CHANGING THE BARGAIN: THE STABILITY AND CHANGE OF CENTRALIZED WAGE BARGAINING IN OPEN LIBERAL ECONOMIES.

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The methodology used in the dissertation is a paired comparison of Ireland ('Social Partnership' 1987-2005) and Australia ('The Accord' 1983-1996), with reference to other cases of central wage bargaining in liberal economies. The primary research question is, what explains the stability of Irish central wage bargaining in comparison to the decentralization of wage bargaining experienced in Australia in the late 1980s and early 1990s

There are two conditions that must be sustained in order that central wage bargaining is stable in open liberal economies. First, public sector wages must be kept under strict control and large wage drift must be avoided. Second, export sector employers must be able to exercise pay flexibility. Pay flexibility is defined as encompassing an outcome dimension (exporters should be allowed to give pay increases above or below the centrally agreed wage bargain increase) and a process dimension (exporters should be allowed to set wages with a minimum of interference from third parties, be they wage setting institutions or trade unions).

The two necessary conditions of public sector wage control and export sector pay flexibility are found in the Irish case explaining central wage bargaining stability, but not in the Australian case,

explaining its wage bargaining decentralization. In Ireland after 1987, the stability of the system has been enabled by a concerted effort by policy-makers to de-couple pay movements between the public and export sectors. This is achieved through allowing export employers pay flexibility, while ending old patterns of public sector relativities-driven wage bargaining. This is in contrast to the late 1970s and early 1980s where large public sector wage drift caused the decentralization of wage bargaining. The Australian system decentralized because wage arbitration institutions created during a closed trade policy regime interfered with the process aspect of pay flexibility of exporters. These institutions intruded into wage setting at the plant level, and enhanced the power of trade unions to influence and alter the wage setting process. This provoked a successful export-employer led offensive on the central wage bargaining system.

BIOGRAPHICAL SKETCH

Stephen Patrick Jackson attended the University of Adelaide, South Australia as an undergraduate where he was awarded a Bachelors of Arts with Honours degree in the Department of Politics in 1990. He later attended the University of North Carolina at Chapel Hill where he was awarded a Masters of Arts degree in Mass Communication Research from the School of Journalism and Mass Communication in 1996.

For Jennifer

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All errors in this dissertation, as always, are my own.

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Chapter 1
Research puzzle, argument & methodology

1.1 The research puzzle

Three liberal economies[1] have attempted to centralize wage bargaining in the last 30 years in an attempt to slow wage growth, reduce inflation and boost employment growth: Australia, Ireland and the UK. One country, Ireland, has tried it twice: once in the mid to late 1970s and early 1980s with little success or stability, and since 1987 (Social Partnership (SP)) with apparent success and stability. Australia tried centralized bargaining after 1982 (the Accord), but it collapsed in the early 1990s. The difficulties of the short-lived Social Contract in the UK between 1974 and 1978 are well known.[2]

The locale of wage bargaining has proven to be an important variable in studies explaining variation across countries and time of inflation, unemployment, economic growth, and wage inequality.[3] Centralized wage bargaining is associated with a distinctive set of deliberative policy institutions defined as 'corporatist'. Centrally struck

[1] The liberal economies are Australia, Ireland, New Zealand, the UK, Canada and the USA.

[2] I define a liberal economy as one with a welfare state with low decommodification of the labor market than Christian democratic or social democratic economies (see Esping-Andersen 1990, 41-44, 47-54), patterns of (lower) public spending than social or Christian democratic economies (Iversen & Wren 1998) and one with market-enhancing or pro-market coordinating regulatory regimes of corporate governance, vocational training, industrial relations and innovation (Soskice 1999, 110-112).

[3] For instance, on the role of wage bargaining for macro-economic outcomes, see, Cameron 1984; Lange & Garrett 1985; Calmfors & Driffill 1988; Freeman 1988; Soskice 1990a; Alvarez, Garrett & Lange 1991; Bleaney 1996; Garrett 1998; Hall & Franzese 1998; Franzese & Hall 2000; Iversen 1999; 2000; Garrett & Way 1999; 2000; Way 2000; Traxler & Kittel 2000. On the effects of wage bargaining on income distribution, see for instance: Pontusson, Rueda & Way 2002; Rueda & Pontusson 2000; Wallerstein 1990.

wage deals in corporatist states are a key component of policy compromises between organized labor and the state in so-called social corporatist countries [Katzenstein 1985, 116-123). The locale of wage bargaining has been used a defining feature of a type or variety of capitalism.

According to the varieties of capitalism (VOC) literature, liberal market economies (hereafter LMEs and include Australia, Canada, Ireland, New Zealand, the UK and the USA (Soskice 1999)) are unable to sustain peak level bargaining or corporatist arrangements (King & Wood 1999, 377; Soskice 1999, 110-112, 123; Hall & Soskice 2001a, 30). The lack of organizational capacity of labor and employers to sustain agreement and guarantee compliance with central agreements is the primary reason for this inability (Thelan 2001, 75-78; King & Wood 1999, 376-378).

What is happening with respect to centralized wage bargaining is a significant theoretical question. But aside from the effect that changes in wage bargaining have on the macro-economy or on the way countries consult with groups in the crafting of public policy, developments in wage bargaining institutions reflect on the larger issue of whether international political-economic forces are inducing convergence of institutions and institutional design across the advanced capitalist economies. The existence of Irish centralized wage bargaining, in 2005 entering its nineteenth year of operation, and of the Australian experiment in the 1980s suggests that liberal market wage bargaining institutions may not necessarily move towards a

greater market enhancing equilibria or convergence on the lightly regulated American model.

Centralized agreements have been struck and centralized wage bargaining regimes have survived long periods in liberal economies. If the Irish and Australian cases do provide evidence that a move by these liberal economies in a more regulated direction is possible then this suggests that the widespread assumption that the English speaking nations at the least are moving towards a US lightly regulated and freer market model is wrong.[4] Moreover, since these countries are expected to be the most likely to move in the US model direction, evidence of pro-coordination developments that are stable casts serious doubts on neo-classical and liberal orthodoxy that growing trade and capital market integration is slowly stripping away regulation and market altering institutions throughout the advanced capitalist world.[5] Even if it is conceded that convergence towards a more liberal market model is occurring throughout the advanced capitalist states, then any observed and explained differences between the Irish and Australian cases in this dissertation would suggest significant variation around this model are possible.

This dissertation examines two cases, Australia 1983-1996, and Ireland 1987-2005. The purpose of the comparison is to dissect how a stable centralized wage bargaining system is achieved (in the case of

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[4] This includes the predictions of varieties of capitalism theory (further discussed in chapter 3)

[5] For an essentially neo-classicist view that regard institutions as slowing but not stopping the trend to free market regulatory regimes caused by growing international trade and financial integration, see Frieden & Rogowski 1996, 31-36, 42-44.

Ireland after 1987) and to compare that stability and the cause of that stability with a case where central wage bargaining decentralized (Australia 1983-1996). The comparison in explaining stability and the reason for a key case's decentralization should be able to shed considerable light on what causes decentralization of wage bargaining, and the necessary conditions for central wage bargaining to survive in a liberal economy. While my argument may extend to all cases, that is, it may apply to social democratic and Christian democratic countries[6] (or coordinated market economies if that categorization is preferred[7]), this dissertation's research design does not allow that assertion to be made or for that issue to be answered with any degree of satisfaction. Instead, I confine my argument to liberal economies, and answer the following questions:

- Why has Irish Social Partnership survived for at least 18 years, whereas the Australian Accord decentralized wage setting after eight years? What caused the decentralization of the Australian system? What has sustained the Irish system?
- Is there any evidence to suggest that Ireland post-1987 represents a new breed of economy?
- What are the implications for the debates over institutional convergence to the answers to the first two sets of questions?

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[6] See Esping-Andersen (1990, 35-52) for the categorization.

[7] The coordinated market economy concept is explored in the brief discussion of then varieties of capitalism approach to comparative political economy in chapter 3).

1.2 Overview of the argument

1.2.1 General principles

My dependent variable is the sustainability (or lack thereof) of centralized bargaining arrangements in advanced capitalist countries with liberal economies. Centralized wage bargaining in open liberal market economies remain stable, centralized and sustained when two necessary conditions are fulfilled: exporters have pay flexibility (are not constrained) and the public and non-trade sectors are pay disciplined by central agreements. When either of these conditions is violated, wage bargaining becomes decentralized. The effect of these two variables – export sector pay flexibility, and public/non-export sector pay restraint – on liberal market economy centralized pay bargaining stability is shown in table 1.1.[8]

I define *pay flexibility* as encompassing three broad capacities. First, to either increase wages in order to recruit and retain labour. Second, to hold wage increases to a minimum or to cut wages in order to cope with falling demand and profits, and finally, in the exercise of

[8] Do considerations of partisanship change this argument? In the long-run, wage bargaining centralization between 1965 and 1982 has been associated with left government and increased union density (Cameron 1984, 166; Western 1997, 39-41). Therefore it could be argued that wage centralization in liberal economies may co-vary with left partisanship, and that changes in the partisanship of government explain changes to wage bargaining institutions. However, in Australia, the major left party (the Australian Labor Party, or ALP) presided over the decentralization of wage bargaining, and there is every reason to believe that the 1996 reforms by the new right-wing government did not differ substantially from ALP policy immediately before the 1996 election. In Ireland, every major political party has been in a government coalition that has overseen Social Partnership. While the failure of the Social Contract in the UK (again under a left government) may have helped the Conservatives into power in 1979 and broken the Keynesian consensus that enables Thatcher's government introduction of broadly monetarist policies (King & Wood 1999, 377-378), the evidence for partisan effects in liberal economies is poor. Rather the reasons for decentralization appear to come from developments within the economy.

pay setting, managers do so with a minimum of organized labor input into the process. In practise, this means that enterprise or local bargaining and wage setting predominates in the export sector, and that exporters prefer non-union environments. Flexibility therefore has two dimensions: a process dimension (organized labor and central institution free) and an outcome dimension (actual wage outcomes). Where outcomes are satisfactory to exporters, they will not worry so much about organized labor and central wage bargaining institution input and structuring of the process, but where outcomes become problematic, employers will become politically active against organized labor and the centralized system.

Table 1.1
Causes of wage bargaining stability & change.

	Public /non-exported sectors: little or no drift	**Public /non exported sectors: high drift**
Export sector pay setting constrained	Australia (1983-1996) Wage bargaining decentralization	No liberal economy observations
Export sector pay setting flexibility	Ireland (1987-2005) Central wage bargaining stability	Ireland (1970-81) Australia (1975-1981) UK (1974-1978) Wage bargaining decentralization

Pay flexibility ensures that pay determination in the export sector is attuned to their specific strategic needs and profitability, in turn enabling competitiveness and export and economic growth. These macroeconomic effects are major concerns of policy-makers in liberal market economies, who once the decision to open the economy has

been made orient labor market policy towards lowering unit wage costs and improving the competitiveness of exporting firms and non-exporting firms who must compete with imported goods and services. The rationale of this policy strategy is to reduce unemployment.

Policy-makers are also concerned about the economic health of the export sector when debt and balance of payments or current account problems are acute. Because payment deficits in an open economy by definition involve an outflow or export of capital, monetary and fiscal policy is placed under a great deal of strain when payment deficits are endemic. For one, it is a persistent contributor to growing debt, a debt that accrues interest and requires servicing. The loss of capital is a persistent drag on economic growth. Second, payment deficits place strains and reliance on interest rates and currency market manipulations and interventions in order to attract capital, prevent capital flight and periodically reduce payment deficits.[9] Growing exports is a medium and long-term solution to balance of payments problems and increases in debt. Hence, exporter's preferences over policies that affect their competitiveness and growth are given a great deal of store by policy-makers.

It should be noted, that where non-export sectors face considerable import competition they too would place a premium on pay flexibility. To the extent that loss of markets to overseas companies increases balance of payment problems, policy-makers also

[9] I do not discuss the open macro-economic Mundell-Fleming model in this dissertation. For a discussion of the monetary and exchange rate issues on which my basic assumptions lie, see Argy 1992, chapters 1, 7 & 8; Krugman & Obstfeld 1997, chapters 12 & 16)

worry about these firms' competitiveness. However, because the growth of local markets is somewhat limited, especially in smaller countries, and the potential effect on balance of payments and employment growth limited, policy-makers will pay more attention to the problems and preferences of exporters.

Liberal market economy centralized wage bargaining fragments and decentralizes when either the freedom of exporters and import competitors to set wages locally is compromised by central agreements, or when public sector and non-export pay rises are not successfully restrained by the central agreements. When the latter occurs, input costs of goods and services to the export sector increase, affecting exporter's profitability, and the going rate of labor also increases, necessitating exporters to raise wages in order to recruit and retain labor. The two roads to decentralization are characterized by very different dynamics. In the flexibility road, employers are the dominant actors and the key relationships are between employers, the wage bargaining institutions and the state. In the public sector wage drift road, public sector unions are the dominant actors and the key relationship is between public sector unions and umbrella organizations, the wage bargaining institutions and the state. When the relationship breaks down, the dominant actors actions become the determining factor in decentralizing wage bargaining. There is therefore a labor-inspired road to wage decentralization, and an employer-inspired road. In the two cases I examine in detail in this dissertation, the focus is on the flexibility road.

1.2.2 Ireland: centralized wage bargaining stability

The stability of Irish Social Partnership can be attributed to the pay discipline of the public, non-traded and locally traded industries and services combined with a hiving off or separation of pay movements in the export sector. This has not been complete by all means, but the experience of the 1980s and 1990s is in stark contrast with the leap-frogging claims of the 1970s where wage rises in the export and public sectors fed each other. The centrally negotiated pay discipline of the non-export sector, the enterprise-based decentralized bargaining of the export sector and the erosion of relativities-based claims are the reinforcing elements of Ireland's centralized but partially coordinated wages system. As such, they are the defining features of what constitutes the limits of wage coordination in liberal market economies.

The framing device used by policy makers in the construction of policy in Ireland (including pay determination) was and is to improve the competitiveness of the economy and through a rising tide of economic wealth, raise the economic fortunes of all. This orientation has meant that policy is oriented towards improving trade prospects and that exporters preferences and needs are primary when formulating and enacting policy. Policy is and was not primarily concerned with the re-distribution of income, either through taxation, preferential wage deals, or social policy. Instead the emphasis is and was on employment creation through the growth of the exporting sector via foreign direct investment. Because of the preference for non-

union plants among MNCs entering Ireland, this has translated into a growing non-union sector in Ireland.

Irish private sector wage setting since the 1960s been framed by relativities between industries (Hardiman 1988, 44-47; Kane interview 2000; McCarthy interview 2000). Hardiman (1988) argues that wage leaders, usually in relatively highly skilled professions, determined rates of pay in other industries in the 1960s and 1970s. After the Priestly Commission report in the mid-1950s, public sector pay has been influenced by pay developments in a handful of private sector occupations. These observations are largely accepted common wisdom in Irish industrial relations research: pay movements flow from high skill jobs in manufacturing through other private sector industries and sub-sectors, to key grades in the public service and then, via internal relativities, throughout the public sector.

There is no question that relativities were a driving force in Irish pay determination before 1987, and Social Partnership while reducing their effects has not completely eradicated them and imposed a new coordination system that flows from the SP agreements. Irish wage bargaining is peculiar in that tri-parte agreements are set centrally, while the actual bargaining takes place increasingly at the enterprise levels. To speak of Ireland as a centralized system, is therefore to some extents misleading, especially compared to systems in countries such as Germany where wages are actually set at higher levels. In Ireland, bargaining is mostly an enterprise affair, but completed by parties (unions and employer associations) who have made promises at the central level about what they will do in those enterprise bargains.

There are other key dynamics that define the setting of wages in Ireland other than the flow of pay movements from high skill manufacturers to the rest of the economy, despite common wisdom. The pay determination process within the public sector is one, while the effects of staggered bargaining and wage expectations are another.

At the enterprise level, which way do relativities run? The common wisdom explanation is unsatisfactory. Expectations are the key to understanding this issue, and this is where the staggering of rounds is vital. Say the union in a low productivity, low pay and indigenous firm bargains first for wages and cares about maintaining relativities with a pay leader. What claim level does the union choose? Any answer is a guess based on what happened in recent years, the expected inflation rate and the effect a claim may have on employment in the industry or firm. Expectations based on prior learning play the key role in deciding the level of the claim. Once early claims are laid they affect later claims because maintaining relativities is a preferred outcome for unions.

When a recursive process like this begins, who can tell who the wage leaders are and who are not? It may well be that the guesses of early bargainers pay reference to high-paying and profitable firms and sectors when they make their guess, but late bargainers who are highly profitable must then pay heed, if they care about relativities, to pay movements in the early movers in the indigenous sector and act to maintain their relative pay. Who are the pay leaders in this set of circumstances?

The problem is no less for non-union firms. Non-union firms, in order to recruit and retain labor, are affected by the game. In the case

of non-union MNCs, given the size, capital intensity, and propensity to cluster in sectors with increasing returns to scale (this is why they are MNCs, after all[10]), means that, even with the absence of unions, management are able to pay high wages. This is the rent-sharing hypothesis. Indeed there are good efficiency reasons to do so.[11] However, if employees still care about relativities, and it is reasonable to assume they do, then the non-union firm, MNC or not, must make guesses about the probable pay movements in the rest of the economy.

The key to breaking the expectations game is to impose pay discipline on at least one group and increase the certainty of the calculations of employers and labor about future wage movements. By increasing the completeness of the information held by all parties to bargaining the wage spiral effect caused by the marriage of expectations and poor information is minimized.

The most important group to discipline is the public sector, since they are most likely to be the most unionized sector of the economy, and the most militant because pay rises can be easily passed onto taxpayers. The small cost to an individual taxpayer is such that they face collective action problems in organizing opposition to any specific pay rise (Becker 1983). In addition, there is good evidence to suggest control of public employment increases the economic performance of private sector trading firms (Alesina et al 2002). In Ireland between

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[10] Barry et al (1999) identify that the most productive sectors in Ireland are ones where there are increasing returns to scale, and that MNCs are more heavily concentrated in these sectors.

[11] The relative lack of supervision in large firms means that firms pay employees more in order to "buy" more responsibility (Milgrom & Roberts 1992, 250-256). Also the cost of turnover is probably higher in these firms due to the high levels of firm-specific skills employees possess, encouraging higher levels of pay.

1987 and 1997, the government strategy to limit public sector wage rises (and employment expansion) was largely successful and contrasted with the 1971-81 period of centralized wage agreements. It was successful because tax cuts improved real-take home income, which reduced the size of pay claims. Tight wages control by the Department of Finance was also important. In areas of the public sector where that control was weaker, pay rises were generally higher.

The next most important group to discipline are the lower productivity indigenous firms. If pay rises from the more productive areas of the economy, such as from the MNCs in the exporting sector, flow to them, then the private sector may experience its own expectations game described stylistically above, with the result of spiralling wages and the eminent possibility of loss of control over public sector pay. The expectations game will lead to job losses in the least profitable firms. This prospect may not stop job losses if pay is decided at the firm or by a majority vote of union members at the industry level. Workers in profitable firms will not concern themselves with job losses in less profitable firms caused by their wage claims. Therefore the disciplining of this sector is consistent with the primary goal of policy makers: the creation and survival of employment.

The key to the stability and ongoing survival of Social Partnership is and was to discipline public sector pay and expansion, and the non-export private sector, in order to create a labor market where the going labor market rate for exporters was not subject to guesses and expectations about wage movements in the public and indigenous sectors. The disciplining of public sector and indigenous firm pay was

made possible by slack labour market conditions until the late 1990s coupled with the promise of income tax cuts to improve real take home pay. In this respect, MNCs were able to, as Baccaro & Simoni (2004) term, "mimic" the pay behavior of the unionized sectors of the economy.

Cracks have started to appear in the three reinforcing elements. Once labour market conditions changed and tightened after 1998 and the tax strategy began to exhaust itself, public pay discipline was eroded, signalling a possible imminent end to Social Partnership's form of wage coordination. Export sector pay has risen in some firms quite sharply. Private sector unions are worrying more about equity issues: some are getting rich off the Celtic Tiger. This is feeding a possible new era of relativities-based bargaining. The 1970s expectations game where public and private sector pay rises fed each have re-appeared since 2000. The stable future of the centralized agreements looks less likely than at any time since 1987.

1.2.3 Australia: wage bargaining decentralization

Two major factors differentiate the Australian experience from that of Ireland and explain the different outcome of wage bargaining decentralization or lack of stability: the timing of the opening of the economy and the point at which the policy ramifications of the new economic environment became clear, and the rigidity of the centralized system and the way that system compromised wage flexibility.[12]

[12] It should be noted that nowhere do I argue that public sector wage drift was a cause of Australian wage bargaining decentralization.

On the first issue of the timing of openness: Whereas in Ireland, the policy model to secure economic growth in the Social Partnership years was and is based on openness and has been since the late 1950s, it was not until the early years of the Labor government and after the centralized wage bargaining regime based on union/government agreements (known as the Accord) had been established that there emerged a firm commitment by the government to an open economy model of growth.

The most vital early series of policy decisions that demonstrated the government's commitment to an open economy model of growth was the decision to float the currency and abolish exchange controls in late 1983 and 1984. This policy responded to the massive speculation on the 'crawling peg' dollar. In 1983, speculators took advantage of the central bank's commitment to maintaining a declared daily exchange rate to predict buying patterns. This caused massive pressures on the central bank to buy back speculatively purchased dollars that in turn placed an accompanying upward pressure on interest rates. The government responded to this problem by floating the dollar.

The float of the dollar was the most critical policy decision of the Labor government but the political effects of the float did not become clear until 1986. Once the dollar was floated and capital controls lifted, the economic environment changed dramatically. The balance of payments and the value of the dollar became the barometers by which the government judged the competitiveness of the economy, and the likelihood of sustained economic growth in the future. Between 1984 and 1986 in the context of open capital and financial markets, the

balance of payments deteriorated dramatically. Capital exited Australia at an accelerating rate, and led to increased borrowing to fund the persistent deficit. As a result debt repayments and interest on debt repayments continued to increase to the point where policy-makers identified the problem as a crisis in need of a policy response.

The government responded not by moving to re-close and to re-regulate product and financial markets in an attempt to correct the problem, but by making plain its intention to introduce further policies designed to enhance the market competitiveness of Australian firms, especially export firms. Before this series of policy moves by the government, of which wage bargaining decentralization was one, no Australian government had systematically examined the policy implications of openness. Economic crisis forced this examination. This examination indicated a commitment to an open economy model for growth and meant that exporters, who were already expressing concerns over the rigidity of the centralized system, became a very influential lobby for wage bargaining policy change.

This crisis changed the goals of wage bargaining policy. Whereas central wage agreements at their inception in 1982 and 1983 were conceived as a way to control inflation and boost employment, by late-1986, wage bargaining policy was regarded as a tool to improve the efficiency and cost structures of exporting firms. The aim was to boost Australia's export performance, not just in the traditionally strong areas of mining and agriculture, but also to increase labor flexibility so that manufacturing firms could achieve better export performance. This led policy makers to look more closely at what the preferences of

exporters were with regard to wage bargaining. Before this, wage bargaining policy had been a result of negotiations between organized labor and the state. The open economy and its ramifications meant that the state turned away from the union movement and attended to the needs of exporters by enhancing their competitiveness.

On the second major point of difference, being the problem of the rigidity of the centralized system in Australia (compared to Irish flexibility): The policy re-think on wage bargaining in 1986 and 1987 came about because the original wage bargaining model formulated between organized labor and the Australian Labor Party before the 1983 election when Labor came to power proved to be too rigid and did not allow exporters and potential exporters the wage flexibility they wanted in order to boost cost competitiveness. The existing institutional structure was not up to the task of providing flexibility to exporters while coordinating and restraining the non-export parts of the economy once the open economy model of growth was adopted and economic events tested the viability of the centralized wage bargaining system. Conceived around the turn of the twentieth century, the tribunal system was a means to deliver a decent family wage to male workers within the context of a closed and highly protected economy. The system gave trade unions an institutional base within which they could exercise considerable industrial relations power at multiple levels, from the federal level where they could influence tribunal decisions over national wage rises, to industry and plant levels where they could, via applications to vary collective agreements known as

'awards', influence the pay of specific workers and through the linking of pay to detailed job descriptions, the labor process itself.

The rigidity of the system and the exporter's opposition to it was illustrated in two well-publicized and significant industrial disputes in 1984 and 1986: one in mining and the other in meat-for-export. The disputes were rallying points for exporter employer opposition to the centralized system. Because the tribunal system was the means which delivered the centralized system and gave unions a state institutional basis of power, exporters desire to localize wage bargaining and to reduce union influence on wage bargaining became folded into a campaign to weaken the tribunal systems' powers to settle disputes.

The changing economic environment and the rigidity of the centralized system enabled the development of new employer groups committed to changing the wage bargaining system. While established groups still debated the open economic policy model itself, new groups established themselves with the aim of shaping institutional development within the new open economy growth model now favored by policy makers. These groups differed on the degree of radicalism of their proposals, but were successful in changing the terms of the debate over what wage bargaining policy should deliver (greater firm efficiency) and how that should be done (decentralization and limiting the scope of the tribunals to regulate wages and conditions of work at the plant level).

Centralized wage bargaining therefore failed to be stable where the Irish attempt succeeded because the Australian system was designed for differing economic policy circumstances than the one in which it

had to operate. Once openness became the dominant policy frame, policy makers became committed to ensuring that labor market and wage bargaining policies supported and enhanced competitiveness. This opened political opportunities for exporters to exploit, which they did by pushing for decentralized wage bargaining. Hidden within this campaign was a broad non-union or union avoidance agenda that became increasingly clear once government support for move to local and plant bargaining had been achieved in 1991. While the Accord was a biparte agreement between the unions and the government -- employers were excluded -- the trajectory of wage bargaining policy changes was dictated by export employers. This willingness of the government to heed the wishes of the export sector and to secure a more competitive-enhancing labor market was reflected in the government's changing relationship with the trade union movement. Initially supportive of the move to plant level bargaining in order to remain within the inner circles of government, the trade union movement soon realized the pro-employer bias of the ostensibly 'left' government. The relationship became increasingly strained after 1992 and by the 1996 election the cooperative relationship on which wage bargaining centralization was based with the union movement was gone.

1.3 Are the cases a new breed of economy? What are the implications?

On the second set of questions I posed earlier, I argue that the exclusion of the export sector from the Irish wage centralization regime suggest there are strict limits on how far liberal market economies can move away from a lightly regulated and non-coordinated market model, at least as far as wage bargaining policy is concerned. Ireland is perhaps more a significant variation on a theme than a genuinely new breed of economy. But what is striking about the institutional design in Ireland (and is confirmed by the Australian case) is the extent to which wage bargaining institutions compromise and accommodate open labor market forces in the most important sector, from an economic growth perspective, of the economy: the export sector. But the fact that this labor market is shaped by heavy institutional intervention in the non-export sector shows how loose institutional convergence is in practise and the possible scope for institutional innovation and difference among advanced capitalist countries.

The challenge to the sustainability of the Irish system and its asymmetric distribution of wage restraint responsibility is whether public and sheltered sector unions will continue to be willing to bear most of the responsibility for restraining wages for the benefit of the entire economy especially as the economy continues to grow at a healthy rate and wages in the export sector grow. I suggest that such willingness must be regarded as finite. The tax cuts being used to sustain the system and that are lifting real take-home pay while wages

stagnate and decline in real terms cannot go on forever. A union revolt is likely to be in the form of a growing irrelevance of the centralized agreements to actual wage setting at local and industry levels as wage drift spreads from the public and sheltered parts of the economy to the local domestic economy. This would be a repeat of the 1970s.

That stated, in answering the third question posed above – that of institutional convergence - the Irish case represents a challenge to the neo-classical approach that suggest that growing trade flows and financial integration will lead to market-enhancing policy regimes and a retreat of institutions from markets. Clearly in the Irish case it has not done this in the non-export sector. Indeed the freedom of the export sector labor market is predicated on institutional support. This is hardly a retreat. Presumably there will always be parts of an economy relatively sheltered from trade and this offers plenty of scope for variation of wage bargaining institutional design and labor market policy regime.

The Irish system also challenges varieties of capitalism theory in that Ireland is clearly not moving in the de-institutionalized liberal direction predicted by Soskice (1999) or to the ideal deregulated, non-coordinated liberal state described by Hall (2001, 56). Further, the Irish case is a challenge to those who argue that there are two broad ways advanced capitalist states cope with the uncertainties of being an open economy: via some form of corporatism (social or liberal in some small states of Europe) or via a liberal market model (Katzenstein 1985). The Irish case is corporatist in some respects, but unlike those cases classically described by Katzenstein (1985). The deliberative

institutions and reach of their coordination does not extend into the export sector. This would suggest that increasing trade and financial flows and open capital and trade borders leads not to one of two models, but there may be at least a third (aside from the so-called hybrid cases such as France and perhaps Italy- see Soskice 1999, 103): one where the non-traded sectors of liberal economies are coordinated via institutions, while the traded sector is liberalized.

1.4 Case selection

The liberal economies comprise six countries: the US, UK, Canada, Australia, New Zealand and Ireland. They are more similar with regard to employer organization, industrial relations, financing systems and education systems than another cluster of advanced capitalist countries, the coordinated market economies (Austria, Belgium, Denmark, Finland, Iceland, Germany, Japan, Netherlands, Norway, Sweden, Switzerland and Korea) (Hall & Soskice 2001a, 19-20; Soskice 1999, 106).[13] They are also more similar with regard to social policy and the degree to which that social policy decommodifies the labor market than the groups of Christian and social democracies (Esping Andersen 1990, chapter 2 and 6).

[13] The critical variable differentiating CMEs for LMEs is employer cooperation and associability. In short, employers in CMEs have longer-term strategic horizons, enabled by a greater emphasis on bank finance over equity markets than in LMEs, greater market and product information sharing enabled by a relational contracting system, mutually-funded and coordinated training and protections against hostile takeovers in corporate governance law (see Hall & Soskice 2001a for a full discussion of the differences between LMEs and CMES). The paradigmatic case is Germany. While there is variation within the CME cluster (for instance the Swedish government takes the lead on training and human capital development) these cases are more alike and differ less from one another than the difference with LME countries. See chapter 3 for a fuller discussion.

When selecting from the sample of liberal economies we can therefore think of them as 'similar cases.' In a most similar systems design, the differences between the cases are meant to account for variation in outcomes between the cases. In real life, the differences between 'most similar cases' are obviously great and controlling for them is not as easy as theory suggests. Liberal economies differ on simple measures such as trade union membership. If the differences are so great as to make the teasing out of real causal differences difficult, then that itself is a useful result because it suggests great implications for the convergence set of questions posed above.

I select observations here on the dependent variable. According to King, Keohane & Verba (1994, 128-137) this may lead to selection bias. They conclude that, "we must be aware of the biases introduced by such a selection on the dependent variable." Examining the values of the dependent variable across liberal economies will discover whether this is a problem.

The dependent variable measure is "degree of wage bargaining centralization." Australia between 1983 and 1991 moved from a highly centralized wage bargaining system to a decentralized one, and Ireland maintained a moderately centralized agreement after 1987 with significant areas of the economy outside the centralized system. This dissertation, therefore does not examine a classic LME system, one that does not change and has virtually no degree of centralization, such as the US. This may lead to selection bias because the dependent variable has a truncated series of values. Such a selection bias means that causal effects will be muted; the "true causal effect will be larger

than the qualitative researcher believes" [King, Keohane & Verba 1994, 130].

Iversen's (1998) centralization scores may reify the change and the degree of wage bargaining centralization and focus more on the formal site of bargaining as opposed to actual coordination, but they are useful first cut efforts to illustrate the changes to and levels of centralization in these cases, and show the variation on my dependent variable.[14]

In 1983, the Australian score was 0.574, while in 1992 the score was 0.316 denoting a marked decentralization of wage bargaining (Iversen 1998).[15] Australian wage determination continued to evolve with 1996 legislation that further reduced the powers of central wage setting institutions. In Ireland from 1987, there are no comparable scores available, but the lack of institutional change would indicate that decentralization has been negligible. Ireland remains over the period a reasonably centralized system with respect to authority. I have therefore classified it as intermediately centralized, with a weighting of central, industry and plant level authority the same as Finland for much of the 1970s and 80s, and not unlike Japan's from 1983-95. This is defensible since Irish SP is characterized by a single

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[14] Iversen in constructing the index assigns a relative weight for central, industry and local bargaining authority that add to 1. The union membership share of workers covered at each level is then multiplied with each of the weights, which are added to create a score between 0 (no union members) and 1 (100% unionization in a completely centralized system).

[15] This shows a change from a system more centralized than some CMEs in 1983 (Belgium, Denmark, Finland, Germany, Japan, and Switzerland) and more comparable to Norway, Sweden and the Netherlands. By 1992, Australia was comparable to Belgium, Germany, Japan, and Sweden, more centralized than Switzerland, but less centralized than the other CMEs.

renewable central pay agreement, a high degree of public sector coordination, and widespread pattern and relativities-driven bargaining at the industry level. I estimate the centralization score to be in the 0.3-0.4 range.[16]

An alternate measure of centralization is provided by Wallerstein & Golden (1999). On their 15 point scale measuring government involvement in wage setting, with 1 being completely uninvolved, to 15 where governments impose wage freezes and ban supplementary bargaining, Australia moves from 10 (Formal tri-part agreement for national wage schedule with sanctions) in 1983 to 3 (government extends collective agreements) in 1992.[17] In Ireland in the period between 1987 and 2005, is a 9 on the author's scale (Formal tri-parte agreement for national wage schedule without sanctions).

1.5 Structure of the dissertation

In chapter 2, I introduce and discuss the major theoretical concepts that drive the causal explanation of this dissertation. In chapter 3, I examine the existing arguments about wage bargaining change, in the case of Australia, and the cause of stability in the case of Ireland. I situate my argument within the existing literature.

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[16] Or comparable to Japan in the 1980s and 90s, the Netherlands in the late 1980s and early 1990s, Finland in the early and late 1980s, Denmark after 1986, and Sweden after 1990. In the 1970s shadow case, Ireland moved from a decentralized system to one after 1974 comparable to SP after 1987. A rough estimation would be that the dependent variable value increased from around 0.1 in 1969 to between 0.3 and 0.4 between 1974 and 1980, before a collapse to a value of around 0.1 in 1981 (See Hardiman 1988, 53-56 for an outline of the central agreements of the 1970s.)

[17] I take the no-disadvantage test (compared to industry awards) of Australia's enterprise bargaining to be the equivalent of an extension clause by the government.

In chapters 4 through 6 I discuss the Irish case from 1987 to 2005. In chapter 4, I present some necessary data for the argument and draw conclusions from that data: on trade, unemployment (a persistent Irish economic problem until the 1990s), other labor market supply issues, and on the trade union density trends and industry patterns. In chapter 5, following a presentation of the centralized pay agreements, I examine the best available data on Irish pay, industry by industry, in order to evaluate where pay drift is occurring. This provides important data for my argument in chapter 6 that explains the stability of Irish centralized wage bargaining. I compare the stability of Irish wage bargaining centralization after 1987 with the previous collapse in the early 1980s as a test of my argument.

Chapters 7 though 10 constitute the Australian case between 1983 and 1996 when wage bargaining was centralized and then decentralized in a series of policy moves after 1987. Chapter 7, in a similar vein to chapter 3, presents background information for the reader necessary to understand the Australian case, and introduces data that supports later arguments. I give some background for the reader in order that they may understand Australia's distinctive industrial tribunal system and the effects it has had on employer and trade union organization. I address whether these tribunals can be considered independent actors. I then examine Australia's trade record, the persistent problem of debt and negative balance of payments, and the large contribution a handful of mining concerns contribute to the balance of payments and exports. In chapter 7, I also examine trade union density trends and patterns across industries. In

chapter 8 I examine the pay agreements of the Accord years between 1983 and 1996, and then track wage increases for each of Australia's industries in order to establish how successful various permutations of the Accord (with their varying reliance on central, industry and plant level components) were in restraining real wage growth. This information and that from chapter 7 is then assumed and used in chapters 9 and 10 where I present the main body of my causal argument of the decentralization of Australian wage bargaining. In chapter 9, I examine the key role of employers in causing wage bargaining policy change especially export employers. In chapter 10, I examine the response of policy-makers to changing economic circumstances and to those exporters and how decentralization was made. I conclude by examining and rejecting two possible alternative arguments: that trade unions were responsible for decentralization, and that public sector wage pressures were responsible for decentralization.

I conclude this dissertation in chapter 11 with a discussion of the questions posed in chapter 1. In particular, I summarize why the Irish and Australian wage bargaining outcomes are different, and what these cases may indicate about the future of central wage bargaining. I conclude the chapter with a few thoughts on the issue of institutional convergence and whether either of these cases can be considered a new breed of economy.

Chapter 2
Theoretical perspectives

In this chapter, I examine more closely the theoretical perspectives that have informed my argument, in particular the way in which my two variables work to change wage bargaining arrangements. I elaborate more fully on my argument and introduce a new component: the macro-economic policy strategy of the state. Recent evidence suggests that liberal economy governments especially, but all governments pursue a policy strategy that limits public sector wage bill and public sector employment growth. This has important implications for my argument in the form of an ironic twist. By limiting wage bill growth, these liberal or monetarist policies are consistent with wage bargaining centralization stability because they denote strong controls over public sector wage growth. But the irony is that the pursuit of the 'small state' equals a curb on public spending growth that limits the policy choices that the state can use to reward public sector workers for wage restraint. This has led to a reliance on tax cuts to reward and offset wage restraint and to boost or at least hold steady in real terms household income. This is a finite strategy, suggesting that public sector union acquiescence to small wage increase deals may have a 'use by' date, and that the 'small state' strategy adopted to pursue economic growth may be both an enabler of but a limit on the duration of centralized wage bargaining regimes.

2.1 Export sector flexibility

I first discuss the origins of the need for export sector wage flexibility as having its roots in the increasingly competitive product markets of the last 25 years. I then examine the causes and implications of declining union density. I argue that the decline is symptomatic of growing employer hostility among firms in advanced capitalist countries in pursuit of flexibility. This hostility is led by multi-national or internationalized firms, most of which are locating internationally for export production. Union decline is symptomatic of a growing mood among MNCs and exporters that third party interference in wage setting should be minimized, whether that interference is in the form of higher level wage bargaining, wage bargaining institutions, trade unions or some combination of all three. Union decline means that the monitoring of wage deals struck at higher levels is now more difficult at lower levels. This makes centralized wage bargaining problematic and wage drift more likely. I conclude by examining the supporting theoretical literature that suggests how exporters will organize against wage systems that impede wage flexibility.

2.1.1 Flexibility & 'the need for speed'

Iversen observes that changes in production techniques and technology have encouraged a greater strategic emphasis within firms on flexibility. The 'need for speed' in the modern manufacturing firm enabled by micro-processor technology, and made imperative by growing international products and financial market integration has encouraged firms to make greater use of variable forms of pay such as

performance pay, profit sharing, seniority pay, contracting and outsourcing and the use of temporary labor (Iversen 1998a; 1999, 97). This has lead to pressures from employers with higher skill employees for a decentralized wage bargaining regime. Here he shares a view more widely held (see, for instance, Katz 1993; Swenson & Pontusson 2000).

An argument consistent with the 'need for speed' firm imperative and preferred here is to focus on the increase in market competition for goods and services in the last 20 years. Rather than focusing on production processes, a difficult thing to measure, the analysis in this dissertation prefers to examine how firms view their own future profit prospects and demand for their products, and their preferred wage regulatory environment in light of these views. These are far more tangible indicators of environmental stress on a firm and easily measurable. This takes the analysis down to individual firms and industries. By focusing on market competition, variation of managerial response across firms within an industry, across the economy and even between economies is allowed for. This focus importantly allows a certain amount of 'slack' in the argument for local variations between companies that otherwise appear similar, since managers interpretation of market results will differ and their ideological orientations on labor market issues will color their responses. The link between increased market competition, the 'need for speed' in order to keep ahead of markets, and employer response as to whether existing wage bargaining institutions are serving their needs will always be mediated to some extent by senior management.

That said, even allowing for this local 'slack', increased market competition in the last 20 years has made the future for all firms more uncertain from a profit perspective. A shortening of time horizons has resulted meaning that firms in highly competitive markets such as export markets will seek to link as much of their wage bill to profit as possible.[18] This includes not only the actual way remuneration is carried out (both upward and downward flexibility in wage outcomes), but also how labor is organized and deployed so that management can maximize control over the wage-setting process. This can take many forms: increases in temporary and contractor labor and outsourcing of non-core activities such as payroll, marketing and the production of inputs; performance-based pay (collective and individual) and profit and gain-sharing schemes. But in addition to these obvious forms of variable pay, there is another more important variant, the increase to ubiquitous levels of the linking of pay increases to improved productivity. Productivity pay rises are de-facto profit bonuses, since the pace and volume of output by a firm of a good or service is ultimately dictated by market demand and commensurate management production strategies. Ultimately, the decisions of management in response to market signals and profit and loss are the decisive factors in determining the productivity of a firm. Over the medium to long term, highly productive firms are ones with high product demand and healthy profits.

This dissertation argues that any centralized coordinated wage bargaining regime must come to grips with the desire of firms in

[18] Exchange rate risk only adds to this tendency.

competitive markets, and especially export markets, to link their wage bill to performance in increasingly uncertain and fluctuating product markets. This suggests that firms in these markets will be resist attempts to have their wages coordinated or influenced by wage bargaining at levels outside the plant and firm.

Table 2.1
Trade union density, selected OECD countries, 1970-2000.

	1970	1980	1990	2000
Liberal Economies				
Australia	44	48	40	25
Canada	32	35	33	28
Ireland	53	57	51	38
New Zealand	56	69	51	23
UK	45	51	39	31
USA	27	22	15	13
Average LMEs	*43*	*47*	*38*	*26*
Coordinated Market Economies: Northern Europe				
Denmark	60	79	75	74
Finland	51	69	72	76
Iceland	...	75	88	84
Norway	57	58	59	54
Sweden	68	80	80	79
Average Nth Europe CMEs	*59*	*72*	*75*	*73*
Coordinated Market Economies: non Nth Europe				
Austria	63	57	47	37
Belgium	41	54	54	56
Germany	32	35	31	25
Japan	35	31	25	22
Netherlands	37	35	25	23
Switzerland	29	31	24	18
Average: non-Nth Europe CMEs	*40*	*41*	*34*	*30*
Average: non-Nth Europe minus Belgium	*39*	*38*	*30*	*25*
Other				
France	22	18	10	10
Italy	37	50	39	35
Spain	...	7	11	15
Portugal	...	61	32	24

Source: derived from OECD Employment Outlook 2004, table 3.3.

2.1.2 The decline of union density

Table 2.1 shows the unionization rates of several OECD countries between 1970 and 2000. It shows that union decline between 1980

and 2000 is a secular trend except in the Northern European cases, Spain and Belgium.

The decline of union density and the reasons for that decline has important implications for wage bargaining and my argument. The union decline literature concludes that much of the decline can be explained by a change in employer attitudes towards unions and the rise of widespread union avoidance strategies. There are three important trends accounting for and associated with union decline.

First, MNCs everywhere, no matter their origin, have actively sought out lower labor market regulatory environments and have avoided trade unionism where possible. MNCs are more likely to invest in countries with low degrees of labor marker regulation that do not inhibit the hire and fire decisions of companies (Bognanno, Keane & Yang 2005; Cooke 1997, 2001a; Cooke & Noble 1998). Evidence in a series of studies of US FDI investment abroad in the 1980s and 1990s, and FDI investment into the US suggests that MNCs, no matter whether their home is the US or non-US, favor investment in countries with low union penetration (Cooke 1997; Cooke & Noble 1998, Cooke 1997) or lower union density than their own home country (Cooke 2001b; Bognanno, Keane & Yang 2005). US MNCs favor countries with decentralized bargaining structures (Cooke 1997; Cooke & Noble 1998) or ones with more decentralized bargaining structures and smaller collective bargaining coverage than their own home country (Cooke 2001a; Bognanno, Keane & Yang 2005).

Centralized wage bargaining is heavily reliant on trade union involvement. Unions bear the brunt of the organizational load for

monitoring central deals and compliance at local levels, especially in countries where employer associations have low governability such as Ireland and Australia. Hence the presence of MNCs and centralized wage bargaining is likely incompatible, meaning that export sectors dominated by MNCs will be doubly hostile to attempts to extend centralized wage bargaining control to them. Any centralized wage bargaining arrangement must accommodate the desire of MNCs for an absence of third party interference in wage setting. MNCs have sought to maintain control over bargaining at the enterprise level. There is evidence that this trend is diffusing to domestic firms. This trend has been a very important factor in the shaping and change of wage bargaining institutions. The influence on labor market and wage bargaining institutions of MNC preferences for no unions and little regulation is especially obvious in the Irish case, inspection of which leads to the conclusion that if FDI is to be attracted, countries should allow their managers a great deal of freedom from restraints on how they set pay, and ensure that pay movements elsewhere in the economy do not contaminate this freedom with high wage expectations.

Second, MNCs are becoming more protective of their asset-specific rents, and less likely to share them with employees in the form of higher wages. While most studies have not found any relationship between overall wage levels and FDI, and have argued that results indicate that MNCs seek high productivity countries where the skill level of workers is high and don't pay too much attention to pay (Cooke 1997; Cooke & Noble 1998), recent studies have found that among

high productivity and wage countries, MNCs (no matter the home country) favor those with lowest wage levels (Cooke 2001a; Bognanno, Keane & Yang 2005; Konings & Murphy 2005).[19] This is an important finding, especially in light of the Australian case in the 1980s where highly profitable mining companies sought to decentralize wage bargaining in Australia and impose new forms of employment (especially contractors and casual or "at will" employees without leave entitlements) in order to minimize their wage bills.

Third, increasing international trade is associated with lower trade union density suggesting export activity and trade unionism are increasingly incompatible. Western (1997) demonstrates that the decline in density is less due to structural changes of the economy (the post-industrialisation thesis) and has more to do with the changes of unionization within industries (1997, 150-155).[20] Western associates this sudden decline of union density in the 1980s with the decentralization of wage bargaining, the loss of government by left parties, recession and increasing international competition in product

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[19] Traxler & Woitech (2000) argue that labor regimes have an incoherent effect on FDI. The results in the study appear to be a function of the construction of their model as a cross sectional regression where the dependent variable is two periods, 1981-85 and 1988-92. They offer no reasons for this periodization. Given the somewhat random manner in which signs and magnitudes of coefficients change from the early to latter period, this ad hoc construction of the dependent variable appears, inter alia, to be driving the result. In this regard the careful construction and testing of alternative of the models in Bognanno, Keane & Yang 2005 and Cooke 2001a are superior.

[20] In his analysis of post-war unionization rates until 1990, Western (1997) identifies three major factors boosting union density rates: the Ghent system of trade-union controlled unemployment benefits in Belgium, Finland, Sweden and Denmark, persistent left government and centralized labor market institutions and wage bargaining (1997, 93-96, 133). The concentration of these three factors in the Northern European cases explains the stability and growth of union density after 1970.

markets (measured as trade openness) (1997, 188-191). Western's results are consistent with findings that since the early 1980s US firms have sought to avoid unions in their operations. This has been achieved via a number of union replacement and busting strategies involving the closing down of unionized plants and the opening of non-union greenfield plants (Kochan, Katz & McKersie 1994, 55-62, 70-76). This non-union trend is observed in the Australian and Ireland cases in the 1980s and 1990s (see chapters 4 and 7).

From this discussion, we can conclude that just as the 'need for speed' has induced a preference among exporters and firms in highly competitive product markets against higher level wage bargaining, increasing trade and FDI are inconsistent with trade union influence over wage bargaining, and especially higher level wage bargaining where unions are usually important actors.

2.1.3 The effectiveness of small lobby groups

A core part of my argument is that small, even temporary or informally connected groups of export employers are capable of wielding sufficient political power to effect changes in the wage bargaining system towards one that suits their need for flexibility. In this section I briefly discuss prior theoretical work on employer associative behavior that places this part of my argument in context.

The power of the few or the temporary small employer group is, in part, enabled by the predilection of policy-makers to prefer competitiveness-enhancing policies within an open economy context. This means that massive organization is not entirely necessary in order for exporters to get their point successfully across to government

and to achieve their basic aims. But small size and transience is also a result of necessity. Employers, especially ones in liberal economies, find it difficult to stay in formal employer groupings once a political campaign has begun. They find it far easier to join and remain in trade associations that provide non-political or uncontroversial lobbying services (such as markets information, public relations and marketing) than umbrella associations that are attempting to change regulation of their industry or industries. The problem stems from the inherent self-interest of liberal economy firms, and the absence of collective incentives.

Traxler argues that employer self-interest with regard to the price, securing and retaining of labor supply suggests that employers find it easy to join trade and employer associations in many northern European economies,[21] but are less governable than members in a trade union (1995, 31-33). Employers have their own product market interests and this drives a tendency for them to defect from collective agreements. This tendency to a fragmentation of interests is reflected in the far higher density of trade and employer associations than trade unions.[22]

Employer association governability is difficult, according to Traxler, because:

> "In comparison with employee organizations, employers have not only more of the same power resources but also a broader and more exclusive range of measures to advance interests. Whereas certain management prerogatives (e.g.

[21] I distinguish, after Streek (1988) trade associations that are industry and sector-based from umbrella employer associations.

[22] I use the term 'employer associations' to distinguish umbrella organizations from their industry 'trade' counterparts.

> investment) are beyond associational command, employer associations can only deploy collectively those measures (e.g wage policies, lobbying) usually at the individual disposal of employers too. Business' greatest power resources are mobilized outside its associations. This has two consequences…First, any form of collective action is subordinate and subsidiary to non-associational market strategies from an employer's point of view. Second, for the sake of their self interest, individual employers can easily thwart and bypass associational efforts, by either evoking power resources lent to the association or using resources exclusively under their individual control" (Traxler 1999, 345-346).[23]

Governability is the most compromised in countries such as Ireland and Australia where there are few if any selective incentives for employers to remain within an association.[24] The most important of these incentives is access to strike funds (Traxler 1999, 348).[25] There are an absence of incentives to deter politically active firms from breaking off and forming new associations because little is lost when they do so and procedural and administrative brakes in old

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[23] Traxler concludes that employers rely on trade union organization on labor market issues because these issues are the number one priority of union members and member defection from union agreements is easily punished by expulsion or suspension. Unions can provide some of the wage discipline employers lack.

[24] The term 'selective incentive' comes from Olson (1982, 26).

[25] Governability is measured by Traxler as the ability to conclude collective agreements for lower levels; receive portion of the dues from lower levels; association has own anti-strike fund; can veto collective agreements and lockouts at lower levels; can formulate demands for lower levels in bargaining; and member firms under obligation to submit ratification of collective agreement to employer association ballot. Formal powers are measured by: ability of members to be named as non-conforming members not subject to collective agreements made by the association; ability to conduct separate collective agreements when association agreement not in firm interest (right of local bargaining); organize own industrial action (lockouts); and pay employees more than agreed by association collective agreement (right to wage drift) (Traxler 1999, 348-349). Finland and Austria follow in a second grouping, with France, Netherlands and Portugal in a third (Traxler 1999, 348 - 349). If the ability to bargain on behalf of members is excluded from calculation, the UK and Ireland have the weakest employer associations in Europe. Ireland is unique in Europe in that its peak employer association has considerable bargaining powers but little control over member firms (Traxler 1999, 350).

associations on lobbying can be shed. There are no strike funds, member access to training, or access to 'the circle of product market collusion' as in some northern European employer associations, to motivate continuing membership and compliance by firms in liberal economies such as Ireland and Australia. The result is that in times of change, we should expect splintering and organizational fragmentation in employer associations in these countries.[26] As essentially fee-for-service providers, employer associations in these countries command a similar amount of loyalty as a consulting or accounting firm commands: comparatively little.

