

The Economic Implications of Enterprise Bargaining

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Abstract

The economic implications of enterprise bargaining depend critically on the precise version of enterprise bargaining being contemplated. One version sees enterprise bargaining as an add-on process, with the existing bank of awards retained, and trade unions playing a central and protected role. Another version sees enterprise bargaining as an holistic process, wherein all terms and conditions of employment can be negotiated subject to some minimum conditions. Trade unions may play some role, but not to the exclusion of other bargaining agents. Add-on enterprise bargaining may have only a small impact on productivity; there is a danger that wage (and price) inflation could increase; and the impact on employment is uncertain. Holistic enterprise bargaining is likely to have a more substantial impact on productivity; is unlikely to lead to inflation; and employment growth should be boosted. However, power-reducing policies and the abolition of awards are necessary correlates of holistic enterprise bargaining.

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1. Background

There would appear to be widespread agreement that enterprise bargaining is one of the necessary ingredients of the reform process that will lead Australia to becoming a competitive and internationalised economy. The word 'appear' is used deliberately, however, since what is meant by the term enterprise bargaining is subject to differing interpretations. Some see enterprise bargaining essentially as an add-on process, with the existing bank of federal and State awards more or less remaining intact. Others view enterprise bargaining as a potentially holistic process, whereby all the terms and conditions of employment covering workers at an enterprise are up for negotiation, and where agreements supplant awards. There are also differences in interpretation over the role trade unions will play in the process of enterprise bargaining; the scope for individual contracting; and the place of industrial tribunals. A major aim of this paper is to clarify the various meanings attaching to enterprise bargaining and to speculate on the economic consequences of enterprise bargaining on these different interpretations.

Without wishing to pre-empt the conclusions presented in this paper, it is argued that an add-on process of enterprise bargaining is likely to produce little overall gain, not least because the structure of awards onto which the 'add-on' process occurs is so defective and lacking in enterprise focus. If virtually all substantive terms and conditions specified in awards are regarded as inviolable, then the scope for bargaining is clearly limited, particularly of a concessionary variety or that which involves substantial trade-offs. By definition, whatever emerges from an add-on process will be marginal. Moreover, this version of enterprise bargaining carries the real danger of reverting to the enterprise-by-enterprise style of over-award bargaining characteristic of Australia in the 1970s and early 1980s. Holistic bargaining, by contrast, may provide more substantial gains, certainly in the medium-term. It is unclear however whether these gains can be achieved if the existing system of awards and protective measures for unions remain in place.

Another important theme of this paper relates to the nature of the assumed counterfactual situation when considering the consequences of enterprise bargaining. Some might argue that, in point of fact, the current occupational structure of awards more or less mimics the workings of a competitive labour market, whereby the forces of supply and demand drive a high degree of uniformity of earnings in a particular occupation. By contrast, it is argued in this paper that a view of the labour market based on relational contracting theory, characterised by an extensive array of internal labour markets, is a more appropriate construct against which outcomes should be compared.

The structure of this paper is as follows. In the next section, we briefly review the key industrial relations changes that have occurred from the mid-1980s to the present. We then turn to a consideration of the various meanings of enterprise bargaining, and in the next section, discuss the likely economic consequences of the various versions. Key aspects of the environment in which holistic enterprise bargaining is both feasible and potentially effective are then outlined. A conclusion completes the paper.

2. Industrial Relations Change: the Mid-1980s to the Present

In many ways, industrial relations developments since the mid-1980s have been a battle ground for the ownership of words. For a number of years after the Hawke government was elected in 1983, there was an extremely vigorous defence in a number of quarters (most notably, the ACTU and the federal government) of the arbitration system, in general, and the highly centralised form of wage determination implemented in the early stages of the Prices and Incomes Accord, in particular. Those who chose to question the virtues of either were vilified, amongst them the National Institute of Labour Studies. This process culminated in the release of the (Hancock) Report of the Committee of Review into Australian Industrial Relations Law and Systems in 1985, which strongly endorsed the value of the arbitration system, particularly in terms of it being able to deliver a centralised incomes policy.

Ironically, the Hancock Report more or less coincided with a set of circumstances which was to drive the process of change within the arbitration system and which was ultimately to leave the (re-named) Industrial Relations Commission in a much weakened and ambiguous position. In 1986, the Australian dollar fell sharply, the then-treasurer made his famous 'banana republic' statement, and the need for Australia to become a less protected, internationally competitive economy increasingly became a corner-stone of government policy. From this point, it was widely acknowledged that the highly centralised forms of wage indexation which had been a feature of the early years of the Accord were no longer appropriate, and that a more decentralised and flexible approach was required that placed greater emphasis on productivity.

The first significant departure from the highly centralised arrangements of the early years of the Accord was the short-lived 'Two Tier' system, whereby workers enjoyed the benefit of an across-the-board wage increase, with the potential for an additional pay rise (the Second Tier) if the

Restructuring and Efficiency Principle could be satisfied.¹ Essentially this experiment was a crude form of centrally-controlled productivity bargaining, with the payment for the 'trade-off' set at a maximum of 4 per cent. The assessments of this experiment are mixed (Rimmer and Zappala 1988, Frenkel and Shaw 1989, Reilly 1989), with accusations of sham deals not uncommon.

