
Wages policy

Wages policy was a major concern during 1979. The Government wanted to minimise wage increases to reduce inflation and unemployment. At most it was prepared to accept wage increases based on changes in the Consumer Price Index (CPI), but discounted for whatever proportion of the CPI increase was due to government policy decisions, such as increases in taxes or medical charges. The unions sought full CPI indexation and often also wage rises beyond CPI indexation based on 'work value' cases.

The Conciliation and Arbitration Commission complained in June 1979 that the wage indexation system introduced in 1975 was near collapse. In the Commission's view the unions wanted indexation without restraints and the Government wanted restraints without indexation.

On 28 February Cabinet considered a report by officials on wage-fixing options; the options ranged from tightening up the present system through a mixture of persuasion and legislative change to a more radical approach of offering tax cuts and increased government spending in return for greater wage restraint (Attachment A to Submission 2943). Cabinet was inclined to work through the present system to press for more emphasis to be given to 'capacity to pay' arguments and to confine the Commission's National Wage case decisions to workers who had not already gained wage increases at industry or company level (Decision 7693(WP), not printed here).

On 4 December Cabinet considered a submission from Industrial Relations Minister Tony Street on the Government's position at the next Conciliation and Arbitration Commission National Wage case hearing. The Government had offered to support CPI indexation of wages, provided that cost increases flowing from government decisions were excluded from the wage rise. In return the unions and employers would have to guarantee that there would be no wage rises outside the wage fixing guidelines. However, Street felt that the Government would have to go further to have any hope of reaching agreement (Submission 3683). Cabinet decided that, subject to positive concessions from the other parties, it would be prepared to consider supporting the payment of a guaranteed percentage of the CPI increase in each wage decision (Decision 10420, not printed here).

Selected documents

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Attachment A to Submission 2943, Report of Interdepartmental Committee on Wage Fixation Processes and Government Economic Objectives

[A12909, 2943]

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ATTACHMENT A

REPORT OF INTERDEPARTMENTAL COMMITTEE ON WAGE FIXATION PROCESSES
AND GOVERNMENT ECONOMIC OBJECTIVES

Summary

The report presents possible options for securing consistency of wage outcomes with Government economic objectives. The Prime Minister has written to all State Premiers and the Chief Minister of the Northern Territory seeking their Governments' co-operation in the exercise.

The committee noted that the last two national wage decisions of full indexation made no contribution to a reduction in real wages consistent with Government economic objectives. While there is considered to be some prospect of having discounting arguments accepted in the May 1979 National Wage Case, it appears that unless something significantly less than full indexation is granted in that case the actual wages outcome over the course of 1978/79 will be above the estimates on which fiscal and monetary policy is based. The Committee also noted that the Government has publicly stated its support for the current, centralised system of wage fixation until the review of the system scheduled for late 1979.

Constitutional heads of power which may be available to promote the Government's wages policy have been identified (Paragraphs 14-17).

The committee considered that possible options for Government to pursue its objectives fall into 3 broad groupings (Paragraph 18):

A - continue to work within traditional framework of wage fixation

Options under 'A'

- A (1) seek to change system of wage fixation but within existing machinery and practices eg
- seek a greater role for "capacity to pay" vis-a-vis indexation.

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- seek through the Commission determination of wages at the industry and firm level with no national wage adjustment.
 - seek through the Commission for national wage increases to be applied selectively to award areas not already in receipt of wage adjustment at the industry and firm level.
- (ii) make appointments to the Commission with a view to a more balanced mix of expertise (industrial, legal and economic);
 - (iii) set a 'target' ceiling for wage increases and support this with other actions;
 - (iv) seek consensus with the States with a view to presenting a common front to the Commission in national wage cases.
 - (v) consider means of "tightening" procedures/practices of Commission to secure greater uniformity with wage fixing principles.

Comment

The various Options under 'A' could be pursued singly or in combination. As the thrust of this group of options is to leave control in the hands of the Commission none of the Options would guarantee a lower level of wage adjustment.

