevance in the case of exporters of minerals. Import-competing industries may have to curtail their operations and part of the burden might then fall upon dismissed wage-earners, but as under full employment the latter will soon get jobs elsewhere, such effects are likely to be of marginal significance for this problem of incidence. Export-manufacturing industries probably have much in common with import-competing industries in this context.

The Commission, in the attention it has usually given to the position of the export and import-competing industries appears indeed to have had some such notion of incidence implicitly in mind. A more explicit recognition of the theory would, however, have enabled it to steer more adroitly in between and around the price stability and prices-plus-productivity approaches. When the unsheltered export and the import-competing industries are relatively prosperous, and especially if this prosperity is due to rising prices in the rest of the world, the price stability approach to wage determination will be seen by many to be inequitable to wage-earners. On the other hand, when these industries are having difficulties the prices-plus-productivity approach may impose excessive burdens upon them. There are many possible types of situation, and there are both short-term and long-term considerations to be taken into account. On some occasions the situation of the export industries may be of decisive importance; on others, that of the import-competing industries. The interpretation and weighting of the various factors involved will seldom be easy. The ultimate test is the viability of the economy. The limit to wage increases is reached when there is no one to whom the burden can be passed, as appears largely to be the case in the British economy at present. One might perhaps envisage a

case in which the government had pursued such loose and inflationary monetary and fiscal policies that the withholding of wage increases according to incidence theory would unreasonably involve attempting to make wage-earners pay for these maladroit policies; one would have a community problem which should be dealt with by exchange depreciation or similar drastic measure. In less extreme circumstances, however, the incidence approach, in spite of its difficulties, appears to provide a most useful approach to the Commission's problems. Its use would ordinarily seem to provide a means of very substantially narrowing the industrial relations/equity-capacity to pay conflict as seen in 1950 and as expressed in the recent price stability versus prices-plus-productivity argument.

An incidence approach also provides a perspective which would assist the Commission to assess the significance of the argument about the share of wages and salaries in gross national product. The assumption of constancy of shares by the Vernon Committee is itself most dubious and, in any case, there are many conceptual and practical difficulties in giving precise meaning to the figures used in such calculations.³⁷ The incidence approach shows in addition that, in any case, except in very exceptional circumstances such figures are of limited value for wage determination. They could give at best only a very rough guide in a situation in which the position of the export or import-competing industries had significantly changed, and it would be better to look at these last directly. They give almost no guidance at all when the calculations of labour shares are insulated from international price movements by exclusion of primary production, mining and quarrying from G.N.P. as in the Vernon Report.

5. INDUSTRIAL RELATIONS ASPECTS OF WAGE DETERMINATION

In basic wage decisions and in the economic literature concerning them considerable reference is made to industrial relations considerations. Some judges have stressed the priority of industrial relations over economic considerations, and others the reverse. Most economists have qualified their economic prescriptions with reference to the Commission's necessary interest in industrial relations. But whereas much of the economic discussion has been carried on with a high degree of sophistication and expertise, references to industrial relations issues have usually been slight and vague.

It is proposed therefore to ask what content can be given to the notion of "industrial relations considerations", and to discuss the possible significance of different concepts. Several possibilities suggest themselves.

(a) *Prevention and settlement of disputes.* This is the Commission's function under the constitution. In its literal interpretation, however, it is an objective that is carried out far more by the Commission's conciliation and arbitration work in particular awards and disputes than in general basic wage cases. The incidence of industrial disputes is influenced by many factors, including the strike-proneness of particular industries, the state of the economy, and special factors in particular cases. The effects of basic wage increases are, moreover, not clear cut. While a relatively low increase may give rise to protest strikes, a relatively high increase may lead to disputes over the absorption of over-award payments. As an illustration of the difficulties in this field we may compare the case of the fairly substantial basic wage increase of 20/- in June, 1964, and the exceptionally high 561,138 man-days lost in industrial disputes in Australia during the following September and December quarters, with the relatively small increase (not basic wage) averaging between 5/- and 7/- for most workers, in June, 1965, and the 412,848 man-days lost in disputes in the following September and December quarters.³⁸ Special explanations can no doubt be given but these merely serve to buttress the view that basic wage determinations are of limited and dubious value in the prevention and settlement of industrial disputes.