What will the pattern of employer organization be in countries where employer association governability is low? Some reasonably straightforward insights into group cohesion and collective action are relevant here. Olson argues that, in general, small groups outperform larger ones because resources and benefits from action are concentrated, free riding is constrained and consensus is easier to obtain (1965, 22-28; 1982, 29-34). Small groups are also quicker to action, leading Olson to observe that in unstable societies or ones newly stable, they will be able to exploit their quickness for political advantage (1982, 41). Extending this argument, it can be argued that

[26] By contrast the landscape of employer associations in countries with highly governable employer associations will remain comparatively stable and lobbying and changes will take place inside and between existing organizations. This kind of pattern is resonant with the experiences of employer associations in Sweden and Australia in the 1980s and 1990s. In Australia in the 1980s, new employer organizations emerged, became politically strong and were powerful agents of change, but in Sweden employers battled it out within the existing organization landscape (Swenson & Pontusson 1996; 2000; Sheldon & Thornwaite 1999e). Similarly, despite massive strains, German employers are remaining loyal to existing employer associations, although there is more evidence of internal divisions than in the Swedish case (Thelan 2000).

small groups are quicker and more efficient political actors than larger ones in times of political change.

Olson argues that groups are driven to form by economic circumstances when, "if at any level of purchase of the collective good, the gain to the group exceeds the total cost by more than it exceeds the gain to any individual" (1965, 33). Groups form because they are more efficient than individual action in the provision of collective goods and there is 'market failure' in the provision of collective goods absent group formation. Olson also argues that any group with a leading member with large resources and potentially large gains from acting in the collective interest will outperform a similar size group with a leading member with smaller resources and lesser benefits accruing from the same action (1965, 28, 34-35). Finally, Olson argues that because of the cost/benefit calculus favoring small groups seeking large gains that are borne by the rest of society, small groups have the capacity to win, as Olson so graphically terms it, the 'wrestle in the china shop' and to displace these losses, even though there may be a huge social cost (Olson 1982, 44). This leads Olson to conclude that there is a, "systematic tendency for 'exploitation' of the great by the small!" (1965, 29).[27] [28]

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[27] This leads Olson to conclude that encompassing organizations are best for the entire society because they are unable to externalise their losses. This fundamental insight drives the literature on the relationship between encompassing unions, centralization of wage bargaining and good macro-economic outcomes.

[28] Becker (1983) generates a similar result in a discussion of taxation and subsidies lobbying from competing pressure groups. Becker argues that when the benefits of a collectively provided good are diffuse, such that benefit to each member of that group is comparatively small, small groups with much to gain and who can control free-riding by members who contribute nothing to the lobbying cause but extract the benefits from that lobbying, can exploit the comparative collective action weakness of the large group and win large gains. This is because the gains to action

Small groups with much to gain are very efficient in advancing their claims and, all policy preferences of policy makers equal, are more likely to be successful than larger groups with less to lose. This has implications when accounting for wage bargaining institutional change. As I argue below, it is exporters and MNCs who have sought freedom from centralized wage bargaining arrangements. These numerically small, resource-rich but comparatively unorganized groups have been successful in pressing their claims to be 'let alone.' This desire to be freed from wage regulation has been a most important factor in shaping wage bargaining institutions in liberal market economies.

2.2 Controlling the public sector

I argue that public sector wage drift is a second cause of wage bargaining decentralization. This argument is based on the implications of studies examining the negative effect of strong public sector unions on the macro-economy. These studies support the argument that the absence of product market discipline on public

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for the small group are such that any one member of that group is prepared to take on the costs of organization and lobbying themselves, because the benefits outweigh the costs. Becker's big proviso is that smaller groups are better and will win if and only if they control free riding better than a larger group (i.e. are comparatively more efficient). Becker adds a key (unmodeled) discussion of the problem of ignorance of the large group that is facing a potential loss because of the small group action, of those potential losses. Ignorance of losses and gains within large groups is a further contributor to the likelihood that small groups will win, and large groups will lose (391-394).This conclusion is a function of the way Becker models his argument such that wins for some (tax reductions or subsidies) necessarily mean losses for others (loss of subsidies or increased taxation) (1983, 372). Becker's tax/subsidy model is a zero-sum game. But in cases where policy is not a zero-sum game, Olson's argument about inclusive and exclusive groups is pertinent. Olson argues that where free–riding in a group -- leaving others to do the work, but partaking of the benefits of that work -- does not reduce the gains that those who do the work receive (i.e. the benefits are a true public good), then the rule is that inclusive groups will encourage as wide a membership as possible (1965, 40). This, in part, explains the tendency of employers associations to encourage as wide a membership as possible.

sector unions means there is no job-loss threat brake on their wage demands. Wage leadership results. Public sector wage rises lead to increases in private sector wages via relativity-based claims by private sector unions. But while public sector unions are not wage restrained by product market competition, they are mindful of wage relativities, just like private sector unions. This means that where the export sector has highly profitable firms and shares the profits with workers in the form of higher wages and higher pay rises, public sector unions will pursue similar pay rises in the interest of 'keeping up' with the private sector. The combination of these two dynamics results in losses of competitiveness and jobs in the traded but not exported sector (so-called 'Dutch disease'), potentially in less competitive and profitable export firms, and in wage-push inflation. This would indicate that the control of public sector pay should be a priority in any central wage bargaining regime.[29]

Public sector wage militancy is of increasing concern for policy makers in OECD countries. The likelihood of strong public sector unions, despite union decline across most OECD countries, is still strong. Because of the relative stability of public sector union density many of these unions are becoming comparatively stronger within the

[29] The classic example of failure to control this potentially fatal problem for centralized bargaining of growing non-traded sector union power is the case of Sweden. The Swedish expansion of the welfare state and the growing power of public sector unions realized itself when, first, white-collar public and then white-collar private sector unions pushed for inter-occupational wage levelling and wage drift compensation pay rises in the 1970s. This led to significant wage compression (Hibbs & Locking 2000). By the 1980s, this growing trend, which prompted relativities-driven demands in the engineering sector, collided with a growing need for production flexibility among exporting manufacturers and prompted a pull-out of central bargaining by the Swedish Employers Confederation (SAF) in 1990 (Swenson & Pontusson 2000).

union movements of most OECD countries. Union decline in many countries caused by anti-union sentiment in MNCs and in firms with 'the need for speed' that regard unionization as slowing change means that firms in the exporting and traded sector are less likely to be unionized now than 10 or 20 years ago. Low union density is associated in the 1990s with a high ratio of public sector members to private sector members (Ebbinghaus 2002, 468). In 1970, for all OECD countries, the public sector share of membership was just below 26%. In 1990 it was just below 35% (Visser 1991, 113).

All things equal, unions prefer higher pay rises to lower ones. However, where the cost of those rises cannot be externalized, they may prefer a strategy that restrains wage growth (Olson 1982, 47-53; Lange 1984). Public and sheltered sector unions, all things equal, are more likely to be militant and seek high pay increases because they know that any costs can be passed onto consumers and that any effect of their claims on inflation will not in all likelihood threaten their jobs. When public and sheltered sector unions dominate trade unions as they are increasingly likely to do, growth, low inflation and unemployment may be compromised. Franzese (2001) demonstrates that with an independent central bank regulating money supply with sole reference to inflation targets and centralized wage bargaining, when public sector employment dominates the share of all employment, higher inflation and unemployment arises than when traded employment dominates public sector employment, no matter what the actual size of the public sector. Hence, the benefits from

central coordination of wages only accrue when employment in the traded sector dominates total employment.

Garrett & Way (1999) argue that the important modifying variable is public sector union strength not the relative size of the public sector. In the 1980s, a series of studies found a relationship between left government and centralized wage bargaining, and right government and decentralized bargaining with low unemployment, low inflation and high rates of growth (Alvarez, Garrett & Lange 1991; Lange & Garrett 1985). However, in the 1990s, many highly unionized economies experienced high levels of industrial unrest, and growing unemployment and inflation (observed by Iversen 1996, Pontusson & Swenson 1996). Garrett & Way argue that where public sector unions are very strong:

> "[P]owerful labor confederations cannot stop public sector workers from using their organizational power to bid up wages to levels that have deleterious consequences for the private sector, especially those sectors that are exposed to international trade" (Garrett & Way 1999, 412).

'Public sector unionism' appears to be a far more satisfactory explanatory variable than Franzese's 'public sector employment' measure because it suggests a clear political logic at work: relatively strong public sector unions bid up wages.[30]

It should be noted that Garrett and Way's argument about public sector unions is a subset of a larger argument they make that it is the relative organizational strength of traded and non-traded unions that

[30] Garrett & Way also find in related research that there existed a positive relationship between the size of pay increases in the public sector and the density of public sector unionisation with real wages between 1970 and 1990 increasing around 2% per annum when public sector union density was in the mid to low 30 percent range, rising to around 3 ½ percent when it was around 90% (2000, 288).

are critical in determining whether corporatist arrangements deliver low unemployment and inflation, and growth. For ease of argument and difficulty in accurately defining which parts of the private sector are traded and which are not, they use public sector unions as an, "approximation for organized labor in the non-tradable sector" (Garrett & Way 1999, 416).

Garrett & Way and Franzese' arguments confirm earlier arguments made by Crouch (1994) that the stability of corporatist regimes (centralized bargaining) having low inflation, unemployment and strike activity is correlated with countries where union membership is dominated by unions in the export sector. Export unions have incentives to restrain their pay claims because rising labor costs may result in their product or services becoming too expensive for the market leading to profit and probable job loss. In the 1960s, 70s and first half of the 80s, the largest unions in the exposed sector in Western and Northern European states were in the engineering and metalworking industry. Crouch argues that the bigger the share of exposed sector union membership, the more prominent the metal unions, and the healthier the macro-economy (Crouch 1990, 71-77).[31]

But as previously observed, trade union density in the private sector has declined and public sector unions dominate union movements in the non-Scandinavian countries. In order for centralized wage bargaining to be stable and long-lasting, public sector wages and

[31] In a similar vein, Swenson (1991) argues that it was Swedish employers and their workers in the export sector who allied to establish wage bargaining centralization in an attempt to control the wage movements in the non-traded sector, especially in construction.

employment expansion must be controlled as well as the wage movements of the non-traded or sheltered sector. Failure to do either will spark a round of industrial unrest and catch-up claims in the traded sector, leading to a loss of profit in the traded sector, and ultimately job loss and higher inflation.

This brings the review to the second dynamic summarized at the outset of this section: that of high export sector pay raises feeding public sector wage militancy. There will be instances where export firms and unions will not be wage constrained and it should be expected that pockets of export sectors will have very high pay firms who frequently give very high pay rises. This will drive an imperative that centralized wage bargaining institutions restrain public and sheltered sector pay, a task to be achieved while allowing export wages to be set at the plant and firm level.

The export sector is likely to be far more productive than the non-export sector. Export firms, via their firm-specific assets, have a market advantage that enables them to be especially profitable. Notwithstanding the overall decline in union density in the private sector in liberal economies, the high profitability of some exporting firms will attract labor organization that should lead these firms to pay more and to give, on average, higher pay rises than the rest of the labor force in comparable jobs (the rent-sharing thesis, see Caves 1996, 125). Crouch acknowledges this possibility in his argument, but argues that everything else equal, export sector unions will be more willing to discipline their pay movements. This is because the costs to job creation and sustainability when export sector wage rises exceed

productivity and profits cannot be externalised for export workers, whereas they can for sheltered (and public) sector workers (Crouch 1990, 70). But the possibility of asset-derived rents (for instance, classically, in the mining industry, or among R and D oriented firms with new products and temporary market-induced monopoly rents) driving unions to seek a share of the high profits via high wages should not be overlooked. In addition, the economies of scale achieved by many exporters suggest larger plants than elsewhere in the economy will characterize the exposed sector. Managerial employee monitoring problems will be endemic and lead to incentives for managers in these plants to pay higher efficiency wages (Caves 1996, 126; Milgrom & Roberts 1992, 250-259).

While we should expect some degree of wage restraint in the export sector, there will be pressures for wage leadership that rivals that of the public and sheltered sector. Export firms may attempt to minimize income maximizing by employees by using variable and flexible pay strategies. This tendency will compound the 'need for speed' inspired preference among exporters for wage bargaining regimes that allow them to set pay at the plant or firm level.

The dynamic behind Crouch, Franzese and Garrett & Way's arguments and the explanation of wage bargaining decentralization in Sweden given by Swenson & Pontusson (2000) suggests that pay movements flow in a circular motion, from the traded or exposed to the non-traded and back again. The tendency of both the public and very sheltered parts of the economy and some firms in the export sector to give higher pay-rises than the rest of the economy will, if unchecked,

drive wage growth throughout the economy. Whether it is called solidarity wage policy or one driven by relativities, unions, and in particular craft unions, pay close attention to the income disparities between their member's occupations and jobs compared to those of members in other unions and other sectors (Soskice 1990a).

In between these two high pay poles lies a spectrum of non-exporting firms, who face varying degrees of market competition either locally or from imports. At one extreme of this spectrum are sheltered firms, for instance construction, local services and tobacco. These firms can be considered, as Garrett & Way do, as behaving, wage-wise, like the public sector. Then there are manufacturing and service firms with varying market competition. In general, private sector manufacturing firms and some service industries, such as banking, insurance and finance face higher degrees of market competition, are likely to avoid high wage rises and/or wage drift because at some point it will cost jobs and lead to wage-push inflation. However, if they are surrounded by a public sector pay boom on one side and portions of the export sector paying very high wages with high rises on the other, then unions will find it difficult to quell calls from their members for higher claims.

Expectations about the future are a major force in shaping the pay claims of employees and unions and embed the recursive relationship described above. The sectors with the greatest capacity to be wage leaders are the public and export sectors. If rounds and bargaining are staggered and some export wage rounds lag behind public and sheltered sector wage rounds, expectations of future pay movements

and guesses about the inflation rate will dictate what non-traded unions demand. A similar guessing game will be played when the situation is reversed and export unions will attempt to factor in what they anticipate the public and sheltered sector will claim. The result will not be a simple case of rises flowing from the traded sector to the non-traded sector, or vice versa, but of persistent catch-up and speculative claims: a game of wage setting leapfrog, where the wage leader will not be clear but will come from one of two groups: either the public and highly sheltered sector unions, or rent or profit sharing and efficiency wage paying employers in the export sector.

At some point the chain must be broken if wage restraint is to be achieved. The export sector is not a candidate: employers oppose outside inference with their pay setting. Union density is also becoming too low for them to be effective monitors of coordinated and higher level agreements in the export sector. This leaves the public and sheltered sectors as the prime candidate for targeting by wage bargaining institutions seeking to restrain wage growth, a task that must be achieved while the export sector is 'cut loose' from coordinated bargaining.

2.3 Macro-economic policy & the limits to central wage bargaining regimes

The birth of centralized wage bargaining in the liberal economy cases examined in this dissertation came about as part of a macroeconomic stabilization that aimed to improve the competitiveness of the economy, lower inflation and boost employment growth. In Australia, unemployment in 1982 was 7.1% (the highest it

had been since WW2), inflation 10.4%, the current account was minus 5% of GDP making it a table leader in the OECD, and the terms of trade based on IMF data had been in decline since 1974 (OECD and IMF data in Argy 1992, 186). In Ireland in 1985, unemployment stood at 17% (up from 7.3% in 1980)[32], inflation was comparatively low at 5.4% (although it approached 20% in the early 1980s), the balance of payments was around zero, but the terms of trade had improved markedly since the early 1980s (Tansey 1998, 52, 155; CSO 2004, 281). In Australia, the macro-economic problems were historically high unemployment rates and a persistent balance of payments problem that dragged capital out of the country and lowered growth. In Ireland, the problems were persistent and very high unemployment coupled with inflationary episodes and crises such as the one in the early 1980s.

I argue that once the decision has been made to open capital and goods and services markets, governments orient labor market policy towards improving the international competitiveness of the economy. This leads to a policy priority to lower unit wage costs, and explains the policy shift towards centralized wage bargaining as part of a macroeconomic stabilization. The pay-off for unions is the possibility of higher job growth. Whether this choice or emphasis by policy makers is wise or ignores the role of innovation, business strategy and efficient capital allocation is moot. Lowering unit wage costs by

[32] Ireland had around 120 000 fewer jobs in 1987 than at the time of independence in 1920 (Tansey 1998, 34).

controlling wage growth is regarded as a central plank of a competitive growing economy.

How is improved wage competitiveness achieved? Recent studies suggest that controlling the public sector wage bill is the policy place to start. In OECD countries since 1960 when governments curb public sector and public sector employment spending, and cut taxes on business and labor, profits and business investment increase. This increase in business investment accounts for the growth during and immediately after the macro-economic stabilization (Ardagna 2004; Alesina et al 2002; Alesina, Perotti & Tavares 1998; Alesina & Ardagna 1998; Alesina & Perotti 1997). Of the three major causal variables used in these studies -- public sector spending, taxation and public sector wages -- controlling public sector wages is the most significant variable affecting profit and investment in the period during and following macroeconomic stabilization (Alesina et al 2002). The economic rationale is that by limiting public sector wage and employment expansion, employers in the traded sector will not be subject to a public sector-inspired bidding up of wages. Lower wages mean greater profits, business expansion and economic growth. Presumably, this leads to a growth in job creation. This line of research demonstrates that a contractionary (i.e. non Keynesian) fiscal approach to macroeconomic stabilization outperforms an expansionary Keynesian one. The expansionary fiscal contraction macroeconomics literature supports the Franzese/Garrett & Way strain of research about the deleterious effect on employment and inflation of labor markets dominated by public sector unions and employment.

As previously stated, the only road to liberal economy centralized wage regime stability would appear to be to impose pay discipline on the public and sheltered sectors, and let exporters alone lest they organize for institutional change. The finding of a relationship between certain kinds of policies and improved macro- economic outcomes does not make the enactment of those policies a functional imperative however. However, Iversen & Wren (1998) find that fiscal restraint is associated with liberal economies (US, UK, Australia, Canada) and Christian democratic economies (Germany, Austria, Netherlands, Switzerland), but not social democratic economies (Sweden, Denmark, Norway, Finland). Therefore, in liberal economies it is plausible to expect monetarist macroeconomic stabilization characterized by cuts and curbs on public spending and employment.[33] This is what the liberal market governments examined in this dissertation have tended to do.[34]

Curbing the public sector wage bill has the advantage in that it suggests that governments in liberal economies who look to centralize

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[33] This conclusion is supported by the findings of Pontusson & Kwon (2003, tables 1, 2 & 3) that trade openness in LMEs but not CMEs is associated with a negative growth of social spending per capital between 1962 and 1998.

[34] This argument must be weighed against findings supporting the compensation thesis that governments in open economies compensate the lack of job security in its citizens by expanding the welfare state, and presumably public sector employment. In a wide sample of countries including developing nations, trade openness is correlated with the size of public expenditure and increasing openness is associated with increased public sector size in democracies. No such compensation effect is found in non-democracies (Adsera & Boix 2002). Earlier studies found the compensation effect was limited to left power and high union density in very open economies (Garrett 1995).

These two arguments are reconcilable when it is considered that the size of the state in the OECD set of countries is larger than that in the non-OECD countries. Hence, the expansionary fiscal contraction set of research suggests that in (OECD) states, a set of states with a comparably large public sector spend, contraction of fiscal spending by the government will lead to a reverse of the 'crowding out' effect on private investment and profits caused by an expanding public sector.

wage bargaining will be strong on the issue of public sector wage restraint. Their desire to limit public spending in the pursuit of growth is consistent with a stability condition of centralized wage bargaining regimes. But because of the macroeconomic constraints of the monetarist stabilization program, governments are limited in the inducements they can offer (public and sheltered sector) unions as reward or bribe for centrally bargained pay restraint. The big welfare state policies that compensate losers from economic change described by Katzenstein (1985) and identified by Esping-Andersen (1990) in the social democratic and Christian democratic states are not possible. Instead the policy carrot for compliance with central deals is the reduction of personal income taxation. This achieves a dual purpose: it lifts take-home or net pay without the need for a pay rise, and it imposes a need for fiscal rectitude and strong controls on public spending.

The problem with this strategy is that it cannot go on forever. Taxes can only be cut so low until budgets go into deficits and add to debt. Governments who therefore pursue a 'small state' strategy but who use centralized wage deals as a means to control wage growth are therefore using a set of potentially contradictory policies with a finite time horizon. In addition, the use of tax cuts is a very blunt instrument to reward public sector workers. While public sector workers are on the average higher paid than private sector workers, and tax cuts can therefore be skewed such that they benefit disproportionately from them (the 'middle class tax cut'), there is always the potential problem that public sector workers may feel that

they are bearing the greater load of wage restraint without receiving the greater policy benefits to maintain and increase household income.

2.4 The form of centralized wage bargaining in liberal economies

From the discussion in this chapter, wage bargaining centralization and coordination is possible in liberal market economies but it is a peculiar brand of centralization. The export sector cannot be included because firms there place a premium on wage flexibility and are likely to have a non-union plant or workplace preference. Public and sheltered sector unions bear the brunt of the responsibility for wage discipline because they are the most likely to be able to successfully pursue larger pay rises than those centrally agreed. The welfare state is not expanded but is reduced. Tax cuts are therefore used as side-payments for workers.[35] This suggests a finite life to liberal market wage centralization regimes when public sector workers find themselves no longer satisfied with the policy compensation packages they receive in exchange for their promises of wage restraint. From this, we can conclude that far from being a move in the direction of the CMEs, this wage bargaining solution typified by the Irish case after 1987 appears to be a market-oriented solution to the problem of public and sheltered sector wage pushfulness.

[35] The use of tax cuts in order to lift real take home pay while maintaining pay discipline has been identified as a key component of what has been termed 'competitive corporatism' (Rhodes 1998; 2001). But the exclusion of a relatively large portion of the economy in LME wage bargaining centralization regimes from collective bargaining means that this LME variant cannot be called corporatist. A better description is that it is a partially coordinated centralized wage bargaining system.

Chapter 3
Discussion of existing literature

I turn now to a discussion of the literature on the two cases following a brief description and critique of the shortcomings of the standard varieties of capitalism predictions regarding the trends in institutional design in liberal market economies and a brief discussion of two important explanations of wage bargaining decentralization based on larger n samples. I find both of these explanations unsatisfactory.

What is striking about the case literature is the absence of comparative studies. This has meant that the literature has tended to emphasize unique factors to each case: individuals and groups of individuals, ideas or specific trade union strategies. There is a notable absence of interest-based accounts and the effect of the international economy on outcomes is in many cases marginalized or ignored. My argument therefore fills a gap in the literature by taking an interest-based argument informed by a broad international political economy perspective and applying it in a two cases comparison that is testable by reference to other cases.

3.1 The predictions of the 'varieties of capitalism'

The variety of capitalism approach to comparative political economy posits that there are two main clusters or varieties of capitalism: organized or coordinated market economies (hereafter CMEs) and liberal or non-coordinated market economies (LMEs).

Coordination means non-market cooperation of economic activity between actors.[36]

The key concept in the approach is the idea of institutional complementarity. Institutions create incentives and rewards that cause complementing institutional design elsewhere in the economy. Soskice (1994) describes four such complementing sets of institutions: finance, training, corporate governance and wage bargaining. Liberal market economies (LMEs) have tended to be defined by what they lack compared to coordinated market economies (CMEs). LMEs do not have coordinated wage bargaining or centralized wage bargaining. They do not have guaranteed trade union recognition or a role for unions in the workplace. They have very weak and non-coordinated post-secondary vocational education and training systems. They do not allow collusion between companies over prices and markets. They do not have a legal framework that accommodates loose and ongoing 'relational' contracting. They do not have non-market coordination of standards setting, leaving that to the market instead (Soskice 1999, 111). LME companies do not innovate in the incremental manner of CME companies. This incremental manner is enabled by a smaller reliance on equity finance and interlocking corporate governance structures in CMEs that creates long-term business strategic horizons. In

[36] This varieties of capitalism theoretical paradigm has informed the understanding of the sources of variation of many core political-economy variables: wage distribution (Pontusson, Rueda & Way 2002; Rueda & Pontusson 2000; Rueda 2003); corporate governance (Vitols 2001; Casper 2001); welfare state differences (Estevez-Abe, Iversen & Soskice 2001; Mares 2001); employer militancy (Briggs, forthcoming); public expenditure (Pontusson & Kwon 2003); wage bargaining institutional change (Iversen 1996; 1999; 2000); inflation and unemployment (Hall & Franzese 1998; Franzese & Hall 2000; Iversen 1998); innovation (Casper 1999; Taylor, M 2004) and the provision of training (Soskice 1994).

comparison, a short-term managerial perspective rules LME firms (Soskice 1990b, 180-182).

LME firms are prevented from moving in a CME-like cooperative direction because of the complementarities of CME institutions. Each institution within the complex increases the pay-offs and motivates certain types of reinforcing behavior in the others that guarantees institutional equilibrium. Bank financing reinforces relational contracting. Relational contracting reinforces the sharing of information about competencies, skill needs and the collective provision of training (Soskice 1994). The collective provision of training reinforces the incremental method of innovation, which increases returns from investments in co-assets across companies. This further encourages relational contracting, and encourages banks to remain as long-term financiers and underwriters. Short of putting all of them in place at once, LMEs would be on a fruitless endeavour if they attempted to replicate parts of the system with the intention of 'doing what the Germans do better.'

But despite the argument that LMEs will find it difficult to coordinate their economies, the identification by Soskice (1990a; 1990b) of the weaknesses of an non-coordinated wage determination system in obtaining wage restraint across the economy, and the argument by Lange (1984) that under repeated interaction self-interested groups of workers preferring higher wages may be able to cooperate and restrain wage growth, provides a motivation and a strategy for LMEs to centralize wage bargaining. Of all the elements that define a variety of capitalism (labor market institutions, inter-

company relations and links, finance and training and education), changes to labor market institutions in a coordinated and centralized direction in the 1980s and 1990s appear the easiest for LMEs, perhaps a necessity.[37] The instability of centralized wage bargaining in Ireland and the UK in the 1970s has led to unnecessary pessimism about the capacity of LMEs to coordinate their wage bargaining. This dissertation is a corrective to the view that liberal economies such as Ireland are driven to a non-coordinated US model.[38]

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[37] A major concept that holds the argument together in the primary VOC explanation of wage bargaining decentralization in coordinated market economies (CMEs) in the last 30 years, that of Iversen (1999), is *strategic capacity* (1999, 94). The concept of strategic capacity enables Iversen to argue that institutional change is caused by grand cross-class coalitions of groups of workers, whose interests are defined by their skills, the sector in which they work and the monetary regime, and employers, whose interests are defined by the kinds of goods and services they provide, where they sell them and the monetary regime. The great strategic capacity of CME employers enables these cross-class coalitions. In this his argument is congruent with that of Soskice (1999).

Iversen argues that no coalition of workers and employers, whether it be for a decentralized regime through an alliance with high skill, sheltered employers and workers, or for a centralized regime with the low skill, low wage sector of the economy, can be made absent a group of exposed producers with highly skilled workers. The win of the exposed high skill sector preference over wage bargaining and macroeconomic regime is dependent on the adoption by politicians of a preference for monetarist policies over Keynesian policies (1999, 101-102).

The absence of CME employer coordinating capacity in LMEs means that the kind of coalitions that Iversen sees in CMEs as arising from common product strategies and responses to monetary regimes are unlikely to be found in LMEs including my cases, Ireland and Australia. Collective action problems in LMEs mean that monetary policies are unlikely to have much influence on preferences for wage bargaining regimes because real income outcomes will be muted (Iversen 1999, 94). CMEs have trade associations that serve member individual interests in a manner that encourages compliance with associational authority to a far greater extent than their counterparts in LMEs.

[38] This is one of dual institutional convergences predicted by VOC theory -- convergences caused by the recent growth in international trade and capital movements and the rise of new technologies that have shortened product cycles. While liberal orthodoxy tends to predict an institutional convergence on a lightly regulated free market US-style model of capitalism (Frieden 1991; Frieden & Rogowski 1996), the VOC approach predicts an alternate path for coordinated market economies. CME economies include the Scandinavian states, Germany, Austria, Switzerland, the Netherlands, Japan and Finland. France is an example of a statist/elite coordinated market economy and is more similar to the CME than the LME model (Soskice 1990b; 1999, 103). CMEs under the pressures of increasing

3.2 Larger n studies

Western (1997, 172) finds an association between increasing unemployment and inflation with wage bargaining decentralization. Does this mean that higher unemployment and inflation cause decentralization? Such an explanation does appear somewhat unsatisfactory. While causal explanations in comparative political-economy should seek to explain political outcomes as due to variations in economic independent variables, and vice versa (the economic effects of politics and the political effects of economics, see Pontusson 1995), this kind of argument appears to eradicate interests from the causal story altogether, and reduces policy to a technocratic process divorced from economic interests in civil society. It tends to beg the questions of: Why does inflation increase? How does unemployment rise? Which interests are pushing for decentralization? A complete explanation would require an analysis of what led to the higher unemployment and inflation. Western's analysis indeed suggests that the underlying factor may be public sector wage militancy, one of the two factors I regard as causing wage bargaining decentralization.

Katz (1993) argues consistent with Iversen (1999) and my argument about 'the need for speed' among exporters, that wage bargaining decentralization has been caused by the implementation of new flexible forms of work organisation which is in turn caused by new

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international trade and capital movements are moving towards what is termed "flexibly coordinated" systems. Previously centralized wage bargaining regimes have moved to the industry level and unions have remained strong and intimately involved with training and participation in management (Soskice 1999, 124).

technology and more competitive product markets (1993, 14).[39] Where I differ from Katz is whereas he essentially see decentralization as a cooperative process between labor and capital, I would stress the resistance of unions to change and the imposition of new production methods and flexibility by management. While highly skilled employees that are at the core of the enterprise may be beneficiaries of flexibility-increasing changes in labor processes and work organization, I am less sanguine about the effect on the workforce of these firms as a whole. Flexibility is all too often a by-word for mass redundancy, outsourcing, the cutting of hours, the introduction of less employee friendly hours (evenings, weekends), the stripping of benefits such as pension, sickness and leave entitlements, and the re-negotiation of pay in favour of management's goal of lower wage costs.

In addition to these problems with his argument, Katz makes no mention of public sector wage creep as a factor causing decentralization. There is no mention of the dynamic relationship between public sector unionism, public sector pay militancy and the influence on public sector pay of wage increases in highly profitable export sector firms. Given the changing landscape of trade unionism throughout most of the OECD, and the effects discussed in the previous chapter of strong public sector unions on wages, this is an oversight and the author omits an important cause of wage bargaining decentralization.

[39] Katz examines Germany, Australia, West Germany, the UK, USA and Sweden.

3.3 Ireland

The literature on Irish Social Partnership tends to fall into camps of thought: those who believe that it is a sham (including wage bargaining centralization) and those who believe that Social Partnership represents some form of social corporatism or has changed Ireland from a liberal to a coordinated market economy.

Of those who say SP is a sham, Teague's (1995) is typical. Based on five criteria typical of European corporatism -- competitive, stabilization, employment, and equity functions, plus supply-side peak consensus on vocational training and apprenticeship standards, Teague argued that the Irish "corporatist" experiment was little more an exercise in macro-economic stabilization achieved by disciplining the wage demands of exposed sector high skill workers (1995, 261-264). Based on interview data, Teague argued that while public sector wages had not been altered by the pay agreements, exposed sector workers undoubtedly had.

Teague argued that pay dispersion had increased, mostly due to higher increases amongst managers in the public sector (1995, 268-269), that Irish competitiveness was mostly driven by a small recovery in the UK economy and not by the agreements, that employment generation was minimal due to the poor linkages between the profit healthy multi-national corporations (MNCs), and indigenous firms and the state sector. Finally, Teague argued little effort had been expended on the relationship between wages and productivity. Supply-side productivity enhancing policies were minimal, leading Teague to conclude:

> "With little assessment of the interaction between the macro and micro aspects of the labor market, claims that the present round of centralized agreements are social corporatist in character appear shallow" (Teague 1995, 270-271).

This dissertation disagrees some of Teague's conclusions. The evidence suggests that over the entire 1987-2004 period it was the exposed sector who behaved as though SP was non-existent, because of the lack of institutional links and non-market mechanisms to discipline it, and it has been the behavior of public sector pay movements that has altered.

A more nuanced naysayer approach comes from Roche (1998), who focuses more closely on the supply-side question. Roche distinguishes between four types of industrial relations currently being carried on in Ireland: the non-union human resource model, known in American industrial relations circles as "new HRM", the partnership model, managerial unilateralism and deregulation, and traditional adversarialism.[40]

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[40] The non-union resource model dominates in recent comers to the high-skill, high tech sector, usually US-based MNCs such as Microsoft, Intel, Hewlett Packard, Motorola, IBM and ABB. These firms value continuous innovation in production processes and place a premium on flexibility. Profit sharing, performance-related pay, emphasis on teamwork and well-managed grievance and communication systems are the norm. These firms spend a great deal on training on an already well-educated, young workforce. Some banks also are beginning to use this model (AIB and Bank of Ireland) (Roche 1998, 114).

The partnership model, touted in the 1997 social partnership agreement, *Partnership 2000*, attempts to promote joint gains between unions and management in the workplace. This model emphasizes product strategies that compete on quality and innovation rather than price alone in highly unionized workplaces owned mostly by Irish firms, but also some MNCs. These firms include Waterford Crystal, Merck, Apple, Shannon Aerospace, Aughinish Alumina, and Bord na Mona. This model is regarded by Roche as the "guiding image" (1998, 115) for many Irish enterprises, particularly in the state sector or high-skill services, for their attempts to re-build their industrial relations on place of the existing traditional adversarial model. These organizations and firms include, in the late 1990s, the state electricity board, ESB, Telecom Eireann, the public airports authority, Aer Rianta, the state transport utility, CIE, Aer Lingus and the unionized portions of the banking industry.

Roche argues that the co-existence of these four models in Ireland makes it difficult for a coordinated economy project to be successful (approximating what Teague calls "social corporatism"), frustrating inter-regime continuity within the EU and regime coherence within Ireland. Regime incoherence is reflected in the weakness of what Roche terms, an institutionalized productivity coalition. Here he is referring to sector-based business associations capable of establishing the kind of coalitions Iversen describes as critical in implementing institutional change (1999). Roche's analysis is therefore pessimistic about the chances for sustained and real labor market coordination on both the demand and supply side (wages and training).

Whether the differences between traditional adversarial, managerial unilateralist and the partnership approach genuinely matter for wage coordination is debatable. It matters if unilateralist tendencies in the economy provoke a union backlash and wage militancy, or are so widespread as to lower union density to the point where wage coordination (notwithstanding the Japanese case again) would be nigh impossible. But in the absence of these, it is difficult to

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Managerial unilateralism is characterized by the continuous search by employers for labor market deregulation- the unencumbered right to hire and fire, with low or non-existent training of the work force. Confined mostly to small service firms, the practice is increasing in the large retail sector (Dunnes Stores) and among the peripheral and temporary low skill workforce in many enterprises from the state-owned postal service, An Post, to MNCs in the semi-conductor industry (Intel) and some banks.

The final model, that of traditional adversarialism is common in firms facing weak product competition. Piecemeal and opportunistic industrial relations innovation, more often lip service to trends in other parts of the economy, prevails in the food and beverage, tobacco, paper and printing, metal fabrication, wood and furniture manufacture industries. Management and unions face little incentives to innovate production processes, upgrade worker skills or alter existing shop floor relationships.

see how the co-existence of these three regimes matters. As for the fourth, that of the non-union sector, this dissertation argues, that far from rendering SP problematic, it and the unilateralist regime shape the policy project of liberal economy wage coordination, by freeing those firms to do essentially as they please with respect to pay and hire and fire. If the export sector is forced into an adversarial or partnership system of industrial relations it will either leave or fight (as they did in Australia). In addition, prospective exporters will not come into the market.

Of those who believe that Irish wage coordination is an illusion and that SP has had little or no effect on the formation of Irish pay, John Fitzgerald is typical.[41] In a working paper explaining Irish growth in the 1990s, Social Partnership is not mentioned. On the effects of Social Partnership, he concludes:

> "While helping to bring about a more orderly labour market, with fewer industrial disputes than in the 1970s, the partnership approach served more to validate the results which market forces had made inevitable. The significant differences in the growth in wage rates in individual industrial sectors in recent years reflect the importance of market forces in determining wage rates" (Fitzgerald 1998, 23).

Fitzgerald (1998) finds, using the CSO wage data and all its limitations presented in chapter 4, that Irish movements are influenced by UK pay. He explains this as a result of the porous nature of the Irish labor market: Irish people come and go as jobs and pay ebbs and flows. Like many neo-classical economists, he makes some fairly limited assumptions about how the labor market works,

[41] Also see Bradley et al 1999; Durkan 1992; Walsh 1999

and is suspicious of institutional effects. His models therefore have a limited range of variables and certainly no institutional ones and it is therefore likely that they are incompletely specified. His main finding of the high elasticity of Irish labor supply is well known.

Those who argue that Social Partnership has had real effects on pay determination included individuals actively involved in the process at the peak level of the national Economic and Social Council (NESC) (O'Donnell 1998), recent studies that have observed some of the macro and microeconomic changes since 1997 (Hardiman 2000a, 2000b) and a recent ILO paper by Baccaro & Simoni (2004). None are comparative studies.

Of these, Hardiman's (2000a) is the most sanguine about the future of Irish wage bargaining centralization. Observing the spectacular macro-economic success of Ireland in the 1990s that Hardiman, like Barry (1999), associates with Irish Social Partnership, the author argues that there are several sources of strain on Irish Social Partnership. Of these, three stand out: sector-based conflicts associated with skill shortage induced wage drift, public sector pay claims, and employee input into workplace operations.[42] [43] There is

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[42] Wage drift, rare in the early 1990s has become a noticeable trend in Ireland since the 1994 upturn (see chapter 5).

[43] Hardiman's (2000a) identification of the pressure points on the central wage bargaining regime is valid. However, the author's belief that Ireland is developing a form of 'coordinated market economy' (2000a, 31) is based on a questionable reading of export sector pay restraint. In this regard Hardiman's argument is similar to that of Baccaro & Simoni (2004) reviewed below. It is difficult to argue that Ireland is moving in a coordinated direction when that coordination is paradoxically designed to liberalize the export sector of the economy via the disciplining of wages in, and input costs from, the unionized sector. In this sense, Ireland is a new breed of economy; partly liberal, partly coordinated.

nothing systematic about Hardiman's analysis, however[44], and these three strains appear as historically specific problems. Hardiman does not place SP into a comparative context or attempt to describe the strains on SP in analytical terms.

Rory O'Donnell (1998; 1999; 2001; also O'Donnell & O'Reardon 1995) is perhaps the most unashamed booster for the changes wrought by Irish social partnership. O'Donnell places great store on identity and ideas being formed via the bargaining process: the outcomes being, in a sense, less important than the process:

> "Bargaining describes a process in which each party comes with definite preferences and seeks to maximise its gains. While this is a definite part of Irish social partnership, the overall process…would seem to involve something more. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences…identity can be shaped in interaction" (O'Donnell 1998, 19).

While O'Donnell argues that the process of deliberation can overcome any institutional shortcomings (also see O'Donnell 2001, 4-5) it cannot compensate for a complete lack of institutionalization. There must still be a mechanism by which the changed identities of actors can transmit their new sets of preferences to those not directly involved in the deliberative process. The argument advanced in this dissertation is far more plausible: that is the coordination process only takes in part of the economy and not the export sector.

Baccaro & Simoni (2004) argue, similarly to Hardiman (2000a) that Irish Social Partnership has had an effect by quelling what Hardiman (1988, 44ff) describes as "Irish disease" - Dutch disease

[44] This may change in future scholarly work yet to be published, however.

moved west. 'Irish disease' is defined by labour markets where high pay settlements in the high productivity MNC sector spread to other sectors as well, producing job losses in these less productive sectors.[45]

SP is new and different, according to Baccaro and Simoni, because it has had the effect of controlling pay movements in the export sector but they do not explain the institutional mechanism by which the export sector exercises and monitors pay discipline. Given the low level of unionization and the absence of employer association activity in the export sector, it is difficult to argue that the export sector has 'disciplined itself' or indeed can. There is no collective effort apparent for that purpose. Rather, export sector wage restraint seems to be market-driven: a market favourable to exporters because of the institutionalised wage restraint elsewhere in the economy, in particular, the public sector. These issues are further explored in chapter 6.

While it is difficult to gain perspective on a process or an institutional regime when it is still in existence, and subsequent events to analysis may prove it wrong, existing arguments about the dynamics behind SP tend to be either the product of policy makers too close to the process to be sufficiently objective, improperly specified, or suffer from a lack of a comparative or analytic perspective.

3.3 Australia

There is surprisingly little direct scholarship on the decentralization of Australian wage bargaining and virtually no

[45] This is a familiar scenario in resource-rich developing countries like Jamaica and Chile, where MNC pay bids up wages in the low productivity domestic economy, causing loss of jobs as imports beat domestic goods on cost.

comparative work. Most of the work on wage bargaining treats it as one in a packet of policies in the 1980s and 1990s that aimed to open and de-regulate the economy. The process of wage bargaining decentralization is therefore regarded as part of a wider trend, and explanations for that trend suffice as an explanation for wage decentralization. In what follows, I examine the small literature on wage bargaining decentralization as well as some work on Australian employers that has some relevance to this dissertation.

One of the very few major economic interest-based accounts of wage policy change, Briggs (2001) argues that wage decentralization was due to the action of the trade union movement, especially the metals sector, pursuing short-term wage gains at the plant level. Since I address this argument directly in chapter 10, I leave it for the moment except to note the significance of the argument, and to note my counter-argument: the union movement would never had contemplated decentralized wage bargaining if it had not been for the offensive on central wage bargaining led by export employers. Their' acquiescence to decentralization was a necessary reaction to the causal actions of export employers and were intended to maintain close and cooperative relations with the Labor government.

O'Brien (1994) and Sheldon & Thonthwaite (1993) argue that the Business Council of Australia, an employer association dominated by mining interests that was formed following the establishment of the Accord in 1983, was fundamental in altering wage bargaining policy. O'Brien concludes that, "the Council was able to take a leading role in establishing the hegemony of the enterprise discourse" (O'Brien 1994,

468). This was primarily achieved through a research program and a series of well-publicized reports that purported to show that Australia's largest firms, among which are many of that dominate the export sector, were in favor of a shift to enterprise bargaining and were finding workplace change difficult under the centralized regime.

This dissertation agrees with O'Brien's analysis. Where it differs and adds to O'Brien is to stress the importance of the choice of policy-makers in opening the economy, and how this drove wage bargaining regime policy towards the preferences of exporters. Rather than remain at the level of discourse, I provide an economic logic to the explanation of how the BCA came to dominate and turn the wage bargaining debate in their favor.

Of the other interest-based accounts, McEachern (1986) is representative. McEachern's account of the Accord was published before the decentralization of wage bargaining began. However, it is significant because it recognized the absence of employers from the Accord and identified this as a source of potential conflict. McEachern's early article, expanded upon in a later book (1991) argued that this absence was fine as long as economic growth was delivered and real wages increases were not forthcoming, but the political loss by employers in the Accord caused by the close relationship between the Australian Council of Trade Unions (ACTU) and the Labor government meant that:

> "A change in either of these circumstances, that is renewed recession, or a revived Liberal [conservative] Party, would change the assessment of the Labor government and increase their political activism" (1986, 26).

McEachern places great weight in arriving at this conclusion to the employer opposition at the Tax Summit in mid- 1985 to the government proposal to introduce a consumption, sales or VAT-like tax on goods and services. This was done primarily to oppose the political relationship between unions and the government, with the political point being to deliver a defeat for the government. In this it was successful (1986, 22).

Dabscheck (1989; 1995) is typical of accounts that stress the importance of state institutions in shaping wage bargaining regime outcomes. Dabscheck argues that while unions, business and policy-makers had an effect on determining the decentralized wage outcome, also of prime importance was the role of the Commission (1995, 80). I deal with the issue of whether the tribunal system can be considered an independent actor in chapter 7, but it is suffice to say here that Dabscheck's tendency to argue that everything matters -- the preferences and actions of business, unions, politicians, even the media, and the tribunals themselves – stems from his apparent desire to explain every last event and detail of every tribunal decision. His is an historical narrative where the dependent variable is not always clear, rather than a causal explanation of one dependent variable as is the case here.

3.4 Concluding remarks on the country literature

What is striking about the literature on Australia and Ireland is the absence of comparative study, especially in the Australian case. This has meant that the Australian literature has tended to emphasize unique country-specific and historically unique factors: individuals,

elites and unique state institutions. I stress, by comparison, the role of economic interests and the effects on policy-makers of international economic forces, and of past decisions to open the economy to those forces.

The Irish literature has had more exposure to comparisons with other examples of wage bargaining centralization. Where it has tended to be deficient is that there has been a desire to show that Ireland has done something completely new: a 'Celtic Tiger' economic miracle created by institutional innovation.[46] The irony is, as I discuss in some length in chapter 4 and 6, that this miracle has been achieved thanks largely to foreign direct investment in plants that lie largely outside the centralized system. There has been, therefore, a tendency to overestimate the coordinating capacity and centralization of Irish pay determination, as well as perhaps some misplaced optimism among some that Ireland represents a new 'third way'.

I argue in this dissertation that the institutional innovation in Ireland in the last 20 years has been limited and that Ireland is still largely a variation on the liberal economy theme. In many respects this is highlighted by the Australian case. The Accord in Australia was far more ambitious than Irish Social Partnership in terms of the shared desire by unions and the then opposition left party to install a northern European-like regime complete with centralized wage bargaining, a growing social welfare state, and an active interventionist industrial policy. That it failed so completely demonstrates the

[46] With the exception to some extent of the various pieces by Hardiman and Barry.

considerable restraints on policy-makers in liberal economies. I now examine the Irish and Australian cases in turn.

Chapter 4
The context of Social Partnership: Industrial relations institutions, trade unions, trade & unemployment

The aim of this chapter is to establish the economic and union context of Social Partnership. I begin with a brief overview of the relevant industrial relations institutions in Ireland that monitor and help resolve industrial disputes. I then present data on trade union density across the economy and discuss the mechanism by which unions ratify the SP wage bargains and monitor them. I then present data so as to determine which industries are export-oriented and which are not, the labor force working in the export sector, and the size of the endemic Irish problem of unemployment during the Social Partnership years. This information is then used to structure the analysis of wage movements in Ireland after 1987 in chapter 5, and is further used in the causal argument in chapter 6 where I answer the research questions asked in chapter 1.

4.1 Irish industrial relations institutions

There are two broad streams of dispute resolution within the Irish system. The first is a legal system designed to resolve individual grievances and cases that may involve breaches of the law. This includes matters such as redundancy and minimum notice, vacation time, unfair dismissal and improper deductions of wages. Equality Officers deal with gender and race discrimination under the Anti-

Discrimination (Pay) Act, 1974, and the Employment Equality Act, 1977. Officers carry Roman Law-like investigative powers to carry out an investigation and make recommendations that are legally binding. Appeal is to the Labor Court within 6 weeks. Decisions of the Labor Court are legally binding, but appeal can be made to the High Court on points of law. Rights Commissioners deal with issues around unfair dismissal, procedural issues regarding the payment of wages and dangerous conditions for pregnant women (under the Unfair Dismissals Act, 1977, Maternity (Protection of Employee) Act, 1981, and the Payment of Wages Act, 1991). They too have investigative powers, albeit slightly more circumscribed than Equality Officers (who can charge employers with an offence if their investigations are impeded). Their decisions tend not be are binding, but legally binding appeals to the Labor Court or the Employment Appeals Tribunal are possible (depending on the Act which sanctions the intervention of the rights commissioner). Rights Commissioners decisions are generally adopted by unions and employers and the individual concerned. In 1990, 14.7% of the recommendations of the Rights Commissioners were appealed to the Labor Court. The major legal body of appeal in this legal stream of dispute resolution is the Employment Appeals Tribunal. It hears appeals from Rights Commissioners cases as well as cases involving the rights of Part-time workers and the employees of insolvent companies (Gunnigle, Heraty & Morley 1997, 221 – 223).

The second stream of dispute resolution covers mostly disputes around collective bargaining and relies upon non-legal avenues. The Labour Relations Commission (LRC) is charged with the responsibility

to conciliate disputes referred to it by the parties in dispute. Under the 1990 Industrial Relations Act, the LRC adopted the Labor Court's conciliation service. Decisions are not legally binding, but the successful resolution of dispute record is reasonably impressive, with between two-thirds and three-quarters of disputes settled between 1987 and 1992, compared to the pre-Social Partnership years success record of around 50%. The LRC also provides an advisory service, codes of practice, and is responsible for the appointment of Equality Officers and Rights Commissioners. It also provides a key role for two industry-level institutional initiatives: Joint Industrial Councils (JICs) and Joint Labour Committees (JLCs). JICs are permanent voluntary bi-parte industry bodies regulating wages and conditions in an industry. They are however, massively under utilized: just two small domestic market industries and one major industry in 1997 are registered with the Labor Court: footwear, wholesale fruit and trade in the Dublin area, and construction. Registration means that the Labor Court may enforce decisions. There are several unregistered JICs including a number of small food preparation and processing sub-industries, banking, printing, public sector industrial employees and telecommunications. JLCs are statutory tri-parte bodies designed to cover parts of the economy where union representation is poor. In practice, this has meant it has covered industries with a large contractor and piece-rate employee population (cleaners, hairdressing) as local service firms (catering) and small manufacturers selling for the local market (clothing apparel, aerated waters). JLCs determine minimum wages and conditions of employment that are legally binding

upon registration with the Labor Court. (Gunnigle, Heraty & Morley (1997, 215 – 220)

Except where already noted, the Labor Court, founded in 1946, does not have legally binding powers. This has been its traditional role: it is in fact not a judicial court at all. It is essentially a body where parties go when the LRC has failed to resolve a dispute, or where the Minster decides to intervene in a dispute and request Labor Court conciliation. In recent years, appeals from Equality Officer decisions have meant it has adopted some genuinely judicial functions.

The most noticeable aspect of the Irish industrial relations institutions is their reliance on non-legal means to resolve collective disputes. This is a critical difference between Ireland and Australia, which has an institutional mechanism that relies far more on legally binding orders from state dispute resolution bodies.

4.2 Trade union membership

The Irish umbrella union organization is the Irish Congress of Trade Unions (ICTU). Congress meets every year and member unions vote on ratification of part or all of any wage bargain struck with the government and IBEC (Irish Business and Employers Council, the peak employer association). While the ICTU may bargain on behalf of unions, it does not possess other governability powers such as the right to veto agreements struck by member unions. Instead, the ICTU relies on formal democratic procedures of discussion and majority vote (based on membership numbers of member unions) at Congress to ratify and maintain adherence to SP wage deals (Rigney interview 2000). In practice, this allows unions considerable degrees of freedom

to pursue over-SP wage increases. However, the largest Irish trade union, SIPTU (Services, Industrial, Professional and Technical Union with over 220 000 members in 2000 or over half of Ireland's trade union membership, (Kane interview 2000) has been loyal to the SP deliberative process and to the deal outcomes. There have been instances since 1999 of unions declaring that they are 'pulling out' of the Social Partnership to pursue higher wage claims. These are discussed in chapter 6.

Trade unions in Ireland are mostly confined to the public and indigenously owned private sectors. Density has fallen markedly in recent years coinciding with the growth of the export sector that is largely non-unionized. In general, data on Irish trade union membership is extremely poor in quality and quantity. The Central Statistics Office of Ireland and Irish government departments do not gather statistics on trade union membership (with the exception of the Census), and the OECD does not publish trade union membership or density statistics for Ireland. Data for trade union density and membership in specific industries must come from other sources.

Outside of the census data, the best source of trade union membership data is from the Irish Congress of Trade Unions that periodically publishes membership of member unions, and from various surveys conducted by research organizations and university researchers. Raw data sets are generally unavailable and secondary literature must be relied upon. From the Census data, published data from the UCD dues project, University of Limerick survey data and ICTU membership data, we can ascertain that membership of the work

force was about 43% at the start of the 1990s and fell to just under 37% by 2000 and 35.6% in 2002 (table 4.1). The most startling drop was between 1985 and 1987, which even allowing for sampling errors clearly shows the effect of the start of greenfield US MNC practice of not recognising trade unions.