B - seek fundamental change to existing wage fixation processes by some form of statutory control

Options under 'B'

- B (i) strengthening existing requirement for Commission to consider likely economic effects of its decisions.
- (ii) deprive the Conciliation and Arbitration Commission of jurisdiction to make or vary awards which involve a claim for wages in excess of limits fixed by Parliament.
- (iii) possible use of taxation power to promote a policy of controlling wages
- (iv) possible use of States grants power to impose conditions (involving wage limits) on grants available to the States.
- (v) control of wages in areas of Commonwealth employment and Commonwealth territories
- (vi) possible use of corporations, trade and commerce, banking and insurance powers to:

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- prohibit corporations etc from granting wage increases in excess of awards of industrial tribunals; or
 - give the Conciliation and Arbitration Commission the function of fixing wages paid by corporations etc; or
 - directly fix and control wages paid by corporations etc (and prevent the Conciliation and Arbitration Commission from breaching the limits specified.)
- (vii) - examine possibility of temporary reference of State powers to regulate wages
- (viii) - seek direct power over wages and incomes via referendum.

Comment

The various Options under 'B' involve, to differing degrees, a higher involvement/regulatory role on the part of the Commonwealth. The constitutional validity of legislation seeking to directly fix or control wages is likely to be challenged. Trade union reaction is likely to be severe. Although some 'gaps' would remain without total co-operation from the States, the range of possible powers, used in combination, would give a wide area of wage and salary earner coverage for Commonwealth regulatory control. There would be administrative difficulties in policing statutory wage controls and the degree of community acceptance of direct regulation may depend on the implementation of complementary controls over prices and the expressed attitudes of State Governments.

C - seek fundamental change to existing wage fixation processes via consensus with employers and unions

Options under 'C'

- C
- (i) consensus involving direct tax measures in return for greater wage restraint
 - (ii) consensus involving reductions in indirect taxes in return for greater wage restraint
 - (iii) expansion in public sector spending (directed principally to increasing employment) in return for greater wage restraint.

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Comment

Depending on the specifics of any proposal, the Options above represent the type of consensus 'package' that the trade union movement would consider. It is acknowledged that the prospect of gaining union agreement for a degree of wage restraint totally in line with Commonwealth national wage submissions may appear remote. As well, such proposals would have adverse budgetary implications, at least in the short term. On the other hand such consensus could result in reducing labour costs - one of the key determinants of inflation and unemployment - without any serious increase in industrial disputation or wage claims outside the system. The pursuit of such options would involve fine economic and industrial relations judgments.

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FOR CABINET		Submission No. Copy No. 54
Title	PROPOSALS FOR CONSENSUS ON WAGE FIXATION	
Minister	The Hon A A Street MP, Minister for Industrial Relations.	
Purpose/Issues	<p>The issue to be determined is what action should the Government take in response to proposals arising in the current National Wage Case, that the Government review its:</p> <ul style="list-style-type: none"> (a) package of proposals on wage fixation; and (b) policy on "supporting mechanisms", such as tax indexation and the Prices Justification Tribunal <p>in order to further assist the development of consensus on wage fixation.</p>	
Relation to existing policy	<p>The package of proposals on wage fixation arose from the policy of support for an orderly centralised system of wage fixation. There are also clear statements of policy in relation to tax indexation and PJT.</p>	
Legislation involved	NA	
Urgency: Critical/significant dates	<p>Urgent. The Government's response needs to be made during the current National Wage Case. The Commonwealth is expected to resume its submissions on 5 December.</p>	
Consultation: Ministers/Depts consulted	<p>The Submission is based on the Report of the Wages Policy Task Force, comprising Treasury, the Public Service Board and the Departments of Industrial Relations, Prime Minister and Cabinet and Employment and Youth Affairs.</p>	
Is there agreement?		
Cost	No	
. this fiscal year	NA	
. year 2		
. year 3		

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Public Presentation - Minister's Proposals