Rimmer and Zappala (1988) assessed the experiment favourably, arguing indeed that the Two Tier system demonstrated that flexibility could be delivered through existing industrial relations institutions. They noted that there were considerable variations in outcomes between different industries. However, they maintained that the experiment was not always a narrow 'trade off' exercise, and examples of functional and internal numerical flexibility provided positive sum gains for both employers and workers.

By contrast, Frenkel and Shaw (1989) assessed the Two Tier experiment less favourably, pointing to examples in the metals industry where no productivity improvements were secured, or indeed could be secured, yet the Second Tier payment was made. They concluded that as a means of effecting major structural and attitudinal change, the experiment was unsuccessful, particularly as a large minority of plants did not actually participate in any bargaining. Moreover, there was little evidence that the opportunity to extend employee participation was taken up, although employers did not appear to extract maximum advantage from the exercise. Reilly's (1989) analysis indicated that most of the exercises conducted under the Two Tier system were very short-term in their scope.

The Two Tier system was in any case short-lived, with Award Restructuring as the principal means of wage determination introduced formally by the August 1988 National Wage Decision (Print H4000). Again there was emphasis on productivity (via the Structural Efficiency Principle); however the agenda for change was more clearly spelt out (both in the August 1988 and August 1989 National Wage Decisions, the latter Print J9407). Maximum wage increases for fulfilling the Principle were laid down. The new principle mentioned skill-related career paths; eliminating barriers to multi-skilling; creating appropriate relativities between different categories of workers; and ensuring work patterns and arrangements enhanced flexibility and the competitiveness of industry.

Certainly there is now general agreement that in the initial year of Award Restructuring, little or no restructuring actually occurred, although there were commitments made to the process of Award Restructuring (Norris 1989, Sloan and Wooden 1989). This view was echoed by the Industrial Relations Commission in 1989 when it said that "progress in some areas is considerable but in the majority it is minimal" (quoted in Harris 1991, 6).

The Commission also noted that progress varied between industries and enterprises; that negotiations had proceeded at different levels; and that there was disagreement over agendas for change and procedures. By October 1989, however, the majority of workers had received the two wage increases mandated.

There is still no definitive assessment of the overall impact of Award Restructuring on workplace efficiency and national productivity. Certainly, on gross productivity measures, there is little to indicate that the shift in focus of wage determination to productivity as a central criterion has had any effect (Sloan 1992). There are no doubt cases where Award Restructuring has had a noticeable impact on the various types of labour market flexibility identified by Rimmer and Zappala (1988). And in some best-case scenarios, workplace cultures have been effectively transformed, with consequent commitments to continuous performance. The view of the Industrial Relations Commission on the outcome of Award Restructuring expressed in the April 1991 National Wage Case Decision (Print J7400, 22) was as follows:

... emphasis has been placed on classification restructuring, training and associated issues; other areas have been addressed but with less emphasis. Classification restructuring, training and associated issues are important to the lasting effectiveness of restructuring but must be accompanied by a proper examination of other and equally important measures to increase efficiency and productivity. We reiterate what the February 1989 Review decision said: there is no limitation on the agenda available for structural efficiency exercises.

Associated with this point is the fact that, even where parties have made substantial changes to their awards, there seems to have been little real impact at the enterprise level. This is inconsistent with the structural efficiency principle.

In the April 1991 National Wage Case Decision, the Industrial Relations Commission rejected not only the application of the ACTU to have the main features of Accord Mark VI ratified, but also refused to endorse enterprise bargaining as the principal means of wage determination. This was notwithstanding the fact that all the major parties to the Case favoured the introduction of some form of enterprise bargaining. The Commission took the view that the divergent proposals for enterprise bargaining carried the dangers of:

excessive wage levels, excessive improvements in conditions of employment and restrictive work practices of which employers and employees have subsequently complained (Print J7400, 36).

The Commission pointed to the "marked divergence of opinion as to how

enterprise bargaining could proceed, the means by which increases would be available and how wage outcomes would be expressed" (Print J7400, 8).

In October 1991, the Industrial Relations Commission changed its mind, reluctantly it would seem, and introduced an Enterprise Bargaining Principle and directed parties to use either Section 112 or 115 of the Act to process the outcomes of the bargaining principle (Print K0300). No figure, expressed as either a flat amount or as percentage, was stipulated in the decision, thus departing from what had been the practice since 1983. The Commission however did express the view that:

Wage increases achieved through enterprise bargaining ought ... to be justified by and commensurate with employees' contributions to enterprise efficiency and productivity (Print K0300, 4).

The Commission made it clear that it would not arbitrate on enterprise bargaining matters; that agreements would have to be for a fixed term, would not vary within that term and would not continue in force after the expiry date; that there must be single bargaining units; and that the Enterprise Bargaining Principle would be the only avenue for a wage increase, apart from National Wage Case increases. Of particular importance was the prescription that "any wage increase contained therein are based on the actual implementation of efficiency measures designed to effect real gains in productivity" (Print K0300).

Simultaneously with the changing means of wage determination in the second half of the 1980s was the on-going adjustment of wage levels via the Supplementary Payments mechanism. Through this mechanism, the wages of the lowest paid workers as stipulated in awards were increased in a way that imparted a high degree of consistency across awards. Overaward payments were absorbed in Supplementary Payments. Wage increases, for instance via Award Restructuring, were in addition to this adjustment of base rates in awards. It can be argued that this adjustment of awards, using the Supplementary Payments mechanism, was important in paving the way for the form of enterprise bargaining preferred by the ACTU bargaining that is in addition to the existing bank of awards. It underpinned the high degree of uniformity or consistency across awards which is regarded as desirable by advocates of this form of enterprise bargaining.