Table 4.1
Trade union membership, Ireland 1980-2002

Year	Percent of work force
1980	55.2
1985	55.3
1987	43.1
1990	43.2
1995	41.1
2000	36.7
2002	35.6

Source: Gunnigle, Morley and Turner 1994, 13; Census 2002.

The best research giving insights into the distribution of members by industry classification is in the union recognition literature. This literature is based on two competing sets of surveys (one run by Price Waterhouse, the other by the Business School at the UCD,) and interview and other anecdotal evidence. The Price Waterhouse data is problematic in some respects because it is skewed by an overrepresentation of large workplaces and the data is not weighted to correct for this (Geary & Roche 2001). However, I use both sets of survey data to round out the anecdotal and interview evidence given below, with the caveat that the Price Waterhouse data should be regarded as indicative.

In short, the data suggests that a large non-union MNC enclave has emerged in Ireland since the mid-1980s.[47] Present estimates are that the unionization rate of the private sector workforce in Ireland is around 25% (Begg 2002). Among actual employees it is less. The non-union workplace, previously the preserve of US MNCs, has spread to other country-of-origin MNCs in the last decade.[48]

Gunnigle, Morley and Turner (1994) show that that the overwhelming majority of banking and finance workplaces were not unionized in 1992, while a significant proportion of advanced manufacturing (covering the electronic and computing industries), professional workplaces (doctors, lawyers) and construction and engineering were non-union (see table 4.2). The significant comparison

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[47] This is consistent with the literature that has found MNCs since the 1980s partly base their FDI decisions on the host country's industrial relations landscape and prefer countries with smaller union densities and wage bargaining regimes where they are not subject to centralised wage deals struck by employer associations and unions.

[48] There would appear to be three distinct phases of union recognition among MNCs. First, Irish government policy of encouraging union recognition promoted a host country effect that spurred MNCs to recognize unions until the 1980s. Second, the influx of US MNCs in the 1980s coupled with the establishment of the 'union neutral' IDA in 1985, saw a convergence of US country of origin effects (union avoidance) with a change in country of origin policy that allowed and tacitly encouraged non-recognition. Finally, host country effects (non-recognition) in recent years are beginning to change non-US MNC behavior with respect to recognition. Firms that would have recognized trade unions in the 1970s are now opting for non-recognition. Overall, the pattern of union recognition at first glance suggests that host country effects have a large influence on union recognition behavior. This conclusion however ignores the issue of to what degree Ireland has accommodated itself to the growing prevalence of preferences for non-union establishments among US firms (Kochan, Katz & McKersie 1994, 47-80). The conclusion also ignores endogeneity problem of MNCs self-selecting themselves into countries that have agreeable industrial relations regimes. Such a conclusion is open to question when considered in the absence of interview data of executives making FDI decisions. This interview data, in the case of Ireland, suggests that country-of-origin effects are still strong, and that firms move to Ireland because of the non-union option, rather than make the decision to move and then decide whether they will be unionized or not (Spring interview 2000; Gunnigle, Collings & Morley 2005; Gunnigle, MacCurtain & Morley 2001; Gunnigle & McGuire 2001).

from the data is the difference between advanced manufacturing and other or traditional manufacturing, with the latter being overwhelmingly unionized. Also and curiously, a plurality of health and education, state protective services and semi-state workplaces were also non-union.

Geary & Roche (2001) have found that after 1985 US firms were much less likely to recognize trade unions than Irish-owned firms. This relationship held when controlling for human resource management practices (HRM). This constituted a remarkable turn around. Before 1985, US firms were more likely than Irish firms to recognize trade unions. It is also in stark contrast to non-US MNCs who, after 1985, were more likely to recognize trade unions compared to Irish firms or US MNCs.

Table 4.2
Union recognition by sector, Ireland 1992.

Sector	***Non-union %***	***Union %***
Agriculture	37.5	62.5
Non-energy, minerals	16.7	83.3
Advanced manufacturing	43.0	57.0
Other manufacturing	8.5	91.5
Building and Civil engineering	33.3	66.7
Distributive trades	10.0	90.0
Transport and Communication	25.0	75.0
Banking and Finance	81.8	18.2
Professional and other services	50.0	50.0
Health and Education	40.0	60.0
Fire, Police and QUANGOs	38.0	62.0
Total (264 firms)	*77.0*	*21.0*

Source: Gunnigle, Morley and Turner 1994, tables 2.3 & 2.4 from Price Waterhouse Cranfield Project and University of Limerick data.
Notes: Advanced manufacturing is metal manufacturing including mainly the electronic and computing industry.

Roche (2001) concluded that the change in the mid-1980s was "dramatic" when re-testing this proposition using the same data and slightly different control variables. Clearly, American FDI created a non-union enclave within the Irish economy in the SP era. But it should be noted that where US firms did recognize trade unions either before or after 1985, they were far more likely than Irish firms to insist on a single union recognition agreement (Geary and Roche 2001, table 2).

Table 4.3
Trends in union non-recognition by workplace ownership

Period operations began	Irish-owned workplace %	US-owned workplaces %	Other foreign-owned workplaces %	All workplaces %
Pre-1960	41.7	0.0	32.3	37.9
1960-69	68.4	62.5	14.3	59.1
1970-1979	57.4	35.3	32.5	48.2
1980-84	57.0	9.1	10.0	45.8
1985-1989	70.4	81.3	10.0	67.7
1990-97	56.5	90.9	40.0	57.6
Pre-1980	55.7	35.4	27.5	48.2
1980-97	62.5	63.2	22.4	56.9
Pre-1985	56.2	30.5	24.3	47.5
1985-1997	65.7	85.2	31.0	63.6
Entire period	*58.6*	*47.7*	*25.2*	*51.6*
Sample (unweighted)	248	52	88	388

Source: Roche 2001, table 1.

The trend identified in the 1996-97 survey is reported descriptively in table 4.3. Between 1985 and 1989 81.3% of US workplaces established in that four-year period refused to recognize trade unions.

Between 1990 and 1997 that figure ran at around 91%. While 30.5% of US MNCs established before 1985 refused to recognize trade unions, after 1985 that figure lifted dramatically to over 85%. Irish and non-US MNC non-recognition rates seem very stable in comparison.

Roche (2001) using the same set of survey data found that compared to traditional manufacturing (using a similar definition to the University of Limerick studies) advanced manufacturing sites were far more likely to not recognize trade unions irrespective of union replacement and other high employee involvement HRM strategies,. Financial and professional (business) services were also far more likely to not recognize unions.

Industrial Relations News (IRN) survey data from 2003 confirms that the trend beginning in the mid-1980s is spreading from US MNCs to previously union-recognizing MNCs. Of the 45 firms surveyed from lists of clients supplied by the Irish Development Agency, just 5 recognized unions, and only one of 17 greenfield sites in the 2000-2003 period recognized unions. While the greenfield trend is a continuation of 1985-1997 trends reported by Roche (2001), expanding unionized MNCs opening new plants or service centres between 2000 and 2003 were opting for non-union operations. Just 4 out of 22 of expanding union companies recognized unions in their new operations (EIRO 2003a). This indicates a spread of US MNC non-recognition practice to non-US MNCs.

Anecdotal evidence from interviews with union leaders, journalists and politicians in late 2000 confirms the 2003 IRN survey data picture. With the exception of a small membership in the

pharmaceutical industry who established operations before the mid-1990s when European companies tended to recognize trade unions, the aggressive growth export sectors of Ireland are not unionized (Harbour interview 2000; Kane interview 2000; Spring interview 2000; Carey interview 2000). Recent interview data with US senior management of US MNCs with operations in Ireland, suggests that the non-union recognition was a key reason for location in Ireland (Gunnigle, MacCurtain & Morley 2001; Gunnigle & McGuire 2001). A typical comment from a pharmaceutical HR director was, "the decisions to locate…was made on the premise that there would be no unions" (Gunnigle, MacCurtain & Morley 2001, 270).

Insights into the trend of non-union expansion are given by a recent study of two US MNC pharmaceuticals and health-related product manufacturers with multiple plants in Ireland. Older plants of these firms are unionized, while new ones are not. The reason for this appears to lie with two factors: a change in general attitudes of management, both in the US and in Ireland, and the promotion of Ireland by the IDA and the central government as a 'union neutral' FDI destination: MNCs have the option of unionizing or not. This represents a change for the 1960s and 70s where agencies encouraged union recognition (Gunnigle, Collings & Morley 2004, 16-19).

The public sector, on the other hand, is highly unionized.[49] A common figure mentioned by union officials in interviews was that the

[49] The public sector is covered by two large unions, SIPTU and IMPACT, as well as around 50 smaller unions such as ASTI and TUI (teachers) and the ATGWU (transport workers) (McGinley 1997, 243; Fitzpatrick & Associates 1999, 14). SIPTU (Services, Industrial, Professional and Technical Union), Ireland's largest union, is the most important. In 2000, it had an estimated 60 000 to 70 000 members in the

public sector had as high a union density as 80% in 2000. More careful estimates for 1996 agree with this figure. Around 53.2% of the ICTU affiliated members in 1996 were public sector workers (McGinley 1997, 234).

Interview anecdotal evidence on the distribution of union membership throughout the economy tended to confirm the picture given by the survey data reported above. The non-union areas of the economy included office equipment manufacture, the US arm of the pharmaceutical and chemical industries, and much of business and financial services (McNaughton interview 2000, Spring interview 2000). The only unionized export sectors appear to be the non-US chemical and pharmaceutical manufacture, beverages and food for export. There are exceptions such as Apple, but the rule of thumb is that the export sectors save these two areas of activity are union-free. This contrasts with the sheltered sector, which is heavily unionized. MANDATE is a major union in this broad sector, and organizes heavily in retail and wholesale trade.

4.3 Trade

In comparison with the rest of the OECD, Ireland is an extremely open economy, has been for the over 30 plus years it has been a member of the EU, and is becoming exponentially more so. In 1970,

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health sector and in local government authorities, 30 000 in Quangos or semi-state boards and commercial enterprises, 30 000 civil servant members and 8 000 private sector members mostly in two sectors, pharmaceuticals and dairy and food production (Kane interview 2000). With the exception of the non-US pharmaceuticals sector, SIPTU is overwhelmingly a public sector and domestic/sheltered trade union. IMPACT, which in 2000 was not affiliated with the Irish Congress of Trade Unions, mostly represents blue collar and municipal public sector workers and had around 30 000 members in 2000.

just prior to Ireland becoming an EU member, exports of goods and services were the equivalent of 34.5% of GDP, with imports worth 43%. This compared with the EU 15[50] average of 21% and 20.9% respectively, and the OECD average of 13.6% and 13.3% respectively. By 1989 in the early stages of social partnership, exports were the equivalent of 61.4% of GDP (EU15 average, 27.7%; OECD average 17.8%, while imports were equivalent to 55.7% of GDP (EU15 27.7%; OECD 18.2%). By 2000, Irish exports were equivalent to 94.9% of GDP (EU15 35.8%, OECD 24.2%), while imports were equivalent to 80.7% of GDP (EU15 35.3%; OECD 25.2%) (OECD 2001, tables 6.11, 6.12).

The state body that has husbanded this massive growth in trade is the Irish Development Agency (IDA). The IDA is the primary point of contact between the Irish state and MNCs. MNCs are not active in IBEC, preferring the client-host relationship with the IDA that maximizes and aggregates their political voice. As a semi-state institution designed to generate employment by attracting and keeping the MNC presence in the economy, the IDA is an extremely effective de facto lobbyist throughout the rest of the Irish state for the MNC cause, and negates any need for them to organize further.

The IDA was established in 1949, when the Irish economy sat behind large tariff barriers. 1956 and 1957 saw the first major tax incentive for exporters enacted due to the lobbying of the agency: 100% relief on profits from sales for 15 years. Tax became the single largest policy device used by the IDA to lure clients (MacSharry &

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[50] Being the Euro zone countries of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain, plus Denmark, Sweden and the UK.

White 2000, 252-254, 276). Today, Irish corporate tax is a flat 12.5% after the EU made objections to the tax break afforded manufacturing. Services paid 40% in the mid-1990s and 28% in 1998, but from 1978 until 2003, manufacturing paid just 10%, the lowest rate in Europe.[51] Irish corporate tax is now the lowest in the OECD.

During the 1940s and 50s, UK investment dominated FDI, as UK companies set up subsidiaries behind the tariff walls. By 1970, the US was the largest investor in Ireland. In 2003, 46% of IDA's clients were of US origin, 14% were German, 11% are from the UK, 20% were non-German European and Japan Pacific and the rest of the world accounted for 8% (Forfas 2004).

Early MNC exporters into Ireland included Pfizer (1969) and General Electric (1963 & 1966) (MacSharry & White 2000, 183-188). By 1972, 450 companies had used IDAs services, with employment from US companies a accounting for around 1/3rd of the new jobs created. In response to complaints about slow-moving bureaucracy, the IDA was made a semi-state entity in 1969, and was given power to make payments in the form of grants to clients, annex and develop land for industrial development and take equity stakes in companies. The IDA was now an autonomous body within the Irish state. Its new powers, especially its new grant powers, were vital for attracting new MNCs to Ireland. Advertisements in the 1970s in international newspapers said that IDA, "Will organize the whole thing. Will give you the details. Will see you get the biggest benefit of Ireland's industrial advantages and incentives" (quoted in MacSharry & White 2000, 240).

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[51] Manufacturing companies will continue to pay 10% until 2010.

The entry of Ireland into the EU in 1973 became a major selling point for potential foreign investors (MacSharry & White 2000, 200). During the 1970s, Asahi Chemical (Japan), Merck, Sharpe & Dohme, Syntex, Warner Lambert and Gillette Braun all established plants in Ireland. The chemicals industry by the end of the decade was firmly established. In 2000, 16 of the top 20 pharmaceutical companies in the world had plants in Ireland (MacSharry & White 2000, 279). At the end of the 1970s, Wang Laboratories, Verbatim, Apple and Mostek moved in establishing the Irish software and computer hardware industry. The 1980s saw an increased emphasis on service employment with the establishment of the International Services Programme. This resulted in IBM, Lotus and Microsoft all establishing Irish software centres between 1983 and 1985. The 1990s saw major FDI wins such as Intel (1992), further service centres for IBM (1996), Dell, Gateway and Compaq (1994-1999), and Hewlett Packard (1995).

The IDA strategy of targeting individual companies (2600 in 1973 alone), of using created jobs as the primary criteria for success, and the willingness to build infrastructure and grant employment subsidies is reflected in the cost per job data reported by Forfas. For the jobs created in 1988 and surviving until 1994, the IDA spent E21, 306. Jobs created in 1997 and surviving until 2003 cost the government E16 173 each. These are large subsidies, in anyone's language, and are an important lure for MNCs. While Ireland's expenditure on training is comparatively modest, its 2001 expenditure on direct employment subsidies as a percentage of GDP is among the

highest in the OECD at 5%, with only Hungary and Spain being marginally greater (OECD 2004, table H).

The resultant exponential increase in Ireland's import and export volume in real wholesale cost terms is shown in figure 4.1 and demonstrates the export path to economic development and wealth taken by Ireland since the mid- to late-1980s. This path and a generous tax regime (the corporate tax rate until the end of 2002 was 10% and is now 12.5%) have resulted in many MNC firms pursuing an aggressive transfer pricing policy. This has resulted in a growing gap between GDP and GNP as MNCs exaggerate profits from their Irish operations in order to minimize tax. In response to this, the CSO revised its GDP figures in 1995 for the previous 6 years, in accordance with a revised approach to measuring national income (Sweeney 1999, 53-55). To give some indication of the outflow of income from Ireland, in 1999, repatriated profits and royalties amounted to 7.7 million punts or 7.7% of GNP. Added to this were 2 billion punts of 'reinvested earnings.' Murphy (1994) identifies three main sectors responsible for the outflow in the late-1980s and early 1990s: pharmaceuticals, organic chemicals (in particular cola concentrates) and computer manufacture.

When examining the export data, the bias from transfer pricing must be kept in mind. Figures 4.2, 4.3, and 4.4 demonstrate that the engines of manufacturing export growth since 1980 have been in three industries: chemicals (especially organic chemicals, pharmaceuticals, and health and beauty care consumer goods), machinery and transport equipment (especially office equipment, consumer

appliances, optical, medical and communication equipment, and software as part of electrical machinery and appliances n.e.c. classification), and food and beverages (in particular alcoholic beverages and cola concentrate). Ignoring the effects of transfer pricing, the nominal value of export growth in machinery and transport manufacture grew around 650% in the 1990s, mainly fuelled by a huge export sales growth in office equipment and computers, and software (see figure 4.4). Chemical exports, fuelled by a massive growth in organic chemicals and pharmaceuticals (see figure 4.3) grew a staggering 2500% by 2001 from their 1980 value.

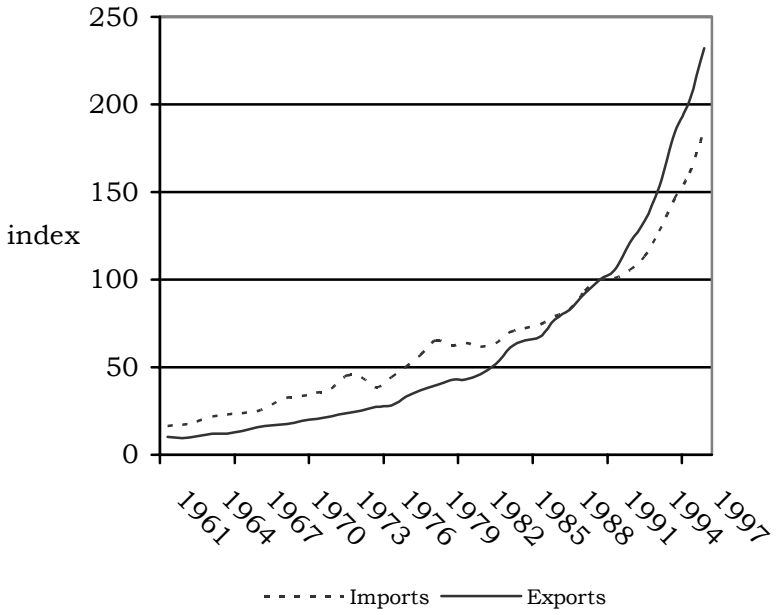

Figure 4.1: Volume of exports & imports, Ireland 1961-1997.
Notes: 1990 = 100. Index based on real wholesale costs of imports and exports.
Source: Central Statistics Office 1999, Table 6.1

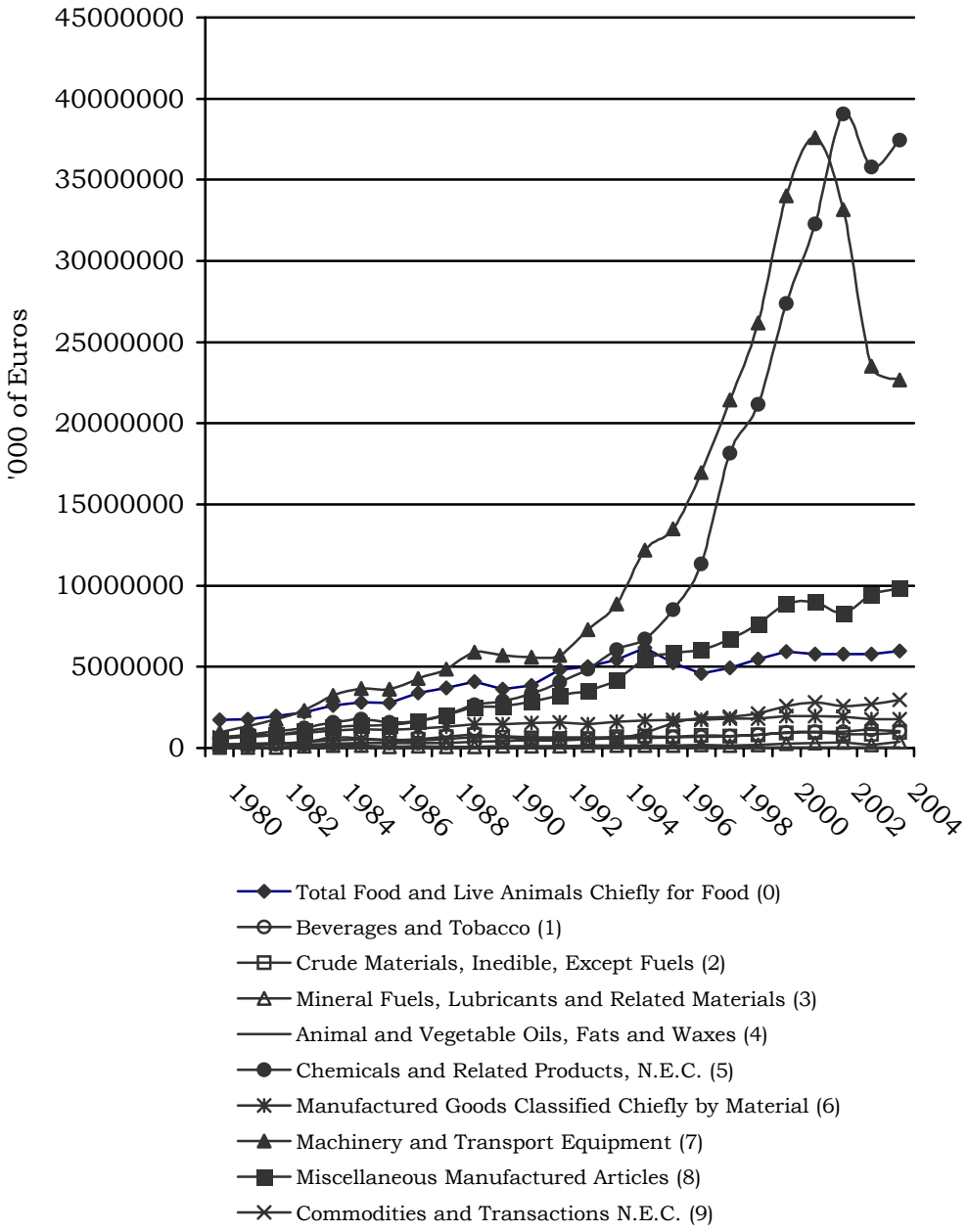

Figure 4.2: Export sales at current prices of merchandise trade, Ireland 1980-2004.

Source: www.cso.ie, Value of Merchandise Trade, last modified 4/05.

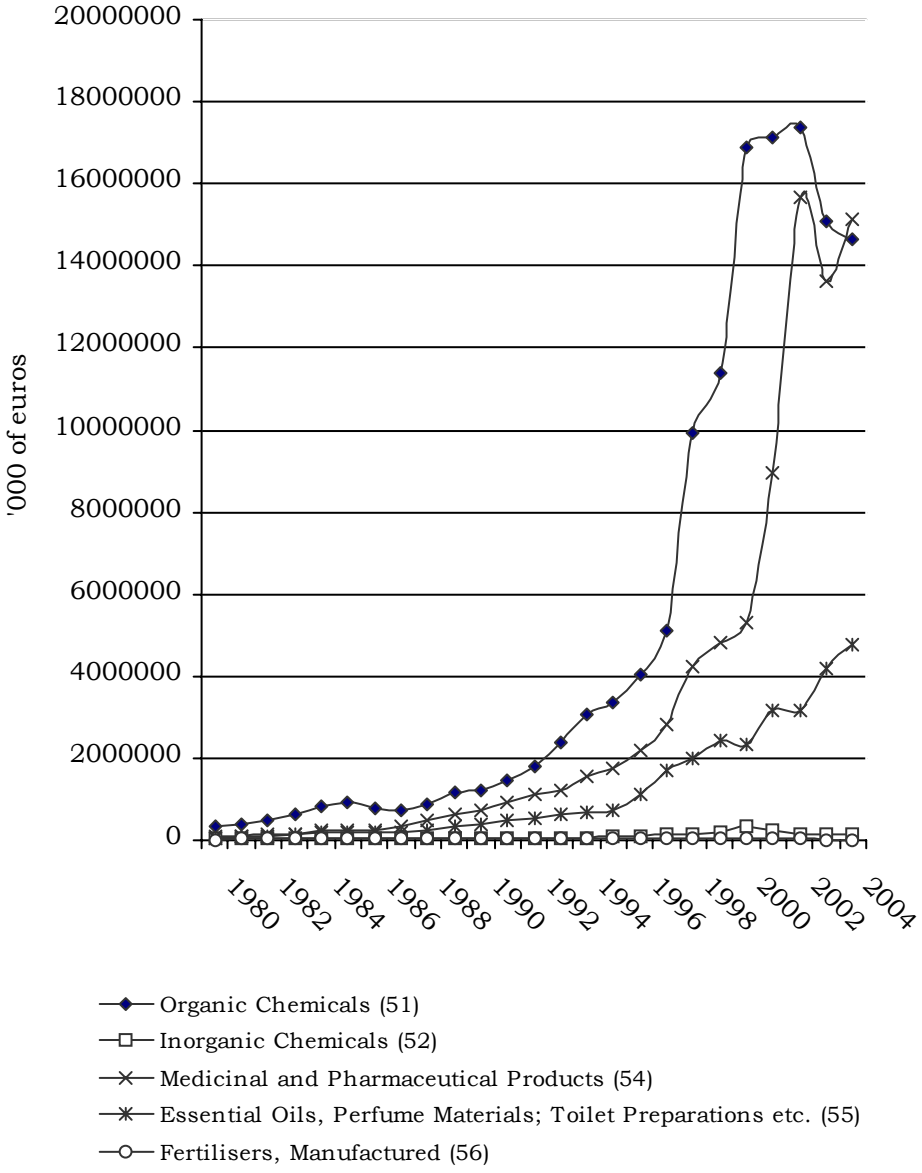

Figure 4.3: Export sales at current prices of chemicals sub-groups, Ireland 1980-2004.

Source: www.cso.ie, Value of Merchandise Trade last modified 04/05.

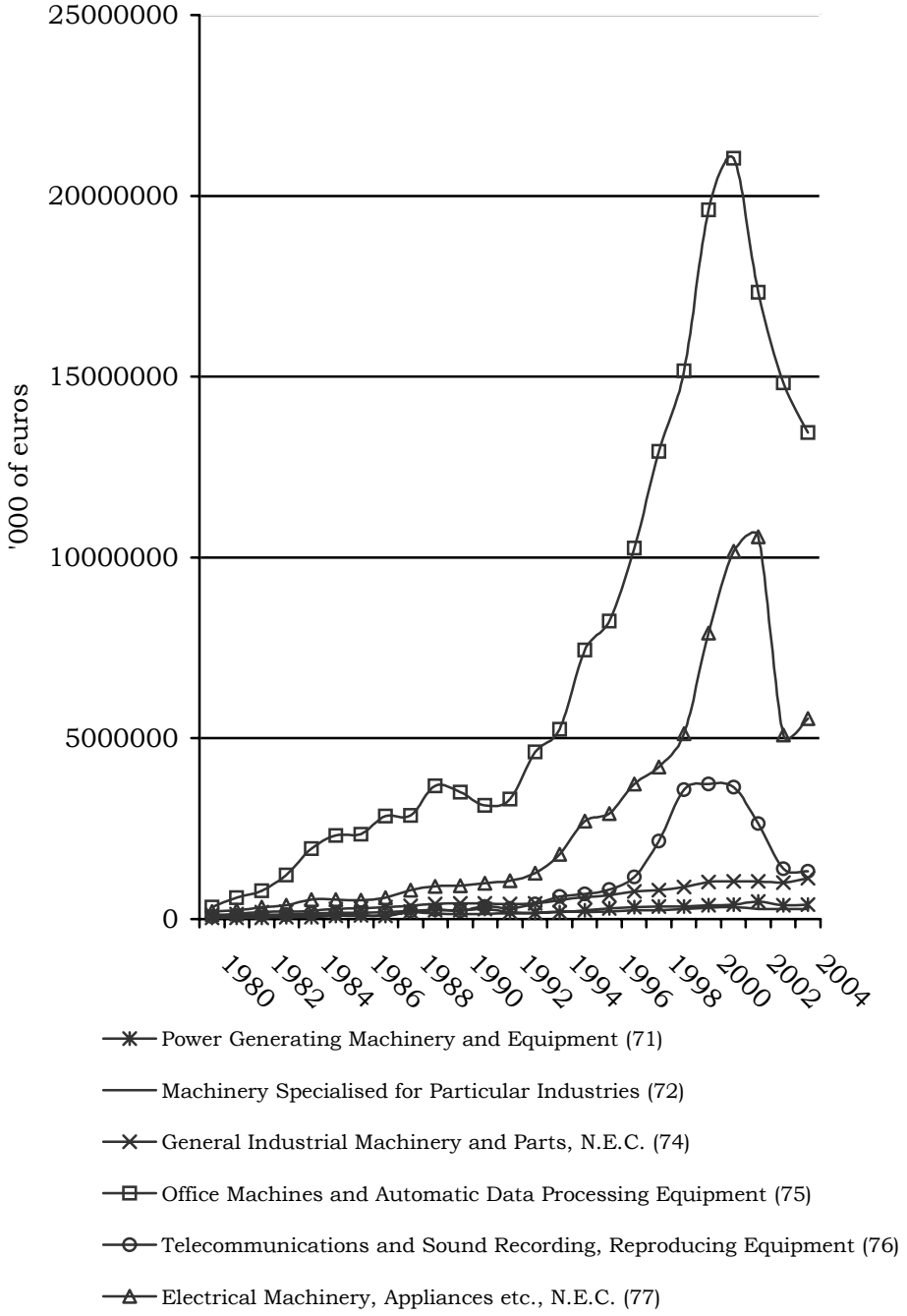

Figure 4.4: Export sales at current prices of machinery & transport sub-groups, Ireland 1980-2004.
Source: Source: www.cso.ie, Value of Merchandise Trade last modified 04/05.

4.4 MNCs & the export sector

MNCs have been instrumental in the recovery and boom of the Irish economy in the 1990s and 2000s. Table 4.4 shows that foreign-owned firms dominate employment in the leading export sectors in Ireland. Employees in industries that export less are more likely to be Irish-owned. The exceptions to this rule are paper and printing and food and drink, which have high employment by foreign-owned companies.

Table 4.4
Employment share by foreign-owned firms, Ireland, 2000.

	Total employment	Employment in foreign-owned firms	Employment in foreign-owned firms as % of sector total
High foreign share of employment			
Office & data processing equipment	20 723	18 303	88.3
Radio, tv & communications	14 993	12 785	85.3
Medical & optical equipment	18 110	15 335	84.7
Chemicals	23 198	17 874	77.0
Electrical machinery & apparatus	15 141	9 438	62.3
Significant foreign share of employment			
Transport equipment	9 610	5 365	55.8
Machinery & equipment nec	14 396	6 436	44.7
Rubber & plastics	10 486	3 951	36.4
Low foreign share of employment			
Textiles, clothing & footwear	10 989	3 703	33.7
Paper & printing	23 816	7 457	31.3
Food, drink & tobacco	48 102	13 170	27.4
Metal products	16 884	3 554	21.0
Wood & wood products	6 249	1 111	17.8
Non-metallic minerals	11 166	1 584	14.2
Miscellaneous	11 241	2 912	25.5

Source: Irish Census of Industrial Production 2000, in Barry 2004, table 3.

According to Forfas data based on IDA Ireland, Shannon Development and Udaras na Gaeltacha client data reported in table 4.5,[52] employment in industries characterized by high foreign firm employment increased 30% between 1994 and 2003, while it declined 24% in low foreign employment industry. The most dramatic increase was in services, where foreign employment increased 404%.

Table 4.5
Employees in foreign-owned Forfas client firms, Ireland, 1994-2003

	1994	1998	2003	Change %, 94-03
Industries				
High foreign share of employment				
Office machinery and computers	7435	16484	15591	+110
Medical & precision equipment	8917	12976	16798	+88
Electrical machinery & equipment	7218	8772	6586	-9
Chemicals	13848	16517	19981	+44
Electronic equipment	5680	7847	3921	-31
Total – high foreign share	*48403*	*62416*	*62877*	*+30*
Significant foreign share of employment				
Machinery and equipment nec	5305	5597	5069	-4
Transport equipment	9527	8986	8401	-12
Rubber & plastics	3853	4419	3905	+1
Low foreign share of employment				
Food, drink & tobacco	12495	11823	12867	+3
Textile and textile products	6212	4506	1493	+24
Clothing, footwear & leather	3254	2035	358	-89
Wood & wood products	271	747	692	+255
Paper & paper products	2224	1882	1513	+68
Metal products	4826	5804	4523	-6
Non-metallic minerals	2277	1812	1844	-19
Total – low foreign share	*31559*	*28609*	*23290*	*-24*
Services				
International financial services	1597	3895	8263	+517
Other international services (call centres etc)	9231	23421	35386	+383
Total- services	*10825*	*27316*	*43689*	*+404*

Source: Adapted from Forfas 2004b, appendix 2

[52] Forfas clients receive large employment subsidies, and it is therefore likely that any foreign firm wanting to set up a subsidiary in Ireland will become a client of Forfas.

4.5 Unemployment

Ireland until the 1990s was characterized by periods of very high unemployment. Job creation and solving the unemployment problem was the major aim of the social partners in 1987 and is further discussed in the next chapter. In the 1970s, the average unemployment rate averaged 7.2% (derived from data in Hardiman 1988, 104). By 1988, unemployment (ILO definition) stood at 16.3% (CSO 2004, xiv). In 2003, it was just 4.4%. Figure 4.5 shows that the number of people registering for unemployment support roughly halved between 1996 and 2001 (the 'Celtic Tiger' years). As the next chapter will demonstrate, high unemployment acted to depress wage demands throughout the economy until the mid-1990s.

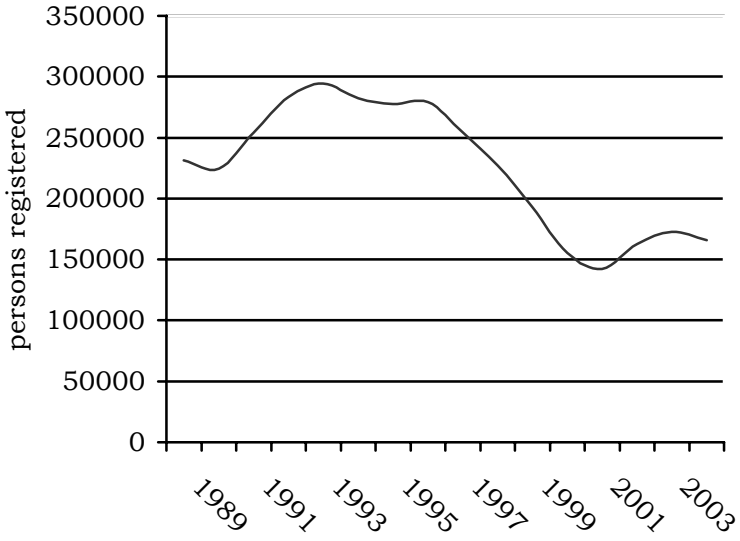

Figure 4.5: Numbers of persons on live register, Ireland 1989-2004.
Source: www.cso.ie, Live Register Selected Annual Series (last modified 4/05).

Figure 4.6 further demonstrates the tightening of the Irish labor market in the mid-to-late 1990s. After 1998, there was the virtual eradication of the underemployed part-time worker. This population was estimated to be between 1.1 and 1.6% of the labor force plus marginally attached workers and those not in education and wanting work. After 1998, this population shrank to 0.2%.

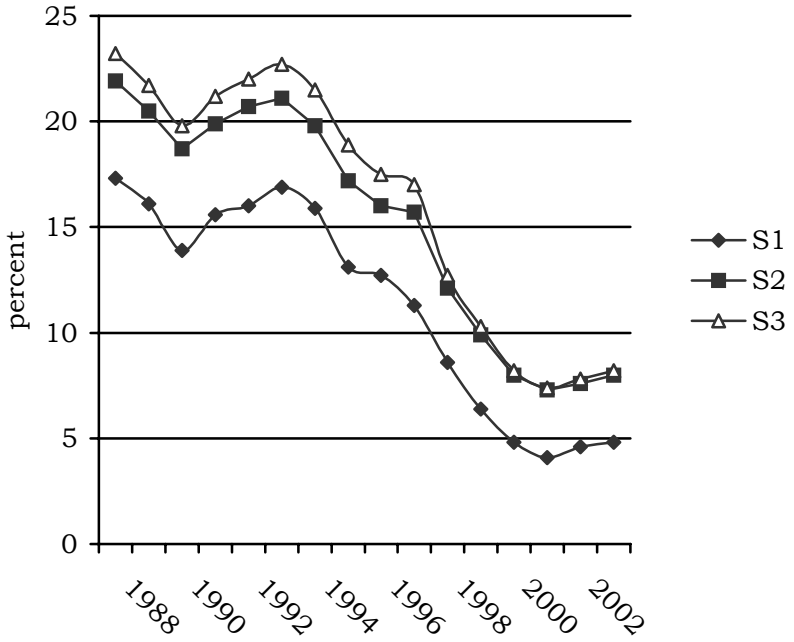

Figure 4.6: Indicators of potential labor supply, Ireland 1988 - 2003

Source: CSO 2004, table 2.8

Notes: S1 = unemployed + discouraged workers as a percentage of, Labor Force + discouraged workers; S2 = unemployed + marginally attached + others not in education who want work as a percentage of, Labor Force + marginally attached + others not in education who want work; S3 = unemployed + marginally attached + others not in education who want work + underemployed part-time workers as a percentage of, labor force + marginally attached + others not in education who want work.

Irish unemployment rates are lower than they might otherwise be thanks to the relatively low female participation rate and the tendency of Irish citizens to emigrate when economic times are bad. In 1970,

Ireland's female participation rate[53] was 34.3% compared to the euro zone average of 40%. By 2000 there had been some convergence (Ireland 56.2%, euro zone 58%) thanks to a persistent increase since 1990 when the rate was 43.8% (euro zone 52%) (OECD 2001, table 2.8).

4.6 Summary of the main points

The major points from this chapter relevant for argument developed in chapter 6 are:

- Irish industrial relations are characterized by voluntarism: conciliation institutions are responsible for the resolution of collective disputes. Legal avenues tend to be confined to issues of individual employment rights, especially with regard to discrimination.
- Trade union density has dropped around 8% since the beginning of Social Partnership. This has largely been due to the growth of non-union plants in Ireland, a trend initiated by US firms establishing plants since 1985. The export sector of Ireland has a far lower union density than the rest of the economy as a result of the non-union trend led by US MNCs. The public sector, by contrast, is about 80% unionized.
- The ICTU relies on formal democratic procedures at annual meetings of member unions in order to ratify and ensure compliance with SP wage deals struck with the government

[53] Defined as females in the labor force as a percentage of all females aged 15-64.

and IBEC. The ICTI possesses no power to veto collective agreements made by member unions.

- Irish exports have increased sharply in recent years largely due to three broad industries: pharmaceuticals and chemicals, machinery and food and beverages.
- MNCs have a very high share of employment in these sectors, especially in machinery and chemicals.
- The Irish export boom has resulted in a dramatic drop in the number of people claiming unemployment benefits. As a result, labor supply in tightened quickly after the mid-1990s.

Chapter 5
Irish pay, 1987-2004.

In this chapter I present data on the pay movements of the public, export and non-export private sectors during the Social Partnership (SP) years. The purpose of this data is to show the relative adherence of the public and non-traded sector pay movements to the SP guidelines, compared to the flexibility both above and below the guidelines afforded and exploited by the export sector.

If the argument advanced in chapter 1 is correct then we should expect to see broad adherence to the SP central agreements in pay movements in the public and non-export sectors. The trend of pay movements should follow the trend of central agreement increases. Export sector pay trends should be relatively chaotic by comparison, with any observable similarities explicable by export firms free-riding on the public and non-traded sectors wage discipline.

In addition, if there is any breakdown in pay discipline in the public sector, we should see a similar breakdown and trend in the non-export sector, but not in the export sector. This is because a fundamental condition of centralized wage bargaining stability in the last thirty years in free trade and open states is that wages in the export sector remain flexible, that is, largely free of coordination with the rest of the economy.

The evidence presented here conforms to these expectations. Pay movements in the public and non-export sectors broadly adhere to the central agreements until the late 1990s. By comparison, there is

substantial variation in wage growth in the export sector industries, suggesting pay is being adjusted with regard to firm profitability, product and service demand and labor supply, rather than central agreements. This evidence broadly supports my argument advanced in chapter 1.

Since 1999 there is evidence to suggest that public sector pay discipline has been severely eroded. The pay data shows a secular trend towards very high pay drift suggesting that since around the turn of the century the SP agreements have lost a great deal of their ability to shape actual wage outcomes. This trend is not as easily observed in the export sector, supporting my argument and suggesting that this sector is outside SP wage coordination. The significance of the erosion of public sector pay discipline and the government response to it is further discussed in chapter 6.

I also present data for a select number of domestic market industries (both manufacturing and service) that shows broad support for the propositions that public pay discipline is shaping a labor market that enables similar pay discipline in local industries and services, and that the erosion of that discipline in the late 1990s has generated a similar erosion in the domestic or indigenous industries.

Given the poor nature of the wage data on services (until recently only collected every four years), I am unable to present comprehensive wage data for this part of the economy. However, there is evidence of pay drift in the distribution trades after 2000, an event that supports my argument. I present data on this drift.

This chapter begins with a discussion of data sources and issues. I then outline the centralized pay agreements. Following this, I compare the level of nominal average hourly increases for the public sector, export and non-export private sectors.

5.1 Data quality

Data on Irish remuneration is problematic in many respects. The major problem is the lack of comprehensive coverage of the economy. While the remuneration of employees in the manufacturing and public sectors is documented on a regular basis (most time series are quarterly), data for the private service sectors is scant and limited to data collected every four years until June 1998. After June 1998, service sector pay data has been collected but only average gross weekly earnings of employees working over 30 hours per week. No hourly data is available.

A second problem is the alteration in the NACE classification of industrial sectors system in the mid-1990s. This means that data collected up to and including 1997 under the NACE70 classification is not necessarily directly comparable to data collected after 1995 under the NACE Rev. 1 classification. I therefore am forced to present two series on pay movements for each industrial sector; one using the NACE70 classification for the period 1987-1997, and one using the NACE Rev.1 classification for the period 1995-2004.

Of equal concern to these problems is that the data collected in the quarterly inquiries in the manufacturing and industrial, banking and finance and public sectors tend to focus on average weekly earnings. For the data presented for the period after 1995 for the

industrial sectors this is not a problem, since the indices are weighted by the CSO to allow for changes in average hours, as well as occupational changes.

But for the data reported for the 1987- 1997 periods calculated by myself, I rely on published CSO data. Where reported, hourly earnings are calculated from average weekly earnings and therefore include the pay earned and any penalty rates derived from overtime hours. Hence any reading of changes in the average hourly pay must be read in conjunction with changes in the average hours of work in order to check whether any increase in average hourly pay is due to an increase in hours worked and hence the influence of overtime rates on the average hourly rate. I report average hours worked each week where changes in hours appear to be significant and may be causing movement in average hourly pay. Fortunately, the Irish working week has been fairly stable in the decade after 1987 (see table 5.1). In 1987, the PNR agreement reduced the normal working week from 40 to 39 hours per week. In 2003, this was still regarded as the normal or ordinary working time week: "collectively agreed normal working time generally stands at 39 hours" (EIRO 2004). The amount of average overtime worked by males in manufacturing has been reduced between 1987 and 1997 by 24 minutes. Overtime is not a factor for the average female manufacturing or industrial employee. From this, it can be concluded that the pay indices I derive from CSO data are probably robust with respect to the overtime issue.

Table 5.1
Average hours worked by males & females in industry & manufacturing, Ireland 1987-2004.

	1987	1992	1997	1999	2004
Male manufacturing	43.0	42.4	42.6	42.6	41.2
Female manufacturing	38.5	37.5	37.7	37.3	36.4

Sources: CSO (dates various) ('Quarterly Series, Wages & Incomes').
Notes: Data is for the December quarter of each year.

5.2 Social Partnership pay agreements.

Irish social partnership has been based around six agreements to date, all with appropriately bureaucratic titles: the Programme for National Recovery (PNR) 1987, 1990, the Programme for Economic and Social Progress (PESP), 1991-1993, the Programme for Competitiveness and Work (PCW) 1994-1997, Partnership 2000 for Inclusion, Employment and Competitiveness (P 2000), 1997-2000, the Programme for Participation and Fairness (PPF), 2000-2003, and Sustaining Progress (SP), 2003-2005. The terms of the social partnership pay agreements are summarised in table 5.2. The most notable features of the agreement are its non-binding nature on the parties and their affiliates, and the slight differences in treatment of the public sector. Firms are able to opt out from the agreement on an ability-to-pay basis, while the timing and, in a couple of instances, the rate of pay increase in the public sector differs from that of the private sector. In addition PESP and P 2000 explicitly allow for limited local bargaining for extra pay rises in the private sector (3% and 2% respectively), while the PCW, PESP and P2000 allow for limited local

bargaining for extra pay rises in the public sector (3%, 3% and 2% respectively). The key characteristic of Irish pay setting after 1987 is that the central agreements are promises of future behavior by employers and unions, and that bargaining is largely conducted at the enterprise level. There are a handful of multi-employer bargains, but these are a very small minority.

In the analysis of changes in remuneration that follows, unless otherwise explicitly to the contrary, when I compare rises in average earnings in various industries and sectors to the SP trend of centralized pay agreements I include these local 'extras' in the PCW, PESP and P2000 agreements in the estimation of the SP pay agreement trend. In other words, I fold locally negotiated increases mandated under the various SP agreements into the central pay agreement. I do not attempt to estimate the effect on the SP public sector pay trend caused by the grade re-structuring clause in PESP (1991-1993).

5.3 Pay movements 1987-2004

The pay data I present is in the form of indices and is compared to a SP pay increase index in each figure, an index calculated using table 5.2.[54] When assessing the degree of wage drift from the SP pay agreement norms, I allow for some degree of drift from the norm to be classified as a conforming trend. That is, I err on the side of conservatism when judging whether a pay trend is drifting above or below the norm. I do this in order to allow for the changing gender

[54] More details on the construction of the SP and industry indices are available in the note for each figure.

composition of the work force, to allow for the assumption that seniority increments will tend to push pay indices upward, and that jobs, over time will become more rather than less skilled, and that pay will increase as a result of this change.

Table 5.2
Terms of National Pay Agreements- Ireland 1987-2001

Programme for National Recovery (PNR), 1987-1990
Private and public sector: 3% on first 120 punts of basic weekly income, 2% on balance. Minimum 4 punts/week.

Programme for Economic and Social Progress (PESP), 1991-1993.
Private & public sector: 10.75% over 3 years: 4% in 1st year, 3% in second, 3.75% in last. Minimum of 5 punts in 1991, 4.25 in '92, 5.75 in '93.
Local bargaining allowed under exceptional circumstances of up to 3%, not earlier than 1992.
Local bargaining in public service negotiable with regard to grade restructure or to "special" claim, not earlier than 1993.

Programme for Competitiveness and Work (PCW), 1994-1997.
Private sector: 8% over 39 months: delay three months, then 2% first year, 2.5% second year, 2.5% + 1% final 12 months.
Public sector: 8% in total over 42 months. Delay 5 months, then 2% first year, 2% second, 1.5% + 1.5% + 1% final 13 months. 3% PCW local bargaining clause implemented in public sector, 1% automatic, rest subject to local negotiation.

Partnership 2000 for Inclusion, Employment, and Competitiveness (P 2000), 1997-2000.
Private sector: 7.25% over 3 years: 2.5% in first year, 2.25% in second, 1.5% +1.0% over last 15 months.
Public sector: First year, 2.5% of first 220 punts in first 9 months, then 2.5% on balance. Second and third years as per private sector.
Minimum 3.50 punts/week in second year, 2.40 + 1.60 last 15 months.
Local bargaining of up to 2% increase, not before mid-1998 (private) or 1999 (public).

Programme for Participation and Fairness (PPF), 2000-2003.
Private & public sector: 5.5% first year, 5.5% second, 4% last 9 months. Amended December 2000, second year 7.5%.
Minimum increase of 12, 11 and 9 punts respectively. Minimum wage from 4/2000 of 4.40 punts/hr, 4.70 in 7/2001, 5.00 in 10/2002.

Sustaining Progress (SP) 2003-2005
Private sector: 7% over 18 months: 3% first nine months, 2% second 6 months and 2% final three months.
Public sector: As per benchmarking process.

Minimum wage adjusted to 7 euros/hour on Feb 1, 2004.

Sources: Government of Ireland (1987; 1991; 1994; 1997; 2000; 2003).

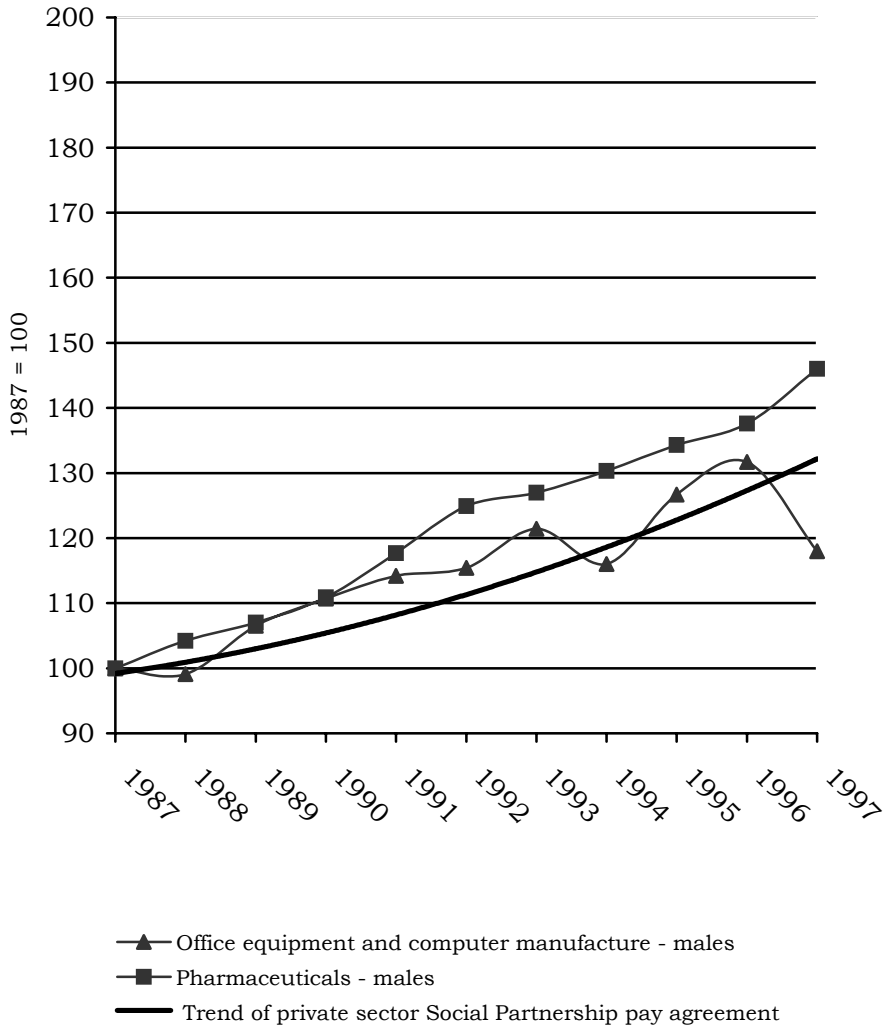

Figure 5.1: Average nominal hourly pay indices of pharmaceuticals & office equipment manufacturing, Ireland 1987-1997.

Sources: Based on CSO (dates various) ('Quarterly Series, Wages & Incomes').
Notes: Index base, 1987 = 100. Figures calculated by averaging quarterly figures. Social Partnership pay agreement is represented by a two-factor polynomial trend line based on pay agreements announced in Social Partnership statements in Government of Ireland 1987; 1990; 1993; and 1996 and summarized in Hardiman 2000, 41.