1. (a) When and where is the decision to be announced?	To the Conciliation and Arbitration Commission when the Commonwealth resumes its submissions, probably on 5 December.
(b) Is a draft press statement attached?	No
(c) How widely is the announcement to be circulated?	See above.
2. (a) Is a press conference considered necessary?	No
(b) What media opportunities will be taken?	The media reports National Wage Case proceedings extensively.
3. What supplementary material is required for backgrounding journalists, Members and special interest groups?	The media is given a copy of Commonwealth submissions immediately they are made.
4. (a) What prior consultation with State Governments or other official bodies is required?	NA
(b) Which special interest groups should be advised of the announcement?	NA
5. What general or sectional support can be expected?	The proposed response on amendment to the Commonwealth package of proposals on wage fixation will be generally well received.
6. What criticism is anticipated and how will it be answered?	Unions, and possibly the Conciliation and Arbitration Commission, will criticise the position on tax indexation and the PJT.

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THE ISSUE

1. The issue to be determined is what action should the Government take in response to proposals, which have emerged in the current National Wage Case, that the Government review its:

- . package of proposals on wage fixation, and
- . policy on tax indexation and the Prices Justification Tribunal,

in order to further assist the development of consensus on an orderly centralized system of wage fixation.

2. The Report of the Wages Policy Task Force which examined this issue is at Attachment A.

BACKGROUND

3. The Conciliation and Arbitration Commission said in June that wage indexation was threatened by a lack of consensus among the parties. The current National Wage Case is therefore considering the future wage fixation principles and the prospects of re-establishing consensus. The Commonwealth has re-submitted its package of proposals on wage fixation which was developed for the Conference on Wage Fixation earlier this year.

4. The main feature of the Commonwealth package is that, in return for a firm commitment by all parties that there will be no wage or other labour cost increases outside of the wage fixation principles, and that industrial action not be taken in support of such increases, the Commonwealth would agree

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to six monthly automatic adjustment of award wages and salaries for the movement in the CPI, discounted for the effects of Government policy induced price rises. Full details of the Commonwealth package are at Annex A to the Task Force Report.

5. During the Commonwealth's submissions in the current Case, some members of the Bench have drawn attention to aspects of the Commonwealth package which they suggest detract from its acceptability as a basis for consensus, and have asked the Commonwealth to consider a number of specific amendments. The Commonwealth has also been questioned about its policy on tax indexation and the PJT, which are seen as supporting mechanisms to wage indexation.

CONSIDERATION OF THE ISSUES

6. If all the parties in the current National Wage Case are not prepared to change their formal position, there is little prospect of a consensus on wage fixation.

7. The proposals canvassed by the Bench for amendment of the Commonwealth package go essentially to the degree of wage security which might be expected to flow from the package. The Commission has highlighted what might be described as competing forces in the package, namely:

- . the certainty of wage adjustment offered by the automatic indexation of award wages; and on the other hand,
- . the uncertainty generated by the open-ended nature of the requirement that, for the purposes

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of wage adjustment, the CPI would be automatically discounted for all Commonwealth Government policy induced price increases.

The Commission's proposals seek to achieve a balance between those two factors and thus provide the basis for acceptance of the Commonwealth package in full.

AMENDMENT OF THE COMMONWEALTH PACKAGE

8. The range of proposals considered by the Task Force in light of suggestions from the Commission are summarized below:

Option (a). Automatic discounting for policy induced price increases but;

Variation 1 - The Government to specify in a list those policy measures that would be discounted for. This list would be provided to the Commission; and/or
Variation 2 - a ceiling would be set that limited the degree of discounting that would apply in any National Wage Case. A guaranteed minimum increase would therefore be provided.

Option (b). Discounting would not be automatic but the parties must accept the principle of discounting for all policy measures which increase prices. The quantum of the discounting factor would be determined by the Commission on submission by the parties.

Variation 1 and/or 2 above could also apply.

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Option (c). Discounting would be neither automatic nor accepted in principle. Discounting arguments could be put but the Commission would be under no obligation to grant any discounting. However, if it did, the parties would have to accept such decisions. Variation 2 above could apply to this Option; or Variation 3 - The Commission could specify a target level of indexation (eg 80%) which would be granted unless it were persuaded to the contrary. There would be no guaranteed amount as the parties could argue for a wage rise greater or lower than the target figure.

Option (d). A named percentage of indexation granted automatically. This would effectively mean a set discount factor would apply in every case.