The final significant development for this description of industrial relations change from the mid-1980s to the present is the passing of the *Industrial Relations Legislation Amendment Act 1992*. In this Act, Section 134 on Certified Agreements effectively replaces Section 115. The key feature of Section 134 is that there are in effect no grounds for the Commission to refuse a Certified Agreement, certainly a single enterprise agreement, save for the proviso that workers are not disadvantaged. There is no

public interest test equivalent to the one contained in Section 115. Moreover, it is now stipulated that the status quo will remain in place when an agreement expires, which is contrary to the October 1991 National Wage Case Decision. Finally, the section is quite clear in stating that only registered trade unions can be parties to Certified Agreements.

While the import of this legislative amendment is still not clear, it can be surmised that the replacement of Section 115 with Section 134 is extremely significant. In effect, under this new section, the concept of National Wage Case Principles steering wage determination is essentially abandoned, and along with it, the application of 'no-extra-claims commitments'.² There is now no need for parties reaching agreement to pay heed to productivity or indeed any particular factors to satisfy the Commission when seeking ratification of agreements. At this stage, moreover, the future of National Wage Cases is uncertain. It will be argued below that in the absence of other complementary reforms, this latest development may have unfortunate economic consequences.

Overall, it can be seen that the period from the mid-1980s to the present has been characterized by considerable change in industrial relations. The fact that productivity became a central criterion could not have been predicted in 1983. Initially the form of change was highly controlled by the Commission, with maximum rates of pay established and the 'no-extra-claims commitment' extracted as condition for the payment of wage increases. There were advantages and disadvantages to this approach: substantial change was often ruled out because the maximum return to workers was too low to justify the change. At the same time, the system remained highly focussed on achieving maximum, annual wage targets. By contrast, the current arrangements are less controlled, but also the focus on productivity has probably been diluted. Section 134 effectively undermines the central role of National Wage Case Principles, and indeed the Commission's scope to control outcomes via the 'no-extra-claims commitment' mechanism. It is, however, estimated that as at October 1992, only 350,000 or less than 5 per cent of the workforce had secured pay increases through enterprise bargaining since the October 1991 National Wage Case decision. Moreover, the future of across-the-board pay increases effected through National Wage Cases is also under a cloud.

3. The Meaning of Enterprise Bargaining

It was argued above that there are divergent interpretations attached to the term 'enterprise bargaining'. One interpretation of recent developments in industrial relations, and indeed on training matters, is as follows. A bank

of minimum rates awards will exist, with pay scales which are deemed to be consistent across awards (having been adjusted via Supplementary Payments) and which are closely related to national skill standards.³ Thus, there might be up to eight levels set in an award, and minimum pay scales would be prescribed for each level according to the level of competency attained by workers. Enterprise bargaining would then be in addition to these minimum rates awards: standard award conditions are seen as inviolable and non-negotiable.

In this process of collective bargaining individual contracting is not embraced within this meaning of enterprise bargaining and trade unions must have a (protected) central role. Hence the new Section 134 in the amended legislation, wherein Certified Agreements can only be made with registered trade unions. There may be gains for some, probably large, individual employers with highly unionised workforces, as restrictive work practices are eliminated in return for substantial cash payments. For the small to medium sized employer, the possibilities for gain, certainly through formal channels, are less certain.

Moreover, the award structure to which enterprise bargains will be appended has been described by Plowman and Rimmer (1992, 174 -175) as "highly fragmented across many industry groups and sub-groups" and the "worst of both worlds". They argue that the pattern of multi-employer award responsiveness has developed mainly to suit the organisational basis of unions, which has been along craft and occupational lines. This is best illustrated by the strategic Metal Industry Award, the coverage of which extends over a large number of industries, yet within in any single enterprise, the award will cover only a fraction of employees. That is, the matrix of awards in Australia is such that, in any enterprise, a number of awards exist, covering different classes of employees, and these awards are often multi-employer extending over a number of industries. The industry-focus, let alone the enterprise-focus, of this award structure is minimal in many cases.

How enterprise bargaining then operates on this interpretation is as an 'add-on': site agreements or company appendices are appended to the main award, probably using some facilitative framework, or Certified Agreements are made. There are a large number of core conditions and minimum pay rates specified in the overarching award, and some peripheral bargaining may ensue to fine-tune some aspects of working conditions to the requirements of the enterprise, as long as this process does not disadvantage workers.⁴

An alternative meaning and one that the federal opposition endorses is enterprise bargaining 'from the ground up' or holistic enterprise bargaining. All terms and conditions of employment can be negotiated subject to certain

specified minimum conditions in terms of hourly pay and some other conditions, such as annual leave, sick leave, etc. There is no necessary prescription in terms of the level at which bargaining should occur; thus individual contracting can be encompassed within this understanding of enterprise bargaining. At the same time, trade unions would in all likelihood continue to play an important role in enterprise bargaining, particularly for workers employed at large workplaces and currently strongly unionised. However, enterprise bargaining could occur without trade unions.