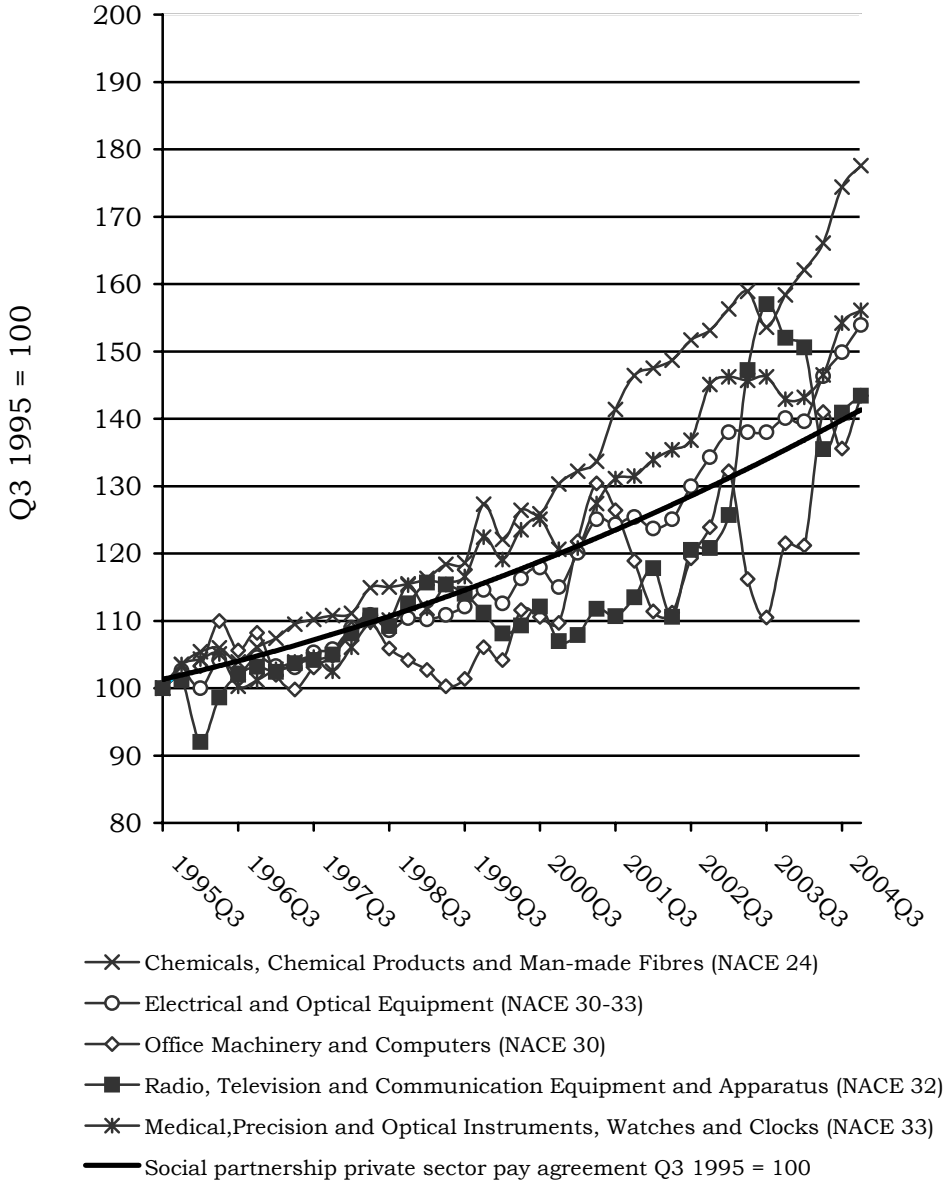

Figure 5.2: Nominal pay indices in the export sector, Ireland 1995-2004.

Source: www.cso.ie, 'Indices of Earnings and Hours Worked', last modified 03/05.
Notes: 1995, Q3 = 100. Sectors classified according to NACE Rev. 1. Social partnership pay agreement is represented by a multi-factor polynomial trend line based on pay agreements announced in Social Partnership statements in Government of Ireland 1987; 1990; 1993; 1996; 2000; and 2003 and summarized in Hardiman 2000b, 41 and Government of Ireland 2003, 66-67.

5.3.1 The export sector

In 1999, at the height of the Irish economic boom in the 1990s, the two lead sectors of chemicals and office and data processing equipment manufacture employed near 85 000 people, yet their combined export sales amounted to 75 billion euros. Clearly, even allowing for transfer pricing, firms in these sectors were more than able to pay their employees well above Irish norms and share the spoils of their profits. The evidence in figure 5.1 and 5.2 suggests that the more densely unionized chemicals and pharmaceuticals sector largely adhered to the norms until the late 1990s, and in-line with the trend observed in data presented below, saw pay drift in the new millennium.

By contrast, the non-union office equipment sector wage data shows support for the flexibility thesis in the pre-1997 era. Compare this figure with figure 5.6 that shows broad conformity to the SP wage norms for the indigenous and non-export sector, and with figures 5.3, 5.4 and 5.5 that show a similar conformity for the public sector until the late 1990s.

Within the export sector, there does not appear to be a discernible secular trend towards pay drift after 1999 (figure 5.2). Rather, the evidence supports the argument that wages in the export sector are allowed to flex upwards or downwards with small or no regard for the SP norms, suggesting that these export industries are outside the SP wage coordination process. Compare this to the secular high pay drift trend in the public sector after 1999 (see figures 5.3, 5.4 and 5.5) and

in the indigenous non-exported sector, also after 1999 or 2000 (see figure 5.7).

On balance, the data supports my argument that a key element in the stability of centralized wage bargaining in Ireland is due to the pay flexibility afforded the export sector. The pay behavior of the chemicals industry, a more unionized portion of the export sector also reflects well on my observations that a key part of pay flexibility for employers is freedom from third party intervention in the pay-setting process. The adherence of the chemicals sector to the SP agreements, and the following of the public sector towards pay drift after 1999, suggests, not unsurprisingly, that full pay flexibility can only be achieved in the absence of trade unions in the workplace.

5.3.2 The public sector

For the purpose of this analysis, I split the public sector into three areas: the civil service and public security, education, and non-central state authorities and semi-state bodies.[55] Within the public sector as a whole, there appears to be a secular pay trend (see figures 5.3 - 5.6).

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[55] It should be noted that these analyses are based upon indices constructed from average weekly earnings. While the CSO controls for compositional changes of the work force in the calculation of the indices, it does not control for the amount of hours worked since some agencies and divisions within the public sector are unable to divide full-time employees from temporary and part-time employees (CSO 2005, p. 8). While it can be safely assumed that full-time workers have not tended over the 1988-2004 period to work more or less overtime[55] (unfortunately there is no way to check this assumption satisfactorily), there is a lack of readily available data on the break down of employment between part-time and full-time workers. It should be noted that prison officers and police officers work high levels of overtime on a regular basis, so the trends for these series exclude overtime as published by the CSO. Changes in the index need to be treated carefully, and should be treated as generally indicative, that is accurate over the medium to long term.

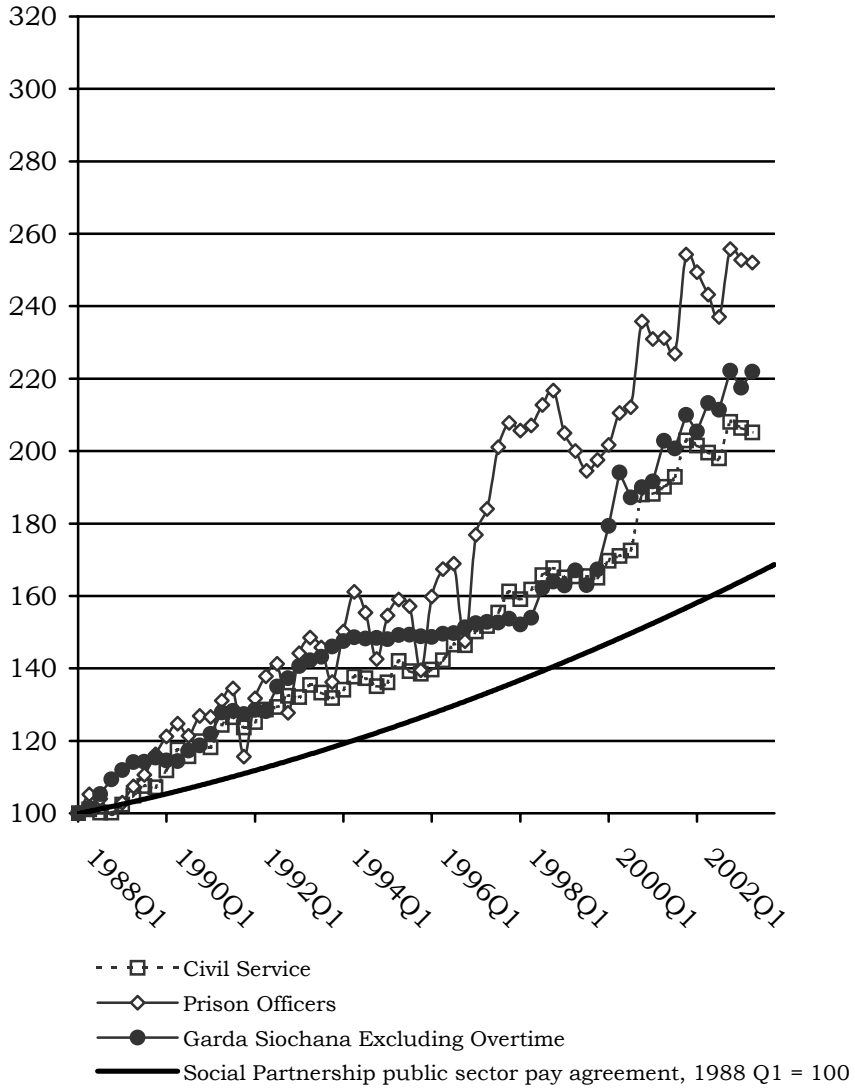

Figure 5.3: Average nominal gross weekly pay indices for civil servants & public security, Ireland 1988 – 2003.

Source: www.cso.ie, Quarterly Services Inquiry ("Employment and Earnings in Public Sector"), (last modified 08/04).
Note: Data is based on average weekly earnings except for the gardai (police) and prison officers. Social Partnership pay agreement is a two factor polynomial trend line based on pay agreements announced in Social Partnership statements in Government of Ireland 1987, 1990, 1993, 1996, 2000, and 2003 and summarized in Hardiman 2000b, 41 and Government of Ireland 2003, 66-67.

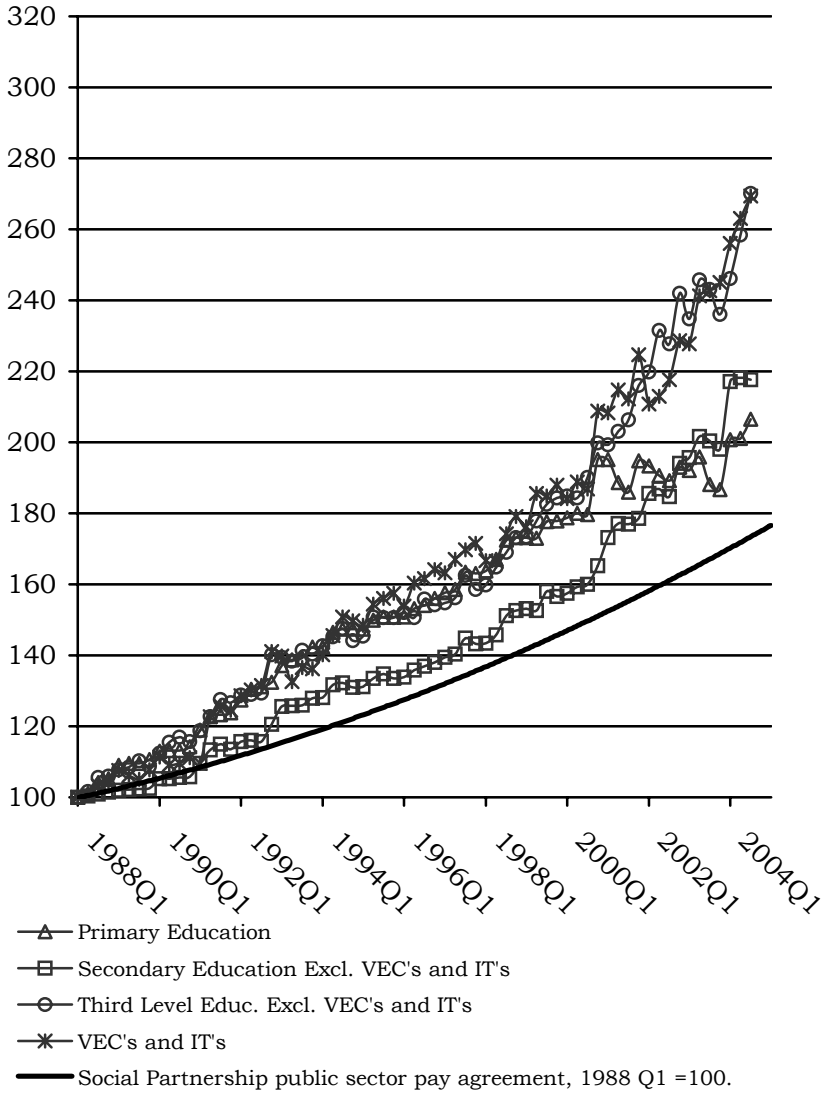

Figure 5.4: Average nominal weekly earnings indices for education, Ireland 1988 – 2003.

Source: www.cso.ie, Quarterly Services Inquiry ("Employment and Earnings in Public Sector"), (last modified 08/04).
Note: Data is based on average weekly earnings except for the gardai (police) and prison officers. Social Partnership pay agreement is a two factor polynomial trend line based on pay agreements announced in Social Partnership statements in Government of Ireland 1987, 1990, 1993, 1996, 2000, and 2003 and summarized in Hardiman 2000b, 41 and Government of Ireland 2003, 66-67.

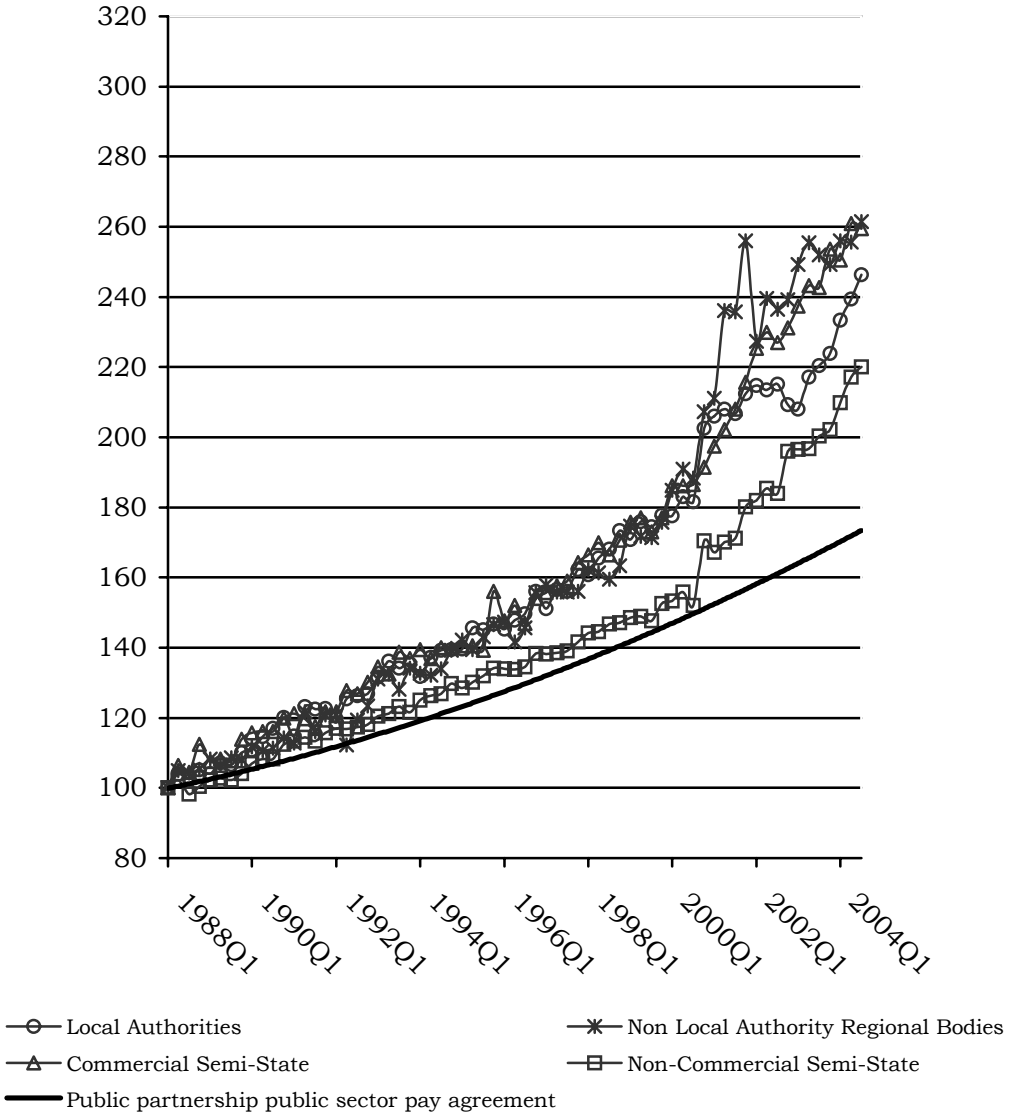

Figure 5.5: Average nominal weekly earnings indices for non-central state authorities & semi-states, Ireland 1988 – 2003.

Source: www.cso.ie, Quarterly Services Inquiry ("Employment and Earnings in Public Sector"), (last modified 08/04).
Note: Data is based on average weekly earnings except for the gardai (police) and prison officers. Social Partnership pay agreement is a two factor polynomial trend line based on pay agreements announced in Social Partnership statements in 1987, 1990, 1993, 1996, 2000, and 2003 and summarised in Hardiman 2000b,41 and Government of Ireland 2003, 66-67.

In all three areas, pay movement is relatively restrained and conforms to SP agreements until the period from the end of 1999 until the end of 2000. Until this point, the public sector is clearly strongly incorporated into the SP wage coordination process. While there is some suggestions of small pay drift in some areas (At that point, wage behaviour changes, and pay increases diverge upwards from the SP pay agreement norms. The change is very pronounced within the education and civil servants divisions, less so for security and the boards and semi-states.

After 1999 or 2000, depending on the exact sub-sector, there is a secular change in wages and pay drift appears in a dramatic fashion, with large above-the-norm pay increases in most, if not all areas of the public sector.

5.3.2.1 Civil Servants & public security

Until the late-1990s, there is the suggestion of a very small pay drift in the civil service that may be due to skill upgrades and seniority pay increments. But after 1999, and beginning in a period of industrial action, pay increases in the civil service and for police trend upwards, and appear to break with the SP agreement until the beginning of the adoption of benchmarking in 2002. Benchmarking and the public sector industrial unrest between 1999 and 2002 are described and analysed in the next chapter. This data is broadly consistent with the expectation of my argument. An exception is prison officers who appeared to be successful in obtaining over the norm pay raises since the mid-1990s. This exception to the adherence to the SP norms is

probably attributable to their unusual bargaining power – strikes would be disastrous, and their jobs are highly risky.

5.3.2.2 Education

Secondary school teachers and support staffs were among the most disciplined groups with respect to the SP pay agreements from 1987 through 1997 until the end of 2000 (see figure 5.4). A widespread and persistent industrial action by the secondary teachers union, ASTI, in the last quarter of 2000 won teachers some gains, and it appears that these gains translated to increases in the tertiary and vocational sector. Primary teachers, if anything, fared worse following the ASTI strike. Whereas before 1997, primary teachers received pay rises in percentage terms that showed a significant amount of deviation above the SP pay norms, in the period 1995-2004 they were strict adherents to SP norms.

In this regard, they swapped places with secondary teachers, who until 1997 were strict conformers, and after 1995, received significantly above-the-norm percentage pay increases. Secondary educators percentage pay increases over the period 1988-2003 were comparable to prison officers and non-commercial semi-state boards (see below), but fared worse than police, regional and local authorities, commercial semi-state (see below) and tertiary educators, who fared best in the public service. By contrast, primary school teachers fared worst in the public sector over the 1988-2004 period.

Throughout the 1988-2003 period, tertiary and vocational and IT educators received significantly above-the-norm increases, with these groups faring even better after the teacher's strike than before.

5.3.2.3 Boards, authorities & semi-states

This division experienced the change in pay behaviour observed in the other divisions (see figure 5.5). Non-commercial boards, like secondary school teachers, adhered strictly to the terms of the SP pay agreements until the middle of 2000. Until 2000, the authorities and the commercial semi-state sectors saw pay increases on a percentage basis comparable to civil servants, prison officers and police, but below tertiary and vocational educators. After the first quarter of 2000, all sectors within this division saw an upward trend in pay increases, with regional and commercial entities faring better than local authorities. Over the 1988-2004 period, all sectors in this division fared better all other sectors and divisions of the public service except for tertiary educators.

5.3.3 The non-exported (indigenous) private sector

I present data for some selected domestic industries to show evidence supporting a basic premise of my argument that movement in public sector wages flow to movements in the non-export private sector. This means that in the period until 1999 there is, as expected by my argument, a broad adherence to the SP pay guidelines in the largely non-exported industries (see figures 5.6 and 5.7). This flow also means that after 1999, the erosion of pay discipline and adherence to the norms of the SP wage deals in the public sector had a similar effect in the private non-exported sector, also as anticipated by my argument (see figure 5.7).

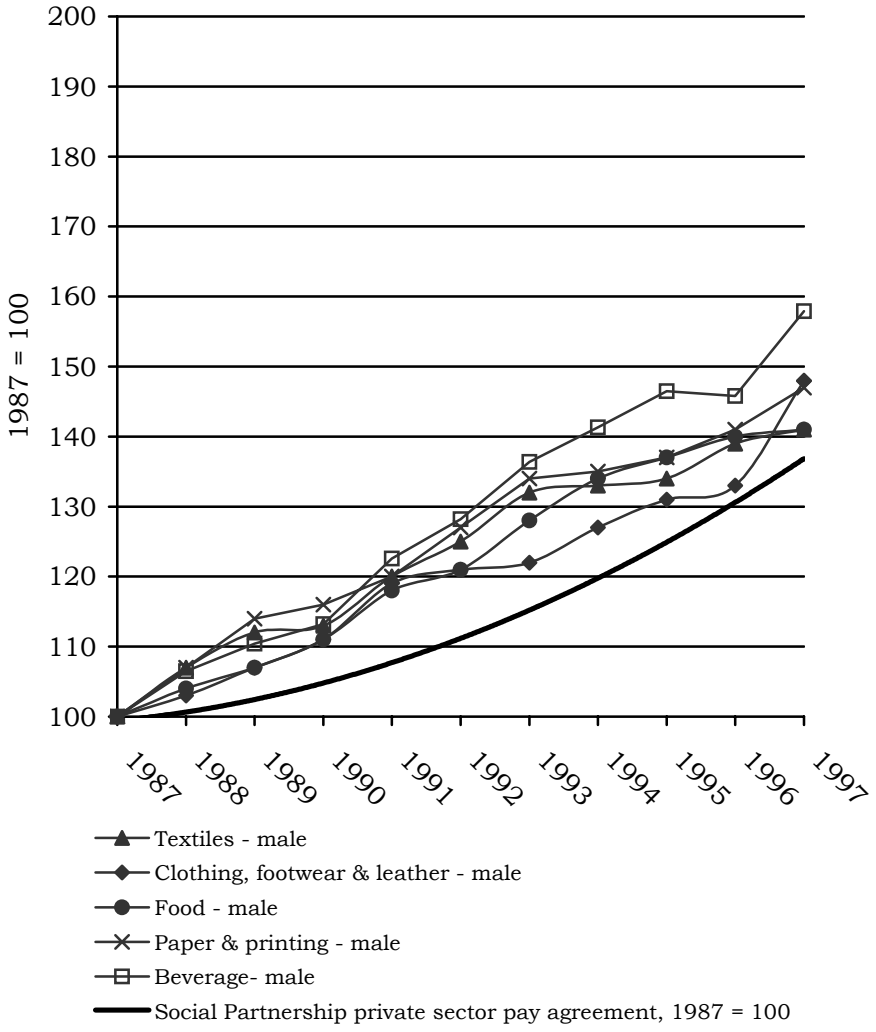

Figure 5.6: Average nominal hourly pay indices of firms of the largely non-exported sector, Ireland 1987-1997.

Sources: Derived from CSO (dates various) ('Quarterly Series, Wages & Incomes').
Notes: Sectors classified according to NACE 70. Index base, 1987 = 100. Figures calculated by averaging quarterly figures. Social Partnership pay agreement is represented by a two-factor polynomial trend line based on pay agreements announced in Social Partnership statements in Government of Ireland 1987; 1990; 1993; and 1996 and summarized in Hardiman 2000b, 41.

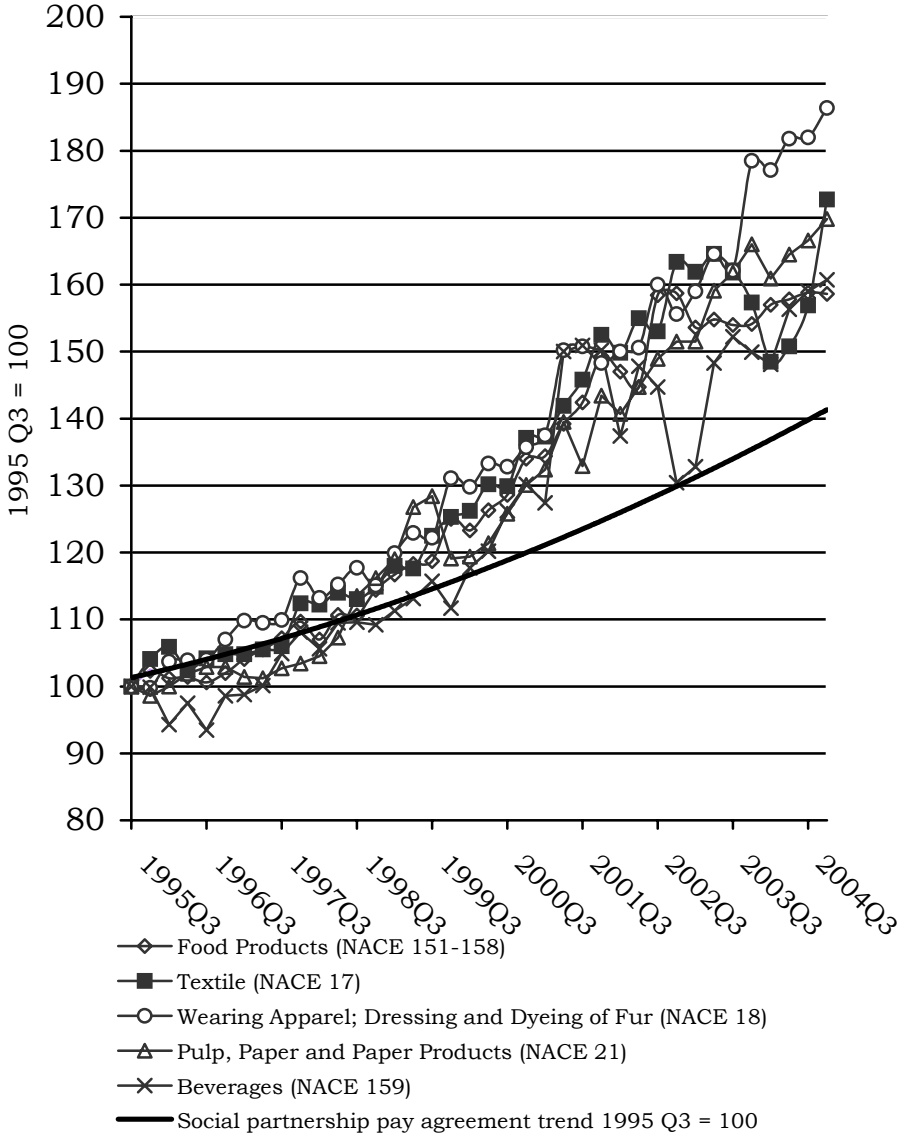

Figure 5.7: Average nominal hourly pay indices of firms in the largely non-exported sector, Ireland 1995-2004.

Source: www.cso.ie, 'Indices of Earnings and Hours Worked', last modified 03/05.
Notes: Sectors classified according to NACE Rev 1. Social Partnership private sector pay agreement trend is a two-factor polynomial trend line based on pay agreement data in Hardiman 2000b, 41, and Government of Ireland 2003, 66-67.

5.3.4 The services sector

Income data for the services sector is poor for the 1987-2004 period. With the exception of banking and finance, data for the services sector before 1998 was only collected once every four years in the Labour Costs survey. After 1998, quarterly data has been collected, inter alia, of the weekly earnings of employees working over 30 hours a week. Detailed 'hours worked' data is not collected and cannot be linked to pay movements, and therefore analysis of pay movements must use average weekly earnings data. More than any other sector, the prevalence of shift work, and changes in hours worked from week to week throughout the services means that wage data must be interpreted with extreme caution. Business services data includes commissions and bonuses and is therefore an unreliable data source for the analytic task here.

The change in wage behavior in the distributive services after 1999 is worth noting, however, and illustrates the dynamic of how public sector wage movements lead and cause wage developments in the non-exported private sector, even in the low skill industries and services.

5.3.4.1 Distribution services

Pay data prior to 1998 can be assembled, albeit in less-than-comprehensive way, through the use of the quadrennial Labour Costs Survey.[56] Notwithstanding the caveat of the affect of overtime and

[56] Use of this survey data is limited by a break in the classification method of industries and services. Beginning with the 1996 survey, service sectors are classified using NACE Rev.1. Prior to this NACE 70 was used, although 1991 results are published using both classifications. Hence, the series is only used for the 1988-1996 period for retail and wholesale trade since these classifications are largely unaffected by the changes between NACE 70 and NACE Rev.1.

penalty rates on the data, this limited time-series shows that retail, and wholesale trade pay movements through 1996 broadly conformed to SP norms (see table 5.3).

Table 5.3
Average nominal hourly pay indices for retail & wholesale trade, Ireland 1988-1996.

	1988	1991	1996
Retail trade	100	117.6	142.4
Wholesale trade	100	123.9	147.0
Social partnership pay increase index	*100*	*107.1*	*126.5*

Source: CSO, ("Labour Costs Survey," 1988, 1992, and 1996.)
Notes: Indices are for all full-time employees. Figures based on average hourly wage calculated by dividing average gross weekly wage by actual hours worked. Classifications are according to NACE 70 (1988) and reconciled to the NACE Rev 1 classifications (used in 1991 and 1996).

While the data in figure 5.8 includes commission and is therefore difficult to interpret with regard to motor trades and wholesale, retail trades pay moves well above the SP guidelines after 1999 increases. Whether this is due to an increase in hours worked due to labour shortages from 2000 is a matter that can be resolved empirically.

MANDATE, the shop workers union is a vocal opponent of social partnership and voted against the 2003 Sustaining Progress agreement at the ICTU ratification Congress in March 2003 (Harbour interview 2000). Under the PPF (2000-2003), MANDATE secured 'increases well in excess of the basic PPF terms,' (IRN 2000 (Number 48, 20/12/2000)) in the Argos and Dunnes Stores chains, two of Ireland's largest retail conglomerates. The agreement with Argos for a 19.2% pay increase for 2001 alone (roughly equal to the PPF terms over three years), stated that the company was pulling out of the PPF:

"Future increases to be subject to annual negotiations and not the PPF agreement" (IRN 2000 (No. 48, 20/12/2000)).

This kind of evidence suggests that the retail sector saw an abandoning of SP pay norms in 2000.[57]

5.4 Overview of Irish pay movements, 1987-2004.

As expected by my argument, Irish wage data shows broad conformity to the SP pay guidelines in the public and non-exported sector, while the export sector pay data shows a relatively chaotic pattern. This is consistent with my argument that the stability of centralized wage bargaining is predicated on the disciplining of public sector pay movements (a discipline that puts a brake on pay drift in the non-export private sector) and the pay flexibility afforded the export sector.

As public sector pay discipline appears to break down in the late 1990s and into the new century, as expected by my argument we see a similar trend emerge in the non-export private sector, to the extent that even in low skill service jobs such as in retail we observe sizeable pay drift after 1999. As expected by my argument, however, pay flexibility in the export sector means that a similar upward trend in pay after in 1999 is muted in the export sector. It should be noted in drawing this conclusion that the relatively high turnover (creation and demise) of firms and workplaces in the export sector in comparison to

[57] Shops opening late in the morning in Dublin in the last quarter of 2000 were a regular occurrence, with the late opening being explained by notes in windows citing labour shortages and interview periods for new staff. The author observed that *Marks and Spencers* in central Dublin closed two mornings in October and November for these reasons. Help wanted signs in shop windows were a regular occurrence, as was the use of recent migrant Eastern European labour in many smaller convenience stores.

the non-export private and public sector adds some degree of noise to the export sector wage data. Hence while the data cannot be expected to be conclusive in the absence of micro-data form individual firms, the results presented here are at the least consistent with my argument. In the next chapter, I bring additional evidence and argument to show that the stability of centralized wage bargaining in Ireland is partly predicated, as expected by my argument in chapter 1, on the pay flexibility afforded the export sector.

Figure 5.8: Average nominal weekly earnings indices for distribution services, Ireland 1998-2004.

Source: www.cso.ie, ('Earnings in Distribution and Business Services,') last modified 04/05.
Notes: Annual data is a weighted seasonal average of quarterly figures. Includes commissions, regular bonuses and overtime payments. SP pay agreement change calculated from pay agreements announced in social partnership statements in Government of Ireland 1996 and 2000 and summarized in Hardiman 2000b, 41. In constructing the index, the assumption is made that the entire pay rises under P2000 (1997-3/2000) takes place after Jan 1, 1998.

Chapter 6
Explaining the stability of Irish Social Partnership

6.1 The origins & guiding policy frame of Social Partnership

Social Partnership arose as a result of a deep and persistent fiscal crisis in Ireland. In 1986, debt stood at £22 billion and the current account had been in deficit since the late 1970s. Total employment had declined at the rate of 10 000 full-time jobs per year throughout the 1980s and unemployment had increased from 7.3% in 1980 to 17.4% in 1985. While the punt had depreciated 30% against the US dollar in the first half of the 1980s, it had appreciated 18% against the EMS and about 10% against sterling in this period causing economic competitiveness problems and job loss. CPI in the early 1980s had hit 20% per annum (NESC 1986, 10, 11, 18, 19, 25).

Deliberative policy institutions within the public sector were at the vanguard of a re-appraisal of Ireland's macro-economic policy mix. The Keynesian strategy of high public expenditure and accommodating interest rates was no longer working. The National Economic and Social Council, established in 1973, was in the mid-1980s an independent economic advisor to government comprising mostly ICTU, Confederation of Irish Industry (later IBEC), and senior government bureaucrats. Its place in the creation and development of Social Partnership cannot be underestimated. NESC was, and is, the tri-parte body of consultation, that body of "voluntary, informal and continuous" bargaining (Katzenstein 1985, 33) that is at the heart of

democratic corporatism.[58] In 1987, the Irish Minister for Finance Ray Macsharry, concluded that:

> "The NESC conclusions were far-reaching in their implications…[T]he social partners had accepted the need for tough remedial measures as part of an integrated strategy, set in a medium term context….The NESC report…boldly challenged politicians to follow the lead taken by the social partners…[I]n the short-term implementing an austerity programme would involve considerable pain and sacrifice, not least for the trade unions and their members…The compensating benefit on offer was tax reform, with the essential trade-off being pay restraint via moderate wage increases in return for tax cuts by the government to boost the real, after-tax income of workers" (MacSharry & White 2000, 125).

In its 1986 report, "A Strategy for Development 1986-1990," NESC, continued the thrust of the 1982 report ("The Way Forward") and argued for austere economic reforms in order to resurrect the Irish economy. The report argued that public sector pay restraint was crucial since it both eased the burden on the fisc, and would prevent a return to the 1970s scenario where private sector and public sector pay rises fed each other.

In a statement that sums up the aims and philosophy of the pay policy strategy of SP, the 1986 NESC report concluded that:

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[58] The ICTU and SIPTU claim that it was the 1985 ICTU document, Confronting the Jobs Crisis, which laid the foundation for the first SP agreement (Carey interview 2000; Naughton interview 2000). While that document advocated a role for NESC in coordinating tri-parte policy deliberations (3), supported wage moderation (3) and recognized a need for changes in public expenditure (15) and a cut of income taxes (16), it advocated a far more activist role for the state in "the planning of production in all sector of the economy" (2), the "democratic control by workers over the allocation and utilisation of investment" (3), and "the development of a bigger, dynamic and more varied public enterprise sector" (10). These preferences have not been part of the Social Partnership agenda. The desire for a "highly productive, export-oriented, high-wage economy" (3) has, however, been incorporated into the policy framework by NESC, albeit accompanied by a far more conservative approach to fiscal and industrial policy.

> "Improving the cost competitiveness of the internationally traded sectors is not simply a question of limiting wage and salary increases to what is sustainable. It extends to controlling the costs of goods and services bought in from the sheltered sector of the economy and also the sort of goods and services provided by the public sector. The sheltered sector are not subject to the same discipline on costs as the exposed sectors, because cost increases there can be more readily passed, onto consumers in higher prices, or to taxpayers as higher taxes. This is especially the case when it is possible to exercise monopoly power. If a situation prevails whereby excessive cost increases are passed by enterprises in the sheltered sectors to those engaged in international trade, the competitiveness of the latter is impaired. Policy in relation to the evolution of incomes in particular, and the improvement of competitiveness, must acknowledge the fact" (NESC 1986, 181).

While the social partners had already agreed on an economic policy agenda in late-1986 at NESC, the political road to Social Partnership was not as smooth. Only following Fine Gael leader Alan Dukes' September 2 1987 address to the Tallaght Chamber of Commerce where he vowed to support Fianna Fail in the Dail (and therefore stave off the need for a snap election in order to get a government with a clear majority) did Social Partnership become a possibility (MacSharry & White 2000, 75-100).

At stake was the budget and the tax cuts for wage moderation deal. The Labour Party, a potential governing partner, had rejected a Fine Gael budget that cut public expenditure and lowered taxes in January 1987. This left the door open for Fine Gael to embrace their long-time political opponents in what has become known as the Tallaght Strategy. There appeared to be no political alternative to the strategy. Union and business confederations had already signed off on the NESC report that promoted cost cutting throughout the economy

as the way forward to recovery. Fine Gael were languishing in the polls, and suffering from their previous association with the tax and spend Labour Party.

The budget, informed by an expenditure review committee that met throughout the summer of 1987, passed and cut public expenditure by £485 million for the 1988 calendar year (MacSharry & White 2000, 70, 79). The first SP agreement, the PNR, ratified by ICTU officials and employer representatives on October 9, 1987, had secured its funding.

The 1986 NESC report laid out the guiding principles of social partnership: keep labour costs as low as possible, discipline public and sheltered sector unions, decrease public spending and promote cost competition as the guiding light of economic and social policy.[59] These principles re-appear in later reports, albeit linked to the necessity for continuing a bargained wage consensus. The binding concept throughout was competitiveness.

Wage policy goals are summed in the 1990 NESC report that guided PESP (1991-1993) as being, "an evolution in income which ensures continued improvements in competitiveness" (NESC 1990, 415). This was to be achieved through a "bargained consensus." In the 1993 NESC report that guided the PCW (1994-97), wage policy is included in a chapter entitled "Competitiveness," and concludes that, "income levels must be shaped by the need to preserve and deepen competitiveness against our main trading partners" (NESC 1993, 140). The 1996 report that informed Partnership 2000 (1997-2000)

[59] Also see MacSharry & White 2000, 131 for a similar argument.

concluded that a negotiated consensus within a non-accommodating exchange rate regime would ensure labor cost competitiveness. The report allowed for an SP agreement that was operationalized at the, "level of the individual enterprise" (NESC 1996, 124) but coordinated nationally and reiterated previous reports' basic argument that centralized coordination or a bargained consensus was key to maintaining Irish competitiveness. In the 1999 report that informed PPF (2000-2003), the 1996 report is referred to as demonstrating the key link between wages, wage coordination and competitiveness (NESC 1999, 232-233) and concludes:

> "The Council's view is that the basic objectives in relation to pay determination are best met through coordinated pay bargaining…The continuation of a satisfactory pay determination system is most likely to be achieved through a negotiated consensus that includes agreement on pay, tax reform, the public finances, infrastructure, housing and policies to address social exclusion" (NESC 1999, 260).

This almost dogmatic adherence to centralized bargaining (continued in the 2003 report) amidst various discussions of exchange rate regimes and the coordination versus centralisation debate is a far cry from the initial report in 1986. In the 1986 report what was missing was a clear recommendation for a return to centralized wage deals. Instead, the NESC report states:

> "The mechanisms available to Government to directly influence private sector settlements are limited…Aside from education and a public education function…the main policy instruments available to government to influence private sector wage settlements are those which shape the background against which wage negotiations are carried out." (NESC 1986, 185)

Clearly, the original NESC intent was that incomes policy should control public sector wages, since they, "have implications for wages and salary increases in the private sector" (NESC 1986, 185). In the original PNR document in 1987, incomes policy receives very little attention. It appears in an appendix. It was only in later agreements that the pay bargain came to be central so that by 2000, the most senior civil servant in Ireland, the Secretary to the Taoiseach, stated that, "pay bargaining is the glue that holds everything together" (McCarthy interview 2000). While pay may be now the item that brings unions, employers and non-profit organizations to the table,[60] the Secretary is perhaps over stating the case when he describes it as the glue. A more likely candidate for this status is a promise of growth and more jobs, trade union access to the policy-making process or access to tax reduction in exchange for pay discipline.[61]

The promise of tax breaks and a real increase in take-home pay, coupled with the promise of economic growth and more jobs, sweetened by social welfare initiatives persuaded unions to stick to the pay deals. On the role of tax, The Minister for Finance in 1987 wrote in 2000 that:

> "Tax reform was seen as a vital part both of the Programme for National Recovery and of all the subsequent social-partnership agreements. In fact, the whole tax agenda became one of the most important features in securing trade union support for

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[60] It also guarantees NESC considerable influence over economic and social policy.

[61] In the 1986 NESC report, the findings of the Taxation Commission are presented favourably. They recommended that Ireland move over time to a single low flat rate of tax for all sources of income (NESC 1986, 245). While any political party save for some in the far-right party the Progressive Democrats has never adopted this, it clearly shows that in 1986, bureaucrats and union and employer federation leaders were serious about lowering income tax.

this and the subsequent series of agreements" (MacSharry & White 2000, 91).

Right from the start of SP, therefore, there existed two key dynamics that have ensured its continuing survival: the focus on control of public sector pay and expenditure and the use of tax cuts as an inducement for pay discipline. As Social Partnership evolved after the wage discipline success of PNR, wage bargaining centralization and later, coordination, became the third plank of pay determination policy in Ireland.

6.2 Tax cuts & public sector spending restraint

While there are other features of Social Partnership that have emerged as the partnership process has matured - the entry of the third or community sector in the 2000 agreement and the promotion of partnership in regional development and in individual firms - the pay/social and economic policy trade-off remains the core element.[62] At the heart of the trade-off is tax policy (Leddin & Walsh 1997).

Tax cuts for wage restraint as the core trade-off of SP separates Irish wage coordination from that in more coordinated economies where pay restraint for competitiveness are traded for state policies designed to ease the burden of the transition from employment to unemployment and into new jobs. In these economies, the emphasis is on active labour market policies, public sector employment, welfare transfers and entitlements as insurance against economic adjustment at the macro and micro-levels (Katzenstein 1985, 48; also see Hall &

[62] The regional development or community partnerships lauded by Sabel in a 1996 OECD report, are usually argued by most Irish commentators to be mostly cosmetic arrangements or ones where partners are co-opted into an existing process of development. See, for instance, the arguments of Kirby 2002, 40.

Soskice 2001, 50-51. Also note Esping-Andersen's (1983, chapter 2) distinction between liberal, and corporatist and social-democratic welfare states).

There is no expansion of a re-distributive welfare state during the Social Partnership period. The Irish welfare state remains resolutely liberal and policy has protected the operation of the market economy. Tax cuts and public sector spending restraint has been the guiding frame of policy makers from all parties but Sinn Fein from 1987. The policy emphasis has been on improving the take-home pay of employees. With the exception of the usual expenditure on health, education and unemployment transfers, the most significant element of the welfare state is the use of extensive employment subsidies to clients of the IDA: corporate welfare. Irish spending on training is comparatively low but there were signs in 2000 and 2001 of a growing awareness of the importance of training in order to aid workers laid off from ailing industries and to help their transition into new ones (Carey interview 2000; Rigney interview 2000).

A 1982 Commission has in general, guided tax policy on Taxation report (NESC 1999, 202). The framework of the achievement of a single flat rate of income tax achieved by slowing flattening out and simplifying the number of marginal rate bands, an end policy regarded as the preserve of the libertarian right in the US, has been advocated by NESC since 1986 (NESC 1986, 251-254; NESC 1990, 157-186; NESC 1993, 229-231; NESC 1999, 202ff).

Changes to tax codes have tended to favour high and average over low-income earners (Hardiman 2000c). As such, tax cuts tend to

slightly favor public sector workers, who on average are both more highly skilled and more highly paid than private sector workers (Boyle et al 2001, 58-64). The average tax, including social insurance levies and contributions, paid on the entire gross income of the average income of single production workers decreased between 1987 and 1998 from 35.5% to 24.6%. The marginal rate decreased from 55.75% to 52.75%. For those singles on twice the mean production worker's pay, the average tax fell from 48.8% to 38.6% with the marginal rate decreasing from 59% to 48.25%. Those on half the mean saw their average tax rate fall from 22% to 12.8% and the marginal rate decreased from 42.75% to 28.5%. Married people have fared better, as to be expected from a country where divorce is extremely difficult to obtain, and the right of women to work in the home is guaranteed in the constitution. The average tax, including social insurance levies and contributions, of the average income of a married production worker decreased from 25.5% to 17.8% between 1987 and 1998. Married production workers with twice the average income saw tax decrease from 36.3% to 26.4%, while those on half the average saw tax cut from an average of 7.75% to 2.8% (Hardiman 2000c, 42).

The striking aspect of these tax cuts is the degree to which they favour decreasing the marginal tax rate of those at or above the average income, compared to providing more complete tax relief for the working poor. The second striking feature is how they compare with the 1970-1987 period. In this period, the average incidence of tax rose for singles and for married persons at or above the average production worker income. Single average earners saw average tax rise from 20%

to 35.5%, single twice average earners saw average tax rise from 23.1% to 48.8%. Those on half the average income saw tax increase from an average of 8.6% to 2.8%. For married persons, the trends for average and twice average incomes are similar (average, 11.1% to 17.8%, twice average 19.8% to 36.3%), but the tax on half average income for married persons decreased from an average of 8.6% to 7.75% (Hardiman 2000c).

Tax cuts under Social Partnership maintained the gross income dispersion status quo. This has been achieved though re-adjustment of the income thresholds for each marginal rate, and through the rollback of the progressivism of the band structure. In 1987, three standard rates applied: 35, 48 and 58%. By 2002, this was down to two: 20 and 42% (Hardiman 2000c, table 7). These changes decreased pressure on higher income workers to seek larger pay rises in order to maintain relativities with lower income workers; especially those affected by the minimum increase provisions of the SP agreements. Tax cuts also eased pressure on average income and above income workers from seeking ever higher pay rises in order to offset tax increases. Reductions in tax rates were responsible for around 1/3rd of the real increase in take-home pay between 1987 and 1997 (Leddins & Walsh 1997). Between 1980 and 1987, nominal manufacturing earnings increased by 101% but real income decreased by over 7% due to tax increases and inflation (NESC 1999, 236). Between 1987 and 1999, real take home pay for the average non-married earner in manufacturing increased by an average of 2.6% per year for single

people, and by 2.4% for the average married earner (Department of Finance figures in NESC 1999, 237).

Despite the easing of the tax burden on the working middle-class, by OECD standards taxation on income earners remains high, leading the OECD to conclude in 1997 that, "Ireland is marked by very high marginal rates at the low-income levels" (OECD 1997, quoted in Tansey 1998, 187; also see NESC 1990, 157-160;). This has provided a further political motivation for deepening the tax cut process with each successive agreement. This has placed the ICTU in a political catch 22 situation. In the 1985 document *Confronting the Job Crisis* which signalled an intent that the union movement would be willing to become willing partners in a social partnership aimed at generating jobs, the need to reduce the PAYE burden was discussed as the number one taxation priority (ICTU 1985, 16). But by 2004, the ICTU was on the defensive over the role of taxation reform in generating jobs, simultaneously arguing that job creation preceded tax reform and that the government had not done enough to lift the PAYE burden on the low paid (Sweeney 2004, 7-12). The ICTU is and was in the difficult position of arguing that tax cuts are not vital for jobs (and that corporate taxes are too low) but taxes should be cut for lower income earners for equity reasons. While seeking a more equitable tax system, the ICTU is effectively advocating a position that the tax-cut-creates-jobs supporters in the government, NESC and employer bodies can readily agree. This has led to a simple and less progressive tax system. The ICTU (and SIPTU) preference for tax cuts and employment creation has meant that tax cuts rather than compensatory policies have been

favored in Ireland as the bait or side payment for pay discipline. This has resulted in a continuing rumble in some unions about the lack of concrete policies designed to alleviate poverty (Harbour interview 2000; Kane interview 2000).[63]

6.3 Controlling the public sector

To remind the reader of the three reinforcing elements of Irish wage centralization stability summarized in the first chapter: public sector employment and centralized wage control, export sector wage flexibility and localized bargaining, and the erosion or minimization of relativities-driven bargaining. In sections 6.3.1, 6.3.2 and 6.3.3, I examine the operation of the first and third of these: the control over public sector employment and wage growth, and the erosion of relativities-driven bargaining (in the public sector).

There are two public sector imperatives if Social Partnership is to work and re-produce itself successfully: the control and minimization of public sector wage and employment growth. Control is necessary to bringing predictability to the wage movement of the sector, while minimization is necessary to avoid bidding up wages in the private sector.

Employment expansion has the effect of increasing private sector competition for labor and bids up the cost of labor in the private sector (the Alesina thesis); especially if the public sector pay rate is higher than the private sector, as they were in Ireland in the 1990s. Controlling public sector pay increases is important in order to bring

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[63] See Allen 2000, chapter 2, for a more strident argument that social partnership has done nothing for the poor.

certainty to the expectations game, so that non public sector wage setters moving first will know what pay claims will be struck in the public sector. This modifies claims. Of equal importance is that public sector wage restraint eases pay jealousies and relativities claims in the private sector. Ireland has an established practice of using relativities to guide wage claims throughout the economy in the public sector. While there are elements of this in any OECD economy, it is especially pronounced in Ireland, making public sector pay restraint doubly important if wages are to be controlled across the economy.

6.3.1 Expenditure & employment

The flip side of the decrease in income taxes (and low corporate tax rates which are discussed below) is the control of public expenditure and on increases in public employment. By 2000, Ireland had a comparatively small government enabled by reductions in state spending and on public employment.

Between 1989 and 2000, total outlays (excluding the consumption of fixed capital) of the Irish government fell from 40.5% to 29.3% of GDP, well below the 2000 EU15 average of 44.1% or the euro zone average of 44.1%. The final consumption expenditure of the Irish government as a percentage of GDP fell from 16 to 13.4% of GDP. Social security transfers fell from 14.2% to 8.2% of GDP in the same period (OECD 2000, tables 6.2, 6.3, 6.4, 6.5,).