(b) *Preservation of the influence of the Commission.* If the Commission were over a period to give a continuing series of very low wage increases, the trade unions might be expected gradually to lose confidence in the Commission, and rely more and more on strike activity to achieve their wage objectives. One may think of basic wage determination, therefore, in a long-run sense of preserving the influence of the Commission so that the trade unions continue to look to it as a major source of wage gains, rather than feeling obliged to take strike action to achieve them. Hancock evidently has this in mind when he says, "*Except to the extent that it is contained in the general goal of preserving the Commission's influence, the settlement of industrial disputes cannot be regarded as a major function of basic wage cases.*" (My italics.)³⁹

Preservation of the Commission's influence perhaps means no more here than that the Commission should have at least a minimum regard for industrial relations considerations in its attempts to deal with economic aspects of wage determination. In so far as this is the case it is not an independent criterion but one that needs interpretation under one of the headings in the present discussion. If it means more than this it is a dangerous doctrine. An institution such as an arbitration system must be expected to do the best job it can according to adequate criteria and to be willing to give unpopular decisions if need be. Emphasis by

the Commission on the preservation of its influence could easily be a cover for intellectual weakness and failure to evolve an imaginative approach to its problems.

(c) *Determination of an ethical wage.* Another important interpretation of "industrial relations considerations" is that given by Higgins in his notion of a living wage beyond the reach of bargaining as being necessary for prevention of industrial disputes. Higgins felt that his task was to redress what he regarded as the inferior bargaining power of employees.⁴⁰ With the development of the capacity-to-pay basic wage, Higgins's assumption has implicitly been broadened to require for the employee a large share of national productivity growth if disputes are to be prevented. In the postwar world of full employment, however, the bargaining power of the trade unions has in general been increased relatively to that of employers, though the precise balance in bargaining differs in each union-management relationship and according to the situation at the time and the size of the claims made. Under these conditions the stronger groups of employees have often been able to obtain for themselves, through market forces and direct negotiations, over-award payments that have given them a share in national productivity growth. To the extent that this occurs they do not need the assistance of Higgins's living wage or of its capacity-to-pay variant. The Higgins and post-Higgins assumptions are no longer valid under full employment.

The traditional equity approach therefore probably needs modification in the direction of concentration of the Commission's efforts more on the needs of weaker groups. Less emphasis on general basic wage increases and more on the needs of particular groups would make it easier to give substantial help to the latter. It would also ease the problem of the Commission in times when the situation of the export and import-competing industries was not such as to permit of large general increases. The unusual award in the 1966 case of increases in margins for employees on lower margins, with suggested absorption of over-award payments, is perhaps to be regarded as a roundabout way of approaching this problem, though it is scarcely an adequate one.

(d) *The requirements of incomes policy.* Should incomes policies be developed in Australia the co-operation of employers, trade unions and governments would be required. A three-tiered system would almost certainly be necessary.⁴¹ The government's task would be to provide an acceptable framework of monetary and fiscal policy, with possibly subsidiary policies such as control of monopoly. Within this framework there would have to be agreement between employers and employees at the national level, possibly with government and/or arbitration assistance, regarding wage increases, etc. Such an agreement would have to

leave room for flexibility at the industry level so that in particular circumstances wage increases agreed upon between employers and unions might in some industries be above the national average and, in others, below it. Similarly, industry agreements would have to leave room for flexibility in the wages agreed upon between employers and trade unions at the organization level, some organization agreements providing for wages above and some below the average industry level. Arbitration tribunals could participate if desired, but agreement between employers and trade unions at all levels, within an appropriate framework of government policy, would be fundamental. An incomes policy cannot be imposed either by arbitration or government. An Arbitration Commission interpreting industrial relations considerations in this light would necessarily attach great importance to the development of close union-management relationships at national, industrial and organizational levels.

Sir Richard Kirby had thoughts along these lines when in the 1965 basic wage case he referred to the experience built up and incorporated in the 1961 basic wage decision and the undesirability of too ready an abandonment of the principles and approach of that decision. "In my view", he said, "advantage should now be taken of the fact that the unions and employers have in quite important ways been coming together rather than further apart in their submissions and arguments in national wage cases."⁴² This approach was, however, dropped by the majority judgement in that case.

The Commission also appears to be uncertain as to its role in the development of union-management relationships at the organization level. The growth in bargaining concerning over-award payments provides an opportunity for a positive policy in the direction of closer and more structured union-management relationships at the plant level. Unfortunately, space does not permit of consideration of the various statements of members of the Commission on this subject.⁴³ In general, however, the Commission's approach has been the rather negative one of dislike of over-award payments because of their threat to the authority of the Commission and the difficulty created for the Commission in carrying out its traditional function of maintaining the relative standards of weaker groups of workers.