Enterprise agreements achieved on this interpretation would be entered into voluntarily, without duress, but substantial trade-offs in conditions would be allowable (subject to minimum wages and conditions). The agreements would replace awards; any congruence between award conditions and those specified in agreements would be the outcome of negotiation and agreement. They would have the force of law; would be of fixed duration; and would require set procedures to deal with grievances arising during the course of the agreement. There could be penalties for non-compliance. There would be no single party access to tribunals and end-point arbitration would only be by mutual agreements of the parties. In other words, compulsory arbitration would be abolished.

4. The Economic Consequences of Enterprise Bargaining

The discussion in the previous section points to the very real difference that exists in terms of the meaning attached to enterprise bargaining. The first version embraces a form of bargaining undertaken by registered trade unions and which is in addition to the bank of minimum rates awards. Uniformity or consistency is still seen as paramount, a strong echo of the views of the principal architect of the arbitration system, Mr Justice Higgins, second President of the Commonwealth Court of Conciliation and Arbitration:

The awards must be consistent one with the other, or else comparisons breed unnecessary restlessness, discontent, industrial trouble.

The advantages of system and consistency are increasingly apparent (Higgins 1922, 41).

The alternative version would, by contrast, supplant awards and eventually awards would cease to exist. Now it is likely that a degree of uniformity would still emerge in the pay levels of workers with particular skills or qualifications in particular occupations. It is likely however that the disparity in earnings and other employment conditions would be considerably greater over time.

It has been a widely accepted paradigm that the arbitration system in Australia does not really have a marked impact on the occupational or industrial distribution of earnings relative to other countries with more market-oriented methods of wage determination. Norris (1986) concluded however that while the differences between pay structures in Australia and overseas were not marked, the direction of the effect was unambiguous: relativities were more compressed in Australia. In Table 1 we present further data which confirm the proposition that wage relativities in Australia are relatively compressed. The figures show the dispersion of hourly wages within manufacturing industry in a number of developed economies, including Australia. The figures also underscore the possibility that the degree of wage compression in Australia may not be as small as commonly believed, particularly compared with Canada and the US.

Table 1. Adjusted Indices of Hourly Wage Dispersion—Manufacturing, 1985
(Coefficient of Variation)

	<i>Persons</i>	<i>Males</i>
Australia	10.8	9.5
Canada	20.4	n.a.
US	21.3	n.a.
Switzerland	n.a.	11.0
UK	15.1	12.9
Netherlands	11.9	8.4
Finland	12.7	11.6
Denmark	9.1	n.a.
Sweden	9.3	8.0

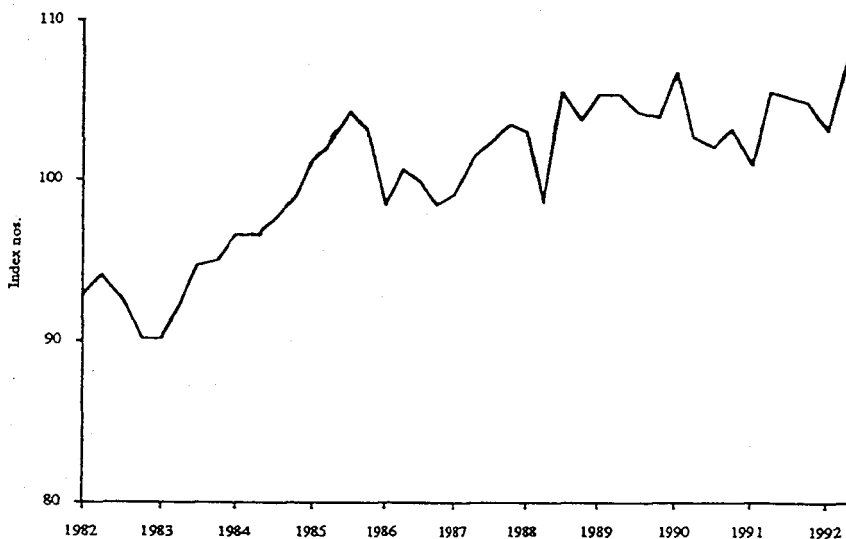
Sources: ILO, *Yearbook of Labour Statistics*, ABS, *Average Earnings and Hours of Employees, Australia*, Cat. No. 6304.0

What then are the likely economic consequences of enterprise bargaining? It is useful to distinguish three impacts: on productivity, on wage inflation, and on employment. It is also important to distinguish between short-run and long-run effects, since these may be quite different.

Productivity

While there was reasonably strong productivity growth coming out of the 1982-83 recession, from mid-1980, the growth of labour productivity in

Figure 1. Labour Productivity in the Market Sector, 1982-1992



Source: ABS *National Accounts*, Cat. No. 5222.0.

Australia was very sluggish over the 1980s and early 1990s (see Figure 1). Using 1985-86 as the base year, by 1991-92, labour productivity was scarcely 4 per cent higher, having grown by only 0.65 per cent per year, on average. This was notwithstanding the change of emphasis in wage fixing procedures towards productivity considerations from 1987 and the industrial relations changes described above. In other words, in terms of the gross movements in labour productivity, there is nothing to indicate that the Two Tier system or Award Restructuring provided any boost to macro-labour productivity.