This was not a retrenchment in the size of the government, but a fall in the expenditure relative to the size of the economy. In absolute terms, after a three year period when real spending fell between 1987 and 1990, spending in real terms increased, doing so most rapidly

after the mid 1990s when the economic boom began (ESRI data reported in Hardiman 2004, figure 14). But the fall in the relative spend of the government was achieved by falling government transfers, and a rapidly growing economy offset by only a slowly declining GDP share of government receipts. In 1989 receipts equalled 38.2% of GDP. By 2000 the share was down to 33.9% (OECD 2000, table 6.6).

In 1987, the openness measure of the Irish economy (defined as the sum of exports and imports as a percentage of GDP) was 117.1% of GDP; in 2000, it was 175.6% of GDP. After 1987, as the Irish economy has become more open, public expenditure declined as a percentage of GDP, contra the findings of Adsera & Boix (2002) and arguments advanced by Katzenstein (1985) that public expenditure increases with the openness of an economy.

The holding of the line in government expenditure is reflected in the comparative decline in public sector employment. Figure 6.1 shows that between 1989, public sector employment, including the health sector as a share of the overall labor force, declined a couple of percentage points between 1989 and 2004 (increasing in absolute terms from 268 700 to 345 000). This was despite an increase in the number of employees in the government health sector from 38 300 to 98 700 in the same period. The non-health government sector increased just under 35 000 in the same period from 211 400 to 246 300. Private sector services by way of comparison increased from 618 000 to 1.21 million between 1989 and 2004.

Most of the increase of employment in the non-health public sector came from education, with around 30 000 extra teachers being

employed between 1988 and 2003 (see figure 4.11). Civil service employment remained steady at around 30 000 from 1988 until 1997, before an increase of around 8000 between 1997 and 2003. As expected, and due to privatization, semi-states lost around 40 000 jobs between 1988 and 2003 (see figure 4.11). Defense also saw cutbacks in personnel.

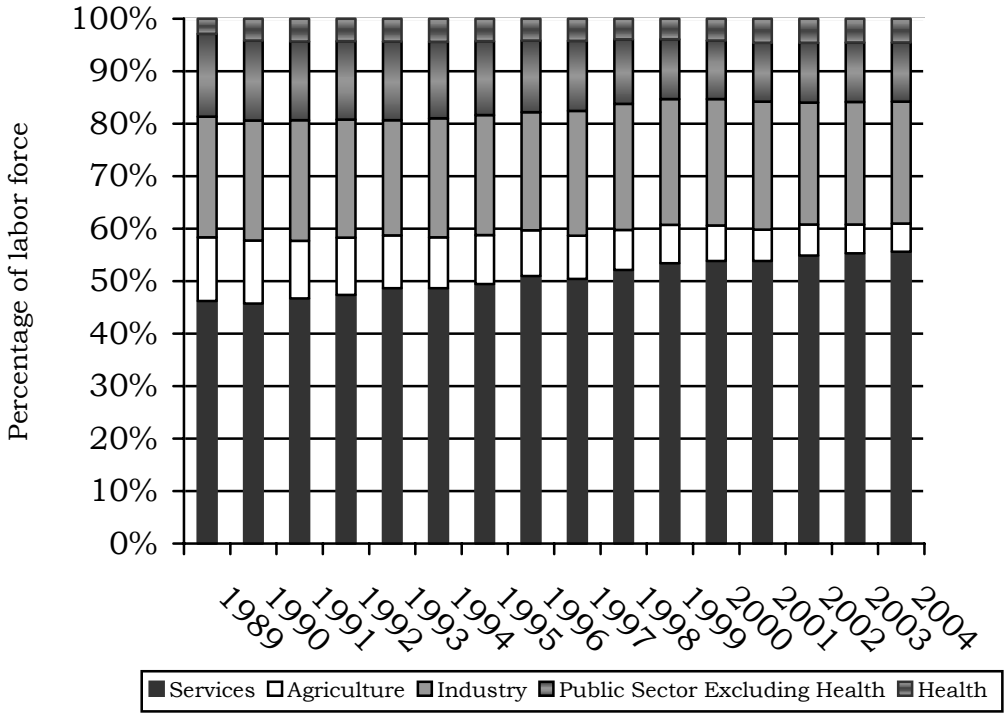

Figure 6.1: Share of labor force by broad economic sector, Ireland 1989-2004

Source: derived from annual Labour Force surveys, 1988-1997, and the Quarterly Household Survey 1998-2004 (www.cso.ie).

In absolute terms, in the decade from 1988 to 1998 public employment growth was minimal when health employees are excluded (table 6.1), while growth after 1998 was fuelled by expanding

employment in health and education. The relative expansion in public employment after 1998 coincided with the rapid rise in public sector pay observed above in chapter 5.

It can be concluded from this data that the effect of the trends in public sector employment was to reduce the competition from the public sector for labor. Once the health sector is excluded, public sector employment grew by just 2.3% or 26 800 jobs between 1988 and 2003, while private sector employment grew 70% or around 749 000 jobs.[64] The absence of competition from the public sector for labor and the pay discipline imposed on the public sector were reinforcing policy strategies that were vital in limiting private sector wage claims and eroding the relativities-driven expectations game in the 1990s.

Table 6.1
Public sector employment, Ireland 1988-2003

	1988	1998	2003	% increase 1988-98	% increase 1998-03
Public sector	270 300	289 700	338 300	7.1	16.8
Public sector less health	215 000	220 000	241 800	2.3	9.9
Public sector less semi-state	196 900	226 000	280 600	14.8	24.2
Health	55 300	69 700	96 500	26.0	38.5
Education	54 400	69 200	86 700	25.1	25.2
Civil service	31 600	32 200	37 400	1.9	18.4

Source: www.cso.ie, last modified .4/05.

[64] Derived from CSO data, www.cso.ie, 'Labour Force Survey' (1988-1997), 'Quarterly Household Survey' (1998-2004.) last modified 08/04. This data also shows that service employment doubled between 1989 and 2004 from around 610 000 to around 1.21 million, while industrial employment increased from just under 310 000 to just under 510 000. At the same time agrarian employment dropped from around 160 000 to around 117 000.

6.3.2 Pay

This section examines the institutions that set pay in the public sector since the 1950s and their effects on pay increases during SP, the difficulties (and successes) that SP encountered with altering the relativities-based system for making pay claims in the public sector and the recent changes brought by introduction of the benchmarking process during the PPF (2000-2003) in response to persistent relativities problems.

6.3.2.1 Institutional features & their effects on pay

Unions organizing the public sector tend to have just public sector members. While SIPTU has many public sector members, the unwritten rule enforced by the Department of Finance when recognizing trade unions is that unions be specific to not only the public sector but to the specific group they are organizing. Craft unionism dominates, but there are some exceptions in health and in local authorities (McGinley 1997, 246).

The public sector procedures for resolving pay disputes are emblematic of the voluntarist nature of Irish industrial relations. With rare exceptions (where discrimination law is involved or parties agree to be bound), decisions made at all levels, including the Labour Court, are not legally enforceable.

Arbitration Boards and Conciliation Councils were introduced permanently in 1955 for the civil service, teachers in 1954 and 55, police in 1962, and for local authorities in 1963. Direct control by the government over negotiations before these boards varies. Civil service claims are most tightly monitored with the Department of Finance

taking a direct role in negotiations. In negotiations with teachers, police and defense, Finance works with the relevant department officials. In the semi-state authorities, influence is more diffused and comes through informal channels and personal contacts (McGinley 1997, 239-240; Scanlan interview 2000). Agreements made in conciliation and in arbitration are not legally enforceable, but non-compliance of arbitration findings is "extremely rare" (McGinley 1997, 246). Appeals are made to an Arbitration Board unlike in the private sector where appeals go directly to the Labour Court.

In the commercial semi-states, conciliation appeals go directly to the Labour Court, as in the private sector with the exception of three bodies, An Post (postal), Telecom Eirann (telecommunications) and the Electricity Supply Board (ESB). An Post and Eirann still use the public arbitration boards, while the ESB has its own Joint Industrial Council (McGinley 1997, 250).

Six groups, industrial civil servants, education support staff, health, voluntary hospitals, health boards, local authorities so-called 'servants' (cleaners, road workers etc) and non-commercial semi-states are covered by a myriad of conciliation arrangements, each ultimately with the Labour Court as institution of last resort.

During the 1987-2002 period, before benchmarking (discussed below), the pay discipline of various areas of the public sector seems to wane the further from the Department of Finance's control negotiations take place (see figures 5.3, 5.4 and 5.5; also observed by Department of Finance and IMPACT union officials: Scanlan 2000; Harbour interview 2000), and the higher the average skill level of the

area. While a recent consultant's report for the Departments of Finance and the Taoiseach has characterized Ireland's public sector as fairly centralized in comparison to the UK (Fitzpatrick & Associates 1999), the examination of the pattern of wage determination institutions outlined above supports the notion that some areas, such as the civil service, are closely controlled from the centre while others, such as health and the utilities, are not. The myriad of schemes also explains the differing pay outcomes within the public sector as a whole.

The Finance control thesis does not always appear to be in effect, but it certainly helps explain the discipline of administrative and civil servants as against the local and regional authorities between 1987 and 2002 for instance. There are outliers, such as the non-commercial semi-state authorities, but looking at 1987-2004 data presented in chapter 5, the influence of the Department of Finance appears strong and responsible for the relative discipline of industrial and civil servants until benchmarking in 2002 (see figure 5.3). Security personnel pay, being less directly influenced by the Department of Finance, is less disciplined until benchmarking, as are tertiary, vocational and IT training educators.

There also appears to be a skill effect on public sector pay determination between 1988 and 2004, with police and tertiary educators being the beneficiaries of significant pay drift before 2000 suggesting that market forces were even more influential in these areas. The skill effect is most dramatic in the utilities, where the workforce has a high proportion of skilled tradespeople. This sector

saw some of the highest pay drift during the SP era, and it is evident in both the pre- boom and boom eras. The April 2001 deal in the state-owned electricity utility, ESB, is typical, where unions gained a 21% pay rise on top of the PPF agreement in exchange with an agreement to re-structure the 7500 employee workforce. The agreement amounted to just under a 40% wage rise during the PPF, and was largely secured due to a threat of industrial action from network technicians at power stations (EIRO 2001b).

Table 6.2
Private and public sector pay indices, Ireland 1987-1996

	Public Sector, excluding health*	Private industry Clerical employees	Private industry Industrial employees
1987	100	100	100
1991	125.4	120.8	118.1
1996	162.2	149.2	139.6

Source: Tansey 1987, 172.
Notes: Public sector data includes overtime

The report card on wage discipline in the public sector between 1987 and 1998 appears to be a good one on the whole, and certainly compares favourably with the late 1970s and early 1980s (see below). When aggregated, it appears public sector wages rose higher than private sector wages in the 1987-1997 period (see table 6,2) and data like this has led many commentators to deplore the lack of public sector wage restraint (for instance, Tansey 1997). But as was demonstrated in chapter 5, many areas of the public sector were strong conformers to SP pay norms, especially the civil service. Weaker

conformers tended to be have special and comparatively rare skills (tertiary and vocational education, security) or to work in areas where wage setting was conducted away from the immediate influence of the Department of Finance (commercial semi-states, local and regional bodies). Inflation averaged 2.7% between 1987 and 1996 and helped to moderate wage claims (data in Tansey 1997, 155). Obviously significant were the already discussed increases in real-take home income from tax cuts. All in all, for the first decade, wages were successfully coordinated and their growth controlled in the public sector.

6.3.2.2 Relativities

In the late 1990s, industrial action from public sector professionals (nurses, secondary teachers) exposed the tension between the centralized agreements and the institutional mechanisms used to implement the agreements in the public sector. That system relied on a relativities system used since the Priestly Commission in the 1950s. In the late 1990s concerns surfaced from NESC and the Department of Finance about the system and pay rises in the civil service and local and regional authorities. The emergence of public sector wage creep in the late 1990s exposed the key weakness of the system and demonstrated the point at which the system could fall apart. The key weakness of the system was that it relies on an asymmetric distribution of responsibility for generating and maintaining wage restraint. The public sector shoulders much of that burden. The strains on the system reflect that burden and the problems associated with the design of the Irish centralized system.

The policy response has been to re-cast the institutional mechanism by which public sector pay is set in a new system called benchmarking. The purpose of this recasting was to eradicate the old relativities system that had been muted for the decade after 1987 thanks to the centralized agreements, but had reappeared with the economic boom in the late 1990s.

In 1997, nurses won a 14.5% pay rise, twice the P2000 recommended limit. This would have been an isolated incidence of wage creep, if it had not been for the system of internal relativities operating in the public sector.[65] The Department of Finance feared knock-on effects, and the next three years would prove them right (Scanlan interview 2000).[66] The pay rise for nurses had the effect of opening opportunities for dozens of relativities-based claims, not the least of which was the relativities that existed between nurses and clerical staff within the administrative civil service (Merrigan interview 2000).

Following the successful 1997 claim was another nurse's industrial action. This was more serious than the first and brought

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[65] While little quantitative data is available on health pay data (it still is not collected by the CSO), anecdotal evidence suggests that health pay is very important in the public sector. Health pay is determined by separate conciliation procedures with appeals to the Labour Court and is critical in its ability to influence the setting of public sector pay both inside the civil service and in the non-central authorities and boards. The reason for this lies in the system of internal relativities and external pay matching that was used in the public sector between the mid-1950s and 2002. The British Priestly Commission in the mid-1950s instituted a system in the Irish public sector whereby key grades within the public service were compared to comparable jobs in the private sector. These then acted as relativities anchors for other grades and occupations.

[66] Within the health sector, physiotherapist's pay is determined relative to nurses' pay, while prison officers and police pay is determined through relativities with physiotherapists (Scanlan interview 2000). Fire fighters pay is determined though relativities with police.

into question the basis of public sector pay determination. The nine days national strike of some 27 000 nurses in October 1999 brought two issues to the fore: the professions to which the nurses should be compared (called the analogue comparison), and the overall pay increase required to achieve pay justice. It was in every respect a 'catch-up' claim.

The problem of increasing wage expectations resulting from the nurses win was realized by a series of ongoing one-day strikes by the Association of Secondary Teachers (ASTI) in late 2000 and 2001.[67] The beginning of ASTI's industrial campaign coincided with strikes and the threat of strikes to win pay gains at various occupational levels at Aer Lingus (50% state-owned), among DART rail drivers in Dublin, at Tara Mines, and the Eastern Regional Health Authority, and occurred a few months after ratification of the PPF (2000-2003) (EIRO 2000c).[68] The teacher's campaign also started as the PPF was being renegotiated in

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[67] This followed ASTI pulling out of the ICTU early in 2000. ASTI left the ICTU for two reasons: the ICTU's decision to agree to 3% pay rises to early settlers under PCW; and being told in early 2000 by the Department of Finance that a 6% rise was all they could expect. Compared to the nurses late-1999 win of 25%, this was perceived as unacceptable.

[68] What is curious about the attitude of public sector unions in the period 1999-2001 was that despite their opinions to the contrary, public sector employees still earned 13% more than private sector manufacturing and industrial employees when age, gender, hours, education, seniority and broad occupational categories were controlled for (Boyle et al 2001, 58-61). What is more, this premium increased from 10% in 1997, and was near identical the wage differential observed in 1994. The relative compression of public sector earnings meant that the wage premium was greater for those at the bottom decile (17% in 2001) the median (12%) or than the top decile (9%) (Boyle et al 2001, 64).

Such findings are contra to the mood and attitudes of union officials at the time. The perception of union officials interviewed in late 2000 (when the public sector wage premium was 10.8%) was that during the boom after 1997, public sector pay had fallen behind (Harbour interview 2000; Naughton interview 2000; Merrigan interview 2000; Kane interview 2000). This was evidently not the case, and further indicates the power of expectations and inaccurate and/or incomplete information in determining the patterns of wage settlements in a staggered round system.

the context of planning for the 2001 budget, and amidst evidence that many parts of the economy were subject to high wage drift. IBEC leaders spoke of "heavy-handed tactics" by unions to secure above-the-norm increases, and warned of the possible end to the SP process: "Sectionalism reappeared as groups fought to get themselves up the ladder and improve their lot in relative terms (Frawley 2000b)."[69]

The ASTI industrial action was long and relatively bitter, but the government held its ground insisting ASTI abide by the benchmarking process. Finally, in March 2002, the ASTI campaign fizzled out rather than ended when it became clear that the government was not going to negotiate over the 30%. ASTI re-joined the benchmarking process.[70]

The benchmarking process advocated in the PPF (2000-2003) came as a result of concerns of rising public sector wage militancy, poor public sector productivity and the rising problem of wage push inflation that surfaced during the latter stages of the PCW and continued during P2000 (1997-2000). A major impetus for the process came from a September 1999 report from Fitzpatrick & Associates, a Dublin-based economic consultancy.[71] The affect of the report was

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[69] The teacher's strike was reasonably substantial, and consisted of various one-day strikes, bans on supervision during non-class hours and threats designed to disrupt public examinations. 80% of the strike days for the first quarter of 2001 were accounted for by ASTI action (Cassidy 2002). Unhappy with the 18% increase provision from the PPF, teachers sought a catch-up from a 30% pay-rise.

[70] The backdrop of Irish prosperity and the references to catch-up especially early in the campaign, suggested that the 30% claim was always about relativities with the private sector and other groups in the public sector who had cashed in the context of an economic boom.

[71] Responding to a Minister of Finance brief with its origins in 1998 moves from the Office of the Taoiseach to link public sector pay more closely to performance and minimise the use of the automatic annual pay increment (NESC 1999, 249), most of the report is devoted to discussions of the decentralization of public sector pay determination, and the use of performance pay. There was a special focus on poor public sector productivity (Fitzpatrick & Associates 1999, 63ff).

provisions in the PPF agreement in 2000 where unions and the government agreed to a Public Service Benchmarking Body (PSBB).

The primary purpose of the PSBB is to re-cast the relativities system used for over 40 years since the Priestly Commission. Jobs in the civil service, health and semi-state agencies sector are linked to comparable jobs in the average firm in the private sector. Internal relativities are scrapped. Benchmarking differs from the pre-SP system in two major ways. First, it stops the coordination of wages in the public sector being set through reference to a few select private sector occupations, and; second, it stops the public sector pay being linked to pay leaders in the private sector. Instead, matched occupations are pay benchmarked to average profit firms. An independent body reporting every three or four years oversees benchmarking.[72]

Benchmarking attempts to address the problem of pre-emptive claims by groups in the public sector that are enabled by the myriad pay setting schemes and institutional mechanisms (NESC 1999, 251). It is therefore a very important development in the Irish centralized wage system. Where the early years of SP imposed wage discipline on the public sector in order to stop relativities-driven wage claims bouncing back and forth between highly profitable export firms and

[72] The first Benchmarking body established the method of pay determination. Independent consultants would evaluate each public sector job using set criteria (PSBB 2002, 30-33). A representative survey of a sample of firms in the private sector would follow, where similar data on the range of jobs within each firm, and their respective remuneration would be gathered. Jobs from the public sector would be matched with jobs from the private sector, and comparable public sector remunerations calculated from that matching process. The quid pro quo for public sector employees would be, among other measures designed to enhance productivity, the introduction of performance criteria to determine the granting of what were seniority-based salary increments.

the public sector causing rising unemployment and inflation, benchmarking is an attempt to re-cast those relativities and in doing so, create an institutional brake on public sector wage rises that eases the pressure on the central agreements to generate wage restraint in the public sector.

While the SP wage agreements tempered the relativities-driven old wage setting behaviours in the public service, they were not eradicated, as the teachers and nurses strikes made plain. Before benchmarking, the diversity of pay settlement mechanisms meant that groups who settled early in the bargaining round had more likelihood of securing their desired gains than later groups when it became clear what the total of pay rises would cost the government. But there were also plenty of instances of early bargainers receiving comparatively low wage rises after late bargainers responded to higher than expected inflation, and 'cashed in' with higher wage wins. The staggering of claims provoked a guessing game, where groups bid up claims early in the round on the full expectation that others would do so, and because of uncertainty over what later bidding groups would ask for. Expectations drove the bargaining process and led to a self-feeding game of wage leapfrog (Kane interview 2000; Scanlan interview 2000; Merrigan interview 2000; Harbour interview 2000).

This game affected wage outcomes in the private sector, especially among higher skill employees, who had to guess what pay claims in the public sector would look like, and therefore match those guesses with their claims in order to maintain their relativity. Employers were happy to pay these claims, because, they too were interested in

maintaining relativities with higher skill workers in the public sector in order to secure their workforce, and in order to signal those entering the workforce that theirs was a better paying career than the public sector.

But the early performance of the PSBB has not led to wage restraint in the publics sector. Benchmarking, far from re-calibrating public sector relativities and slowing down wage increases has in fact accelerated them. Public sector pay restraint and adherence to the terms of the Social Partnership agreements appears to have come to an end.[73]

Two factors have been responsible for the era of public sector pay restraint coming to an end. First, economic prosperity and a rapidly tightening labor market have altered pre-1999 public sector expectations about private sector wages.[74] Before 1999, the SP

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[73] Union attitudes towards benchmarking have suggested that it is and was regarded in some quarters as just another pay claim (Kane interview 2000; Scanlan interview 2000). In many respects this is and was probably the case, and ICTU and member union support for the process has been secured by the large pay increases that the process has generated. While some of these have been as a result of the re-calibrating of public sector jobs, it is difficult to see how the pay increases in 2004 in the civil service where pay increased at twice the rate of financial and industrial clerical employees in 2004, can be regarded as anything but an ending of public sector pay restraint. This led to calls from the General Secretary of the Irish Bank Officials Association for the government to 'overhaul' the government and trade union strategy on national wage agreements (McCaffrey 2005).

[74] The problems of tightening labour markets are reflected in the first report of the PSBB in June 2002 that led to large wage gains for civil servants in 2004. The report was based on data collected in June 2001. Surprisingly, no analysis or mention of public sector wage premiums appears in the report. Indeed, the report gives little indication of the methodology used to support the eventual findings beyond the brief description of the job matching methodology described above. As Ruane & Lyons (2001, 9) conclude:

> "It [the report] represents comparisons at a point in time, and at that point…represented a unique period (full employment) in the past 50 years. Thus it compared public and private sector earnings at a most atypical period, and one can only hazard a guess that the relativities taken at the end of 2002 would have been somewhat different."

agreements in the context of a slack labor market meant that public sector unions could decide to hold the line on pay claims, knowing that given slack labor market conditions, highly productive, exporting firms would not have to bid up the price of labour in order to secure their workforce. In fact, by being disciplined themselves, in exchange for tax cuts and increases in real take home pay enabled by those tax cuts, public sector unions could be a primary shaper of the going rate in the exporting sector.

Second, there is widespread doubt about the ability of government to entice unions to the SP bargaining table through the promise of further tax cuts (Scanlan interview 2000; Kane interview 2000, McCarthy interview 2000; also see Hardiman 2000). The *Sustaining Progress* agreement (2003-2005) is sanguine about income tax changes, prefacing the policy strategy, "to the extent that there is any scope for personal tax reductions progress will continue to be made" (Government of Ireland 2003, 39).

6.3.3 The curse of prosperity

Both SIPTU and IMPACT have been, for the most part, enthusiastic supporters of the SP process (Scanlan interview 2000; Kane interview 2000; McCarthy interview 2000; Merrigan interview 2000; Harbour interview 2000). But some union officials in interview have also, for the most part, been wary to declare that bargaining behavior has drastically changed (Harbour interview 2000; Kane

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The government has since indicated that the PSBB will report again in 2007 (Dooley 2004), but it would appear that the process is cumbersome and will almost certainly lead to industrial relations problems should the next report find that certain public sector jobs will have to take a pay cut.

interview 2000). This perhaps reflects that SP never completely destroyed the old relativities system and benchmarking is another relativities system, albeit a less coordinated one.

Unions remain in the SP process, it has been argued, in order to gain access to the policy-making process (Spring interview 2000; McCarthy interview 2000). But the pay data suggests that behavior has changed. Until the start of the economic boom in about 1997 or 1998, public sector pay, with the exception of the very highly or highly differentiated and specific skilled (tertiary educators, police, utilities) was affected by the central agreements. This was achieved through side payments (tax cuts, entry into the policy process) promised in a series of roughly three-year agreements that secured union adherence (for the most part) to the deals in exchange for future government policy quid pro quo.

The key to the tax cuts has been their neutral progressive income distributive outcomes. In fact, the middle classes have benefited more than the working poor (Hardiman 2000). Wage dispersion in Ireland during SP has increased. Based on ESRI data, between 1987 and 1994 the 90/10 ratio for male full-time workers has increased from 3.67 to 4.06. On OECD 90/10 data, this makes Ireland the least equal country, as far as income is concerned, in Western Europe and comparable only to the US and Canada (Barrett et al 1999, table 2 & 3). Evidence suggests that this has been as a result of increasing returns to education (Barrett et al 1999, 90-93); returns unaltered by social policies or solidarity wage deals aimed at income re-distribution.

But the limits to the process have become clear after 2000. Taxes can only be cut so much, and the labour market has tightened. Pay envy has subsequently re-appeared, especially in the public service. It would appear that the PSBB, designed to thwart the process by which jealousies can be translated easily into spiralling wage claims, has made a mistake in its new method of comparing public sector with private sector jobs. In the context of a boom economy, benchmarking has, in fact, accelerated the wage increases in the public sector, and created a new set of expectations that may be difficult to break should the economy hit hard times.

Whether any kind of arrangement could be made which could stop the erosion of public sector pay discipline in a country with voluntarist industrial relations institutions and traditions is debatable. Indeed, the recent emergence of a legislated minimum wage (introduced in April 2000), coupled with a growing emphasis on legally enforceable individual employment rights in Ireland has been used to argue that Ireland is moving away from a voluntarist collective bargaining industrial relations system to one where rights and obligations accrue to the individual are defined and are enforceable under the law (EIRO 2005). This may be a response to the ever-decreasing union density in the private sector, which in 2005 has by some lower estimates hit 20% (11% in MNCs) (Begg 2002). But the very high density in the public sector (85%) suggests that the increase in legislated labour law and the growing entry of the law into dispute settlement may be in response to the erosion of predictable behavior in the pay setting arena.

This dissertation has argued that this pay predictability was predicated on public sector pay discipline and the control of growth of public sector employment. The SP regime, however, may have exhausted itself unless new side payments can be found to quell public sector union discontent; side payments that must also not ignite pay envy or distribution battles in the non-union parts of the economy, which is increasingly becoming to mean the private sector.

6.4 Holding the line? Sheltered industrial, indigenous traded & local service pay

From 1973 to 1987, indigenous manufacturing firms saw job losses of around 35 000 jobs, while MNCs saw the growth of a little less than 10 000 jobs.[75] No doubt unions learnt from this previous experience, and were more favourable to pay restraint during SP.[76] But as for the public sector, the grease of the wheels for non-export sector unions and workers with respect to the pay agreements was taxation reform, and similar arguments that pertain to the public sector about the success and limits of that strategy apply here.

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[75] This trend can be explained as a result of a phenomena normally seen in developing resource rich countries such as Jamaica or Chile, where pay in the highly profitable export parts of the economy forms the basis of wage claims in the unionized and less productive and profitable parts of the economy. In the 1970s there is good evidence to suggest that this was the case (Hardiman 1988, 89; also see Barry, Bradley & O'Malley 1999).

[76] The indigenous traded sectors have clear incentives to maintain pay discipline in order to remain competitive. Indigenous firms in Ireland are smaller, less profitable, are less capital intensive, employ lower skill workers, and spend less on R & D than their MNC counterparts (Barry, Bradley & O'Malley 1999). They are vulnerable to price-based competition from imports and therefore have incentives to control labour costs. Where there is some wage drift in these sectors, it can be attributed to the influence of wage increases in high productivity foreign-owned firms. These increases influence relativities-based claims and the going price necessary to recruit and retain labor in the indigenous industries and local services.

Examining data introduced in chapter 5, pay discipline within the indigenous non-export and local services has generally had, if anything, a slightly better record than the public sector, until the boom begins after 1997. The exceptions are construction (not reported) and beverages. Firms in these two high paying industries are highly unionized and are price setters. In beverage, the Irish market is extremely protected and regulated, and exporters mainly making concentrate for intra-firm distribution or dealing in well-established brands (whiskey, beer) dominate the export sector of the market. These firms care comparatively little about labor costs. Some such as Coke are genuine price setters; others, such as Irish Distillers, have a well-established market. On the whole, labor costs are passed onto consumers. Wage drift should be expected in these kinds of firms, which account for around one-quarter of the food, drink and tobacco workforce in 2000 (table 4.3).

As the degree of market competition increases there is a trend toward greater pay discipline. Food, clothing, footwear and leather, textiles, and timber and wood furniture (all traded) are more disciplined than beverage and paper and printing (sheltered), which are more disciplined than utilities and construction (non-traded). Even among higher skill and paying industries such as paper and printing the wage drift is small until the boom. In local services, the relative scarcity of IT skills in the 1990s bid up the prices of computer-related activities labor, but wholesale and especially retail trade (which saw keen competition with the entry and expansion of UK-based chains) were disciplined and conformed largely to the SP pay norms. Clearly,

public sector pay discipline had an affect on the indigenous industries by limiting relativities-based claims, as did the effect of tax cuts on real take-home pay.[77]

But 2000 brought widespread drift, and as in the public sector, defectors have appeared and old-style relativities-driven claims are being made. One journalist's estimate placed compliance among firms unionized by SIPTU in 2000 at around 70% (Sheehan interview 2000). This reflected the, "successful pursuit by SIPTU of local bargaining, even though it had not been provided for by the PPF" (SIPTU 2002, 7). SIPTU's opportunism exposed the fragility of the voluntarist basis for Irish wage coordination where the only sanction to 'unauthorized' local bargaining was the withdrawal from the SP process by IBEC or the government. Not surprisingly, threats of IBEC withdrawal were common in the years after 1999.

Some of this drift was due to labour shortages. For instance, MANDATE, the major retail workers union, was able to extract major rises from retailers from 1998 onwards.[78] The sudden rise in retail

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[77] This wage data evidence is supported by SIPTU reports on agreements to which it is a party. As the largest Irish union with around 200 000 members or approximately one-third of the workforce, SIPTU data is valuable in identifying drift trends in the unionized parts of the economy. Estimates of at least 95% of firms complying with the SP norms before the boom by industrial relations journalists (Sheehan interview 2000; EIRO 1999a) have been discounted slightly by union officials (Harbour interview 2000; Merrigan interview 2000). But the more accurate data from the P2000 period (1997-2000) collected by SIPTU shows that of the 1122 pay settlements signed between January 1997 and mid-April 1999, 131 or 11.6% paid above-the-norm increases, indicating an 88.4% compliance rate of agreements (EIRO 1999a). This figure is probably closer to the mark, and broadly representative of the trends in pay in unionized firms in the pre-boom period.

[78] The first retailer to give major rises was Marks and Spencers in April 1998, where above the norm rises were associated with the introduction of performance pay. Tesco's, another UK chain, followed suit in 1999. In November 1999, MANDATE and management agreed at Dunnes Stores, an iconic Irish-owned retail and supermarket chain, to replace the final 1% of P2000 with an average 16% pay rise to floor staff in January 2000. The rise affected about 8 000 employees (EIRO 2000d).

pay, the lowest paying industry in Ireland, may have reflected the tight labour market, but it also reflected union unease in some quarters, in particular from MANDATE, at the lack of re-distributive policies, be they complete tax relief, or housing and childcare assistance, that accompanied SP (Kane interview 2000). This unease has seen a return to the old expectations game mode of thought characterized by pay packet jealousy in some unions such as MANDATE. But the attitude of SIPTU towards the low paid and inequality has to prioritize the 'bottom line' of employment creation and the fortunes of those with jobs.[79]

The more radical minority is now about 40% of delegates if the last vote on ratification of the PPF is any indication (Dooley 2003a). This is substantial and suggests that the future of Social Partnership may be tenuous. MANDATE and the Irish arm of the UK union, the Amalgamated Transport and General Workers Union (ATGWU), are more concerned with substantive equality than equality of opportunity (Allen 2000). This attitude has led to militant union strategies in retail and transport. During the Irish boom and together with ASTI and the nurses, these unions have been at the vanguard of the union push to return to free collective bargaining.[80]

This was followed by a 12% pay rise for 2001, agreed in October 2000, for around 10 000 employees. Also in October 2000, Argos, another UK retailer pulled out of the PPF and granted a 19.2% pay-rise for 2001(Frawley 2000a).

[79] In a report on the PPF (2000-2003), priority is given to the role of taxation in improving the living standards of lower to middle income earners (SIPTU 2002, 8ff). More formally, SIPTU concerns with inequality primarily rested with the eradication of discrimination with respect to gender, race and disability (SIPTU 2002, 17) rather than with substantive equality based on material outcomes.

[80] Other unions to oppose Sustaining Progress (2003-2005) included the Communications workers Union, the Civil and Public Service Union, and the Irish Bank Officials Association (Dooley 2003a). A delegate for the National Union of Journalists at the ICTU Sustaining Progress ratification conference in supporting the deal said, " I strongly believe that this may well be the last national agreement of its

6.5 Liberalizing the export sector

I now turn to the final of the three reinforcing elements of the Irish centralized wage bargaining system: the liberalizing of export sector wage setting from central controls. Once economies are open, governments ensure that exporters are uninhibited by institutional arrangements that make wages more rigid either upwards or downwards than in a decentralized and non-coordinated system of wage bargaining. The key, therefore, is to maximize wage flexibility for the export sector. This may be achieved in two main ways.

First, when the export sector is unionized export sector unions must play a key role in wage coordination in order to control wages in less productive and sheltered areas of the economy.[81] Export employers support wage coordination in these cases because it controls the growth of wages; a gain worth having despite any downward rigidity such an arrangement may cause.[82]

Second, where the export sector is not unionized the key to wage coordination stability is to allow the export sector to free ride on the wage discipline of the public sector and the unionized private sector.

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type and in the coming 18 months we need to put our unions on a strong war footing and to prepare for a genuine battle with Government and employers." (quoted in Dooley 2003b).

[81] The 'Crouch thesis' applies in one set of conditions where the export sector is heavily unionized and dominates the union movement, which, given the evidence in recent years of MNC preferences for countries with low levels of labor market regulation and US MNCs growing appetite for non-union plants and sites (Cooke 1997; Bognanno, Keane & Yang 2005; Roche 2001), may be of decreasing empirical relevance. That relevance is doubly diminished in liberal economies, where unionization rates are lower, on the whole, than in CMEs.

[82] But as Swedish employers discovered in the 1980s, wage relativities can run from the public sector to the private; a development that upset settled wage distribution, altered their strategy of support for the status quo and led to the dismantling of the Swedish wage coordination system (Swenson & Pontusson 2000).

In other words, the export sector is to remain uncoordinated. This partially coordinated wage system is best achieved via side-payments that are largely distribution neutral, i.e. through tax cuts. This kind of argument suggests that there is scope for a wage coordination arrangement in economies with a unionized exporting sector where public and non-exported sector union restraint can exist alongside exporting sector non-coordination. Ireland is the paradigmatic example of this kind of partial coordination, and the flexibility and freedom from wage coordination with respect to wages is reflected in the lack of scrutiny of wage movements in the exporting sector.[83]

Evidence for the lack of coordination in the exporting sector should include a broad adherence to the agreements in times of slack labor markets, and drift in times of tight labor markets (as well as more direct evidence such as statements about the lack of coordination). Where sectors have specific skill requirements that may be in short supply in an otherwise slack market, or where sectors are characterized by companies with high levels of firm-specific knowledge, then we should also expect drift in comparison to sectors characterized by firms with lower levels of firm-specific knowledge and less specific skill requirements. These kinds of patterns are suggestive of free-riding where labor market conditions permit and more obvious market-driven behavior when markets tighten and labor supply is not so plentiful. A second indication of the non-coordination of exporter sector pay should be the comparatively high adoption of variable and

[83] Given that the exporting sector is dominated by MNCs in Ireland, MNCs and exporting sector are interchangeable terms in the account below.

flexible pay strategies or performance and profit sharing systems by export firms compared to non-export firms.[84]

On variable pay, 1996/1997 data suggests that US-owned and other foreign-owned firms were far more, and statistically significantly more likely than Irish-owned firms to use profit-sharing. US-owned companies were far more likely than all others to use share ownership provisions as part of a remuneration package for employees (Geary & Roche 2001, table 2). Given the dominance of the export sector by MNCs, this data supports the export sector non-coordination thesis advanced here.

Of the adherence and drift evidence for the export sector non-coordination thesis, supporting evidence is found for the SP years, although there are some gaps in that evidence. Despite the massive input and growth generated by MNCs and the lobbying and high degree of contact between MNCs and the development arm of the Irish state, little information has been systematically collected on MNC wage setting behavior. Taxes are lowered, jobs subsidized into existence,

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[84] The reasons behind the priority given to exporter preferences by policy makers in Ireland as presented above in the discussion of NESC and its focus on competitiveness, is apparent when the contribution of MNCs to the economy is evaluated. MNCs in Ireland are more capital-intensive, have larger plants and are more productive than their indigenous counterparts and have been for the duration of SP (McCarthy 1999; Barry, Bradley & O'Malley 1999). Six industries, recorded media (software), chemicals, office and data processing equipment, the MNC portion of food and drink (cola concentrate) and medical and optical equipment are responsible for 3% of GDP growth per annum between 1993 and 1997 (McCarthy 1999, 62). This was before the boom, and does not take into account the growth in support services and industries. Credible estimates suggest that as many as 93 service jobs were created for every 100 MNC manufacturing jobs in 1983. By 1992, this figure had risen to 105. In 1983, 10 manufacturing jobs were created for every 100 MNC jobs, rising to 13 by 1992 (O'Malley 1995). Figures like this suggest that the rapid rise in service employment after 1989 is in no small part due to the increase of employment in MNC manufacturing. Ireland is a living example of FDI-driven development. As a former Taoiseach concluded in a 2000 interview, "I don't call it the Celtic Tiger, I call it the American Tiger' (Spring interview 2000).

infrastructure such as roads and telecommunications improved, education policy changed to ensure a steady flow of appropriately trained graduates (MacSharry & White 2000, 284), and non-union plants if not encouraged, then at least enabled, but little monitoring of MNCs actual work practices is done by the Irish state and SP partners.[85]

The lack of monitoring is demonstrated by facts such as these: it was not until December 2000, that delegates from the FDI exporting sector met as a group at IBEC. Before this date, IBEC professed to know comparatively little about the wage movements of MNCs (Butler interview 2000). Recent surveys of MNC plants established in Ireland in the 1992-1997 period show that while around two-thirds of the parent companies joined an employer association, less than 10% actually used employer associations' services in plant level industrial relations (includes issues of pay and conditions) (Gunnigle et al 2001, 274). In 2000, union officials, politicians and journalists professed to know comparatively little about the wage movements of MNCs (Merrigan interview 2000; Kane interview 2000; Harbour interview 2000; Spring interview 2000; McCarthy interview 2000; Sheehan interview 2000, O'Donnell interview 2000).

What we know is limited to anecdotal and wage survey evidence and a handful of surveys of employers. The pay evidence in the previous chapter suggests that from the beginning of SP in 1987, firms within the pharmaceutical sector gave above the norm pay rises.[86]

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[85] Including, until very recently, Irish academia.

[86] This group includes companies such as Pfizer Pharmaceuticals, Abbot Ireland and Cara Partners.

This is congruent with the findings of Sheehan (1996) who found that chemical companies who gave higher than average wage increases in the decentralized years 1981-1987, did not alter their wage setting behavior after 1987. It is also congruent with survey evidence from 1996/97 that found that US-owned MNCs were more likely than other firms to give above national agreement pay rises (Geary & Roche 2001, table 2).

While these companies paid above the norm increases, at various times they chose to abide by the centralized agreements. This demonstrates a free-riding pragmatism in the MNC approach to SP pay agreements where labor supply and demand and the costs of turnover plays a major role in firm decisions about pay rises. The aggregate wage data suggests that after 2000 the exercise of the choice to conform to the agreements was probably rarely made and chemicals was a clear pay leader in the private traded sector. This has led the General Secretary of the ICTU to state in an address to executive Council in April 2002:

> "There is…a high tech largely non-unionized workforce employed by multi-nationals which use the wage agreement of the PPF and its predecessors as a base on which to build competitive salaries in tight labor market conditions. These are companies who are free loaders on the benefits of social partnership" (Begg 2002).

The exercise of the choice to conform among assembly manufacture exporters was far more likely and is apparent from the pay data trends presented in the previous chapter. Firms in this sector have low skill requirements compared to firms in the pharmaceuticals and chemicals industries. Hence, turnover costs are not as closely

regarded when managers make pay rise decisions. On the whole, they are better conformers to the pay agreements. The post-1995 data demonstrates that within the metals and engineering sector, lower skill industries (office machinery and computer manufacture, and radio, TV and communication equipment and apparatus manufacture) were more able to adhere to the central agreements than industries requiring labor with more highly developed skills and training (electrical and optical equipment and medical, precision and optical instruments).

A senior IBEC official in 2000 concluded in interview that there is, "a long way to go to formal anti-poaching strategies" (Butler interview 2000) and there is no evidence to suggest any real change that warrants a revision of that view. SP has only modified wage behavior in MNCs, "to an extent" (Butler interview 2000). A SIPTU union official of 33 years experience confessed, "central agreements and partnership means very little to these [non-union] multinationals" (Naughton interview 2000). The Secretary of the Department of the Taoiseach in a 2000 interview stated that MNCs were, "unaffected by wage agreements" (McCarthy interview 2000). Between a 'small extent,' 'very little' and 'unaffected' lies the direct effect of the SP wage norms on MNC wage setting behavior. These comments reflect the lack of coordination of MNC pay, and their exclusion from the coordinated system that runs throughout the rest of the economy.[87]

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[87] What we do know about the adoption of performance pay and profit-sharing supports the conclusion that MNCs set pay in an uncoordinated enclave of the labor market. Geary and Roche (2001, table 1) found in a survey of firms conducted in 1996 and 1997 that US MNCs, controlling for workplace size, occupational profile,

But as the General Secretary of the ICTU has pointed out, SP has made it easy for MNCs to identify a wage increase norm which can be used to construct a competitive pay rate, scale and increase schedule in order to recruit and retain labor in a tight labor markets, and their pay behavior in slack markets as manifested in aggregate pay data suggests that they were the free-riding beneficiaries of union wage discipline.[88]

While there is no overt behavior on the part of MNCs to betray an adherence to the SP agreements, there is clear evidence to suggest that the market environment created by the unionized and non-export sector has sponsored a mimicking behavior that has led some analysts

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sector and union recognition status, were more than eight times as likely to have profit-sharing and share ownership schemes than non-US firms.

[88] The possible one caveat to this argument is the use of performance-related pay (PRP) may be obscuring the real trends in the wage data. PRP would not show up in the average nominal hourly earnings data presented in the previous chapter, as these exclude irregular bonuses. This data may exclude some kinds of PRP's, especially unannounced bonuses

Of the direct evidence, we know that in 1995, US firms used PRP throughout the plant, from manager to clerk to cleaner, far more than Irish-owned firms and that the difference was statistically significant (Turner et al 1997, p. 98). In 1996 and 1997, MNCs were far more likely than Irish companies to profit-share or use share ownership as part of the remuneration package (Geary & Roche 2001, table 1).

According to the Geary & Roche data, which is based on a far more representative sample of 431 firms than the data relied upon by Turner et al (1997), 21% of MNCs (US-owned 35.6%) had profit-sharing schemes compared to 8% of Irish firms. 24.6% of foreign MNCs (37.7% US owned) had share ownership schemes, compared to 6.6% of Irish firms. Not surprisingly, given the propensity of chemicals firms to pay above-the-norm pay increases and to pay high wages, US MNCs were far more likely to pay awards that exceeded SP agreements in the 1991-1996 period, than Irish-owned firms, and were far more likely to pay rates higher than others in the sector compared to Irish-owned firms (Geary & Roche 2001, tables 1 & 2).

Profit sharing is an "irregular bonus" (unlike individual or group-related PRPs). It is hard to know exactly how much pay is being paid by irregular bonuses, but it is difficult to muster an argument that management are using irregular bonuses as a primary retention and recruitment mechanism, but rather as "icing on the cake." Additionally, it is difficult to muster an argument that these irregular bonuses alter the argument presented here, and in fact, probably strengthen it since the widespread adoption of performance pay by MNCs suggests that they are exercising a pay determination freedom enabled by their being outside the centralized system.

to believe that wage coordination runs throughout the economy (i.e. Baccaro & Simoni 2004). Clearly it does not, and cannot. There is little or no unionization in the MNC exporting sector, nor are there Japan-like employer associations or networks coordinating wages. While MNCs do not appear 'affected' by the wage agreements, they are clearly the winners from them. SP for them, is a free-ride created by a system designed for them. Its apparent design belies its purpose.

6.6 The 1970s & Social Partnership compared

A ready test of the argument advanced above exists in the Irish case in the 1970s. Between 1970 and 1978, seven formal National Wage Agreements (NWAs) were struck between employers and trade unions in the bi-parte body, the Employer-Labour Conference (ELC); between 1979 and 1980 another two 'understandings' were also struck. Initially, the government was only involved as an employer, but by the fourth NWA in 1974, government began to informally use talks between unions and the government in the formulation of the budget. But no formal link between social policy or taxation and pay was made in 1974 (Hardiman 1988, 61). This was to informally arrive in the 1975 budget, which contained revocable subsidies for food, gas, and tax incentives conditional upon the re-bargaining of the 1975 agreement (Hardiman 1988, 62).

The 1977 agreement was the first NWA that explicitly and formally linked budgetary provisions to wage agreements, with tax concessions forming the greater part of the government carrot designed to encourage wage restraint. A similar agreement was negotiated for 1978 (Hardiman 1988, 64-70).

The National Understandings of 1979 and 1980 saw government as a full partner in the central wage setting process, with the wage restraint budgetary concessions being in the form of taxation reliefs and job creation in the public service (Hardiman 1988, 74).

By 1980, the centralized process was collapsing. Local above the norm bargaining was out of control and government's commitment to budgetary concessions was seen as weak (Hardiman 1988, 77). The centralized system of the 1970s collapsed in 1981; a collapse caused by craft union emphasis on relativities and above the norm claims, public sector pay profligacy, a relentlessly expansionary government spending policy, and a lack of side payments in the form of budget concessions.

The striking aspect of pay movements in the 1970s is the degree to which the actual movements of industrial earnings mirrored those of the public sector. Public wage deals allowed for far higher increases than those in industry, and the public sector tended to conform to the generous guidelines of the National Wage Agreements. Accommodating of union demands is the best way to describe the public sector pay deals crafted in the 1970s. 'Erratic' is another.

As a result, industry wage movements far exceeded the far more stringent private sector pay deals in the NWAs (see table 6.3). The reason was a prevalence of above the norm bargaining fuelled by union insistence on maintaining relativities with other groups especially those in the public sector.

The problem caused by the Irish trade union tendency to use relativities to frame pay claims, manifested it self in the large pay drift

of the 1970s (Hardiman 1988, 71-72, 77, 82). But the failure of the centralized system cannot be solely attributed to that. While pay drift caused job losses in less productive industries and led to an employer revolt in 1981 that prevented the negotiation of a third National Understanding, two other factors were critical in the failure of the system.

Table 6.3
Pay indices, industry and public sector, Ireland 1971-79.

1971 = 100	**1971-77** ***NWA basic***	***Actual***	**1971-79** ***NWA basic***	***Actual***
Public Sector				
Clerical Officer	220	220	290	325
Executive Officer	207	216	271	332
Higher exec. officer	198	207	259	312
Asst. Secretary	180	184	233	323
Secretary	179	189	232	340
Industry - Male				
High paying industries	142	216	*	370
Middle paying industries	152	210	*	359
Low paying industries	163	212	*	363

Source: Hardiman 1988, tables 4.1 & 4.2
Notes: * denotes no data given.

The first is the lack of side-payments to labour to increase their real income and to provide incentives for wage claims restraint. The first three NWAs contained no references at all to policy: these were bi-lateral agreements. The 1974 and 1975 NWAs contained a 'grab bag' of policy proposals, mostly in the form of tax benefits. It wasn't until the 1977 NWA that government became a third partner in the centralized wage bargaining process, but their side-payments were weak reflecting their reluctance to enter the process (Hardiman 1988, 65). The ICTU

insisted on a more (upwardly) flexible pay policy in the public sector, and tax relief. £50 million of tax relief was forthcoming, and a desire for greater public sector pay restraint was abandoned by government negotiators Hardiman 1988, 67-68). The 1978 NWA contained similar kinds of trade-offs for labour: tax concessions for pay restraint.

The two national understandings of 1979 and 1980 contained tax concessions and commitments from the government for employment creation (Hardiman 1988, 75-77). But the ability of employers and government to control local above the norm claims was of continuing concern.

While the government came late to central wage bargaining in the 1970s and began to give incentives to labor to restrain claims in 1977, in the context of already high wage expectations, an expanding public sector and seemingly uncontrollable public sector pay claims, it was no surprise when employers effectively pulled out of the process in 1981. The tax concession program was ad hoc, and trade unions had no reliable information as to the future path of tax reform. In the context of an expanding public sector and rapidly rising public expenditure, they had little reason to believe that tax concessions and tax cuts were going to be delivered, even if they were promised. Hence unions adopted a short-term horizon and placed a greater emphasis on local above the norm increases.

The second factor (which impinged on the first) was the growth of public sector employment, and wages. This had two effects. First, it raised wages in the private sector via relativities claims, and second, it

created a competition for skilled labour that provided a further need for the private sector to bid up the price of labor.

The differences between the profligacy of public sector pay and employment expansion compared to the frugality of the SP era are large and suggest that the argument advanced above is the right one. In the 1970s, public sector employment grew by 59%, compared to private sector service growth of 18%. Between 1971 and 1981, the public sector share of service employment grew from 33%to 40% (Hardiman 1988, 37, 38). Between 1975 and 1981, the public service bill rose at the rate of 25% per annum (Hardiman 1988, 117) and between 1971 and 1979 nominal civil service pay rose between 312% and 340% depending on the grade. By way of contrast, in the between the longer period of 1988 and 2003, the public sector employment share declined (figure 6.1), employment growth from 1988 to 2003 was just 25% (table 6.1), and civil service pay rose around 210% (figure 5.12).

6.7 The export sector non-coordination thesis

Ireland represents, in many respects, a new kind of national response to growing openness and trade reliance. Many aspects of that response are clearly liberal (such as the size and operation of the welfare state and the tax regime) and have much in common with other like cases, such as New Zealand, Australia and the UK. But unlike those cases, Ireland has controlled its non-export sector wage movements though centralized agreements and tax cuts, while allowing export sector wage movements a great deal of freedom. Part of this is no doubt a happy accident, a by-product of Ireland's voluntarist

industrial relations system. But much of it appears to be by design. Irish policy-makers and the state have spent a great deal of policy effort to control public sector wages. They have done virtually nothing, by contrast, to control export sector wages.[89] Public expenditure has been tightly controlled such that the state spend, in relative terms, has declined since 1987. At the same time, the IDA spends a great deal of money on job creation and subsidy schemes (see 4.2) that are little more than corporate welfare to convince MNCs to locate and stay in Ireland.

The arrangement has been remarkably stable, despite the asymmetric divvying of responsibility for wage restraint. However, as the economy has boomed and unemployment reduced to a fraction of its historic levels, old systems of relativities have re-asserted themselves, especially in the public sector. This has spurred new efforts to control relativities-driven claims through the benchmarking process. But benchmarking in boom times has led to further and greater wage increases in the public sector. Public sector wage militancy now stands as the largest threat to the future of Social Partnership.

Unemployment has been sufficiently low that low skill jobs such as retail have seen large increases in recent years. Export sector wages have responded to tightening labor markets and rising wages in the domestic and public sectors and are also increasing far more rapidly

[89] It should be noted that the IDA was a major lobbyist for control on public spending in the mid-1980s, aware that public expenditure was causing high rates of inflation, which was deterring investors (MacSharry & White 2000, 210). In this regard it reinforced a wide consensus among policy makers and bureaucrats that fiscal discipline was a necessity after the 1987 election.

than in the late 1980s and early to mid 1990s. In short, industry wage data now appears to indicate that the centralized agreements are having very little effect on actual wage movements. That stated, a good case could be made that if unemployment were to rise again due to a downturn in the European and US economies, Irish wage centralization would be again extremely effective and may escape the curse of prosperity that threatens to undermine the centralized wage bargaining regime.