Partly as a result of this a gap has developed in our industrial relations system at the organization level that is filled neither by the arbitration system nor by adequate union-management bargaining procedures. The filling of this gap is most desirable in itself, quite apart from any ques-

tion of incomes policies, for which it would be quite essential. Unofficial shop committees are in many cases attempting to fill the gap at present.

The Commission's reluctance to grapple with the problem of over-award payments may spring in part from fear that it would lose such influence as it has on the wages of stronger groups of workers. Influence may, however, be exercised in various ways. It may be used to maintain a system of wage fixation that is slowly collapsing or it may be used to guide the mixed compulsory arbitration/collective bargaining system that is developing. The latter appears to be the more constructive approach. There could be much for the Commission to do in the way of conciliation and voluntary arbitration in such a system, though these would have to be grounded in broad industrial relations considerations rather than in the principle of comparative justice. There might even be room for the moderate use of penalties under such a system as a means of putting pressure on the parties to reach agreement. Union-management bargaining at the organization level need not necessarily be on a pure collective bargaining basis. There are many possible variations on the arbitration/bargaining theme and those that are most appropriate will have to be discovered by experience.

(e) *The development of integrative bargaining.* Bargaining between employers and unions as commonly understood refers to situations in which one party's objectives can only be achieved at the expense of another party, i.e., where there is pure conflict of interest. Bargaining may also occur, however, over an issue in which the parties are not in fundamental conflict, e.g., where there is a problem of some joint interest to be solved. Walton and McKersie give the names, "distributive" and "integrative" bargaining to these two types of bargaining process.⁴⁴ Bargaining very often involves elements of both distributive and integrative bargaining, in different proportions in different cases. Some of the most promising developments in industrial relations at the present time are in the direction of integrative bargaining, well-known recent examples being the Fawley productivity agreement,⁴⁵ which dealt with a problem of excessive overtime, and the West Coast Longshore Agreement,⁴⁶ which dealt with problems arising from technological change. The arbitration system arose largely to control distributive bargaining but it would be very appropriate for it now to give increasing attention to how it might facilitate the development of integrative bargaining. The growth in over-award payments provides a basis for developments in union-management relations at the organization level which in turn could lead to more bargaining of the integrative kind. In working out its approach to basic wage determination the Commission must necessarily reach some decision as to the place of over-award pay-

ments in the Australian system, and in doing so will need to give major weight to these aspects.

Professor Hancock, in a recent study of earnings-drift in Australia, has argued that over-award payments are of limited importance, it being unlikely that they have been "responsible for as much as half of the long-term earnings-drift".⁴⁷ From the standpoint of industrial relations, however, absolute increases are in general just as important as percentage increases, as all increases have to be bargained for in some way or another. Moreover, one must not be too conservative about ascribing over-award aspects to payments by result and to overtime. H. A. Turner's evidence concerning the influence of piece-rates on time rates,⁴⁸ and Flanders's evidence concerning the spreading of overtime,⁴⁹ suggest the doubtful usefulness, from the standpoint of long-term movements in relative wages, of separating out the different elements in them. Relativity between total earnings probably tends eventually to become established. It is the qualitative aspects of over-award payments, however, that are more important for industrial relations. They are the focal point for possible major developments in our industrial relations system in the direction of filling the present gap at the organization level, the development of integrative bargaining, and conceivably the carrying out of incomes policies.

(f) *Attention to deeper sources of conflict.* Also to be considered, for the sake of completeness, though it is relevant for arbitration of particular disputes rather than for basic wage determination, is the extent to which it would be appropriate for Commissioners to develop more attention to the deeper sources of conflict at the organization level. What attention, for example, should Commissioners give to recent advanced work on employee motivation?⁵⁰ Difficulties arising basically from poor organization of the work, resulting in poor motivation, are probably the most important of all underlying sources of industrial conflict. Could Commissioners develop their role so that in particular disputes they would expect to hear evidence on such matters, in the same way as they now expect to hear evidence on economic matters in basic wage cases? This would provide a most constructive role for the arbitration system.

6. FURTHER COMMENTS

The industrial relations/equity-capacity to pay conflict would be greatly reduced if an incidence approach were adopted in basic wage determination. The price stability and prices-plus-productivity approaches would then be seen as special cases. The other major development needed is use of the growth in over-award payments to develop integrative bargaining.