While the explanations of the poor productivity performance are complex, it is still surprising that labour productivity growth in Australia was so sluggish from the mid-1980s given the changed emphasis in wage determination arrangements. Mitchell (1992, 153) argues however that:

The key to high productivity is a high rate of investment. This requires a realistic real interest rate, far below the level the govern-

ment has engineered since 1987...By focusing on wage fixing as a panacea, we are being sidetracked by second-order concerns.

Others argue that the sluggish movements in *labour* productivity over the course of the 1980s in part reflected the falls in real wages that occurred as a result of the Accord, and the impetus these falls gave to strong employment growth and substitution of capital by labour (see Dowrick 1990). The Dowrick analysis was however clearly highly period-dependent since from 1989, employment ceased to grow yet labour productivity remained flat.

Even if it is true that productivity is most proximately determined by the rate of investment, this begs the question as to which factors other than the real interest rate determine investment. The ability to utilise capital intensively, flexibly and affordably will also influence investment decisions. In other words, labour market arrangements are likely to be important, as well as other factors. Moreover, as the OECD (1990, 63) pointed out in its 1989-90 survey of the Australian economy:

Labour productivity [in Australia] has been affected through over-manning, poor work organisation, unnecessary loss of machine time, high maintenance costs, time lost over demarcation disputes and/or heavy time loss by management in industrial relations matters. Capital productivity may also have been reduced by constraints on the number of hours plants can economically operated as a result of restrictive award conditions.

It is of course possible to argue that the productivity benefits of the shift to the more decentralised system of wage determination commencing in 1987 were never likely to be short-term. Take the case of the inclusion of skill-based career paths in awards and new training arrangements, key features of the changes implemented through Award Restructuring. Over time, the encouragement to skill formation and reduced demarcation might be expected to increase productivity, notwithstanding little short-run effect.

However, by the same token, research on Australia's relatively low commitment to on-the-job training points to flat experience-earnings profiles as the principal explanation (Borland, Chapman and Rimmer 1990). Yet there has been no concerted attempt to tilt profiles, as part of the shift away from centralised industrial relations arrangements since the mid-1980s, in such a way that training would be encouraged. In fact, the adjustment of wages via the Supplementary Payments mechanism is likely to have been perverse in terms of encouraging the training of unskilled and semi-skilled workers.

Overall, productivity should in theory increase above trend with the shift to enterprise bargaining; in reality, the impact may be marginal depending

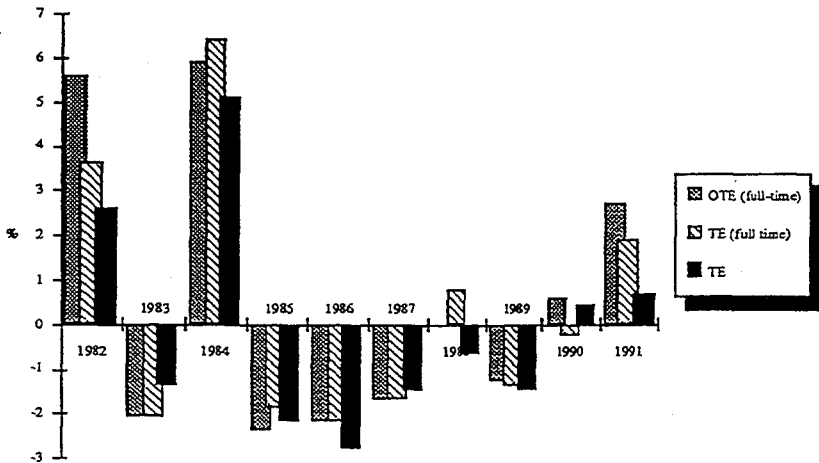
on the precise form of decentralisation. Certainly, in terms of the content of some of the first agreements made under the Enterprise Bargaining Principle (DIR 1992), substantial productivity gains have been made at the micro-level. However, given the relatively small coverage of enterprise agreements, it is unlikely that the overall figures on productivity would be much affected yet, although labour productivity should grow rapidly coming out of the recession. Moreover, as indicated above, the focus of productivity in terms of current bargaining arrangements has been diluted. Expectations of pay increases arising from agreements (10 per cent over two years) now appear to be widespread, with higher increases contingent on demonstrated productivity improvements. With the recent legislative changes, there is really no way the Commission can now influence these events by imposing demonstrated productivity benefits prior to ratification of agreements, as envisaged by the Enterprise Bargaining Principle enunciated in October 1992. With the economy set to recover over the next two years, the productivity gains associated with the add-on version of enterprise bargaining are likely to be confined to a small number of examples, with only marginal overall benefit.

What of the impact of holistic enterprise bargaining on productivity? *Prima facie*, the impact is likely to be greater than the add-on version since award conditions would be up for negotiation and thus capable of being traded-off. There are many examples of the means by which productivity can be lifted: reduced demarcation, removal of barriers to shift work, reduced down-time, multiskilling, etc. This is not to suggest that productivity would be the only consideration in this form of enterprise bargaining: comparability may be an issue, and likewise profitability. Some of the gains in productivity would be immediate, this is the New Zealand experience, whereas others would be reaped in the future, particularly where bargaining has an investment-orientation. In addition, if potentially flexible labour arrangements provide an impetus to investment, then it would be expected that productivity would in turn rise. This is particularly likely in cases where the utilisation of capital is an important consideration. All this is not to say that labour market arrangements alone determine productivity outcomes they do not.