Chapter 7
The context of The Accord: Constitution, the tribunal system, economy, & trade unions.

In the following two chapters, I present evidence, in the same vein as chapters 4 and 5, that is crucial background to the argument advanced in the following chapters on the decentralization of Australian wage bargaining. The mix of empirical detail I present is different from that of chapter 4 and 5, reflecting the different kinds of explanations in my two cases. In the Irish case, I focuses on wages, since the primary threat to decentralization there is public sector wage drift and the re-emergence of old relativities-driven bargaining. In the Australian case, public sector wage creep was never an issue. Rather the issue was the rigidity of the wage setting system imposed on exporters. In this chapter I therefore spend more time on examining the institutional mechanisms through which centralized bargaining was conducted in Australia, in advance of the argument that it was their rigidity and inability to deliver wage flexibility to exporters that was the primary cause of the decentralization of Australian wage bargaining.

In this chapter, I also discuss trade trends and the issue of protectionism, since the consequences of the opening of the Australian economy is an important component in my argument. I also examine unionization trends to identify where union density and activity was high, and any correlations between export industries and levels of

union membership and activity, since a major part of my argument is that the activity of trade unions in the export sector compounded the flexibility problems for exporters and increased their determination to be rid of the centralized system. This data is used in subsequent discussion of wage movements and in the causal explanation of wage decentralization in later chapters.

7.1 The constitutional context of Australian wage bargaining

7.1.1 Major features

While this dissertation is mainly concerned with explaining developments at the federal level in Australia, each state in Australia has its own set of industrial relations institutions and mechanisms for dealing with pay disputes and coordinating wage bargaining and wages. The dominant feature of the Australian system, including at the state level, is the presence of quasi-legal bodies designed to hear submissions on industrial disputes including pay, and then issue rulings. Because these rulings have the status of an administrative order, fines for breach are either enforced through civil court proceedings or paid because of normative understandings of the system and the benefits that flow (absence of strikes, in particular) to all parties when it operates smoothly.

Australia is a federation of six states and two federally controlled territories.[90] Modelled to a large degree on the US, states are vested

[90] While it is not the intention of this study to examine the development of state-based wage determination institutions in detail, it is important to note that in the era of change in Australian industrial relations after 1983, with the exception of Victoria and Western Australia, the states have maintained tribunal-based systems, albeit while severely limiting the power of the tribunals. Victorian pay determination since 1996 is decided under federal guidelines, while, since 1993, Western Australia has encouraged an employment contract system.

with considerable powers of legislation. Federal power is expressly vested by the constitution in section 51. With the exception of an assumed "national interest" power (used for defense and internal security purposes in times of war), powers not explicitly vested are left to state jurisdiction. Under section 109 of the constitution, where federal and state legislation covers identical subject matter, federal law is paramount, and state law is unconstitutional to the extent of the inconsistency of the two laws. States may then legislate in areas expressly given to the federal government in the absence of federal exercise of that power.

Under the Australian constitution, S51 (35), the federal government has the power to make laws with respect to, "the conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of one state."[91] The section has been the principal head of power for industrial relations in Australia, although mooted changes to the industrial relations system

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This is important because the similarities between the states and federal systems have meant that experiences in one arena have often colored the perceptions of employers and unions of the others. This is particularly true of employers. In the Australian context, the similarities of state and federal systems has meant that lessons learnt at the state level have the potential to alter how senior executives at many companies view the federal system, and vice versa.

[91] The emphasis on arbitration and conciliation in the wording of the section reflected the experiences of compulsory arbitration and conciliation in many trades in pre-industrial Britain. The 1890 South Australian bill introduced by Governor Charles Kingston while never made law, allowed for the creation of quasi-legal bodies to take submissions from unions and employer bodies in order to facilitate the settlement of industrial disputes. This legislation became the model for the 1894 New Zealand Conciliation and Arbitration Act, which provided for compulsory arbitration or conciliation in disputes between registered trade unions, employers or employer associations. The blueprint also inspired legislation in Western Australia (1900) and New South Wales (1901). South Australia, Queensland and Tasmania also adopted the quasi-legal court approach.

in late-2005 will rely on another head of power, the corporations power.[92]

In 1904, the Commonwealth parliament passed the Conciliation and Arbitration Act. This Act has defined the political arena of federal industrial relations ever since and in substantive terms remained similar until the passing of the 1993 Industrial Relations Reform Act. The 1904 Act allowed for fines for strikes and lockouts during a tribunal hearing, and also allowed for collective bargaining via the tribunal making, ratification, and enforcement of collective agreements.

Prior to the 1914 decision, Ex Parte Jones (1914) 18 CLR 224, the tribunal system was little used because of a restrictive reading of what constituted a dispute by the federal courts. That decision, upheld in 1935 (Metal Trades Employers Association V Amalgamated Engineering Union 54 CLR 387), and again in 1997 (AG (QLD) V. Riordan 192 CLR 1), defined a dispute as not a suspension of industrial relations, but a disagreement, difference or dissidence. A trade union could therefore extend a dispute beyond the boundaries of one state by serving an identical log of claims on employers in more than one state. Trade unions could 'rope in' as many employers as possible to an award by serving logs in every workplace where they

[92] Previously, the corporations power (section 51(20)) has been interpreted in such a way as to preclude Commonwealth legislation that attempted to regulate industrial relations without reference to the beyond the boundaries of one state proviso. However, the High Court in 1995 in Re. Dingjan, (183 CLR 323) signaled intent to interpret the corporations power widely. The Commonwealth will not, however, be able to legislate on the industrial relations of unincorporated businesses. The Howard government has declared that it will use the coercive power of blocking Commonwealth grants to the states in order to force them to cede power over all areas of industrial relations to federal jurisdiction.

had members, provided that the employers constituted a "community of interest" (Re: AMEIU; Ex Parte Aberdeen Co Pty Ltd 1993 176 CLR 154). In addition, trade unions could initiate a "paper" dispute in one state for the purpose of reaching an award agreement in another.[93] Once a dispute has been formed and an appeal for arbitration made (nearly always by a trade union), attendance at tribunal proceedings by all parties to a dispute is required, hence the term 'compulsory arbitration'. While a claim must be uniform across states and employers, the award decisions of the federal tribunal in respect of the claim do not have to uniform. Awards can apply to specific states, sectors or even employers.

A major consequence of the constitutional context is that it encouraged a wage determination system where trade unions wielded considerable power by being able to largely define the industrial relations agenda through the creation of paper disputes. This became one of the many major thorns in the side of renegade employers in the 1980s, renegade employers who initiated a major ideological shift in thinking about the arbitration.[94]

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[93] For instance, a metal trades union may start a dispute in Victoria with respect to overtime pay and rosters, when its real aim is to push the federal tribunal into making an award decision with respect to a mining employer in Western Australia.

[94] Rawson (1978) and Peetz (1998, 26-27) argue that the doubling of trade union membership from under 27.9% of the workforce in 1911 to 53% in 1920 was largely due to the introduction and expansion of the federal arbitration system. The high level of union membership, it remained 50% of full-time employees between 1919 and 1986 is in large part due to the ability of the AIRC and the old Court to preference union members in awards. The roll-back of arbitration in the 1990s has coincided with a drop in union membership of full-time workers from 43% (Peetz 1998, 26) to an around 26% in 2002. Peetz (1998) argues that 2/3rds of the drop in membership resulted from legislative changes at the state and federal level that enabled non-union members to make similar gains as their union colleagues as well as specific union preference prohibitions. By 1996, all the states as well as the

The first cut conclusion on the organizational effects of the constitution is that when married to Australia's peculiar arbitration tribunal system, it tended to disperse employer and trade union organization because the tribunal system diminished the need for unions and employers to seek numerical strength in order to exercise industrial power. In addition, the constitutional strictures encouraged that industrial disputes and conflicts over remuneration be resolved through peculiarly distinctive legal channels. The resort to judicial solutions in Australia stands in stark contrast with the voluntarism of the Irish industrial relations system. This has tended to make the Australian system of wage determination very rigid and wage drift very low during periods such as 1975-1981 and 1983-1987 when wage movements have been imposed from the center.

Just as the voluntarist Irish system enabled exporter wage flexibility and prevented an employer revolt against the wage component of Social Partnership, so the rigidities of the Australian legal approach to institutionalized or non-market wage determination promoted discontent among exporters.

7.1.2 Are tribunals independent actors?

The importance of this issue is two-fold. First, if tribunals are independent actors, than it may be argued that perhaps they, and not employers or policy-makers were at least partially responsible for the decentralization of wage bargaining. Second, it may be the case that

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federal governments made preference arrangements (closed shops) in awards illegal and allowed individual contracts to override awards. New South Wales lead the way in 1991, followed by Victoria (1991), Western Australia (1993), South Australia and Tasmania (1994), and the Commonwealth (1996).

the tribunals are independent in certain circumstances or situations and that it is in these circumstances that this independence has an effect on export employers or policy-makers that make them more likely to prefer decentralized wage bargaining. In this section, I argue that the degree of independence of the central tribunal (the Australian Industrial Relations Commission or AIRC) in National Wage Cases is virtually zero during the Accord years. But in individual wage cases between an employer or groups of employers and a union or group of unions, it is capable of much independence. As such, the AIRC is likely to impinge on the process aspect of pay flexibility that exporters value. This had the effect of mobilizing exporters against the centralized system and the tribunals (discussed in chapter 9).

Much of the scholarship on the Accord has tended to emphasize its break from the past. But the tribunal system by which the Accord was enacted did not represent anything new. The principle difference between the Accord and the period before the 1970s was that the ACTU and the Australian Labor Party government agreed on what the submissions to the national wage case would be beforehand, and they did so on the basis of policy trade-offs. A central wage bargain was struck that was taken to the AIRC for ratification.

The Accord altered the role of the AIRC in very important ways. The AIRC became less of a wages umpire or referee in National Wage Cases as it had tended to be before the 1970s, and more of a rubber stamp for agreements hammered out by the ALP and the ACTU. This was partly due to the broad agreement of union and government submissions to the tribunal.

Why should the broad agreement matter? In the pre-Accord years when government and union submissions differed, the tribunal was faced with a choice. Assuming that the tribunal always feared legislation that would undermine its power, it should have always been concerned not to give a decision that was further away from the government's preferred position than the status quo. Doing so may incur the wrath of legislators. This accounts for the majority of tribunal decisions bending to the government's wishes. But history shows that the tribunal has not always done this, most noticeably in the early 1950s (see section 7.2). Why? Policy makers presumably care about winning over the median voter. In a highly unionized country the median voter is safely assumed to be a union member. When the umbrella union preference (in a highly unionized country such as Australia before the 1980s) differs greatly from that of the government, the tribunal therefore faces a choice. Knowing that governments care about the median voter, it may make a decision such that the status quo is shifted further from the government's preferred position and closer to that of the union's, safe in the knowledge that the government's position will follow in the pursuit of votes. Rather than incurring the wrath of the government the adoption of a decision closer to the union position will signal the government that it's policy position is too far from that of the median voter, causing the government to change policy.

Once union and government preferences coincide, however, the situation changes. Assuming that the median voter is still a union member, the tribunal is limited to a set of decisions that are closer to

the government and union's than the status quo.[95] Failure to do this may incur the wrath of legislators and may lead to legislation that curtails tribunal power. This kind of event occurred in 1991 when the AIRC rejected the initial claim from employers, the ACTU and the government for the sanctioning of enterprise bargaining. Following threats by government and a rejection of the decision by all parties the AIRC did a legal u-turn and ratified the so-called 'enterprise bargaining principle' that ushered in the decentralization of Australian wage bargaining (Tingle 1994, 294-296; Edwards 1996, 418-422). In 1993 during negotiations over Accord VII which cemented and furthered enterprise bargaining and largely removed bargaining outcomes from AIRC review, Keating has been quoted as saying:

> "[T]he IRC will have to do it [ratify Accord VII], because if they don't they have no other role. They'll have nothing to do. If they knock it back, we abolish the…commission" (Edwards 1996, 491).

This reflected earlier observations by Keating's industrial relations advisor, John Edwards, that Keating regarded the tribunal as "feeble" and stated in a meeting with union leaders following the initial 1991 rejection of enterprise bargaining that, "the Accord gave it its role" (Edwards 1996, 421).

The tribunal for the period of the Accord cannot therefore be regarded as an independent actor with regard to the core National

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[95] In the case where the median voter is not a union member, then the tribunal faces a decision similar to that of the pre-Accord era. However, given the problem of ascertaining what the median voter actually is or wants (opinion polls are rarely this subtle or precise), tribunals face an information deficit that undermines any attempt to accurately judge what the median voter position is. In these circumstances, judges even if appointed for life, may be risk averse, preferring to play it safe rather than risk change to their institution by legislation.

Wage Cases. As the analysis suggests, independence is apparent rather than real, and derives from the relative policy positions of unions, government and employers. It acted at the behest of others and when it did try independence it was sharply rebuffed by employers, unions and the government. But when faced with an individual wage case, that is, in specific decisions over a workplace or series of workplaces, the tribunals during the Accord years, as before the Accord, were able and did deliver judgments that failed to satisfy both parties. In these cases where the government made no submissions, the AIRC could and did exercise some degree of independence as is illustrated in chapter 9 in the Robe River case in particular. The importance of that independence was that it infringed on exporter's preference to maximize control over the wage-setting process. This infringement resulted in a exporter-led employer backlash on central wage bargaining and the tribunals system.

7.2 Wage bargaining until 1983

The purpose of this section is two-fold. First, it is to establish a sense of the continuity in wage determination in Australia before and after 1983, so as to establish what was genuinely new about the Accord. Hence the analysis of why the arbitration system changed so drastically between 1983 and 1996 will be able to sift out what was different in the 1980s and 1990s from previous challenges to the system. Second, I want to establish how and why employer associations changed between 1907 and 1983.

7.2.1 1907-1953

In the Harvester decision of 1907 (2 CAR 1), Justice Higgins of the Commonwealth Court of Arbitration and Conciliation (hereafter CCCA) in responding to an application for exemption from tariff duties under the 1906 Excise Tariff Act, proposed the idea of a 'fair and reasonable' wage that would be necessary to sustain an, "average employee regarded as a human being in a civilized community." Such an employee was regarded as a blue-collar unskilled male with a wife and three children. This notion, of a family living wage became the cornerstone of Australian wage arbitration until 1969 (Creighton & Stewart 2000, 41-42; Hagan 1981, 135).[96]

Adjustments to wages tended to occur in two ways through the CCCA and the post-Boilermakers case incarnation, the Conciliation and Arbitration Commission (hereafter CAC). In the first, a trade union logged a claim with the CCCA/CAC to vary an existing award, be it an industry, regional or national-based award.[97] The second adjustment path was through the logging of a basic wage claim by the Australian Council of Trade Unions, formed in 1927. This claim extended a basic wage rise to all employees, union and non-union alike. These national wage cases became the focal point of the Accord after 1983.

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[96] Ward estimates that the decision in Harvester, which Higgins openly admitted was reached with no regard for the employer's capacity to pay, was to increase the minimum pay of all federal award workers by 27% (1977, 49).

[97] Before WW2 the most important award was for Australian Workers Union members, a rural industry-based union. After WW2, the primary award was that of the Metalworkers Union and its various antecedents. This benchmark award led to patterned claims or flow-ons in two ways. First, non-metal workers with metalworker union members in their firm, applied for an award increase and re-structure patterned after the metalworker award; and, second, other unions benchmarked the award in their own log of claims (Sheridan 1989, 154ff).

Prior to 1983 the history of these cases reveals a slow backing away from Higgin's needs principles to a basket of principles that included consideration of the effect of wage increases on the macro-economy and the ability of employers to pay. The Depression's effects on employer profits induced the notion of employer capacity to pay in the CCCA. In 1930, a railway trade union submission argued its case not on the basis of what workers could or could not live on, but what effect a reduction in the Basic Wage would have on the national economy: the first time macro-economic effects had been used in a submission. The ACTU in the same year, in its very first submission to the CCCA as the nation's peak trade union association, argued that a wage decrease would stifle consumption, demand and production, leading to further unemployment, and proposed that an expansionary monetary policy be adopted by the Commonwealth Bank in order to lift the restriction on credit (Hagan 1981, 136-137).

While the CCA rejected the ACTU's proposals and imposed a 10% reduction on all wages, the consideration of the macro-economic repercussions of wage determination became the norm in submissions from unions, employers and the federal government. This was an important development.

The Australian Labor Government of Ben Chifley (1945-1949) did little to alter the trend of CCCA decisions. Its one innovation was to allow the court to make preference arrangements for trade unionists (closed shops). In retrospect, this was significant for two reasons. First, the metals trades were highly unionized (engineering, sheet metal, and boilermaker unions dominating) and were able, in

Australia's high tariff environment, to extract above basic wage awards (known as margin case awards) than any other union in any other sector. As Sheridan (1992, 12) observed of wage bargaining in the 1950s, "a [metal trades] margins increase now had virtually the same national wage-cost as a basic wage alteration."

Second, preference arrangements survived the industrial upheaval of the late-1960s and early 1970's. Unusual by OECD standards, many industries, notably in the mining and construction industries, on the waterfront and in many areas of transportation and public sector professions (nurses, teachers), remained virtual closed shops into the late 1980's. Based on the 1990 Australian Workplace Industrial Relations (AWIRS) Survey, Peetz (1998, 88) estimates that in 1976 around 34% of all employees worked in a closed shop, with the figure declining about 1% per year until 1996, when preference arrangements were made illegal by the 1996 Workplace Reform Act. This was a major contributor to anti-union attitudes among business and the exporter-dominated Business Council of Australia in the 1980s and 1990s.

7.2.2 1953-1966

The thirty-year era of automatic basic wage increases based on the CPI ended with the 1953 national wage case. In its place, annual reviews of wages took place. The decision was a major victory for employers. The *Metal Trade Journal* referred to the quarterly adjustments as the "fundamental fault" in the economy (Hagan 1981, 218). Of particular consequence for the organization of employers was the clarification by the court on the ability to pay principle:

> "The evidence of individual employers is not really helpful. We now specifically intimate that it is the to the total industry…we will regard in assessing…a foundation wage." (77 CAR, 509).

This and the success of the ACTU in its annual claims, claims put to the court by the recent Oxford University graduate, ACTU Research Officer Robert J Hawke, led to the creation of the National Employers Association (NEA) in 1959 in order to better coordinate employer submissions to the tribunal.

The period between 1953 and 1966 is significant because for the first time employers organized to counteract union power; specifically the power of the various metal unions (especially the Amalgamated Engineering Union (AEU), and the ACTU. The end of automatic wage indexation in 1953 had lead to a new emphasis on collective bargaining by metal unions in particular. This maturation in sections of Australian unionism provoked a predictable countervailing organizational effort on the part of metal employers through the formation of the Metal Trades Industry Association (MTIA).

7.2.3 1966-1972

The period between 1966 and 1972 produced further employer amalgamations. Again the stimulus was the growing stature within the arbitration process of the ACTU, the growing moves for amalgamation between the AEU and other metal unions, the fallout from decisions made by the AIRC, and finally, the 1971 decision by the MTIA to hold secret negotiations with the AEU on over-award payments.

That secret negotiation decision by the MTIA came after a tumultuous four-year period in the metal and allied trades. Between 1966 and 1973, the value of Australia's mineral exports tripled.

Unemployment ran under 2% of registered men and women over 18 seeking jobs. The 1967 Metal Trades Work Value Case decision recommended large pay increases, but curiously also recommended that these payments be partially or wholly absorbed into existing over-award payments already granted by the AIRC. In response to the series of strikes in the first two months of 1968 by unions attempting to avoid the award being absorbed into previous gains, including one stoppage that affected 320 metal and engineering works on February 6, the Metal Trades Employer Association invoked the Metal Trades wage agreement clause that banned industrial action over matters decided by the AIRC; a clause that dated back to a 1950 CCA decision. The penal fines soon mounted, and after a two-month campaign, the Commission overturned its own decision. Further industrial unrest followed. In May 1969, the Victorian Secretary of the Australian Tramways and Omnibus Employees Federation, Clarrie O'Shea, was gaoled for contempt in proceedings related to the recovery of fines for stoppages banned under the 1967 Work Value case (Hagan 1981, 268-270).

Within days, over one million workers struck around Australia in the largest industrial protest since the Great Depression. The difference between the original intentions of arbitration in Governor Kingston's 1890 bill in South Australia, and the situation 80 years later illustrates the growing problems of arbitration, Australian-style.

Where once it was designed to avoid industrial dispute, the system now appeared to sanction and promote them.[98]

7.2.4 1972-1983

Gough Whitlam concluded on his ill-fated government (1972-1975) that the, "chief economic failure of my Government resulted from the wage explosion in 1974" (1985, 198). Whitlam traced that explosion to the failure of his parliamentary party to persuade the ACTU to accept an increase in the social wage - education, health and infrastructure spending - in exchange for wage restraint. The ACTU attempted to continue its wage claims strategy aimed at maximizing pay via the AIRC. This resulted in an average yearly increase of full-time worker pay of 19.9% between 1972 and 1975, with 1974 seeing a massive 28% increase (Teicher 1987, 13).

The AIRC became a forum for leapfrogging claims, sparked by the May 1974 GM and Vehicle Builders Employees Federation deal. In the months that followed, waterside workers, restaurant employees, transport and oil workers all went to the Commission and received lump sum pay rises. The NSW President of the Chamber of Manufactures complained that pace-setting wages in the public sector were making it impossible for employers to resist union demands (Whitlam 1985, 200, 201). The coordination of the arbitration system had completely fragmented. Whereas in the 1969-70 fiscal year an

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[98] In the first three years of the 1970s, strike days lost rose above 2 million in 1970, to over three million in 1971. Average weekly earnings rose 29.7% between October 1969 and October 1972, while CPI in the six capital cities rose 19% (Hagan 1981, 229). The incidence of strikes rose from an average of 1 400 per year between 1965 and 1967, to 1 713 in 1968, to 2 014 in 1969, and to 2 738 in 1971. Strike numbers stayed around this level until 1976 (Whitlam 1985, 199).

estimated 52.6% of wage increase came via National Wage cases, the number dropped to 37.7% for 1972-73, 19.1% for 1973-74 and 21.2% for 1974-75 (ABS, cat. 6311.0).

In an attempt to curb the runaway wage increases in all sectors of the economy, both the ALP and the ACTU called for a return to the pre-1953 days of wage indexation (Hagan 1981, 358-359).[99] The Commission did so in the May 1975 National Wage case. Indexation remained in place until July 1981.[100]

During the six-year period of wage indexation, employer and Fraser government submissions to the Commission routinely asked for zero percent wage increases while the ACTU supported CPI increases (Dabscheck 1989, 32). The Commission tended to split the difference, offering near full indexation increases on most occasions. In addition, the 1975 case opened up the possibility of productivity claims. The operation of these followed an old pattern. In 1978, waterside workers received an $8 per week "work value" increase. By April 1981, 80% of the workforce had received a similar increase. The flow-on of extra claims, long a feature of Australia's "comparative wage justice" tactic by the ACTU, was in full effect (Dabscheck 1989, 29). The result was an astonishingly high level of central wage coordination. Wage indexation increases accounted for 98% of the change in the male total

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[99] 6% in 1972-73, 12.9% in 1973-74, and 16.7% in 1974-75 (Reserve Bank of Australia 1997, Table 5.7b).

[100] The breakdown of centralized bargaining in Australia in 1973 had predictable effects on employer organization. By December 1977, two dominant groups with the loose-knit NEA, the ACMSA and the ACEF formed the Confederation of Australian Employers (CAI). The new group was a direct result of the chaotic wage days of the Whitlam government.

wage in 1978. The lowest contribution for the period was 81% in 1980. Women's wages were similarly coordinated (ABS, cat. 6311.0).

Wage indexation was abandoned in 1981 on the back of a commodity price boom. Exporters and export servicers --mining, rural and transport employers -- could afford to pay more than the CPI.[101] The result was a wages breakout. Metal unions pushed for a 35-hour week, and special claims abounded in early 1981. While nowhere near the 28% average earning increase of 1974, 1980-81, 1981-82 and 1982-83 saw average earning increases of 13.4%, 13.5% and 12.9% respectively (RBA 1997, Table 4.17). The end of the Fraser government echoed the chaos of the Whitlam years. In December the Commission in response to employer and government submissions introduced a six-month wage freeze. By then the Fraser government was finished. In March 1983, the ALP lead by ex-ACTU leader Bob Hawke, and Treasurer Paul Keating took office in a landslide victory.

7.3 Declining union density

In 1982, just prior to the coming to power of the ALP government and the advent of the Accord, union density among employees was a healthy 49%. When Labor left office 13 years later, union density stood at 31% (see table 7.1). All industries saw a decline in union density, but the decline was especially marked in mining (down 25 percentage points), construction (down 20 percentage points), transport and storage (down 24 percentage points), and communication services (down 23 percentage points). Union decline after 1990 was especially

[101] The average price for Australian coal on the world market increased US$7 per tonne in 1980. Bauxite prices increased by one-third between 1978 and 1980, and iron ore increased over 50%. Beef prices also increased dramatically.

steep and coincided with the move to enterprise bargaining and the ending of union preference and bargaining preference arrangements in many workplaces that created closed shops throughout the economy.[102]

The number of workplaces with union members dropped in the early 1990s. For instance, the number of unionized mining workplaces declined from 77% to 58% of the industry total. Other industries with large gains in the percentage of workplaces without union members between 1990 and 1995 include wholesale trade (24% to 60%), finance and insurance (7% to 21%), construction (5% to 20%), transport & storage (4% to 14%). The numbers of non-union establishments in manufacturing increase by 10% from 18% to 28% between 1990 and 1995. Almost 100% of public sector workplaces had union members in both surveys (Morehead et al 1997, table A7.1a).

The mere presence of union members in a workplace is but half of the issue. The other is the presence of union delegates who can place pressure on and bargain with management over pay. According to

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[102] Best estimates are that in 1990, 54% of union members were in these closed shops. By 1996, the figure was around 25% (Peetz 1998, 86). Within the firms who were members of the Business Council of Australia (comprising most of Australia's largest firms), in 1988 82% of workplaces were closed shops. By 1992, the figure had dropped to 74%. Between 1976 and 1988, the proportion of employees in compulsorily unionized jobs fell from an estimated 34% to 23%. By 1990, the figure was 21% and by 1995, just 11% (Peetz 1998, 87).

Peetz estimates that the demise of closed shops accounted for 1.1% percentage point per annum drop in union density between 1990 and 1995 and 0.6% per annum between 1976 and 1990). In the 1990-1995 period, five of the six states enacted legislation that banned closed shops: NSW in 1981, Victoria in March 1993, Western Australia in December 1993, Tasmania in 1994, and South Australia in August 1994 (Peetz 1998, 99). The Commonwealth banned closed shops in 1996. The shift of employment from public to the private sector created by privatization in the central government accounted for another 0.2% per annum drop between 1990 and 1995 (1998, 150). Structural change and the demise of the closed shop are therefore the cause of union decline in the first half of the 1990s.

1990 data from the Australian Workplace Industrial Relations Survey (AWIRS), 92% of unionized mining workplaces had at least one delegate.[103] In total, 66% of unionized Australian workplaces had a union delegate in 1990.[104]

Table 7.1
Trade union density by industry, Australia, 1982-1996.

	1982	1988	1990	1996
Agriculture, forestry, fishing & hunting	20	13		
- Agriculture, forestry & fishing			13	7
Mining	64	63	63	39
Manufacturing	54	48	46	39
Electricity, gas & water	78	80	80	65
Construction	50	47	45	30
Wholesale & retail trade	28	23		
- Wholesale trade			19	15
- Retail trade			25	23
Transport & storage	72	62	58	48
Communication services	85	76	75	62
Finance, property & business services	42	28		
- Finance & insurance			44	34
- Property & business services			21	11
Public administration & defence	63	61	60	47
Community services	54	49		
- Education			58	50
- Health & community services			41	34
Recreation, personal & other services	36	26		
- Cultural & recreational services			37	23
- Personal & other services			37	29
Total	*49*	*42*	*41*	*31*

Source: ABS 6325.0 (1989; 1997)
Notes: Density is percentage of all employees. Industries were re-classified in the 1990s and this is responsible for the break in some of the data series.

[103] Electricity, gas and water (82%), transport and storage (83%), communication services (81%) and public administration and defence (76%) were the other industries where over ¾s of workplaces had delegates (Callus et al 1991, table 5.1).

[104] In 1995, that figure was 70%, due to the overall drop in unionized workplaces from 80 to 74%. The number of workplaces with unions and delegates remained more or less steady, decreasing just one percent from 53 to 52% of all workplaces. Mining delegate density in unionized workplaces dropped however, to 77%, and from 71% to 45% of all workplaces (Morehead et al 1997, table A7.1a).

Mining is one of the more unionized industries in the 1990s, but what stands out is the high presence of union delegates in mining workplaces. AWIRS data suggests that mining workplaces had many more delegates per workplace than any other sector, and that those delegates had more years experience, on average, than those in other industries. Delegates in mining were far more likely to talk to management about IR issues more than once a week than in any other industry. In the management survey of the 1990 AWIRS, 57% of workplaces in mining had discussions and meetings between delegates and management at least once a week. In 1995, the figure was 48%. This compared to figures of 24% (1990) and 19% (1995) for all workplaces[105] In 1995, 54% of workplace mangers in mining reported that pay issues were frequently raised by delegates-a higher percentage than any other industry (Morehead et al (1997), tables A8.1a, A8.1b,.A8.3, A8.10a, A8.10b, A8.11).

The conclusion we can draw from this data that is relevant for the causal argument advanced in this dissertation is that in the first half of the 1990s and presumably before, unionism in mining workplaces, the major export industry in Australia in the 1980s and 1990s, was comparatively healthy from a membership perspective, and very active, if the delegate data is any indication.

[105] Other industries with similarly high rates of contact between delegates and management include transport and storage (1990, 47%; 1995, 30%), construction (30%, 20%), wholesale trade (22%, 27%) and communication services (25%, 29%).

7.4 The economic context of the Accord

7.4.1 Declining protectionism

It is no exaggeration to say that in Australia between the late 1940s and 1972, some form of protection covered every aspect of production. No uniform measure of tariff levels across all industries are available for Australia before 1968, but figure 7.1 shows that in the late 1960s, the average tariff and other forms of direct assistance such as price subsidies, and interest rate and taxation rebates for all traded industries and services was 24%.[106]

The sector that tended to be excluded from direct assistance was the mining sector. In 1951, coal accounted for just 0.1% of Australian exports in dollar terms. By the mid-1980s, coal accounted for 16% of exports. Iron ore was not exported in any critical quantities until the late 1960s. Bauxite production remained equally low until the mid 1970s. But the coal and iron ore mining industry benefited for the government's encouragement of the steel industry in particular, which fed the down stream production by protected sectors, especially white goods and motor vehicles (Bulbeck 1983, 222).

Foreign capital before the 1970s tended to concentrate in the domestic manufacturing industries in order to overcome the tariff wall.

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[106] This figure, although useful in showing how assistance declined in the mid 1970s and again after the Hawke government came to power, tends to obscure the extremely high rates of assistance in some industries. In the late 1960s, the effective protection level (which included indirect barriers to trade, including health and safety and product regulation) of textiles was 43%, clothing and footwear, 97%, and motor vehicles, 50%. At this time, the manufacturing average was 36%. By 1981, the effective protection on motor vehicles had risen to 124%, and clothing and footwear enjoyed a 204% protection level. Australian consumers were paying three times their neighbors for clothes and footwear, and over twice for motor vehicles (Anderson & Garnaut 1987, 163).

Exact data before 1962 is unavailable, but between 1962 and 1972, the foreign control of domestic manufacture in terms of output value increased from 24 to 34% (Bulbeck 1983, 222-223).[107] The 1970s saw a change in the target of foreign capital. The Vernon report in 1965-66 questioned the economic soundness of the tariff, and recommended it be lowered over time. The reduction of tariffs by 25% introduced by the Whitlam government in the mid-1970s heralded a shift in international capital resources from manufacturing to the mining sector. The beneficiaries of Australia's tariffs changed. International capital moved to mining, while domestic capital stayed in the high tariff zones such as footwear, clothing and textiles. Motor vehicles remained the one area of foreign control and 1950s-type tariff protection (Bulbeck 1983, 223).

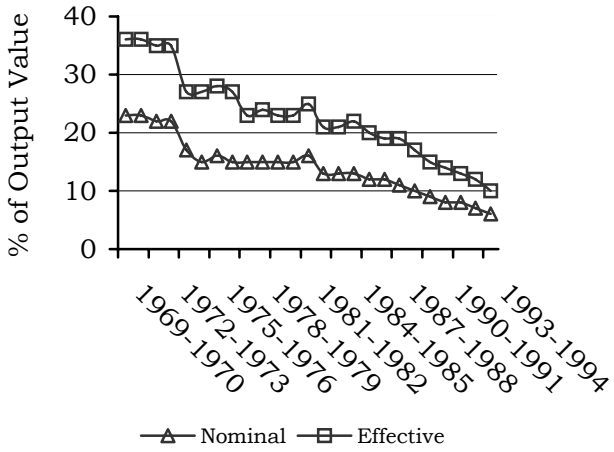

Figure 7.1: Effective & nominal rates of trade protection, Australia, 1969-1994
Source: RBA (1997), table 1.14a.

[107] Foreign capital was also critical in the rise of the Australian services sector. By the early 1980s, MNCs controlled 45% of insurance, 19% of life insurance, 41% of finance and 51% of Australia's advertising revenue (Bulbeck 1983, 222-223).

The Hawke and Keating governments, after the status quo years of the Fraser Government (1975-1983), recommitted Australia to a free trade strategy in the context of a balance of payments crisis. In conjunction with industry plans (most successfully executed in motor vehicles, steel and textiles, clothing and footwear) which included bounties, training schemes, R & D grants and export development programs[108], the Hawke government moved to cut tariffs and import quotas. The aim was to increase the percentage of consumer goods that were exported, estimated to be 14% in 1984. Australia was the only advanced capitalist country not to see this share increase since the 1950s (Capling & Galligan 1992, 133, 141).

Following the 1986 monetary and balance of payments crisis, the Hawke government capitalized on the depreciating dollar to cut tariffs uniformly to 15% if over 15% in 1988, and to 10% if between 10 and 15%. The aim was to reduce the average tariff protection from 19 to 14% by 1992/3. This was followed by a March 1991 announcement that tariffs were to be cut to 5% by 1996 (Capling & Galligan 1992, 151, 157).

The move to free trade by the ALP governments originated from policy-maker interpretation and diagnosis of the balance of payments and debt, and exchange problems faced by Australia in the mid-1980s. It provided a vital stimulus to policy makers to decentralize wage bargaining, which was regarded as a corollary of free-trade and necessary to promote competitiveness and economic and job growth.

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[108] In 1987, Australia was the largest spender per export dollar on export promotion of all the advanced capitalist countries (Capling & Galligan 1992, 142).

The wage policy reaction of the move to free-trade policies and the adoption of competitiveness are re-visited in chapter 10.

7.4.2 Increasing trade

The protection of the Australian economy is demonstrated by Australia's relatively low exposure to the world economy. In the 1980s, exports averaged 15.4% of GDP, and imports averaged 17.6% of GDP. However declining tariffs and quotas have spurred both imports and exports. Exports grew from 13.4% to 19.8%% of GDP between 1970 and 1996, while imports grew from 13.8% to 19.5% of GDP. In the 1980s, the Euro zone average exposure to trade was far higher. Exports, on average, accounted for 27.7% of GDP, imports 27.6%. Exposure to trade also grew at a faster rate between 1970 and 1996, with exports increasing from 205% to 29.7% of GDP, imports 20.4% to 27.6% (OECD 2001, tables 6.11, 6.12).

Australian exports have relied upon primary industries. In the immediate post-WW2 period, rural primary commodities comprised almost 90% of Australia's exports in dollar terms. By the mid-1990s, primary rural commodities accounted of less than 30%. This massive change in the export share of commodities such as chilled meat, wool and grains was due to a stalling of growth in the volume of farm exports and the rapid growth of mining and manufactures exports from the 1970s onwards. By the mid-1990s manufactured goods accounted for almost 30% of all exports in dollar terms in the mid 1990s. Mining emerged in the 1970s as a significant contributor to exports, reaching its zenith in the mid-1980s when the sector

accounted for around 30% of export revenue, with metal products contributing an additional 8% (see figure 7.2).

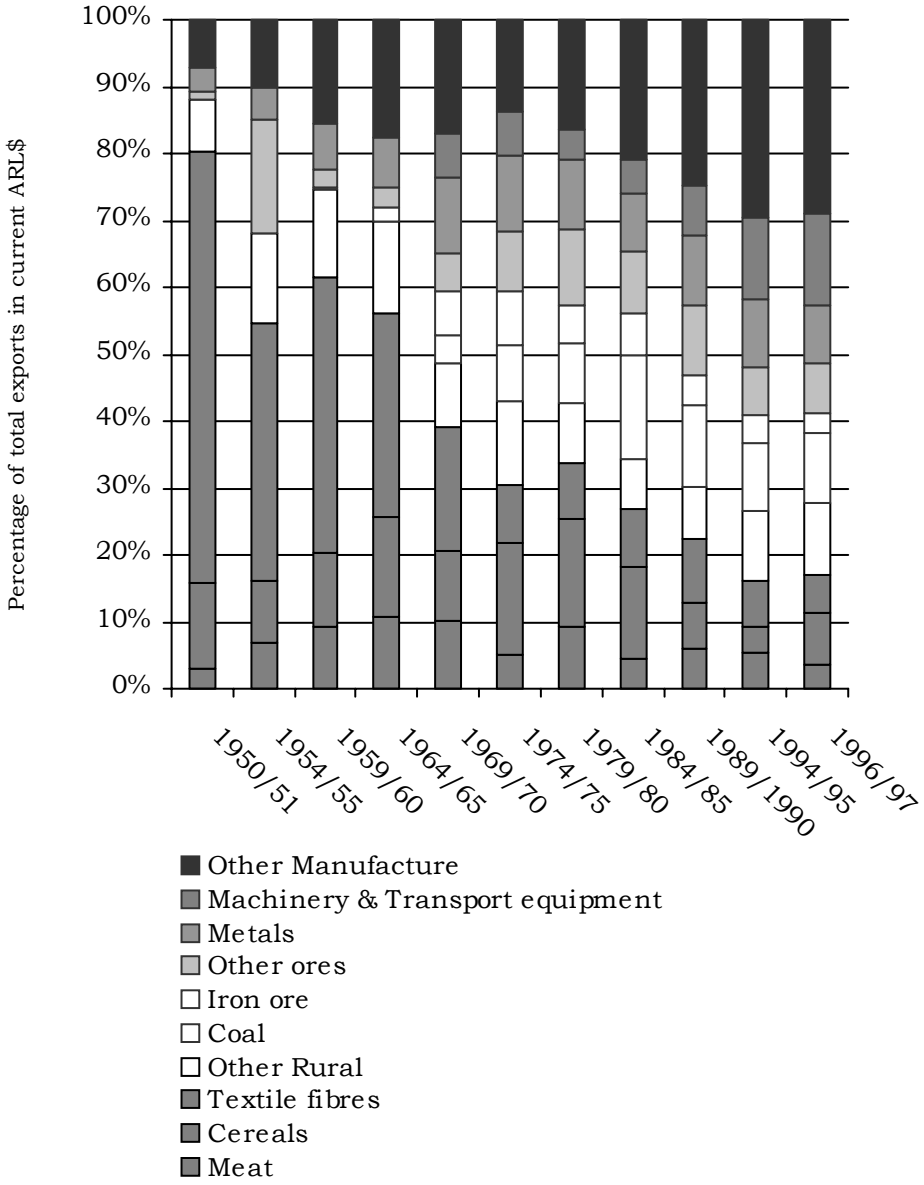

Figure 7.2: Export shares, Australia 1950-1997.
Source: derived from ABARE (2004), table 3.

The Accord therefore coincided with the height of the mining sector's contribution to export revenue. Revenue to Australian firms from the resource sector rose by over 5000 million dollars per quarter, compared to an increase for manufactured goods of around 4200 million dollars per quarter. Most of this growth was due to the expansion of coal and gold exports (see figure 7.3). In a period of a gain in the share of manufacture exports, in absolute terms export growth in the resource or mining sector was greater due to the growth of coal and gold exports (see figure 7.4).

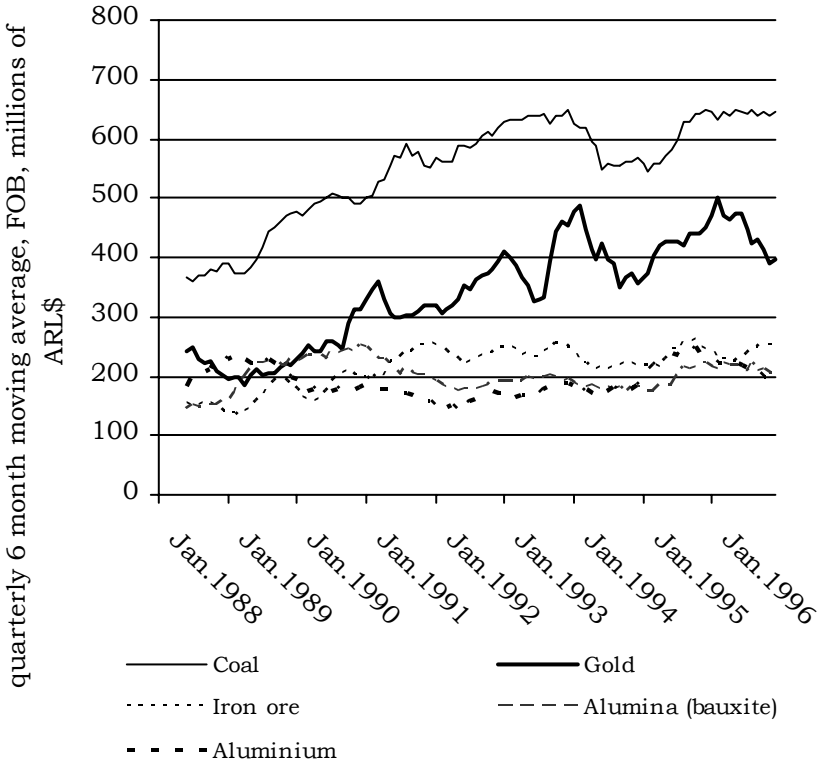

Figure 7.3: Mining commodity exports, Australia, 1988-1996
Source: ABS, 5368.0 (various years).

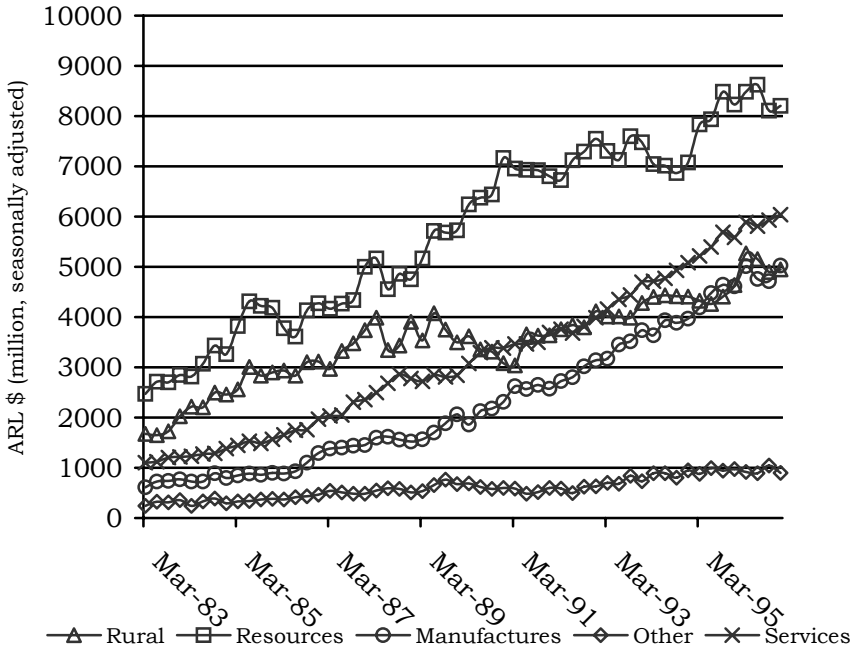

Figure 7.4: Exports by value, Australia, 1983-1996
Source: ABS catalogue 5302.0 (time series, electronic delivery)

7.4.3 Debt & the balance of payments.

The most persistent and problematic macro-economic problem faced by Australia since the 1970s has been its poor record on balance of payments and the corresponding mounting debt bill. Australia imports far more than it exports, and beginning in the 1970s this has led to an endemic and worsening balance of payments problem (see figure 7.6).[109] Since 1977-78, the current account deficit as a percentage of GDP has only dipped under 2% in one year (1979-80). Since 1960-61, the current account has only been in surplus in one year (1972-73). Since 1980-81, the deficit has averaged 4.5% of GDP (ABARE 2004, table 10).

[109] Australia's poor balance of payments record is reflected in national savings data, which shows that in the 1980s, net saving averaged 4.7% of GDP compared to the OECD average of 8.6% (OECD 2001, table 6.15).

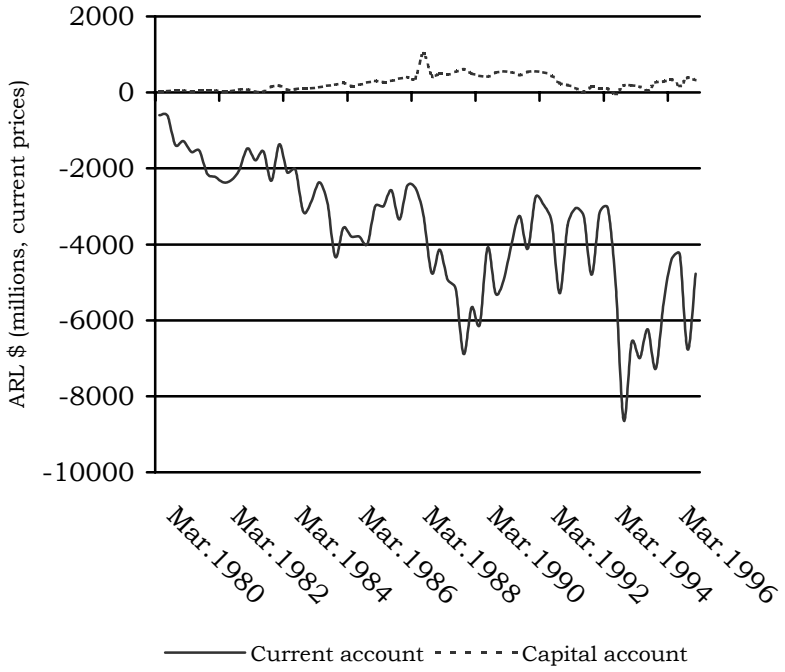

Figure 7.5: Current & capital account, Australia, 1970-1996
Source: ABS, 5302.0 (time series electronic delivery).

This, in turn, increased the national debt and interest re-payments on the debt (see figure 7.7). While some countries have had episodes of negative current account deficits (in some cases quite severe, for instance in Ireland between 1976 and 1986, and Norway 1974-1978 and 1986-1988), Australian balance of payments has been persistently negative and steadily worsening since the early 1970s (Argy 1992, 119). By the 1990s interest payments constituted around 2.5% of GDP. Between 1980 and 1990, net debt as a percentage of GNP increased from 6% to 34% (Argy 1992, 224). Interest payments on debt increased from 6.7% of the value of exports (free on board) to 20.6% between 1981/2 and 1989/90 (Reserve Bank data in Kearney 1997, table 5.5). Viewed from a comparative OECD basis, Australian debt and the amount of income payable overseas in the 1970s and 1980s were high. In the 1990s only Mexico, Turkey, Poland, the Czech

Republic, Hungary and Iceland had comparable or worse records of debt as a percentage of GDP in the OECD (OCED 2001, table 6.14).

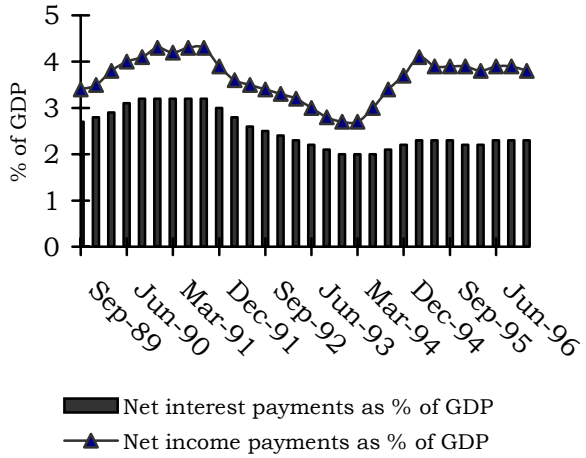

Figure 7.6: Debt servicing, Australia, 1989-1996.
Source: based on RBA (2005), table H07, from ABS data

7.4.4 Mining contribution to the balance of payments

The primary importance of debt and the balance of payments in labor market policy adjustments is discussed in chapter 10. It is sufficient to say here, that given the reliance of Australia on primary commodity exports, and the necessity to correct the chronic balance of payments problem, it is no surprise that mining and agribusiness firms were powerful influence on labor market policy in Australia in the 1980s and 1990s.

Australian Bureau of Agriculture and Resource Economics (ABARE) data on the contribution of the resource sector to merchandise trade on a balance of payments basis shows that in the 1980s farm and resources revenues on annual average comprised 72.5% of Australia's merchandise exports on a balance of payments basis (mining 47.1%, farm 25.4%). In the 1990s, the annual average

was 73.2%. In 1969/70 mining accounted for 31.7% of exports on a balance of payments basis, growing reasonably steadily to a high of 53.3% in 1990-91. Farming revenues have declined since 1960-61 from 74.3% to 43% in 1980-81. The drought of the early 1980s meant that many producers dropped out of the market and the significance of farming has declined somewhat, so that by the end of the 1990s, revenues accounted for around 25% of exports on a balance of payments basis (ABARE 2004, table 5).

On a total trade basis (including internationally traded services), in the 1980s the resource sector averaged 38.7% of exports on a balance of payments basis, and in the 1990s, 36.7% (ABARE 2004, table 6).

7.5 Structure of the mining industry

With the exception of gold mining, the resources sector is dominated by a few large firms operating very large mining operations. In terms of capital intensity and size of the workplace workforce this is a group of the largest workplaces in Australia. For instance, the 22 iron ore mines in Australia in 1995-96 responsible for around 4.2% or ARL$250 million in exports employed on average 294 employees per mine or around 6500 in total. The 172 coal mines responsible for 10% of Australian exports in 1995/6 or around ARL$650 million in exports, employed an average of 148 people per mine or around 25 500 in total (figure 7.4; ABS 1996, tables 8.5, 12.1). In 1995, the average size of the mining workplace (140) was larger than any other industry save government administration (179) and health and community services (164) (Morehead et al 1997 table 3.2).

At the top end of the mining sector are a few very large firms operating huge mines. The 12 largest managerial units of the 376 in operation in 1995-96 employed 30% of the employees, accrued 39% of the turnover, 42% of the total value-added and were responsible for 39% of fixed capital expenditure (ABS 8415.0 (1996), table 2.1). The seven largest mines in Australia, all with over 1000 employees, employed 24% of all mining employees, paid 25% of the wage and salary bill, accrued 14% of the turnover and 10% of value-added, and invested 10% of the industry total of fixed capital expenditure (ABS 8415.0 (1996), table 2.3.