Further comments also suggest themselves:—(a) The total wage, whatever its particular advantages or disadvantages, is seen to be largely irrelevant for the major issues of wage determination. (b) The abolition of cost of living adjustments, which occurred as a corollary of the price stability approach, must be reconsidered now that that approach has been rejected. These have the advantage of providing a rough but useful way of keeping Australian wages and prices in relation to overseas wages and prices, as broadly required by the incidence approach. (c) The high degree of articulation of Australian differentials based on comparative justice cannot be maintained as over-award payments grow. A new differentials pattern may be expected to evolve but this will not be based on comparative justice except in so far as the Commission is able to maintain the standards of weaker groups. As these developments have potential industrial relations advantages, the Commission should not resist them.

There has been much progress in industrial relations theory since arbitration tribunals began their work seventy years ago, and more use should be made of these developments. The scope for assisting the development of integrative bargaining and of using modern industrial relations theory in the settlement of particular disputes points to the possibility of a highly creative, indeed unique, industrial relations role for the Commission in the future. The potentialities are such that incomes policies could well turn out to be unnecessary. The increases in productivity that could come from improved industrial relations procedures would provide much more room for manoeuvre in the determination of wages and other conditions by management, unions and the Commission. This is all to the good, as although one cannot say at present that the difficulties of incomes policies are insoluble, they are certainly very great. The development of full employment in the macro-economic field seems to require a corresponding development at the industrial relations level, if the benefits of full employment are to be attained without the disadvantages of inflation. Integrative bargaining, assisted by the Commission, could be this development.

In this context those who, in the industrial relations/equity-capacity to pay conflict have stressed the priority of industrial relations considerations seem ultimately to have been right. In the end the solution to the economic problems of basic wage determination awaits the solution to the industrial relations problems.

FOOTNOTES

1. 3 *Commonwealth Arbitration Reports*, p. 32.
2. 2 *C.A.R.*, p. 3.
3. G. Anderson in ed. F. W. Eggleston and others, *Australian Standards of Living* (M.U.P., 1939), p. 68.
4. 31 *C.A.R.*, p. 309.

5. 16 *C.A.R.*, p. 231.
6. 33 *C.A.R.*, p. 149.
7. 68 *C.A.R.*, pp. 698-846.
8. 89 *Commonwealth Law Reports*, pp. 474-475.
9. The Court became the Commonwealth Conciliation and Arbitration Commission after amendment of the Act in 1956.
10. *Industrial Information Bulletin*, p. 130P.
11. See chart, Keith Hancock, "Earnings-Drift in Australia", *Journal of Industrial Relations*, Vol. 8, No. 2, July, 1966, p. 131.
12. Kingsley Lafter, "The Australian Economy, 1960", *Economic Record*, Vol. XXXVI, No. 76, Dec. 1960, p. 454.
13. K. Hancock, "Wages Policy and Price Stability in Australia", *Economic Journal*, Sept., 1960, pp. 550-1. See also "Wages Policy in Australia", *Journal of Industrial Relations*, Vol. 6, No. 3, Nov., 1964.
14. R. I. Downing and J. E. Isaac, "The 1961 Basic Wage Judgment and Wage Policy", *Economic Record*, Dec., 1961, p. 490.
15. H. R. Edwards and K. M. Lafter, "Some Issues in Australian Wage Determination", *Economic Record*, June, 1963, with corrections in *Ibid.*, Sept., 1963, p. 377.
16. *Industrial Information Bulletin*, Vol. 19, No. 5, May, 1964.
17. J. E. Isaac, "The Federal Basic Wage—Margins Case", *Journal of Industrial Relations*, Vol. 7, No. 3, Nov., 1965, pp. 226-227.
18. *Industrial Information Bulletin*, Vol. 20, No. 6, June, 1965, p. 637.
19. *Ibid.*, p. 665.
20. *Report of the Committee of Economic Enquiry*, 1965, chs. 7.24-7.29.
21. E. A. Russell, "Wages Policy in Australia", *Australian Economic Papers*, Vol. 4, Nos. 1 and 2, June-Dec., 1965.
22. *Ibid.*, p. 6.
23. *Ibid.*, p. 13.
24. *Ibid.*, pp. 11-12.
25. *Ibid.*, p. 15.
26. *Ibid.*, pp. 20-21.
27. *Ibid.*, p. 25.
28. For the figures see *Industrial Information Bulletin*, Vol. 21, No. 6, June, 1966, p. 774.
29. *Ibid.*, pp. 745-749.
30. *Ibid.*, p. 710.
31. *Ibid.*, p. 757.
32. *Ibid.*, p. 709.
33. *Ibid.*, p. 753.