Option (e). Catch-up case. At the end of each year the Commission would hear argument on whether a general wage increase to compensate for previous partial indexation adjustments should be granted.

9. There was a division of opinion within the Task Force as to the most appropriate option; both options (a) and (b) were recommended.

10. In considering these options it must be recognised that while the Government will be responding to the Commission by way of submissions in the current National Wage Case, we

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are still essentially in a hard bargaining situation as to the future system of wage fixation.

11. In developing its package the Government took a positive initiative and made significant concessions in an attempt to achieve meaningful negotiations. Those negotiations have not been forthcoming to any extent, particularly from the trade unions.

12. I therefore consider that the options recommended by the Task Force are, in current circumstances, a little too generous. That is not to say that they may not become appropriate as the wage fixation debate proceeds. For example, the concept of a guaranteed percentage of indexation has much to commend it in terms of marketing the Commonwealth package; however, the Government would require a significant return for such a concession.

13. What I favour is to inform the Commission that, subject to the other parties making a positive change in their position and to the nature of that change, the Commonwealth would be prepared to seriously consider supporting a set percentage of the CPI movement to be granted automatically in every case.

14. Such an approach would:

- . be a positive response to the Commission's questions;
- . have sufficient attraction to give the union cause to reconsider their position; and
- . maintain the Governments negotiating flexibility.

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SUPPORTING MECHANISMS

15. In considering whether the Government should review its policy toward the "supporting mechanisms" of tax indexation and the PJT, it is necessary to judge whether these matters are crucial to the re-establishment of consensus and, if so, whether benefits thus achieved outweigh the considerable costs involved.

16. The Task Force recognised the link between wages policy and the supporting mechanisms. However, it drew attention to the range of other policy considerations which must bear on tax indexation and the PJT, and was not satisfied that action in these areas was crucial for the re-establishment of consensus. The Task Force recommended that the Commonwealth should inform the Commission that its policy on these matters had not changed.

17. I agree with this recommendation, particularly in view of the significant concessions which the Commonwealth would be making in its package.

18. Responding to the Commission will also assist in handling a request I have received from the ACTU for a ministerial level meeting to discuss supporting mechanisms. We know the union views on these matters very well and there is nothing to suggest they have anything new to add. In these circumstances there is the risk the ACTU will seek to use the meeting as another forum to press for a national conference on the economy.

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19. If we respond to the Commission on the question of supporting mechanisms (Ludeke, J. has enquired as to our response to the ACTU letter) this would, in effect, also be our official response to the ACTU and there would be no need for a meeting.

PUBLIC IMPACT OF RECOMMENDATIONS

20. The statement regarding the Commonwealth's willingness to consider amendment to its package, subject to positive concessions by the other parties, will be generally well received. The Government will be seen as being both positive and pragmatic. Maintenance of existing policy on tax indexation and the FJT will be criticised by Unions and, perhaps the Commission, but supported by employers.

CO-ORDINATION

21. The issues discussed in this submission were considered by the Wages Policy Task Force, comprising the Departments of Industrial Relations, Prime Minister and Cabinet and Employment and Youth Affairs, the Treasury and the Public Service Board.

22. The option of a set percentage of the CPI movement applied automatically every six months was considered by the Task Force, in the context of a guaranteed increase of 80% indexation. The Task Force considered the unions would not agree to such a proposal because it offered them little more than was available under the current system. With the approach

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I propose, no specific figure would be mentioned. I believe this puts more pressure on the unions to respond and, at the same time, does not lock us in to a set position.

RECOMMENDATIONS

23. I recommend that Cabinet agree that:
- (a) In its submission in the current National Wage Case the Commonwealth indicate that:
 - (i) subject to the other parties making a positive change to their position and to the nature of that change, the Commonwealth would be prepared to seriously consider supporting a set percentage of the CPI movement to be granted automatically in every case.
 - (ii) the PWT continues to be an effective force in encouraging price restraint and in these circumstances there is no intention to amend the legislation.
 - (iii) the policy regarding tax indexation adopted in the 1979/80 Budget remains unchanged.

A. A. STREET

30 November 1979

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