In the iron ore mining industry the concentration is even more pronounced. The top four iron ore mining managerial units in terms of employees (being a corporation or a discrete sub-division of a corporation) ran seven mines that employed 94% of the iron ore mining workforce, accrued 87% of the sub-industry's total turnover and 84% of the value-added, and made 94% of the fixed capital investment. If we make the reasonable assumption that 100% of the production of these mines is for export, the seven largest iron ore mines contributed around 3 ½ to 4% of Australia's exports in the mid-1990s, and contributed around 11% of world production in iron ore (own calculations based on ABS 8415.0 (1996), table 13.1). Correspondingly, in the coal industry, the four largest managerial units operated 16 mines, turned over 31% of the industry's revenue and were responsible for around 3% of Australia's exports (ABS 8415.0 (1996), table 2.6).

It is easy to see that the closure of, or loss of production in any of these massive mines represents a real threat to the health of Australia's balance of payments. Given the size of the group, the resources available to the members, and the group's economic contribution, the influence of this handful of firms on labor market policy should be considerable.

7.6 Summary of the main points

The major points to be taken from this chapter and used in the ones to follow are:

The tribunal system

- Wage bargaining in Australia is structured by two sets of arbitration institutions: one set of tribunals at the state level, another at the federal or Commonwealth level. There is an institutional continuity between the pre-Accord and Accord periods: that of the tribunal system
- The tribunal system has meant that unions have not been forced to amalgamate and build size in order to wield considerable power over industrial relations in any one firm or industry. Compulsory arbitration has meant that unions in Australia have tended to be small in size and great in number. The result has been that it is usual that workplaces have many trade unions covering the workforce.
- The independence of the arbitration system on any particular issue in any particular workplace case may be somewhat significant. But the tendency of the tribunals to follow government policy, especially on significant issues such as in national wage cases in most instances can be explained by the anticipation by tribunal judges of

the possibility of corrective action in the form of legislation should any decision stray to far from the preferred position of the government.

- The great difference between the pre-Accord and Accord eras is the degree to which union and government submissions before the federal tribunal have agreed. This has meant that the federal tribunal has become much more of a 'rubber stamp' for national wage negotiations than in the pre-Accord era.

- In contrast to the Irish system, the Australian wage bargaining system is based around legal wage disputation settlement institutions. Tribunal decisions that have legal authority confer rights and bargaining power. The system is quite formal and rigid in comparison with the Irish system and gives trade unions power of bargaining outcomes that they would not enjoy in a voluntarist system.

Trade

- While the Whitlam government cut tariffs dramatically in 1973-4, the Hawke/Keating government has been instrumental in the move to an open economy model of economic growth. During the ALP governments of 1983-1996, nominal and effective protection rates were halved.

- Australia has a very low exposure to the world economy in comparative terms, but total trade as a percentage of GDP rose by over one-third between 1970 and 1996.

- Primary industries are the backbone of Australian exports. In the mid-1980s, mining commodities accounted for around one-third and rural production another one-third of total export revenue. Manufacturing export share has grown since 1970, however, from 16%

to 29%. The share of export revenue from mining peaked during the Accord.

- Coal and gold were the two fastest growing and most significant contributors to mining export revenue in the 1980s.

Debt & balance of payments

- Australia's largest and most persistent macro-economic problems have been and are debt and continuing balance of payment deficits. These are both very high by OECD standards. Australia imports far more than it exports, and spends more than it saves. Debt re-payments fluctuated between 3 and 4% for most of the Accord years. About three-quarters of this were loan interest payments. Australian balance of payments has steadily worsened from 1980 and the record is among the worst in the OECD.

- The mining industry, which has a very large influence on the balance of payments, is massively concentrated. The largest 12 mines employed 30% of employees, accrued 39% of turnover and 42% of the total value-added in 1995-96. Companies owning and running these mines should have a significant influence over policies the government deems to be important to improving Australia's trade position.

Trade unions

- Union density declined significantly since 1982 from around 49% of all employees to 31% in 1996. This was due to an increase in the share of non-union workplaces, and the abolition of preference arrangements (closed shops). Mining is one of the most unionized industries in the 1980s and, if the number of union delegates per

workplace is any indication, had a very active presence within the mines and in pay negotiations.

Chapter 8
Australian pay, 1983-1996.

8.1 Overview of the chapter

The purpose of this chapter is to first, introduce an outline of the Accord agreements so that the reader gains a quick understanding of the three distinct periods: centralized (1983-1987), the so-called 'two-tier' period (1987-1991) and the enterprise bargaining or decentralized period (1991-). Second, I outline the subsequent pay outcomes in the export and traded, local or 'indigenous', and public sectors, examining real pay increases. For the sake of completeness I examine all industries in order to briefly check whether public sector wages were increasing more quickly than elsewhere in the economy. A third task of this chapter is a comparison of the nominal pay data for the dominant export sector (mining) in comparison to a selection of other industries (manufacturing, government and administration, business and financial services, retail and wholesale) in order to show, in contrast to the relative chaotic trend of Irish export pay, the relative conformity of export pay trends with the rest of the economy under the Accord. This serves to illustrate the lack of pay flexibility afforded exporters that was the primary cause of the decentralization of wage bargaining during the latter Accord years.

To summarize the findings of the second part of this chapter, I find evidence that the centralized years of wage bargaining in the Accord were characterized by public and sheltered sector wage restraint. It was not until pay was decentralized that public sector pay was

substantially increased in real terms. Sheltered sector pay, especially in utilities, substantially increased in relative terms in the enterprise era. This leads to the conclusion that the centralized years of the Accord suppressed public sector wage drift pressures. This road to decentralized wage bargaining must be ruled out.

In the export-heavy sectors (mining, manufacturing, traded services) the record on pay during the centralized years is mixed, with the services experiencing real wage growth perhaps associated with technological and occupational changes, while mining and manufacturing saw real wage stability. It was not until wage setting was decentralized after 1991 that there is striking evidence of increasing relative and absolute pay in mining suggesting that pay pressures were perhaps suppressed by the centralized era (acirrt 1999, 76).

This is a counter-intuitive finding, given that mining companies were at the forefront of employer efforts to decentralize wage bargaining. However, this data must be read with several things in mind. First, the recovery in mineral and coal commodity markets in the 1990s and especially the 2000s eased the employer push to minimize wage bills even as decentralized bargaining was won. Second, the general anti-union push in mining from employers after the mid-1980s suggests that the push for pay flexibility was in the first instance and is largely now against constraining pay setting processes, rather than raw wage outcomes. Certainly pay levels were a concern for Peko-Wallsend in their Robe River mine, and led to a critical industrial dispute that encouraged other mining and export employers

to join the anti-centralized bargaining push. But for the majority of mining and export firms pay flexibility meant getting rid of centralized bargaining institutions first and foremost. Doing so was a form of insurance against poor wage outcomes in the future.[110]

A final major finding coming out of the second part of this chapter's examination of wage trends is that the two-tier system from 1987-1991 performed poorly in terms of holding down real wages: the record of those years is far worse than the centralized years of 1983-1987 and the enterprise bargaining years after 1991. While inflation was slightly higher for the 1987-91 period than the 1983-1987 one, this is not the source of the majority of the difference in wage restraint between the two periods. This poor record provided an impetus for employers to increase pressure on what was left of the centralized system. The problem of spiralling wages also fed into the calculations of policy makers who shifted their support to a decentralized system in search of a productivity-driven wage increase regime in the late 1980s. These issues are further explored in chapters 9 and 10.

8.2 The changes in wage bargaining, 1983-1996.

The Accord agreements are summarized in table 8.1. Wage bargaining moved from a highly centralized arrangement with annual CPI-based wage increases between 1983 and 1987 (Accords I and II), to a two-tier system, with a basic centrally granted increases and a local component, from 1987 until 1991 (Accords III, IV and V).

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[110] The move on the inflexible process of wage-setting is reflected in the large increase in the use of contractor labor and the continuing push for greater percentages of pay to be linked to performance throughout the 1990s and into the 2000s (see Bowden 2000; and Barry, Bowden & Brosnan (1998)).

Enterprise or plant level bargaining was introduced in late 1990 in Accord VI, and was further entrenched in Accord VII which allowed for no limit enterprise bargaining.

Table 8.1
The Accord agreements between the ACTU & the ALP governments, 1983-1993.

	Wages	**Trade-offs**
Accord I **Feb 83**	Centralized wage bargaining: Fully indexed to CPI every 6 months No outside bargaining	Govt: "Avoid income tax increases' Indirect taxes and govt charges to be minimized
Accord II **Sept 85**	Centralized wage bargaining: CPI less 2%	Govt: Tax cut equal to 2% of wages Employers: Superannuation safety net
Accord III **March 87**	Partially decentralized but coordinated wage bargaining ('Two-tier'): Central: $10/week + 1.5% Local/industry: up to 4% based on efficiency or award re-structuring, paid in 1 or 2 installments ('Restructuring and wage efficiency principle').	Employers: Superannuation claims of up to 3% of ordinary time earnings in 2 payments in 1/88 & 1/89 to be allowed at local or industry levels.
Accord IV **Aug 88**	Partially decentralized but coordinated wage bargaining ('Two-tier"): Central: 3% Local/industry: up to $10/wk provided productivity improvements made	Govt: First explicit tax/wage trade-off. Promises of further tax cuts provided re-structuring takes place and depending on actual wage rises gained.
Accord V **Aug 1989**	Partially decentralized but coordinated wage bargaining ('two-tier'): Central: $10-15/per week or up to 3% Local/industry: based on productivity improvements such that overall increases to 6/90 do not exceed 6 ½ % total.	Govt: Promises of tax cuts (delivered in 89/90 budget & equivalent to around 5% of average wage), increases in family allowances and other social welfare, including supplementary payments to low income earners of up to $70 per week (severely marked down by AIRC).
Accord VI **Sept 90**	Mostly decentralized and partially uncoordinated bargaining (enterprise bargaining begins): Central: $12/wk later modified in 4/91 to 2.5%. Local: no limits on productivity-based bargaining (ratified 10/91)	Govt: 1/91 tax cut of $7.50 per week for average wage earner. Employers: Employees to claim up to 12% rise in super contributions
Accord VII **Feb 93**	Mostly decentralized and mostly uncoordinated: Central: safety net adjustments for low pay workers of $8 (93) and $24 over 3 installments to mid-96. Local: Enterprise bargaining principle: no limit bargaining.	Govt: Promises of tax cuts worth between $19 and $46 per week for average wage earner by 1996.

Sources: Wilson, Bradford & Fitzpatrick 2000, 283-406; Kelly 1994, 489-493; Argy 1992, 210-211; Tingle 1994, 165.

Examining table 8.1 shows a couple of trends worth noting in the context of the argument advanced here. The first is the increasing use over time of tax cuts in order to generate wage restraint. This occurred as the wage bargaining system was decentralizing, however. The first explicit wage/tax trade-off came in Accord IV and was designed to slow unions from making high wage claims in local bargaining. Second, employers even though they were not parties to the Accord agreements had obligations placed upon them in Accords II, III and VI in the form of increased pension or superannuation contributions.

8.3 Pay and the Accord

What were the effects on wages of the changes from a centralized system to a more decentralized one? Several important trends can be observed The centralized system (1983-1987) was very successful in restraining wages in real terms, largely due to the delay between CPI rises and the actual granting of indexed pay rises, and the discounting under Accord II. The two-tier phase between 1987 and 1991 was somewhat of a disaster compared to the discipline of the 1983-1987 period. Private sector industries with strong unions (manufacturing, mining, communication services) experienced real wage growth, as did most of the public sector. The enterprise period after 1991 continued to see public sector real wage growth. But real wage growth in mining and manufacturing was curtailed to a degree for the first few years while wages in property and business services, retail trade and accommodation, restaurants and cafes declined in real terms. These results lend themselves to the interpretation that pay movements during the partially decentralized 1987-1991 period would have only

provided more ready ammunition to the employer cause that pay bargaining be more decentralized.

The real wage restraint between 1983 and 1987 in the centralized Accord years is demonstrated in figure 8.1. After 1988 real wages increase until 1991, and flatten out slightly following the enactment of enterprise bargaining in 1991. As the disaggregated data presented in the next section indicates, the increase after 1991 was largely due to public sector real wage increases, while the 1987-1991 increase was due to a more widespread rise in the real wage.

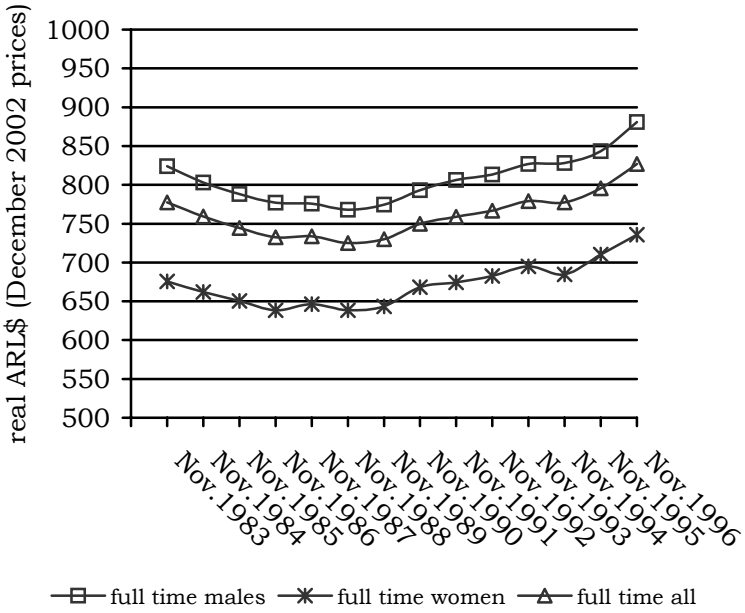

Figure 8.1: Average real total weekly earnings, Australia, 1983-1996

Source: own calculations based on nominal seasonally adjusted data in ABS 6302.0, table 2.
Notes: Nominal data deflated by CPI (all capital cities) average of previous four quarters from ABS cat. 6401.0 (various years).

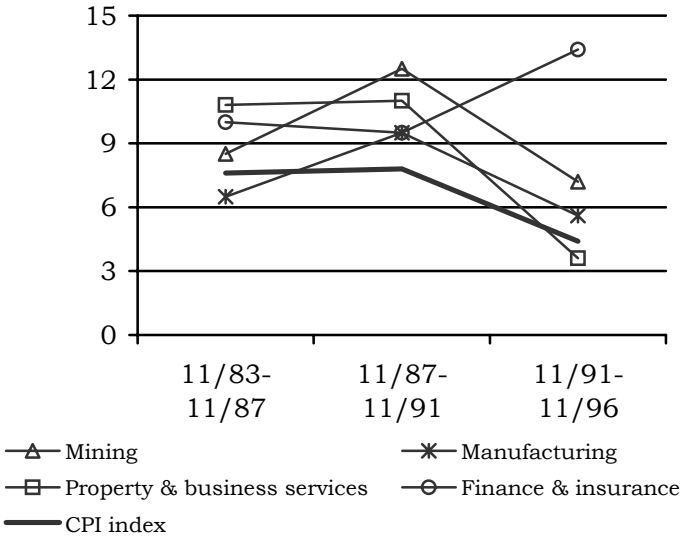

Figure 8.2: Nominal average yearly pay index increases, export & import high competition sectors, Australia 1983-1996.
Source: derived from ABS 6302.0; 6401.0, (various years)
Notes: 11/83-11/87 is centralized bargaining period; 11/87-11/91 is two-tier bargaining period; 11/91-11/95 is enterprise bargaining period.

Examining the wage movements for the export heavy sectors shows that the centralized era was very successful in holding real wage increases to a minimum in mining and manufacturing (see figure 8.2).[111] By contrast the two-tier period saw marked increases in the average real mean earnings in mining and manufacturing. The enterprise bargaining period of 1991-1996 has a far better record of real wage restraint, with real wage increases dropping markedly in property and business services, noticeable in mining and slightly in manufacturing. Finance and Insurance defies the trend, although this may be due to technological and occupational changes associated with

[111] The data presented in figures 8.7, 8.8 and 8.9 refer to average ordinary time earnings. These have been converted to an index and average increases obtained for the three bargaining periods (centralized, two tier and enterprise). These are then plotted against the average CPI increases for each period. This allows an assessment of real wage movements under the three wage regimes.

the opening of the banking sector to international competition and the progressive and increasing use of computer technology.

In local services, the centralized era also shows real wage restraint in the centralized years (see figure 8.3). The two-tier years saw a real wage break out in the low skill retail and accommodation, cafes and restaurants industries. This indicates just how poor the two-tier arrangement between 1987 and 1991 was able to control real wage increases, although the other local service industries saw real average wage declines of up to 2% per year. The enterprise bargaining period sees a reversal of the two-tier years, with retail and accommodation industry employees subject to, on average, up to 2% per year decline in real ordinary time earnings. By contrast, the other services claws back some of their real wage losses during the two-tier years.

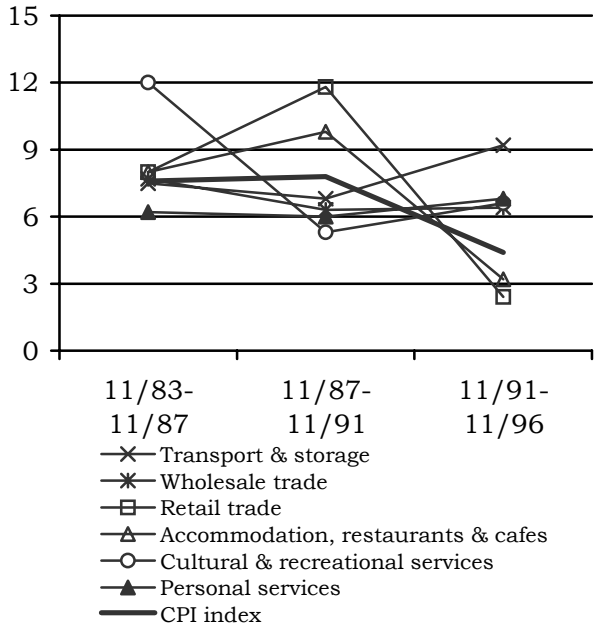

Figure 8.3: Nominal average yearly pay index increases, local service sectors, Australia 1983-1996.
Source: derived from ABS 6302.0; 6401.0 (various years)
Notes: 11/83-11/87 is centralized bargaining period; 11/87-11/91 is two-tier bargaining period; 11/91-11/95 is enterprise bargaining period.

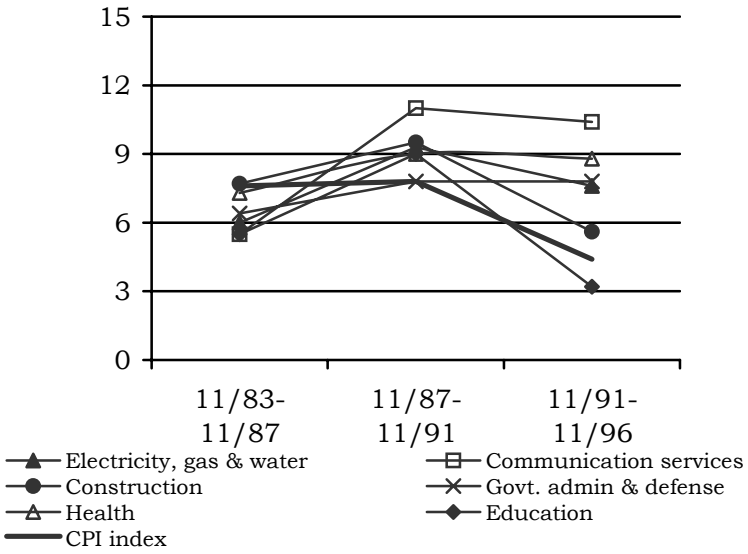

Figure 8.4: Nominal average yearly pay index increases, public & sheltered sectors, Australia 1983-1996.
Source: derived from ABS 6302.0; 6401.0, (various years)
Notes: 11/83-11/87 is centralized bargaining period; 11/87-11/91 is two-tier bargaining period; 11/91-11/95 is enterprise bargaining period.

In the public and sheltered sectors, we observe real wage decline for all industry divisions except construction during the centralized years of the Accord. This demonstrates the early success of the Accord in restraining real wages. However, the two-tier years of 1987-1991 were opportunities for these union-strong sectors to use local bargaining to increase real earnings, a trend that continued and was amplified in the enterprise bargaining years after 1991 (see figure 8.4).

The jump in real earnings during the two tier years reflects the similar experiences of the similarly heavily unionized manufacturing and mining sectors. Mining saw real average earnings increases of over 4% per year, manufacturing just under 2% per year, while the utilities received over 3% per year increase, and with the exception of government administration and defense, the rest of the sheltered and

public sector received between 1 and 2% per year real earning increases, on average. If occupational restructuring occurred and there was clear evidence of an upskilling trend during the two-tier years, then these increases could be attributed to returns to increases in human capital. But as is discussed in chapter 10, the two-tier restructuring efforts were mostly cosmetic and rarely involved an upskilling or training component. An exception was in the metal trades, but efforts there floundered, and it is debatable whether increases in the manufacturing real wage between 1987 and 1991 is due to an a secular upwards trend in human capital.

8.4 Comparing export, non-export £ public sector pay trends

Figure 8.5 shows in a simple but compelling way the effect of the inflexible centralized wage bargaining on wage movements in the 1980s in comparison to the flexible decentralized years in the 1990s. From 1983 until 1990, including the two tier years between 1987 and 1990 and further demonstrating the failure of two-tier years to introduce pay flexibility, movements in the average wage in mining (allowing for seasonal changes) compared to manufacturing, business and financial services, wholesale and retail and government administration and defense appear to be highly coordinated.[112] This is in stark contrast to the Irish pay data reported in chapter 5 where export pay trends appear chaotic compared to non-export and the public sectors both before and after 1999 (see figures 5.1 through 5.7).

[112] A similar coordination can be observed in the median wage trends of every major industry division not reported here. See ABS 6302.0.

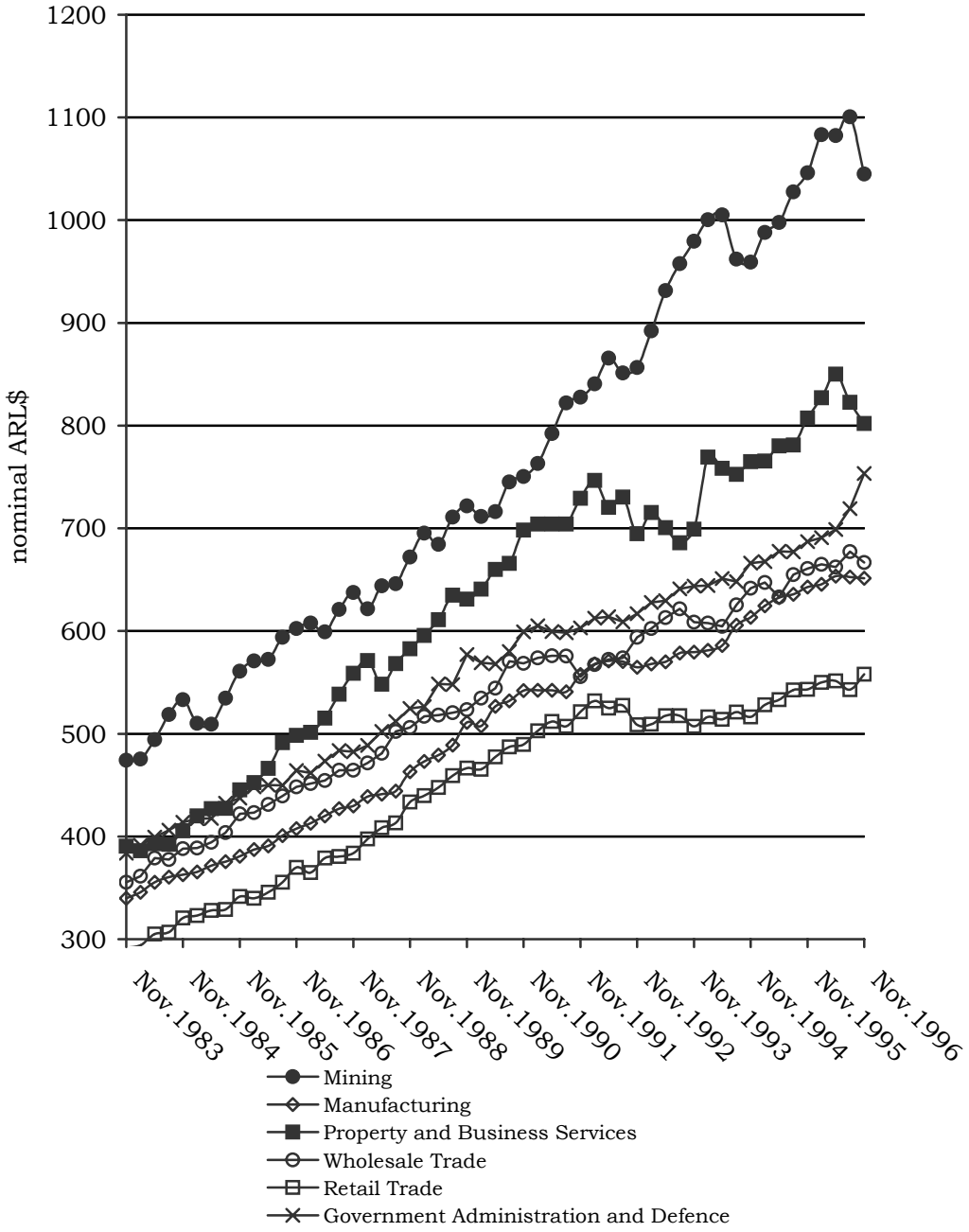

Figure 8.5: Nominal ordinary hours mean earnings, export & select non-export industries, Australia, 1983-1996
Source: ABS 6302.0.

The data in figure 8.5 supports my argument that it was the absence of pay flexibility in the export sectors, especially the mining sector, which was a major cause of the decentralization of Australian wage bargaining.

The Australian experience of centralized wage bargaining stands in contrast to the Irish one, where export sector pay movements reported in chapter 5 support the argument that pay flexibility afforded the export sector is key to the stability of Irish centralized wage bargaining. In Australia however, the movement of export sector pay (mining) until decentralization in 1991 appears to mirror movements in other sectors of the economy. This high degree of coordination suggests an absence of pay flexibility in the Australian system: an absence that was a major cause of the decentralization.

With the advent of decentralized bargaining in the early 1990s, we observe a noticeable dispersion of average pay between these industries. As already discussed, mining commodity markets improved, and despite worries by mining employers over wage levels in the 1980s, mining pay moved upwards in the 1990s at a greater rate than before. By contrast, the services average wages reported here stagnated, government pay growth slowed, and volatile consumer markets in business and property services caused wage movements to fluctuate up and down.

8.5 Summary

The pertinent conclusions to be taken away from this chapter are:

• The tax cut for wage restraint trade-off matured and was favored by government as wage bargaining decentralized. It was not a primary

strategy during Accords I and II, where it was used in an ad hoc manner and supplemented wider social welfare initiatives.

- Employers were obligated, even though they were not parties to the Accord agreements, to provide increased pension contributions under Accords II, III and VI.
- The centralized system (1983 - 1987) restrained real wage growth thanks to the delays in granting CPI increases (Accord I) and to the discounting of the CPI claim in Accord II. It would appear that that at least some of the wage restraint problems of the two-tier years were due to the build-up of wage pressures during this period.
- The two-tier phase (1987 – 1991) saw real wage growth in most of the public sector, manufacturing, mining and communication services where strong unions used local bargaining to build on gains won centrally. While CPI was slightly higher in the is period than the 1983-1987 period, this cannot be used to account for the lack of restraint, since local or plant and industry claims were not based on the inflation rate but on improvements to productivity.
- The enterprise bargaining period (1991 - 1996) saw real wage growth in the public sector, but declines in low wage service sectors, property and business services, and a curtailment of real wage growth in manufacturing and mining.
- The wage restraint difficulties of the two-tier years reinforced employer demands for a decentralized bargaining system.
- The centralized wage bargaining years of the Accord produced a high degree of coordination in average wage movements between the export, public and non-export private sectors. This illustrates the lack

of pay flexibility that was the major cause of the decentralization of wage bargaining. This is contrast to Irish pay trends and Irish centralized wage bargaining stability reported in chapter 5. Here, we observe very different trends in wage movements between the export (chaotic and not appearing to conform to the central agreements) and non-export and public sectors (closely conforming to the central agreements until 1999 and then exhibiting similar orders of pay drift thereafter). In contrast to the Australian data, the Irish data illustrates the high degree of pay flexibility afforded exporters, which is one of two conditions ensuring the stability of centralized wage bargaining until around 2000, when public sector wage drift took hold and caused a diversion between actual wage outcomes and central wage agreements.

Chapter 9
Explaining the decentralization of Australian wage bargaining: The actions of employers

9.1 Causal effect & employer politics

How are we to assess the causal effect of export employers on policy makers and their policy decisions? Teasing out the direct influence of export capital proves to be difficult. While my argument suggests a large degree of instrumentality in the influence of exporters on wage bargaining policy, trying to find the 'smoking gun" such as minutes or recollection of a meeting where a policy-maker says words to the effect that exporting firms or the BCA needs with regard to wage bargaining policy must be heeded proves to be a fruitless task. The closest we come is evidence of Prime Minister Paul Keating's pro-market orientation developed through his long contact with the mining industry when Shadow Minister for Mining and Energy (Edwards 1996, 149-150) [113]

John Dawkins 1994 speech to a corporate affairs NGO in Melbourne following his resignation from the Keating government when he was Treasurer suggest why finding these links is a frustrating exercise. After stating that the BCA' agenda was pursued with 'vigor' by the Labor governments, the ex-Keating government Treasurer argued that it would not be politic for a Labor government to be seen as enacting policies authored by the BCA, and it was expedient to

[113] The mining industry has an industry-wide preference for neo-classical economics and policy solutions (see Grover 1983).

create some distance from business in order to maintain a close relationship with the union movement (Dawkins 1994, 4-5).[114]

The asymmetry of the Accord presents a causal problem in view of these remarks. Business was never formally incorporated into the Accord: it was an agreement between the Australian Council of Trade Unions (ACTU) and the government. There was never any institution within which business could directly affect policy: there is no Australian equivalent of the Irish NESC. Most of the direct influence on policy came via one-to-one meetings between Prime Minister Bob Hawke and his many business associates and Treasurer then PM Paul Keating and business leaders (McEachern 1986, 1991; Hawke 1994; Kelly 1994, 275-278). While the relationship between the trade union movement and the state can be broadly described as corporatist, the state/employers relationship was classically pluralist (Dabscheck 1989, 119). But it was pluralist with a government that could not appear to be in a too cosy a relationship with export employers. This

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[114] The influence of business and the BCA is well summarized by former ALP member for Adelaide during the decentralizing Accord years (1990-1993), Bob Catley:

> "The primary role for the management of the state in a free-trade era is for it play its role in the formation of a national economy capable of competing successfully with other national economies. The benchmarks for this are the external account balances and national economic growth figures" (Catley 1996, 213).

More concretely, this means that:

> "The interests of business remain second only in the mind of government to maintaining the support of a majority voting coalition. In the long term popular support can only be maintained by ensuring the continuation of business investment, growth in output, and employment opportunities – not necessarily pandering to the latest demands of the business community…an examination of the major macroeconomic decisions of the Labor government over the last decade makes this clear…although it might be reasonably argued that each represented the interests of private capital as a whole" (Catley 1996, 98).

has meant that admissions of influence, such as the one by Dawkins, are few and far between.

I argue that the preferences of the Business Council of Australia (BCA) for greater control of wage bargaining at local and firm levels established the agenda of debate over wage bargaining reform during the Accord. That they were able to do was due to the changing policy environment in which wage bargaining policy was embedded. Protection was a policy regime of the past: openness was the future. The litmus test for policy was that, "competitiveness became the essential condition of success" (Watson 2002, 367). All exporters needed to do in these circumstances were to voice opposition to the centralized system and claim that it hindered the flexibility of their operations. This did not mean exporters got everything they wanted. Clearly, some of them would have liked labor markets that were and are union free. But the state in the late 1980s and into the 1990s delivered policies that responded to their key demands: the need for firm and plant level wage bargaining. In the argument that follows, I outline how the demands ff new employer organizations evolved (this chapter) and how state policy preferences evolved to coincide with those views (chapter 10).

Employer demands became clear through three distinct phases. In the first, exporters found themselves both excluded from the Accord wage bargaining process and within their own employer associations that were numerically dominated by small business and still worried about the move to free trade and the abolition of tariffs. This resulted in the formation of a new group: the Business Council of Australia.

The BCA served large companies that competed in overseas markets or had the capacity to successfully compete against overseas companies in the domestic market. The second phase saw the initiative of a few radical employers that signalled that a cadre of employers objected to, and was prepared to take on significant costs to get rid of the centralized wage fixation system in Australia. In this phase, I highlight and two disputes among exporters in particular: the Robe River dispute (mining) and the Mudginberri dispute (agribusiness). The final phase saw the BCA take up these 'new right' employer concerns through research that demonstrated that these views were more widely held among Australia's exporters. The research explicitly advocated an enterprise or firm-level bargaining position that linked improved competitiveness to decentralized wage bargaining.

For the sake of presentation in my examination of employers and the move to decentralized bargaining, I examine the actions of radical employers first, followed by an examination of the formation of the Business Council of Australia (BCA), finishing with an examination of the evolution of the BCA wage bargaining policy from 1983 until 1996.

9.2 Radical employers come in from the margins

1986 was a watershed year in Australian industrial relations. Just four years after the formulation of the Accord and just 30 months into its operation, four major industrial disputes, two involving exporting firms (Robe River (iron ore), Mudginberri (buffalo meat), one a small family business (Dollar Sweets (confectionary), and the last, a major publicly-owned corporation that sold electricity to distributors (South East Queensland Electricity Board), signalled major changes in the

thinking of many business leaders in the veracity of the arbitration system. These disputes also signalled a shift in power in employer politics in Australia, and the rise of new less formal groupings of business leaders that were to be highly successful in having their industrial relations agenda adopted by the Labor government.

Common to all four disputes were managements facing major interruption of manufacture and distribution of their product due to industrial action. Wage levels and the manner in which disputes were settled were at issue. Common to all four cases was blame for those interruptions being laid at the door of the arbitration system and "irresponsible unionism." Management argued that the arbitration system gave trade unions too much power over management – central arbitration threatened management's prerogative to manage as it saw fit. A final commonality was a shared willingness of the employers in these cases to "go it alone" in their fights. In doing so they were the thin edge of the employer force for industrial relation change.

In the case of Robe, which was the most important industrial dispute in the 1980s, declining profitability and stagnant and declining commodity prices were vitally important spurs to action by management towards a campaign against unions both within and outside the workplace. While Robe management was upset over the total cost of the wage bill and wanted to promote more flexible wage outcomes at the mine (the outcome aspect of pay flexibility), the primary target of the campaign was against union interference in the pay setting process itself (the process dimension). It displayed this through a series of moves that ignored the rulings of industrial

tribunals, and in other various union-busting and marginalizing measures. Robe management's concerns therefore were consistent with the BCA's concerns about the lack of the process aspect of pay flexibility in the Australian centralized system.

The contrast of these industrial disputes with the Irish experience in the 1980s and 1990s couldn't be starker. Irish exporters faced little union input into wage negotiations or the management of their businesses. Indeed, after the mid-1980s, export firms became increasingly likely to be running non-union plants. Strike action was almost unheard of. Disputes of any kind were few and far between. Conciliation and mediation institutions were almost entirely voluntary. Legal coercion to compel adherence to these voluntarist institution's decisions was rare. Where the Irish system arranged itself neatly around the needs and wage policy preferences of exporters, the Australian system was more concerned with offering unionists procedural rights by which they could access more control over their work and how their pay was set. This provoked a prolonged and well-funded opposition from exporters against the centralized system, the tribunal system and trade unions.

Of the four cases, the dispute at Robe River, a joint venture iron ore mine in the remote Pilbara region in north-west Australia became the most significant. The Robe River dispute involved a major exporter, and the voice of its management included the first Chairman of the H.R. Nicholls Society, a small group of senior executives, bureaucrats and federal politicians committed to the dismantling of the arbitration system and Australian wage bargaining centralization. Robe was

significant not because the management explicitly sought a non-arbitration settlement to the dispute. Rather it signalled a new meaner mood amongst employers, and demonstrated willingness by senior management to use lockout and sackings as union busting techniques - measures not seen in Australia since the coal strikes of the late 1940s. Robe was significant for the strength it gave a growing network of CEO's, right wing party politicians and bureaucrats to widen and amplify their ideological fight for the opinions and allegiances of labor politicians and officials of more moderate employer associations, and to weaken the resolve of major unions determined to make centralized bargaining and all the Accord promises of 1983 work. At the time, Robe management's strategy, and that of Premier Bjelke-Petersen Queensland government in the South-East Queensland Electricity Board dispute, the owners of Dollar Sweets and of the small buffalo processing plant in a federal national park at Mudginberri, appeared to be radical. But the "new right" as it was called in Australia seized the debate on wages on the back of falling profits and perceived problems of Australian labor productivity, efficiency and flexibility. I now examine Mudginberri and Robe River in the order they occurred.

9.3 Mudginberri & the National Farmer's Federation

Australia in the mid 1990s was the second largest meat exporter in the world, worth $400 million in exports in 1994, or around 6% of all Australian exports. Meat is Australia's fourth most valuable export commodity (O'Leary 1999, 139). The Mudginberri dispute was significant for the way it motivated rural employers to political action. Despite the fact that the dispute was in a very small export operation,

it captured national media attention as a major farming employer group and a militant trade union fought a bitter industrial battle over a few head of buffalo.

Mudginberri Station was a buffalo meat-processing homestead, located in the Kakadu national park in Arnhem Land, Northern Territory - some 250 kilometres east of Darwin. The plant exported buffalo meat, around 20 000 head per year, to East Asia, mostly Japan (Noonan 1985a, 10). A long bitter dispute involving less than 30 employees began in July 1984.[115] This small fight involving a tiny exporter and a powerful union became the lightening rod for agrarian capital discontent with the arbitration system. At issue was the tally system, first introduced into meat processing awards in the 1960s.[116]

The system was widely criticized by employers, and had lead to the closure of some meat works, including the Katherine meat works, in the Northern Territory because of competition from meat works using other methods of remuneration. The AMIEU sought to extend the Katherine tally system to Mudginberri. The problem was, an award between the employers and the employees at the station covered the workplace. The award specified a minimum wage, plus a bonus payment system based on productivity. The AMIEU acted against the effective shutting out of the union from Mudginberri by imposing a

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[115] The luxury non-frozen export meat business in 1985 was a $20 million export industry, based on 10, 000 tonnes per annum, airlifted largely to Japan, Hong Kong and the US (Noonan 1985c).

[116] The tally system is a piecework quota system. In the award, a minimum and maximum number of head are specified per worker per shift. This range was usually between 16 and 20 head. If an employer wished to process 600 head, they would require 30 workers. Any number over the maximum tally would be subject to penalty rates. Therefore if the shipment of head were, say, 630, every worker would receive a penalty rate of one “over” (O’Leary 1999, 145).

picket on the plant on May 10, 1985. The AMIEU also established similar pickets at two other meat plants. As a result of the pickets, federal meat inspectors (since Mudginberri was on federal land) refused to enter the meat works. Processed meat ready for export rotted at the plant (Houlihan 1986).[117]

A series of court actions saw the AMEIU fined by close to half a million dollars.[118] It was also liable for the revenue lost by Mudginberri. The result was a disaster for the union and the pickets ended up costing the union over two million dollars.[119]

The striking aspect of Mudginberri was that the award system that had been created 80 years previously to create orderly industrial relations failed to head off a dispute or from a dispute escalating. Quite the reverse, the award was in this case actually causing the dispute. The contrast with the Irish system and the experience of

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[117] The pickets were clearly illegal under section 45 (D) of the Commonwealth Trade Practices Act. That provision makes secondary actions on employers in the way of strikes, pickets or other forms of industrial action illegal. A secondary action is one by parties not directly in dispute. The fines are hefty: complete restitution by the offending party (i.e. the union) to the employer for lost revenue, plus fines. (On the operation of 45D, see Creighton & Stewart 2000, 13.92.)

[118] Conferences before the federal tribunal failed to solve the problem, and the employer sued under the s. 45 (D) of the Trade Practices Act that banned strike action by parties not directly involved in a dispute. On May 27, a federal judge granted an injunction against the union under 45 (D) and ordered that the picket be lifted. On June 21, a federal court imposed fines of $10 000, plus $2 000 per day the picket remained in place – all payable to the employer. This led the employer at Mudginberri to file a federal court order to sequester the funds of the AMIEU in order to recover the fines, then some $44 000, plus costs estimated to be around $100 000. AMIEU's accounts were first frozen then sequestered by Mudginberri on July 18 - the first time such an action had taken place in Australia since 1946 (Noonan 1985b). The union was then fined a further $100 000, plus costs (around $279 000) by the federal court for criminal contempt of court for ignoring the initial injunction on September 11 (Donohue, Robinson & Bone 1985).

[119] The case went all the way to the High Court. Mudginberri successfully sued the government for refusing to provide meat inspectors. Waterside and transport unions who imposed sympathy strikes were also heavily fined under 45 (D) (Kelly 1994, 256).

exporters there could not be plainer. In Ireland, exporter management faced little organized opposition or institutional hindrance to the setting of wages. In Australia, the award system was perceived as not only cumbersome, but it failed to provide employers with the guarantee that was its raison d'etre: industrial peace.

The dispute was "red meat" enough for radical employers in Australia. But it was the intervention of the National Farmer's Federation, and their leader, Ian MacLachlan that ensured that the dispute had long-lasting political effects on the arbitration system. The National Farmer's Federation (NFF) had in 1985 some 170 000 members, and could justifiably claim to be the voice of rural Australia. The NFF objected to the tally system and Mudginberri, as a member of the NT Cattlemen's Association and hence the NFF, became the locus of their fight.[120]

But the NFF's intervention had wider motivations: the diminishment of trade union power and the abolition of the tribunal-based wage bargaining system in Australia. Through the NFF's involvement in the dispute and their creation of a fighting fund, Mudginberri was able to secure a $2 million line of credit from Westpac Bank that meant that it could stay in the courts for as long as it was necessary to defeat the AMIEU (Williams 1986).

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[120] The NFF managed to collect around $10 million in donations from employers and farmers during and shortly after the Mudginberri dispute. This enabled it to expand its lobbying capacity considerably. The donations came because of the NFF's contribution to Mudginberri's legal offensive against the AMIEU's pickets, and the federal government over the meat inspector issue. The NFF also fought the action of the Transport Workers Union in imposing a ban on the airlifting of chilled sheep meat on September 9 from Australian airports; a ban they claimed was a secondary strike (Kelly 1994, 256).

The principle problem the NFF had with the arbitration system and trade unions was the affect they each had on the farm sector's cost structure. Tribunals enabled inefficient manning practices such as the tally system, the two-man shovel operator teams in mines, and extra guards on the railways. MacLachlan argued that unions deterred investment, encouraged tariff protection that drove up exchange rates, made farm exports less competitive, and increased the cost of imported capital goods. Unions increased transportation costs and the cost of locally made inputs, such as tractors and harvesters. MacLachlan lamented the necessity of political intervention to support the dollar on the open market, in particular the use of higher than prudent interest rates. This, again, deterred capital investment. Finally, the tribunal system created wage rigidities that lead to inflation and unemployment. This necessitated greater social spending that acted as a dead weight loss drag on the economy (MacLachlan 1986, 2-6). Again the contrast with the Irish experience is obvious.

As Mudginberri and the other three disputes between 1985 and 1987 illustrate, the problem employers had with the arbitration system was that the tribunals failed to curb what they viewed as the irresponsible use of union power that curbed the managerial right to set pay as they saw fit. The arbitrators and conciliators failed to do their job – to solve disputes – and the employers resorted to other means to achieve their goals. The effect was two-fold. First, the disputes that are described here illustrated that the tribunal system was unable to cope with the new times. Those new times were characterized by keener global competition and falling real prices in

sectors where Australia had traditionally dominated world markets: meat, grain and minerals. The centralized system regulated by the tribunal set of institutions was proving to be rigid and, according to export employers, far too easily manipulated by trade unions. Tribunals undermined the process aspect of pay flexibility. This lead to the second problem: the disputes bundled the tribunal problem of interference with the managerial right to set pay as they saw fit, with the employer's problem with union power. An attack on one became an attack on the other. This became a theme running throughout employer's objections to the tribunal system.

The Mudginberri dispute was an early 'warning shot' from export agrarian employers that the centralized system was not to their liking. It was to be followed by a much larger dispute at a mining operation that made significant contributions to Australia's export: Robe River.

9.4 The Robe River dispute

9.4.1 Course of events

In December 1983, Peko-Wallsend, a mining conglomerate incorporated in New South Wales with large stakes in many of the largest gold, iron ore and coal mines in Australia, acquired Robe River Ltd. The key business in the acquisition was a 35% stake in Robe River, a Pilbara-based iron ore and shipping joint venture (Copeman 1987,1). In January 1985, Peko increased its stake to 50.9%. 45.5% of Robe at this time was owned by three Japanese steel makers – Mitsui and Co., Nippon Steel and Sumitomo Corp. Inc. Robe employed around 1500 workers and produced between 15 and 16 million tones of iron ore per year, making it the third largest iron ore producer in the

Pilbara, a remote desert region in the north-west of Western Australia (Hewett 1986a). Of that production, between 11.5 and 11.8 million tones of iron ore were exported to Japan, accounting for 80% of Peko's total exports at that time, and around 10% of Australia's total export tonnage.[121]

Robe River by any estimate was and still is a vital producer in the Australian economy. Being a joint venture, Robe's accounting figures are not publicly available, but a reasonable estimate would be that in the 1980s based on the data above, Robe accounted for around 1 ½ to 2% of Australia's export revenue. Despite it's prominence, by the time Peko increased its stake in January 1986, management claimed that over-employment and restrictive work practices had eroded profitability (Copeman 1987, 2). Management estimated that ore production was running at 2/3rds capacity and productivity (measured as tonnes mined/employee) was claimed to have remained stagnant for the previous 12 years (Copeman 1990, 4).[122]

Robe's and Peko's reliance on the Japanese market also made the venture especially vulnerable to work stoppages. Japanese steel management tended to take a dim view of supply interruptions, and

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[121] Throughout the 1980s and until the mid-1990s, mining exports accounted for around half, in dollar terms, of Australia's exports, with iron ore and minerals averaging between a third and one-quarter of that value. In 1985, Australian iron ore accounted for 41% of Japanese ore imports, some 7% of the average of 48%. Throughout the 1980s and 1990s, Australia remained the largest iron ore exporter in the world (Robins, Noonan & Hywood 1986, 1, 3; Economist Intelligence Unit, 1999).

[122] Part of Peko's profitability problems stemmed from its comparatively low grade ore. The Pilbara deposit average is around 64% pure by weight, Robe's scattered pockets tended to average around 56%. The scattered nature of the deposits also necessitated frequent moves of the plant adding to capital expenditure which even allowing for generous depreciation schedules trimmed margins more than Robe's direct competitors (Copeman 1990, 1; Durie 1986, 61).

telexed Robe's management during the 1986 and 1987 disputes urging them to resume supply or face the consequences. Charles Copeman, Peko-Wallsend CEO and founding Chairman of the H.R. Nicholls Society also credited a strong Yen, and world over-production as increasing competitive pressures on iron ore suppliers to Japan during that time and on Robe in particular (Copeman 1990, 1; Copeman 1987, 2). Iron ore prices since the late 1970s have declined in real terms (see figure 9.1).

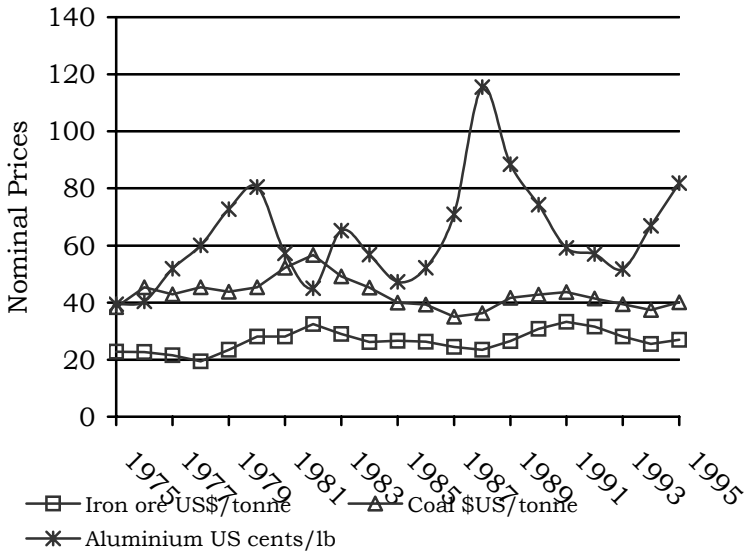

Figure 9.1 Mining export commodity prices, Australia 1975-1995
Source: Reserve Bank of Australia, Statistics Bulletin table 1.14c (updated May 1996).

Ironically, the low-grade ore at Robe combined with the collapse in commodity prices after 1982 made for cooperative workplace relations at Robe until 1986. Continuity of supply remained management's top priority and union management, lead by the metal unions extracted many working condition concessions. After taking control of Robe in

early 1986, Peko management came to view this industrial peace as coming at too high a price. A fact-finding mission of 12 senior executives in June 1986 was sent to Robe by Peko.[123]

The Peko mission advised management in Sydney to sack the entire Robe management. Copeman did so on July 31, 1986. Following Peko's sacking of the Robe management, the workforce at Robe was given a circular requesting that workers work within the Western Australian state award guidelines, and that all locally bargained side agreements be cancelled. Union representatives were required to give notice before coming on site, mid-shift 'smoko" meals were cancelled, and union site convenors (called "leading hand" appointments by the AMWSU) sacked. Office staff workers were advised that many of them would be transferred to general mine duties. Finally, the AMWSU was advised that Peko would be seeking a new federal award to replace the current state one (via the creation of a paper dispute) (Copeman 1987, 2-3). That award substantially reduced wages, abolished penalty rates for night work, and cut overtime pay (Peko Wallsend 1986a; Mayman 1986, 1)

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[123] This followed a hostile response from union representatives to Peko's monitoring of the negotiations between the metalworkers union (then known as the Amalgamated Metalworkers and Shipworkers Union AMWSU, later the AMWU, or Amalgamated Metalworkers Union) and Robe management. What the mission found appalled them: full-time union convenors on-site, all with fully-equipped offices paid by Robe, wildcat strikes, including one over the canteen running out of certain flavors of ice cream, tinned seafood provided for workers during smoking breaks, work bans on anything not specified in award agreements, inefficient procedures during shift changes, and virtual free housing for a workforce earning on average $41, 000 per year - more than twice the national average wage at the time (McGeough 1986). CEO Copeman became concerned over the viability of Peko's expansion plans at Robe, which included a ARL$ 60 million capital expenditure plan to support the acquisition of additional iron ore holdings (Copeman 1987, 2).

An appeal from the metal unions to the Western Australian Commission resulted in a court order restraining Peko from making "wholesale changes." Peko, according to union accounts continued to transfer office staff personnel, and issued notice that 185 positions of the 1180 award positions or so at Robe would be made redundant through the non-replacement of retiring and quit workers (AMWSU nd (a), attachments, 1; Copeman 1987, 3). Workers refusing transfer of duties would be sacked.

By August 10, according to union documentation, 64 workers were sacked for refusing transfers (AMSWU n.d. (a), attachments, 1).[124] Western Australian Commissioner Coleman (not to be confused with CEO Coleman) ordered Peko on August 11 to re-instate the sacked workers, and that the shop floor status quo of July 31 be re-imposed. Peko responded by closing the plant that night for reasons of "health and safety" (Hewett 1986c).

The real issue at hand, Peko's assertion of the management's prerogative to manage, was abundantly clear. CEO Copeman argued later that:

> "For the new management to accede to this Order, and then to have to await the hearing of the disputed practices before the commission in the ensuing weeks and months, with all the restrictive practices in place during that time, would have constituted a complete victory to the unions, and a complete defeat of management's right –and responsibility- to manage" (Copeman 1987, 4).