Wage Inflation

The impact of enterprise bargaining on wage inflation is uncertain, and again dependent on the precise version considered. In particular, the other measures which would in all likelihood accompany the shift towards holistic enterprise bargaining, including the dismantling of a number of legal rights of trade unions and other protective measures so-called power-reducing

Figure 2. Movement of Real Average Weekly Earnings, 1982-1992



Note: OTE: Ordinary Time Earnings
TE: Total Earnings

Source: ABS Average Weekly Earnings, Cat. No. 6350.0.
ABS Consumer Price Index, Cat. No. 6401.0.

policies (Harris 1991) are important when considering the effect on wage and price inflation.

Movements in real average weekly earnings are depicted in Figure 2 for the period 1982 to 1991. Taking total real average weekly earnings, declines were recorded in every year between 1985 and 1989, reflecting in the main the impact of the Prices and Incomes Accord on real earnings (Chapman and Gruen 1990). In 1990 and 1991, however, total real earnings increased modestly. Real ordinary time earnings of full-time workers however increased by nearly 3 per cent in 1991. On recent figures (March quarter 1992), full-time ordinary earnings increased by 4.4 per cent to the year ending in the March quarter 1992 (ABS Cat. No. 6302.0), indicating that real earnings have continued to grow quite substantially, the annual inflation rate being well under 2 per cent. In other words, the slump in real earnings evident through the middle years of 1980s has now been replaced

by modest growth. It would be unfair to describe these recent movements as a wages break-out or explosion (akin to 1983-84); however, the rise in real wages is occurring at a time of unparalleled weakness in the labour market over the post-war period.

One view is that these fluctuations in real earnings reflect both the strength of a highly centralised, corporatist incomes policy in terms of restraining real earnings (1983 to 1987), and the dangers of permitting a more decentralised system of wage determination, the latter from 1987. Nevile (1992, 11) has outlined what he regards as the potential dangers of enterprise bargaining on wage and price inflation as follows:

The Opposition's wages policy is designed to assist productivity growth and ignores macroeconomic consequences. If all wage bargains are made at the enterprise level with no reference to any central tribunal, there can not be any overall wages policy. The Opposition's guidelines are that wages in each enterprise should not increase faster than productivity in that enterprise. However, the wage bargains will be determined by employees and the employer in each enterprise and will reflect union and employer attitudes and relative bargaining strengths. Moreover, given the long history of comparative wage justice in Australia, large increases in some, perhaps highly productive enterprises, are likely to influence upwards wages in other enterprises unless restrained by high levels of unemployment. Also, there is the very real danger in an economy like Australia's, where oligopoly is so widespread, of employers believing that it will be more profitable to accede to union wage demands and pass them on in higher prices than to face disruptive strikes.

This quotation is very telling for a number of reasons. First, it assumes a competitive labour market where the forces of external comparisons will drive the flow-on process. Secondly, it takes as given, the oligopolistic nature of Australian industry. And, thirdly, it assumes that unions' so-called bargaining power remains unchanged.

Taking each of these points in turn, let us first consider the assumption of a competitive labour market as the fundamental construct against which outcomes should be judged. To be sure, on this assumption, the forces of competition will drive a high degree of uniformity in the pay of similarly skilled and qualified individuals working in the same occupation, certainly in the same region. However, if the labour market is better described as a series of internal labour markets in which external comparisons are peripheral to their operation, a relational contracting theory of the labour market, then the deduction that the wage outcomes of the most productive enterprises will inevitably and quickly flow through to all other enterprises is

questionable. For this reason, the figures contained in Table 1 are important, since they point to the arbitration system impacting significantly on the extent of flow and hence the structure of earnings.

This is not to deny the possibility of Nevile's prediction of substantial wage flows-on if the system of awards remains largely intact, as with the add-on version of enterprise bargaining, and unions predominantly occupationally-based. Because the structure of awards has followed the structure of unions, awards are still largely structured along occupational or craft lines, and very many apply to a number of employers across a number of industries (Plowman and Rimmer 1992).⁵ The organisational basis of unions has required a degree of centralisation in agreement-making arrangements through blanket award coverage, as well as institutionalised flow-on procedures comparative wage justice, for instance. The point is that with the main features of the award system intact, there is a danger of excessive wage outcomes emerging from add-on enterprise bargaining a fear expressed by the Industrial Relations Commission in its April 1991 National Wage Decision (Print J7400).

The second issue relates to the oligopolistic nature of Australian industry which allows firms to pass on excessive wage rises (that is, increases above productivity) in the form of higher prices. It is not self-evident that Australian industry is oligopolistic across-the-board. In any case, with the lowering of tariffs and other forms of industry protection, it is inevitable that Australian enterprises will face more competition. As a consequence, the ability of firms to pass on additional costs is likely to become constrained. It is also possible that the arbitration system has in fact driven a measure of oligopoly within Australian industry since competition on the labour input side has been extremely limited by dint of the blanket coverage of awards. That is, it can be hypothesised that labour arrangements mandated by arbitral tribunals and sustainable by large firms have driven up the costs for new entrants, thus effectively reducing competition.