34. *Ibid.*, p. 709, Sir Richard Kirby in *I.L.B.*, Vol. 20, No. 6, June, 1965, pp. 647-650.
35. See T. J. Kearney, this issue of the *Journal*.
36. See also D. Whitehead and M. Cockburn, "Shares of National Income: Some Neglected Implications", *Journal of Industrial Relations*, Vol. 5, No. 2, Oct., 1953; E. A. Russell, *loc. cit.*, pp. 15-23.
37. I. B. Kravis, "Relative Income Shares in Fact and Theory", *American Economic Review*, Vol. XLIX, No. 5, Dec., 1959, including a short bibliography. See also Institute of Public Affairs, *Review*, July-Sept., 1966, pp. 77-80.
38. Strike figures compiled from Commonwealth Bureau of Census and Statistics, *Quarterly Summary of Australian Statistics*, June, 1966, p. 15.
39. Keith Hancock, "Wages Policy in Australia, 1964", *Journal of Industrial Relations*, Vol. 6, No. 3, Nov., 1964.
40. 2 C.A.R., p. 3.
41. See Allan Flanders, *Industrial Relations: What is Wrong with the System?* (Faber, 1965), Ch. 5.
42. *Industrial Information Bulletin*, Vol. 20, No. 6, June, 1965, p. 662.
43. See Sir Richard Kirby, *I.L.B.*, June, 1965, pp. 662-3; Mr. Justice Gallagher, *I.L.B.*, June, 1965, pp. 639-40; Mr. Justice Wright, *I.L.B.*, June, 1966, pp. 702-705. See also *Australian Industrial Law Review*, Vol. VIII, No. 24, pp. 1-2, 9-10. For N.S.W., C. P. Mills, "A 'Just and Reasonable' Wage", *Journal of Industrial Relations*, Vol. 6, No. 2, July, 1964, raises similar issues.
44. R. R. Walton & R. B. McKersie, *A Behavioral Theory of Labor Negotiations* (McGraw-Hill, 1965).
45. Allan Flanders, *The Fawley Productivity Agreements* (Faber & Faber, 1964).
46. See T. Kennedy, *Automation Funds and Displaced Workers* (Harvard, 1962), pp. 70-101.
47. Keith Hancock, "Earnings-Drift in Australia", *Journal of Industrial Relations*, Vol. 8, No. 2, July, 1966.
48. H. A. Turner, "Wages: Industry Rates, Workplace Rates and the Wage-Drift", *Manchester School*, Vol. XXIV, No. 2, May, 1956.
49. Allan Flanders, *The Fawley Productivity Agreements* (Faber & Faber, 1964), esp. Ch. 1, sect. 6.
50. See Maxine Bucklow, "A New Role for the Work Group", *Administrative Science Quarterly*, Vol. II, No. 1, June, 1966; Louis Davis, "The Design of Jobs", *Industrial Relations*, Vol. 6, No. 1, Oct., 1966.

Human Engineering

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ADVANCES in engineering technology over the past two decades have highlighted a number of issues of considerable significance for equipment and systems designers. One is that, regardless of the technical sophistication of equipment, the operator retains a unique role in its effective functioning. A second is that much specialized knowledge of the details and range of human abilities is required if the performance capabilities of equipment are to be realized.

This awareness of the vital role which the human operator plays in man-machine systems has led in recent years to the emergence of a rapidly growing group of experts from a variety of disciplines, whose major interest is in designing equipment and machine complexes which are maximally compatible with the known capacities of man. Their concern is with the human factors which are of significance in engineering design, with engineering for human use. This is the specialist area of Human Engineering.

Human Engineering can be defined as the study of those performance attributes which govern man's ability to interact effectively with machines, both individually and in complex man-machine systems, and the application of this knowledge to system design. Although the term Human Engineering has gained wide acceptance in the U.S.A., the name Ergonomics is used in England and Europe to describe work in this area. In Australia the choice of terms remains largely a matter of individual preference.

The Emergence of Human Engineering

Prior to World War II, the design of industrial and military equipment was the undisputed province of the engineer as the major design interests were either technical or economic; biological scientists were rarely called upon for advice concerning the capabilities of people to use this equipment. The war years saw a rapid increase both in the volume and the complexity of the technical equipment which men were required to use, but, although much of this equipment was often technically ingenious, it frequently failed to perform as well as its designers