Finally, on the issue of union power, Nevile assumes that this will remain unchanged with the shift to enterprise bargaining. This is probably accurate for the add-on version of enterprise bargaining; in fact, the new Section 134 enhances the power of registered unions in relation to other potential bargaining agents. A shift to holistic enterprise bargaining, however, is likely to be accompanied by a number of power-reducing policies which will undercut the bargaining position of unions. These measures are outlined in the next section. It is interesting to note here that in New Zealand, union membership has declined by approximately one-third (James 1992) consequent upon the dismantling of legislated union coverage rights and the proscribing of closed shop arrangements and multi-employer strikes. Some unions in New Zealand have in fact disappeared.

In contrast to Nevile's prediction of greater wage inflation being a macroeconomic consequence of enterprise bargaining, some commentators point to the possibility that holistic enterprise bargaining will lead to wage *reductions*, with employers flexing their muscles to reduce costs. The New Zealand experience with the *Employment Contracts Act* indicates that in the early stages at least, many agreements struck did not provide for pay increases, although some did. Overall, however, earnings in New Zealand have risen modestly (Harbridge and Rea 1992). Certainly, real wages may be lower in some cases, reflecting the diversity of outcomes expected under holistic enterprise bargaining. However, it is probably unrealistic to assume that holistic enterprise bargaining in Australia will be accompanied by wage deflation overall, particularly as employers with well-developed internal labour market arrangements are unlikely to be well-served by cutting the pay of their workers.⁶

Employment

Finally, we turn to the issue of the impact of enterprise bargaining on employment and unemployment. For a number of years, one of the major achievements of the Accord was the very substantial growth in employment, related to the reduction in real earnings and real unit labour costs (see Chapman 1990). Between 1984 and 1989, employment grew by 4 per cent per annum. During the 1990s, however, substantial falls in employment levels have been recorded, particularly for full-time workers. How should we now assess the impact of the Accord on employment and unemployment?

It is worth noting that there is an important conceptual and operational difference between productivity and competitiveness. It was argued above that it is likely under either version of enterprise bargaining, there will be cases of substantial productivity improvements in particular enterprises. It does not necessarily follow that these enterprises will become more competitive this depends on the magnitude of payments made to workers for the productivity gains. Thus one scenario is of an enterprise where productivity increases, yet competitiveness remains unchanged. Those workers who remain with the firm enjoy substantial pay rises but others lose their jobs. Measured productivity rises yet unit labour costs stay the same. There are of course a number of possible scenarios the assumption on the competitive nature of the product markets in which enterprises operate is critical.

The distinction between productivity and competitiveness points to the ambiguous impact of enterprise bargaining on employment. Enterprise-based measures which improve productivity are likely in many cases to

involve the shedding of workers, especially where overstaffing, which is a consequence of demarcation for instance, is an item on the bargaining agenda. That is, displacement of workers is likely to result, although they will be able to take jobs created elsewhere by dint of the improved productivity (see Layard, Nickell and Jackman 1991).

Clearly then a key issue is what happens to the level of real unit labour costs and hence employment with the shift to enterprise bargaining. Layard, Nickell and Jackman (1991) argue that a highly centralised form of bargaining may in fact produce the best outcome, as players internalise the employment consequences of their actions when bargaining.⁷ If centralisation cannot be achieved, the next best solution is a highly decentralised form of bargaining, since with industry-level bargaining, the labour demand curve is relatively inelastic compared with firm-level bargaining. These theoretical predictions are compatible with the empirical findings of Calmfors and Driffill (1988) which point to the least desirable employment and inflation outcomes being associated with bargaining structures that are neither centralised nor decentralised (see also Wooden 1990).

Again this discussion highlights the importance of specifying which version of enterprise bargaining is being considered when tracing the impact on employment. Given the possibility of excessive wage outcomes with add-on enterprise bargaining, and the fact that the award system is retained within this version, thus imparting a degree of centralisation to wage determination, *prima facie*, the impact on employment levels may not be favourable. This will particularly be the case if insiders can gain at the expense of outsiders, of which there is some tentative evidence with the current round of enterprise bargaining that is, competitiveness remains largely unchanged. In the Calmfors and Driffill (1988) construct, add-on enterprise bargaining may continue to place Australia on the top of the 'hump' between decentralised and centralised wage determination (Wooden 1990). Holistic bargaining, particularly if it occurs at a very decentralised level (that is, multi-employer bargaining is uncommon), should have a more favourable impact on employment and hence unemployment, not only because of the productivity boost but also because of the relative containment of labour costs more generally.

5. Complementary Changes for Effective Holistic Enterprise Bargaining

It has been stressed above that full benefits of holistic enterprise bargaining will only eventuate if a number of complementary changes are made which remove the legislated coverage of registered unions and effectively abolish

the award system. That is, unionism would need to become competitive, and unions' jurisdictions and status would not be protected under law to the exclusion of rival organisations. The elimination of the 'conveniently belong to' rule; the proscription of preference clauses and mandated closed shop arrangements; the elimination of minimum size requirements for union registration; the supplanting of awards by agreements; and the effective abolition of compulsory arbitration through single party access are important ingredients of this change strategy.

The provisions of the *Industrial Relations Act 1988* (formerly the *Conciliation and Arbitration Act 1904*) are important in protecting the monopoly position of existing registered unions, most notably in terms of the "conveniently belong to" rule (s.189(1)(j)),⁸ but also in terms of union preference clauses, multi-employer award coverage and "roping-in" provisions (Sloan and Wooden 1990). Registered unions with more than the minimum number of members have an almost permanent right (subject to conduct being cleared in accordance with the objects of the relevant act) to represent workers of a particular class, to seek exclusive award coverage for its members and to be protected against competition for its membership from rival union bodies. Access to the award system is very important since it provides a mechanism by which unions can obtain benefits for their members (higher wages, reduced hours, improved conditions, etc.) which are then legally binding on the employer. Furthermore, it is possible to have inserted in awards, clauses which give preference to unionists in employment.

By dint of multi-employer responsiveness and "roping-in" procedures, all employers of workers who are (or could be) members of a particular union can be bound by an award irrespective of whether they were directly involved in the negotiations. Blanket award coverage, in effect, is achieved through the use of multiple respondents to an award (or by common rules in State jurisdictions), which reduces markedly the cost to the union of union-employer negotiations compared with enterprise bargaining. This is of major importance to small craft or occupation-based unions whose membership is scattered across a large number of firms in numerous industries, and which would lack the resources to engage in enterprise-by-enterprise bargaining.

Thus an important element of the complementary changes required to allow holistic enterprise bargaining to produce maximal benefits is the establishment of "contestable unionism", which would be achieved by removing the impediments to inter-union competition and eliminating the provisions that guarantee, in part, the membership base of established unions. Those unions that can compete effectively will survive. The others

will lose their membership and disappear.

A more decentralised union structure is likely to emerge, which will not only give rise to more flexible workplace contracts and practices negotiated in respect of particular enterprises, but will enhance union representation of its membership through much more employee-union contact, greater accountability to members, and enhanced ability to monitor and respond to employer behaviour. This is not to say that enterprise unions will necessarily become the predominant mode of organisation, but rather whatever form union organisation takes, a much greater emphasis on the enterprise is likely to evolve.

6. Conclusion

While nearly everyone appears to agree that a move away from centralism to some form of enterprise bargaining is a necessary part of the reform process which will lead to Australia becoming a world-competitive economy, there is sharp disagreement over the precise meaning of the term enterprise bargaining. To some, enterprise bargaining is essentially an add-on process, with the bank of minimum rates awards remaining intact, and protection for the central role of registered trade unions in the bargaining process. To others, enterprise bargaining is an holistic process, where all terms and conditions are up for negotiation, where agreements supplant awards, and trade unions may play a role in bargaining, but not to the exclusion of other bargaining agents. Awards will, certainly over time, disappear, on this interpretation.

The difference between the two versions is not merely semantic. It has been demonstrated in this paper that the economic implications of enterprise bargaining are likely to differ significantly between the two versions. One of the strongest arguments in favour of a version of enterprise bargaining that involves holistic agreement-making rather than something that is additional to the existing award system is that the structure of awards is so defective. Not only are awards mainly occupational, having been driven by the structure of unionism, but they are generally completely lacking in any enterprise focus (see Plowman and Rimmer 1992), with the trading conditions of individual enterprises generally not a consideration in negotiations. It is not uncommon for a large enterprise, for instance, to be respondent to a number of awards, the coverage of which extends across a number of industries. Will adding something to this mish-mash produce anything worthwhile?

We have traced through the economic impact of enterprise bargaining on productivity; wage inflation; and on employment. There are dangers that

an add-on version of enterprise bargaining will have only a small overall impact on productivity or that competitiveness will be only marginally affected; that wage and price inflation could increase (especially via a flow-on mechanism effected through the award system); and that the impact on employment and hence on unemployment is uncertain. Holistic enterprise bargaining, especially if accompanied by measures which reduce the power of unions, should have considerable productivity benefits. Excessive wage outcomes are unlikely and employment should be boosted. These results are however contingent on decentralised bargaining arrangements emerging, with the existence of internal labour markets (the coverage of which is likely to be rise) subduing the force of external comparisons which could otherwise drive up labour costs. Moreover, these outcomes will only be achieved if product markets are highly competitive.

Complementary changes which will need to accompany the shift to holistic enterprise bargaining include the dismantling of the protection currently afforded to registered trade unions (and employers' associations) under existing arrangements. Greater freedom of association and contestible unionism involve eliminating the 'conveniently belong to' rule; proscribing preference clauses and closed shop arrangements; and eliminating the minimum size requirements for registered unions.

Notes

1. There were a number of other principles under which wage increases could be secured, but the Restructuring and Efficiency Principle was the main one.
2. Mitchell (1992, p.192) has argued that the "success of the Accord relied on the no-extra-claims clause."
3. These awards also specify minimum standards on a large range of employment benefits and conditions.
4. It should be noted that this is the vision of enterprise bargaining that the Metal Trades Industry Award also appears to embrace.
5. There are in fact a large number of single employer awards, and indeed, these have grown relative to multi-employer awards. However, McDonald and Rimmer (1988) note that many single employer awards diverge only marginally from the base multi-employer awards.
6. Wooden (1990) points out that 'efficiency wage' arguments also lead to this conclusion.
7. This proposition assumes there is "no world of employment outside the bargaining unit to which disemployed union members could resort" (Layard, Nickell and Jackman 1991, p.129).
8. The "conveniently belong to" rule secures the jurisdiction of registered unions, since rival unions seeking coverage of a class of workers would be refused registration if a registered union already exists to which the class of workers could "conveniently belong to".

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