Robe's dismissal of 1300 employees on August 11, a blatant defiance of the WA Commission decision, and intention to re-hire non-

[124] Newspaper reports put the number at 50 (Hewett 1986b)

union workers provoked a union response strategy that mostly lay outside the ambit of the arbitration system. Notes from an unofficial and confidential August 18 meeting of senior AMWSU officials reveal that the union intended to, at a very early stage to use all the weapons at its disposal to, "ensure that R-R [Robe River] do not produce/deliver and advise all customers of this." Additionally, senior officials planned to, "ensure that all other companies in the Pilbara produce as normal" (Campbell 1986, 1).[125]

The lockout by Peko ran until September 3 – barely over 3 weeks. Short perhaps, but the inability of the accepted channels of Australian dispute settlement to end the lockout and the quick recourse by Peko management and the AMWSU to traditional enterprise collective bargaining and, in the case of deadlock, court room solutions demonstrated the fragility of the arbitration system in the face of employer resolve. Intervention from the state government, WA commission orders and pressure from federal politicians all went for naught.

It was not until Peko's appeal against a WA Commission directive that Robe resume pre-July 31 operations was dismissed by the WA Industrial Appeal Court, that the lockout ended. But this came not

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[125] To that end the officials discussed the problem of the federal ban on secondary boycotts in Australia under section 45 (D) of the Trade Practices Act, and how to circumvent the ban. That provision provides for extremely heavy fines for unions who are not party to a dispute but whose actions produce loss of revenue for the firm in dispute. 45(D) would prevent the AMWSU from sympathy striking in other mines owned by Peko, or from allying with maritime unions in a strike that prevented the movement of Peko ore in their dockyards. AMWSU official George Campbell wrote in his notes of the meeting:

> "It is not impossible to show that "dispute" has sufficient independent existence to be said to have a dominant purpose…[and] that it was not impossible to do this." (Campbell 1986, 1, 5)

before Peko attempted to use office staff to run the electricity plant. The staff that refused were dismissed. In the following four days more staff that refused job transfers were dismissed. Between August and October, 520 employees left Robe, during which time, the WA Commission continued to hear submissions on the management's proposed re-structuring. Both the Western Australian and Federal governments made submissions to the tribunal against Peko's proposed changes. While the October 30 decision of the tribunal largely rubber-stamped many of Peko's changes made between July 31 and August 11, a critical issue of manning of shovel drivers was left undecided. Also critical was a ban on work stoppages during the period of the award. With the workforce on a go-slow policy that had its roots in the August 18 meeting of senior AMWSU officials (Campbell 1986), in the weeks before the pre-Christmas shipping rush Robe experienced a shortage of shovel drivers. Robe responded by ordering non-mining staff to man the drivers and help monitor loading of the trains to the docks (Copeman 1987, 4, 5).

Robes' unions voted to strike indefinitely. The strike started on December 16th and lasted until January 25th.[126] In a January 6 meeting between AMWSU officials and Robe management, Robe Chief Dr. E Miller asserted that Robe had no faith in the tribunal process or the unions they faced, and that, as such, Robe had no recourse but to "crash or crash out." (Newman 1987, 6).

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[126] Copeman claimed that Jack Marks, President of the Iron Ore Mining Unions Association, claimed publicly that the strike was aimed at destroying Peko. Given the August 18 meeting of AMWSU officials, the charge was probably near the mark.

In practice that meant using whatever means necessary to achieve the re-structure they wanted, and the use of tort to force the union back to work. On December 31, writs were served on all the striking unions, as well as the senior officials Peko deemed to be responsible for the strike. Four causes of action were claimed: that the unions and the named officials induced employees to breach their contracts of employment, that unions and officials had interfered illegally with Robe's contracts to supply ore to customers, and that the unions and officials conspired to induce breach and interference in the first two claims (Copeman 1987, 6).[127] The writs served their purpose and forced the unions to re-negotiate the Robe award. Robe succeeded in

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[127] The legal advice received from Northmore, Hale, Davy and Leake to the AMWSU on January 2nd, 1987 did not bode well for the union movement:

> "If the claims…are successful then, the flood gates may well open to claims by employers of striking workers for damages against a union…to recoup losses they sustain during any form of industrial action. Were the parties to this action other than Peko-Wallsend et al, who are making public capital of being the vanguard of the "New Right", we might be inclined to dismiss the claim…as a "try on" or "speculative". Given the anxiety of Mr. Charles Copeman to fetter the effective industrial power of the Trades Union movement we consider that a concerted effort may now be made to extend the so-called industrial torts" (Northmore, Hale, Davy & Leake 1987, 2-3).

Given that the October 30 decision of the WA Commission had a no strike clause, the advice concluded that, "the employer is saying to employees that they have no right or duty to work" and hence employees were procured to breach their contracts of October 30. The advice continued:

> "It is of cardinal importance that the industrial action at "Robe" continues to be seen inside and outside of court as self motivated "grass roots" industrial action…We clearly will seek to argue that the self motivated grass roots strike at Robe is withdrawal of labor by the workforce-motivated by local industrial strife and outside the control of (and indeed against the preferred policy of" the State Industrial Unions" (4-5).

Given the high level of involvement of senior state and federal union officials in the strike since August, and the notes of George Campbell at the 18 August meeting ("if in a position of weakness, need to look at possibility of returning to work (1)") and the discussion of slow-downs and secondary action in that meeting, it would have been extremely difficult for the AMWSU at the least to claim that the strike was not due to some large degree to the actions of union officials, and that the strike had no secondary aspects that caused interference with Robes supply of iron ore.

forcing most of the changes they desired, including the critical issues of shift lengths, penalty rates and overtime, transfer of workers, and use of staff for essential services when mine labor was not available.[128]

9.4.2 The effects & implications of the dispute

The militant campaign conducted by the new management at Robe River in the second half of 1986 and 1987 demonstrated the lengths that mining companies were prepared to go in order to reduce union influence at their operations during the centralized wage bargaining years of the Accord in order to achieve pay flexibility. The fact that Robe management was so militant can be attributed to two broad factors. First, unlike manufacturing firms, mining (and agribusiness) have a very limited ability to use the threat of exit from the economy in order to influence governments or unions to change policy or to temper their militancy. Mining and agribusiness go where the land dictates them to go, and the workforce they find there is the workforce they must use come what may. Denied a credible exit option, mining companies are therefore prone to use their political voice and industrial muscle. In the case of the Robe River dispute this meant using extreme tactics such as lockouts and mass sackings in order to get what they desired: a more compliant workforce over which they could mostly dictate the negotiations and terms of pay. Outside the workplace, mining companies sought out new employer groupings and poured large amounts of resources into them to lobby and cajole the

[128] Critical in the final phase was the interjection into the dispute of the ACTU. The ACTU conceded Robe's assertion that productivity at Robe was causing the mine to run at a loss: "the future viability of the operations at Robe River lies in improved productivity and efficiency" (ACTU 1987c, Attachment 2, 1).

government to accept and enact their preference for a decentralized system that would give them the opportunity to regain the wage flexibility they desired. This is further taken up in the next section.

Second, as the narrative suggests, the restrictions on managerial controls over wages and the deployment of labor imposed by the tribunal system were considerable. This provoked an extreme response.

It is inconceivable that a dispute like Robe could have occurred in Ireland. Several points of difference explain why and make it easy to see how Australian centralized wage bargaining within the tribunal institutional context was extremely unlikely to succeed or survive for long in the 1980s and 1990s. First, the Irish wage bargaining system allowed exporters to either free-ride on the wage restraint of the domestic and public sectors, or to pay higher rates in order to recruit and retain labor. Indeed, the system allowed them complete freedom to do essentially what their own labor needs dictated. The Australian system by contrast, imposed a set of tribunal institutions on employers that gave unions a great deal of bargaining power that was embedded in the procedural rights to legal arbitration. Exporters, including Robe, could not deny organized labor their day in arbitration. This meant that, no matter what the employer's will or means at their disposal, organized labor had the capacity to extract concessions from management. Indeed, Robe had to justify its restructuring to the WA tribunal. Irish exporters wanting to re-structure their workplace would not be faced with a similar restriction. Australian wage bargaining institutions clearly and quite

fundamentally compromised exporter wage flexibility by undermining the process aspect of pay flexibility. As the narrative above suggests, the tribunal system was slow, cumbersome and it was not always clear that problems would be resolved. Indeed, as I have suggested in chapter 7 in the brief narrative history of arbitration, the system seemed to entrench and prolong disputation.

Second, there is the issue of economic structure. As already canvassed, the Australian export sector is dominated by companies who are far more likely to become politically and noisily active if faced with wage policies they do not like compared to the Irish export sector. Irish exporters, mostly manufacturers and traded services, can leave. Miners and farmers cannot so easily. It is easier to establish a new factory than it is to find a profitable mineral deposit or several thousand square miles of prime farming and grazing land. This simple difference suggests that Australian exporters would be more committed to changing the wage bargaining system if it was disagreeable to them. Irish exporters could, in the last resort, leave rather than fight. This would imply that within the Irish system, there would be certain degree of political slack allowed any wage bargaining system that encroached on export sector wage flexibility.[129]

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[129] In their discussion of the decentralization of wage bargaining in Sweden, Swenson & Pontusson argue that the resource industries in Sweden were not prominent players pushing for decentralization because they were capital intensive industries with small relative labor costs who cared more about avoiding industrial disputes and the interruption of supply to markets, and because their labor processes were such that pay flexibility was not important to forestry employers (Swenson & Pontusson 2000, 93-94). The critical difference between the Australian and Swedish cases is that the mining resource sector faced a prolonged stagnation of export prices, which when coupled with active and militant unions whose power was, in large part, enabled by the tribunal system led mining employers to campaign against the tribunal system and the centralized wage bargains through which union

Finally, there is the complete contrast in the unionization of the Australian and Irish export sectors. Mining in Australia has very high rates of unionization (63% of employees in 1988 – see table 7.1). By contrast, the Irish export sector, with the exception of pharmaceuticals, is increasingly union-free and has probably a union density of less than 20% (see chapter 4). The likelihood that an export employer or a mining export employer will find themselves negotiating with a union over wages is far higher in Australia than in Ireland in the 1980s and 1990s.

Robe had three vital implications for the centralized system of wage bargaining in Australia. First, the dispute illustrated that any employer offensive against the arbitration system was also clearly one against the trade unions, since much of the industrial power unions held prior to 1985 came via the arbitration system at the state and federal levels. Hence the lack of local flexibility came to be seen as a dual arbitration/trade union problem. Second, given that the Accord wage bargains were structured around tribunal National Wage Cases, growing frustration from militant mining firms and agribusiness over the restrictions on wage flexibility imposed by the tribunal system kick started the campaign against centralized wage bargaining. Disputes such as Robe highlighted the rigidity of the system that took the central deals and shaped actual wage outcomes. The campaign against the tribunals fed the nascent campaign for a move to decentralized

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power was further enhanced and their own control of pay severely compromised. Historically, the mining sector has received no assistance from the government and has at various times been subject to extra taxation. This has lead them to an aggressive free market position (see, for instance, Grover 1983, 89-129).

bargaining. Finally, the dispute showed fellow exporters and employers that if arbitration was unsatisfactory to management, common law actions were a viable option. This struck at the heart of the main argument in favor of arbitration and the centralized system: that it provided an orderly and complete solution to industrial disputation. Clearly it did not, and as the discussion in chapter 7 of the history of arbitration in the 1970s suggested, it had failed to do so in many significant opinion-forming disputes for over 15 years. The rationale for the system was now under question.

What is telling is the response of the government to the dispute. The timing of Robe was fortuitous for opponents of centralized wage bargaining, because as is documented in the next chapter, it came as the federal government began to make public statements of the need to boost competitiveness in light of the worsening balance of payments problem. Debt made the Labor government if not sympathetic to the strategy used by Peko management, then certainly to the underlying message. On August 13, Prime Minister Hawke accused Peko of holding double standards – being critical of unions for flouting the system but doing it themselves when it suited them. Hawke, however, added that unions needed to recognize that old work unproductive practices were inappropriate and had to be eradicated (Robins, Noonan & Hywood 1987, 4) Clearly, Hawke understood the message Peko sent. It was its manner that was unpalatable. This was an important reaction.[130]

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[130] This message was emphasized to AMWSU officials in a January 7 meeting with Senator Peter Cook, the new federal Minister for Industrial Relations. In that meeting Cook is recorded as saying that he did not see the problems at Robe as due

9.5 The Business Council of Australia

9.5.1 Formation & membership

Most commentators and academic literature on the subject conclude that the BCA became the primary voice of big business in Australia during the Accord years (for instance, see Mathews 1994, 204; Sheldon & Thornthwaite 1999c, O'Brien 1996). In the heyday of its influence between 1987 and 1993 it was the most important employer body in the decentralization of wage bargaining debate.[131] Formed in September 1983 five months after the National Economic Summit through a merger of the Business Roundtable and the Australian Industry Development Association, membership was by

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to any 'new right' influence, and that the largest problem was the potential spread of the industrial unrest throughout the Pilbara (Newman 1987, 4). The trade minister, Peter Willis, also expressed similar concerns to Cook in August 1986 (Robins, Noonan & Hywood 1987, 4). Neither ministers appeared to be troubled by what Peko was trying to achieve, only that the tactics used by Peko at Robe shouldn't provoke industrial unrest at other mines.

[131] During the years of the Accord, the number of peak employer associations in Australia increased from three (the Confederation of Australian Industry (CAI), the Australian Chamber of Commerce and Industry (ACCI) and the National Farmers Federation (NFF) to seven (ACCI, NFF, CAI, the Metal Trade Industry Association (MTIA), the Australian Chamber of Manufactures (ACM), the Australian Mining Industry Council (AMIC) and the Business Council of Australia (BCA). These seven groups were unusual in that the majority of trade and sector associations were not members, rather their constituent firms were. The exception was the CAI, which allowed only trade association membership. Formed in 1977 and intended to be the peak association a la Confederation of British Industry, the CAI suffered from holes in its membership: there were no public sector associations, no AMIC, or the Australian Finance Council. Also absent were ACCI and the Federal Chamber of Automotive Industry. In other words, what was absent from the CAI was large business, especially large exporters, who came to regard the CAI as a pro-protectionist lobby and the preserve of small business interests. Burdened by declining membership and the exit of the Australian Chambers of Manufactures in 1989, CAOI merged with ACCI in 1992. Outside of ACCI remained the three large exporter employer associations: The BCA, the ACM and the NFF (Mathews 1994, 202-204; McEachern 1986, 20).

invitation only.[132] The purpose of the association was simple: to bring more influence over policy making, especially labor market policy.

Most members had highly unionized plants and workplaces. A 1989 BCA survey estimated that union density in the member companies was around 75% (Hilmer et al 1989, part 2, 10). In terms of their revenue in 1989, 23 of the largest 30 firms in Australia were members of the BCA. 23 of the largest 30 employers were members, and 17 of the largest 30 asset holders. Prominent exporter members in 1989 included BHP (mining, steel manufacture), Elders IXL (agribusiness), BTR Nylex (chemicals), and Pacific Dunlop (predominantly textiles). The membership list also included four bank CEOs (ANZ, Commonwealth, NAB and Westpac), three life insurance companies, five oil companies (BP, Esso, Mobil, Caltex and Shell), five auto manufacturers (Ford, General Motors Holden, Mitsubishi, Nissan and Toyota) and seven mining companies (Alcoa (bauxite), CRA (now Rio Tinto, then predominantly iron ore), MIM, North Broken Hill Peko, Santos (natural gas), Woodside Petroleum, and Rension Goldfields) (Mathews 1994, 205). Of these members, mining interests came to dominate the executive and administration with the second and third Presidents of the Council being Western Mining chief, Sir Arni Parvo and (later Sir) Roderick Carnegie, who resigned his post as chairman and chief executive of CRA to take up the Presidency (Sheldon & Thornthwaite 1999c, 55).

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[132] Turnover was comparatively high-only 10 of the original 73 members remained in 1993 (Sheldon & Thornthwaite 1999c, 48-49).

The roots of the creation of the BCA lay in the disunity and lack of effective peak employer association representation at the 1983 Summit. The Financial Review described the business response at the Summit as a "rabble" (*Financial Review* 14 April 1983, 1, 10). Present at the Summit was the Confederation of Australian Industry (CAI), which purported to represent business, and a number (18) of CEOs from Australia's major corporations. Most commentaries seem to agree that while Prime Minister Hawke was not directly responsible for the formation of the BCA (despite his stated wish to unite employers) the Summit highlighted the lack of an effective organizational voice for large pro free trade firms: in other words, exporters (McEachern 1991, 20-21; Kelly 1994, 276-277; Hawke 1994, 182; Sheldon & Thornthwaite 1999c, 48-49). In 1989, 62% of the BCA member CEO's believed that their employer associations only *partially* represented their interests (Hilmer et al 1989 part 2, 4).

Evidence also suggests that the so-called 'Gang of 18' formed the BCA because the Accord was negotiated by unions and the government but imposed costs on employers in terms of pay rises and potential inflation. This became apparent from the opening economic Summit. At various points as the Accord progressed, lower pay rises were traded off for increased pension contributions by the government and the union movement.[133] Employers therefore bore a great deal of the cost of the side-payments to labor in the achievement of real wage restraint. The Accord was not and never was a genuine tri-parte agreement. This fact, despite costs being imposed on employers arising

[133] Called superannuation in the Australian lexicon

from the Accord negotiations, was a major impetus to BCA flourishing and becoming as influential as it was in the late 1980s and early 1990s. As Sir Peter Abeles, Chairman of Ansett Airlines and Managing Director of TNT, a multinational transportation company, commented at the initial Economic Summit:

> "I challenge you [PM Bob Hawke of whom he was a close friend], Sir, I challenge the government and the ACTU to make a bilateral agreement into a trilateral agreement…it would only be an extension of the spirit of this Summit if business was incorporated as the third party of this accord, as an equal partner. I am sure that you, sir, would not like to feel as most of us have felt during the early days of this Conference, as though we have been invited to play singles tennis against a championship doubles combination (NESC 1983a, 194)."

Despite business never being directly incorporated into the Accord, the BCA became a policy agenda-setter, especially in the labor policy arena. Setting itself between the 'new right' of the HR Nicholls Society and a group of aggressive mining and agribusiness firms, and the right wing of the ALP of which Treasurer and later PM Paul Keating was the most prominent figure, the BCA managed to exercise considerable control of the policy agenda (Dawkins 1994, 4; Tingle 1994, 283; Sheldon & Thornthwaite 1999c, 283ff). The successful political strategy to achieve decentralization and labor market de-regulation was via a series of small policy shifts, rather than the dramatic large-changes that appeared in New Zealand around the same time (Bray & Neilson 1996; Goldfinch 2000). It was during the Presidency of Roderick Carnegie after 1987 that the BCA exercised it largest influence over policy: an influence that owed much to Carnegie's political strategy of gradualism that gave the BCA a veneer of

moderation. Core to this strategy of gradual change was the refocusing of the decentralization of bargaining debate onto the benefits of enterprise bargaining (EB) and away from the new right's pre-occupation with the supposed evils of the arbitration system (Sheldon & Thornthwaite 1999c, 55).

9.5.2 Policy position

What is striking about the BCA's opposition to central wage bargaining is that the focus of their campaign, by and large, was on the process aspect of pay flexibility. At times, pay outcomes surfaced as a major concern, but over the length of the campaign, it was the institutional process that delivered the centralized system and set wages that was the primary target. As I showed in chapter 8, wage restraint in the public (and also the private) sector meant that wage creep was never a great concern. Where the issue of rising wages was raised, it was in the context of how the centralized system via the tribunals had the capacity to create spiralling wages in the future.[134] The focus on pay setting processes rather then pay outcomes meant that much attention was directed at the tribunal system and, increasingly over time, towards what was regarded as the obstruction of trade unions towards the achievement by employers of greater pay flexibility necessitated by more competitive markets.

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[134] There is a certain irony here when the union's acquiescence to the move to decentralized wage bargaining is considered. Briggs (2001) argues that a major reason for the union support of the move was to obtain larger wage rises, since the centralized system was regarded as holding back wage movements. This was a mistake, as the comparison of wage movements between the two-tier and EB periods in chapter 8 shows.

Before, during and after the EB campaign, the guiding frame of the BCA policy position was competitiveness. Through this prism came their emphasis on flexibility and, by 1987, enterprise bargaining. This trajectory can be neatly and appropriately tracked through its publications. Alongside its gradualist approach to change, the BCA was unique among employer associations in Australia in its highly developed research capacity. From its early days, the BCA positioned itself as a generator of policy ideas. Throughout the late 1980s and early 1990s, the BCA established the Industrial Relations Study Commission which conducted three major pieces of research by a team headed by ex-McKinsey Australia head, Fred Hilmer: *Enterprise-based Bargaining Units: A Better Way of Working* (Hilmer et al 1989), *Avoiding Industrial Action* (Hilmer et al 1991)[135], and *Working Relations* (Hilmer et al 1993). These reports coordinated by teams of academics were critical in providing the BCA cause with the gloss of intellectual authority.[136]

Comparisons of Australia's wage costs relative to competitors were the initial focus of the BCA. In its first newsletter (the *Business Council Bulletin*) in December 1983, the lead article is simply entitled "Competitiveness." The list of the ten threats to international competitiveness is headed by, "escalating wage costs" and "escalating non-wage labour costs" (BCA 1983, 1, 2). At this early stage, the BCA

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[135] Later re-worked and released as separate book: *Productive Relations: Australian Industrial Relations & Workplace Performance* (Drago, Wooden & Sloan 1992)

[136] These reports were heavily criticized within Australian academe as being poor research based on questionable methods, selective use of evidence and motivated by political concerns (Dabscheck 1990; Frenkel & Peetz 1990a; O'Brien 1994)

was not advocating enterprise bargaining. Rather the emphasis was on promoting 'flexibility of attitudes' and overcoming 'resistance to change" (BCA 1984a, 6). The same 1984 article proceeds to argue, "labour market failures are perhaps the most important obstacle to improved competitiveness and economic performance in Australia" (12). What were the reasons for these failures? Prominent candidates cited included centralized wage fixation that included elements, "which detract from genuine communication and negotiation at the enterprise level, artificially create disputation to achieve intervention [and operate on conflict and ambit claims" (12). Others were comparative wage justice effects (the pursuit of relativities claims by trade unions) that spread wage rises throughout the economy. There was a perceived 'one-sided bargaining power' between employers and unions presumably meaning that union bargaining power was too great (BCA 1984a, 12).

Numerous articles throughout 1985 reinforced these themes: competitiveness, flexibility and the need to eradicate rigidities within the centralized system (BCA 1985a; 1985b; 1985c; 1985d; 1985e). This included avoiding union intervention in the name of real 'industrial democracy' and linking productivity to wages (BCA 1985b, 2).

In early 1985 the BCA position was not a fully articulated EB position, rather it advocated against, "formal tribunal-based industrial relations from…becoming…all-embracing (10)." Following the release of the Hancock report in mid-1985 that essentially supported the

tribunal-based wage fixing status quo[137], the BCA moved more decisively in an EB policy direction.[138] Commenting on the Mudginberri dispute in September 1985, the *Bulletin* argued that the dispute:

> "Reflects what must be done to redress our poor, long standing productivity performance…They are… in the 'traded goods' sector…They provided export income which in turn contributes to our ability to import and the stability of our balance of payments and exchange rate. The Mudginberri affair has already resulted in the loss of export contracts. The activities of the trade union movement…have thus caused some damage to our national welfare (BCA 1985d, 8)"[139].

By 1986, many exporters had become less confident about the ability of the Accord centralized system to restrain real wage growth. This is despite the excellent record on this (as documented in chapter 8).[140] Explaining the paradoxical attitude of the BCA in light of the movement of real wages, the BCA Director of Policy Analysis and Research argued in a Canberra speech in August 1986 that trade union acquiescence was probably temporary, the quid pro quo of the Accord I and II could not continue (cuts in income tax thresholds and superannuation increases) and the creation of CPI increases as a

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[137] This was a Senate ordered inquiry into wage bargaining that essentially recommended the preservation of the Accord I and II era status quo.

[138] This shift coincided with a rejection of Accord II because the wage rises in the agreement were too high. 'Flexibility' was again the buzzword (1985c, 14).

[139] The article concluded that trade unions in the Mudginberri dispute had interfered with the, "close and beneficial cooperation at the enterprise level" and that the dispute, "symbolises some critical choices for Australia (1985d, 9)."

[140] Average real earnings fell from November 1983 until November 1988. Between the end of 1983 and 1987, the only industries where average real earnings rose were in mining, property and business services, finance and insurance, cultural and recreational services, and marginally in retail and accommodation, restaurants and cafes (see figures 8.2-8.4). In at least the three service industries where real earnings rose, the suspicion is that this was due to occupational change and in cultural and recreational services, the growth of professional sports. Hence, it was only in mining that it can be confidently concluded that real wage rises rose to any significant extent in the centralized years between 1983 and 1987.

'right' paid no attention to enterprise needs and productivity. The speech concluded that the wage bargaining system need to move, "toward a system progressively more geared to performance-related incentives at the enterprise level (BCA 1986b, 9)." The BCA was far more concerned with the process aspects of pay flexibility and the capacity of the absence of such flexibility to promote damaging large pay rises in the future.

As a result of this primary concern over the process aspect of pay flexibility, the BCA suspicion of unions became more prominent as the Accord wore on. The employment of Fred Hilmer of McKinsey in 1986 was a clear public indicator of the BCA's non-union agenda.[141]. In a March 1986 article that expressly discusses union power, it is argued that unions via closed shops had been given power and privilege beyond those available to other associations of individuals, and that there was, "widespread compulsion or coercion in relation to membership, and indeed on the freedom of individuals to act against the demands of unions (1986a, 9)." While somewhat circumspect, the

[141] McKinsey is renowned for its promotion of non-union workplaces. While not overt, the case studies used in Tom Peters' & McKinsey partner, Robert Waterman's 1982 management 'how to' manual, *In Search of Excellence*, are all non-union workplaces. The McKinsey way in the 1980s was to promote responsibility and obligation among employees within a flat managerial hierarchy of a highly skilled but numerically lean staff. This responsibility and obligation is then infused with heavy doses of popular psychology: of employees expressing themselves, finding personal fulfillment or as Fred Hilmer terms it, a "volunteer mindset (Hilmer 1985, chapter 1)." Obligation and responsibility create trust between employer and employee. Within this framework, outside influences, AKA trade unions are an unwelcome intrusion (On the McKinsey influence on the BCA, see O'Brien 1994.).

piece argues against regulation and, "intermediaries external to the firm (10)" defining the interests of a firm and its people.[142]

With the move of CRA (mining) CEO, Rod Carnegie (another ex-McKinsey consultant) to the Presidency came an explicit move to an EB policy position in March 1987.[143] Pay flexibility was prioritized, with possibilities for performance-related pay, and an emphasis on productivity-based pay raises and single enterprise agreements (rather than the possibility and reality of many agreements governing one workplace that is still characteristic in 2005) (BCA 1987a).[144] Kelly (1994, 280) concludes on the emergence of this policy preference as, "the pioneering of the new industrial relations culture. It was a turning point."

By 1987 the BCA had adopted many of the 'new right' concerns about the power of trade unionism.[145] Whereas the 'new right' attack

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[142] The article then moves onto to advocate a classic McKinsey position called 'new management' based on flat hierarchies, mutual commitment to the goals of the firm, enhanced employee participation and scope for personal growth (10).

[143] . The BCAs new industrial relations policy was coordinated by Stan Wallis of Amcor (mining), with significant input from Jim Layt of Blue Circle Southern Cement and Ian Webber of Mayne Nickless (transport).

[144] The policy on unions was that they were welcomed in the envisaged EB system, but conflict should and would be avoided because long-term interests of employees and the enterprise are essentially aligned.

[145] The bastion of the new right was the HR Nicholls Society. Formed in early 1986, the H.R. Nicholls Society was named after a small Tasmanian newspaper's editor contempt fight with Justice Higgins, the father of Australian arbitration and responsible for the 1907 decision that tied wage levels to need rather than the employer's capacity to pay. The society was founded by Western Mining executive officer, Ray Evans, and at the inaugural conference in Toorak, Victoria in late February, a small but vastly influential group of around 40 attended committed to what they termed as "our Higgins problem." The list of attendees included High Morgan, executive director of Western Mining, John Stone, former head of the Commonwealth Treasury and Peko-Wallsend board member, Charles Copeman, Peko-Wallsend CEO, Barrie Purvis, director of the Australian Wool Selling brokers association, the director of the National Farmer's Federation, Ian MacLachlan, Federal Opposition leader John Howard's policy adviser, Gerard Henderson, a young Peter Costello, Barrister at law in the Owen Dixon Chambers in Melbourne and currently the federal Treasurer, Sir John Kerr, former Arbitration Commissioner and

was in the context of a desire for the unfettered use of employer prerogatives in the workplace, the BCA tacitly, at least, agreed that unions had a right to exist (as the right of association). What the BCA wanted was a wage setting institutional structure and a widespread managerial style that marginalized and made unions largely irrelevant.

By the beginning of 1989, the BCA was explicitly linking changing markets to the need for an increased emphasis on workplace wage bargaining. The argument was simple: only customers can ensure economic expansion of Australia. Customers want the choice of the best from anywhere in the world, and only the enterprise unit can act optimally to deliver that choice. Enterprises need to be able to respond quickly in order to be successful (BCA 1989d, 5-6). The two-tier system offered no proper alternative because, "it is aligned with national union and government agendas…and is actually holding them back (BCB 1989d, 9)." *Business Council Bulletin* articles in 1988 make it clear that the two-tier was regarded as a staging post for the full transition to a decentralized system (BCA 1988a).

Growing evidence of the non-union preference of the BCA became clear in the first and most influential of the BCA reports, *Enterprise-based Bargaining: A Better Way of Working*, in 1989.[146] By the time of publishing, the two-tier system had been operating for over two years

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infamous as the Governor General who sacked the Whitlam government in November 1975, Michael Porter, Monash University academic, Andrew Hay, Liberal Party research director, and Wayne Gilbert, executive officer of the SEQEB. The proceedings of the conference were published as *Arbitration in Contempt* and were launched publicly by Professor Geoffrey Blainey.

[146] The 1989 report was based on a series of paired comparisons and a survey of management of 330 predominantly large workplaces. All respondents and cases studies were from BCA member firms.

and little progress on workplace restructuring and pay flexibility, both in terms of outcome (severing relativities, generating downward wage flexibility) or process (second tier agreements still had to be ratified by the AIRC), had been made (see section 9.5). In fact, real wages had risen across the board, especially in the export and public sectors (see figures 8.7-8.9), and BCA fears about union militancy in mid-1986 had been realized to some extent.

The report made three broad conclusions from which a number of others followed. First, CEOs equated economic prosperity with their own competitiveness within the world marketplace. Second, a shift from an industrial relations mindset to an employee relation mindset was needed. Finally, several institutional changes were necessary to achieve the first two -- namely, the continuing opening of the economy, further reform of management structures (to more horizontal structures) closer alignment of union with enterprise goals, and finally, further reform of the industrial relations institutional and tribunal framework. This final change specifically involved the promotion of remuneration levels and patterns that reflected enterprise-specific factors (Hilmer et al 1989, 2).[147] Only institutions that support enterprise-specific responses to changing markets and customer tastes would be growth enhancing. A fully legitimated workplace or firm-based bargaining option was necessary (4).

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[147] The enterprise-based industrial relations system is argued in *A Better Way of Working* as the only one that can address the 'first truth': "that only customers can underwrite the expansion of economic activity and employment in Australia (BCA 1989, 3)

While critical about pay outcomes, the 1989 report emphasized the process aspect of pay flexibility. Within the argument for enterprise bargaining the primary goal of the creation of *single* enterprise bargaining units was advocated. Enterprise bargaining would move the locus of control over wages and conditions to the firm at the plant level, thereby improving efficiency (Hilmer et al 1989, 55). Single bargaining units would mean the end of demarcation disputes: disputes between unions at a single workplace over what work was covered by what award, what union and by extension which particular worker or group of workers (Hilmer et al 1989, 61-66).[148] Single enterprise bargaining units would also weaken the ability of trade unions to block workplace change (71-73). But primarily, single enterprise bargaining units would promote the reward and development of individuals at work with respect to the work they do rather than having their wages (and conditions) set through relativities-based process enabled by multiple unions at the one workplace. The BCA message was that while decentralization of wage bargaining was necessary at a minimum, breaking the linking of wage movements between plants and firms, across industries and the economy -- the non-coordination of wages -- was a long-term necessity (Hilmer et al 1989, 20-22; also see Angwin & McLaughlin 1990, 14-17; BCA 1989a; 1989b; 1989c; 1989d; 1989e).[149]

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[148] The problem of demarcation disputes and the multi-bargaining unit system that created them according to Martin Ferguson, ACTU President between 1990 and 1996, was the second reason, along with mining employer opposition, that caused the decentralization of wage bargaining (Ferguson interview 2001).

[149] The clear influence of the McKinsey approach to human resource management is apparent in the report, not surprising given that Fred Hilmer chaired the research team. The report concluded that employee relations should be

While the desire for one single workplace agreement per enterprise was preferred in the report, given the fractured nature of Australian unions and the prevalence of many agreements in most workplaces, such a goal was probably not practical or indeed possible in the short-term.[150] However, the explicit emphasis on EB and the stated preference of most surveyed CEOs for an EB wage bargaining system was a significant outcome of the report.[151] [152]

The anti-union bias of the BCA membership was demonstrated in the 1988/89 site manager survey portion of the 1989 report. On three measures: labor flexibility (an index emphasizing managerial prerogative to deploy labor as they see fit), effort (the prevalence of shirking) and work to rule (the prevalence of union's strictly adhering to agreement guidelines over the division of labor), the authors of the report found that union power and influence (measured as an index of items examining union influence over pay, hiring and firing, the

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characterized by mutual interests, increased trust, individualism and flexibility whereas industrial relations as practiced in Australia was characterized by conflict, low trust, central control and the promotion of uniformity and equality over flexibility. The report estimated that productivity increases would be in the order of 25% if a move to enterprise based bargaining units was made (Hilmer et al 1989, 5, 8).

[150] For instance, according to AWIRS data, workplaces with between 100 and 199 employees had an average of 3.3 awards per workplace; workplaces between 200 and 499, 4.5, and ones over 500 employees, 5.3. The average for all workplaces in the 1988-89 survey was 1.8 (Callus et al 1991, 41)

[151] In the CEO survey on which part of the report was based, 76% indicated they believed that the current award system was "cumbersome and outdated." 79% supported the introduction of company-based awards. 83% of CEOs believed that there needed to be a greater enterprise focus within the industrial relations system (Hilmer et al 1989, part 2, 5, 6, 7)

[152] In the BCA member site manager survey that accompanied the CEO survey, 54% of site managers believed that being unable to reward good performance had a moderate or large affect on productivity. 68.4% objected to the provision of so-called 'penalty rates' for weekends and evening work on the basis such rates also affected productivity (Hilmer et al 1989, part 2, 25. 26). Penalty rates were a feature of centralized agreements.

allocation of work, and changes to work processes) was a powerful negative influence on labor flexibility, worker effort, and a positive influence on restrictive work behavior (Hilmer et al 1989, part 2, 41). At the back of the main report, under the heading of "longer-term directions" the non-union goal of the BCA was made explicit.[153] Any industrial relations system needed to, "provide for this preference to be recognized formally" (Hilmer et al 1989, 103).[154]

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[153] Further reports in 1991 (*Avoiding Industrial Action*) and 1993 (*Working Relations*) expanded on these themes. The 1991 report emphasized strategic HRM (especially the use of alternate communication channels and management/employee quality circles and action groups) as a way to avoid unions at the workplace (BCA 1991). Whereas the 1989 report argued that centralized bargaining was outdated due to changing product market conditions, *Avoiding Industrial Action* criticized the centralized award system as fostering industrial conflict. Conflict increased at the workplace level due to the uncertainties of application at the workplace of multi-firm and industry awards. The centralized wage setting process was not merely outdated; it was always the wrong system for Australia (Hilmer et al 1991, 26-55).

Working Relations (1993) advocated a further reduced role for the AIRC (largely adopted in the 1996 Act under PM John Howard), and further mechanisms for rationalizing union organization (Hilmer et al 1993). By 1993, however, the overt influence of the BCA on policy debate had waned to some extent: a press conference for the launch of Working Relations was cancelled due to a lack of interest (Sheldon & Thornthwaite 1999c, 61). This waning was mostly due to the adoption of the BCA position by ALP leaders and the growing acceptance of decentralized wage bargaining among trade unionists (see section 9.7). The 1993 report lamented that while much progress had been made, reforms were not of the pace and magnitude necessary to, "lift the performance of Australian firms to levels needed for international competitiveness" (Hilmer et al 1993, foreword). The report also stated that BCA member CEOs were now in favor of abolishing compulsory arbitration altogether. Commenting on the 1989 report's findings that CEOs regarded the arbitration system and centralized wage bargaining as barriers to change, while site managers were more likely to be sanguine about their effects, the 1993 report stated that the site manager's conservatism was a reaction to the costs of initiating change at the workplace: it was "just too hard" (Hilmer et al 1993, 99). The report advocated, in overcoming these difficulties, individual and collective bargained workplace agreements with no AIRC intervention other than to act as an enforcer of minimum standards (121-123).

[154] The BCA got their wish. The 1993 Industrial Relations Reform Act allowed for non-union collective agreements, while the 1996 Industrial Relations Act allowed for individual (and non-union) agreements.

9.6 Conclusion: the export employer offensive on central wage bargaining

The core of the attack on centralized wage bargaining from the leaders of the offensive such as Peko-Wallsend, the National Farmers Federation and the BCA, was on the inability of the centralized system to deliver a wage setting process that these groups and employers regarded as capable of delivering flexible pay now and in the future. Hard-up employers such as Robe wanted a more malleable wage setting process free of institutional interference that gave entrenched union bargaining power. This was essential for them so that they could be free to decrease their wage bill when markets tightened and prices dropped. In practice this meant decreasing hourly rates, increasing the use of contractors and paid-by-the-hour employees ('casuals') and the ability to use low wage office employees in the mines. Peko-Wallsend and other employers like them in the 'new right' extended this anti-centralization push to an attack on the tribunals for they saw these institutions as rigid, as enhancing union power and as a danger to their desire to exercise complete managerial control over pay.

For the BCA, the ability to use such tactics was a concern too, but their argument was couched in more terms of enhancing competitiveness. For the BCA, this meant linking pay to productivity: a link that could only be made by locating pay setting at the plant and firm level. This meant, at the least, getting rid of the centralized system and allowing enterprise bargaining. This also lead the BCA to an increasingly anti-union position because they linked the centralized system to an enhanced power of unions to resist changes to moving

wages in a productivity-based direction, and away from one based on the relative bargaining power of management and organized labor.

The BCA's policy position was influential in re-casting the debate on wage bargaining in Australia, especially in the important years of change between 1986 and 1991. The strategy was very simple: advocate gradual legislative change within an argument that continued to stress enterprise bargaining and the decentralization of wage bargaining. As wage bargaining decentralized, further more radical reforms were called for. The aim was to shift slowly but surely the terms of the debate on wage bargaining and workplace regulation in Australia. By 1991, the language of enterprise bargaining was mainstream in the Australian debate (O'Brien 1994, 488).[155] That the BCA was able to take control of the debate was due to the government's firming commitment to an open economic model of economic growth between 1983 and 1986, the critical importance of export dollars to the health of the economy and the government's arrival at a view very much identical to that of the BCA: that decentralization was necessary to boost competitiveness of the economy.

[155] The creation of the BCA fits the theoretical discussion of the successful LME employer association. It was a comparatively small group drawn from very large firms, with much to gain from the proposals it advanced. It developed quickly, and as the policy scene changed did so itself: it was quick on its feet.

Chapter 10
Explaining the decentralization of Australian wage bargaining: The actions of policy makers

10.1 Following the employers

From very early on in the Accord, the potential for an expanding public sector and excessive public sector wage drift were avoided. Much like the experience of Ireland's Social Partnership, the government imposed tight controls on public spending and on public sector wages (see chapter 8). As discussed in the previous chapter, the problematic issue for Australian centralized bargaining was the rigidity of the system and the inability of the institutions that delivered wage outcomes to allow any flexibility in the process by which pay was set. This lead to the argument by export employers such as Robe, that the tribunal system was also delivering wage outcomes greater than a tribunal-less environment would deliver. The tribunal wage setting process often tilted the balance of power in the favor of trade unions over management, and enabled unions to extract concessions from employers that in the absence of the tribunals they would not have received. As discussed in chapter 7, the system in specific cases could exercise some degree of independent power. Add that to the way the system enhanced the power of atomized and otherwise quite organizationally weak unions and export employers, and the opposition of export employers to the system was understandable.

Policy-makers came relatively quickly to a similar view in the handful of years after 1985 and sought to decentralize wage setting as a means to marginalize the tribunals and enable the process aspect of pay flexibility. This was viewed as a prerequisite for pay outcome flexibility that would mean that wage levels would reflect plant and workplace level productivity. I leave the issue of trade unions and their influence on policy makers as far as possible to a separate section that immediately follows where I specifically address whether trade unions were the important causal actor in the decentralization of Australian wage bargaining.

10.2 The first Accord & the floating of the dollar

In a speech in 1999 to the University of New South Wales, the Treasurer from 1983-1990, Paul Keating, summarized the challenges facing the Australian economy under Labor:

> "[T] he Labor Government found – and had to find – a new way of delivering growth to the Australian economy. It did this by embracing openness rather than the protectionism of the past. It saw competition as the best way of ensuring that in a more open economy the interests of ordinary working men and women were better secured" (Keating 1999).

This was not dominant view or the policy framework within the Cabinet when the ALP came to power in 1983. International economic pressures caused a re-focus of economic policy and with it, a re-casting of wage bargaining policy. The original conception of the Accord, and its actual development within the first three years were remarkably different. In its conception, the Accord looked like a northern European corporatist experiment: highly centralized wage bargaining, with social wage trade-offs for wage restraint, and an

activist industrial policy for job creation. But budget deficits and the floating of the dollar undermined this vision. By 1986, wage bargaining was no longer linked with the social wage and macro-economic stabilization. It was a tool for micro-economic change. Unions traded wage restraint for tax cuts. The early years of the Accord were conducted within the context of a government not fully aware of what a commitment to an open economy model for economic growth would mean for other areas of public policy such as wage bargaining. As the commitment to an open economy way firmed in 1985 and 1986 and the economic effects of that became known and clear to policy-makers, wage bargaining policy changed. The transition to later permutations from Accords I and II is therefore a neat test of the argument that the motivation that drives policy maker's labor market preferences in an open economy is the pursuit of competitiveness, and how this translates into a policy preference for decentralized bargaining. The goals of wage bargaining shifted sometime around 1986 when the imperatives of open economy competitiveness dictated that exporter preferences over wage bargaining policy be heeded by policy-makers.

The UK solution under Thatcher to the problems of rising inflation and unemployment following the collapse of the Social Contract had been to raise the price of money and to tighten public expenditure: the monetarist solution.[156] This was accompanied by a crackdown on trade unions that culminated in the Miner's Strike. The ALP when it came to power in 1983 sought another path - a possible third way that was neither socialist nor monetarist. During the 1983 election

[156] See Thatcher 1993, chapters 2 and 5.

campaign, ALP opposition leader, Bob Hawke advocated a social pact with trade unions designed to control wages, alongside an expansionary fiscal policy designed to create employment (Stilwell 1986, 8).[157] The aim was to steer wage bargaining away from a focus on gross pay to one focused on a social wage where household income was the litmus test and welfare payments, state and employer pension contributions and tax cuts entered the wage bargaining calculus (Hawke 1994, 134).

Economic events undermined the intention by Labor to run an anti-cyclical expansionary fiscal policy and made tax policy the cornerstone of government incentives for wage restraint. The day after the election of the Hawke government, Treasury Secretary John Stone reported to the Cabinet that the projected budget deficit for 1983/84 would be $9.6 billion or more than 6% of GDP (Hawke 1994, 148; Edwards 1996, 172-173). Inflation was running at around 8% and unemployment had reached 10% for the first time since World War 2: in the March quarter of 1983, inflation was more than 11%. In the early 1980s, over 100 000 metals jobs had been lost. There were 150

[157] The Accord had its seeds in meetings between ACTU Secretary Bill Kelty, ACTU research officer Jan Marsh, then opposition spokesperson for employment and industrial relations, Bob Hawke, and shadow treasurer Ralph Willis in the months after the 1980 election when the Liberal (right) Fraser government was re-elected. Initiated by Willis and inspired by the Social Contract in the UK, the concept of a centrally bargained wage/tax/social wage pact was endorsed in the 1982 ALP National Conference. The primary aim of the pact was the control of inflation and unemployment growth caused by large and frequent pay increases such as those that dogged the Whitlam government in 1974 and the Fraser government in 1981-82 (Willis 2003, 142; Hawke 1994, 134-135; Carney 1988, 16-20). The 'misery rate', the Australian measure of stagflation and being the unemployment rate plus the inflation rate or CPI, had been in the 4 to 5 range throughout most of the 1960s. In 1974 during the ALP Whitlam government and in 1982-83 under Fraser the index was over 20 (Stilwell 1986, 7).

000 fewer manufacturing jobs in March 1983 than in June 1981 (Edwards 1996, 174, 175). In the first half of 1983, over 266 000 people joined the ranks of the unemployed (Kelly 1994, 63) (see figure 10.1).

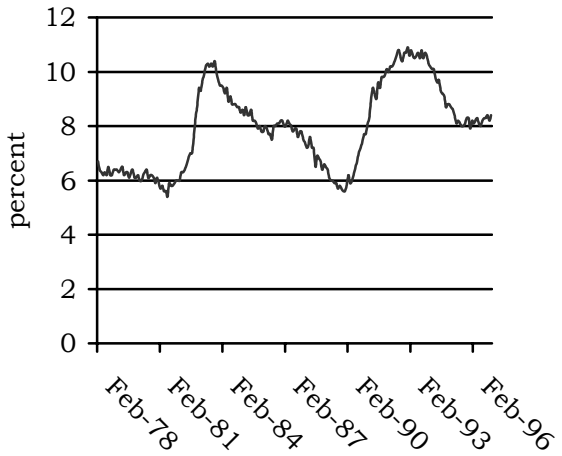

Figure 10.1: Unemployment rate, 1978-1996, Australia
Source: ABS 6203.0 (various years)

In the weeks before the election, $2700 million had left the country in response to the then conservative government's claims that a new ALP government would regulate foreign investment in order to stop money leaving Australia (Hawke 1994, 145). Capital flight was placing enormous strains on the Australian dollar.[158] The government responded with a devaluation of 10%, a decision made the afternoon after the election. The election campaign's counter-cyclical fiscal policy was abandoned soon after (Kelly 1994, 57).

[158] The Australian dollar operated on a fixed exchange rate to sterling. In its operation, the Reserve Bank was obliged to clear the exchange market each day at great expense to the fisc. In addition, the sale of assets or the borrowing of Australian dollars to convert into foreign currency (usually US dollars or pounds sterling) placed upward pressure on interest rates.

The devaluation created greater pressure on the wage deal aspect of the Accord social pact. Not only would there be no great social program or series of measures to offset wage restraint with a growing social wage, but the rising price of imports would create extra pressures for compensatory wage rises. As events unfolded, the social pact aspects of the Accord, the social wage, the prices policies, the vague promises of directing investment through activist industrial policies never eventuated. The government, from its first week in office when the deficit shock and capital flight had to be absorbed and reversed, broadly oriented its policies towards liberalizing and opening financial and product markets. The inability of the government to deliver social policies that compensated for wage restraint meant that the government retreated to tax and pension contributions from employers as bait for wage restraint. There are obvious similarities to the Irish experience here.[159]

Australia's precarious economic position dominated the National Economic Summit (NES) held between the government, the ACTU, and business and community organization leaders in mid-April 1983. The deficit was foremost in Hawke's mind (Hawke 1994, 174).[160]

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[159] On the election campaign promises made by Hawke in a policy speech on 16 February 1983 to accelerate the public works program, to maintain interest rate controls and extend them to building societies, to review the need for short-term assistance to in selected industries, and the absence of any mention of cuts to tariffs and trade protection, John Edwards, advisor to Treasurer Keating, concluded:

"Ostensibly the program Labor was elected to carry out, it appears today like the fossilized remnant of traditional post-war Labor" (Edwards 1996, 194).

[160] Among business figures at the NES, mining, finance and agribusiness CEOs dominated including Sir Rod Carnegie (an ex-McKinsey consultant, CRA (mining) CEO, and later head of the BCA), Brian Loton (BHP), Sir Arvi Parbo (Western Mining), Alna Coates (AMP (finance and insurance)), Brian Kelman (CSR (sugar)) and Sir Keith Campbell (Hooker (agribusiness)) (Kelly 1996, 65-67).

The budget deficit and the debt problem (see chapter 7) remained the number one macro-economic priority in the 1983 and 1984 budgets (Edwards 1996, 197ff). Steering a course between the promises of expanded expenditure in order to create jobs, and Treasury demands to cut the deficit and ease pressure on debt and debt servicing, the Accord quickly became reduced to a wages policy in the face of Budget priorities. This was made explicit in the 1984 election campaign where the government promised (known as the 'Trilogy') that taxation receipts as a percentage of GDP would not increase, total government expenditure as a percentage of GDP would not increase and the size of the budget deficit as a percentage of GDP would not increase (Stilwell 1989, 15, 65-79).[161]

Under Accord I, the centralized wage bargaining strategy was designed to contribute to two macro goals: low inflation and greater economic growth. Three features of Accord I are notable. First, wage increases were based around CPI increases every 6 months (via National Wage cases before the AIRC). Delays in the NWC meant that pay increases fell behind CPI, and real wages declined (Kenyon 1986,

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PM Hawke opened the summit with a speech that emphasized the problem of unemployment. Treasurer Keating followed in a speech that emphasized the need to keep inflation under control. Keating laid out three simple wage alternatives: a high, medium and low wage option. The low wage option was rejected because it was beyond the capacity of the summit to deliver. Instead, and predictably, most speakers who responded to the speech preferred the medium wage option (Kelly 1996, 65-67). ACTU Secretary Bill Kelty followed with a speech that emphasized the central role of centrally bargained wage constraint for low inflation and sustained growth. The resulting communiqué mostly drafted by Kelty and transport industry CEO and personal friend of Bob Hawke, Sir Peter Abeles endorsed a return to centralized wage fixation (Kelly 1996, 65-67).

[161] These are classic liberal market economy macro-economic policies and mirror those that have been demonstrated by the Alesina cluster of studies (discussed in chapter 2) to be the most effective set of stabilization policies in the OECD in the last thirty years.

140-147; also see chapter 8). Second, inscribed in Accord I, and a feature of Accords II though V, was a 'no extra claims' provision. This meant that there was to be no over-award wage claims from unions at the plant level. This meant that in practice wage setting was extremely centralized during Accords I and II where local bargaining was effectively banned.[162] Finally, there was little or no consideration of the micro-economic effects of centralized wage bargaining by policy makers either before or during the operation of Accord I: of efficiency, productivity and production flexibility.

Initially the calculus behind the preference for the centralized wage bargaining strategy remained macro-economic and remained so for Accord II negotiated in the middle of 1985. But the economic implications of a key event before Accord II began to alter the government's motivations and preferred wage bargaining strategies: the floating of the Australian dollar.

Keating advisor, John Edwards claims that the conversion of Treasurer Keating to market economics was due to his experience of the mining industry when he was Shadow Minister for Minerals and Energy from 1976 until early 1983 (Edwards 1996, 206).[163] The first of Keating's many important pro-market economic policy decisions was the float of the Australian dollar on 9 December 1983.[164] [165]

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[162] Perhaps as much as 95% of wage movements can be accounted for by the central CPI increases via the NWC in Accord I.

[163] Hawke (1994, 235) also observes that this contact with the mining industry promoted free market ideas in Keating.

[164] There is some controversy over whether Hawke or Keating was the prime mover in initiating the float. In his *Memoirs*, Hawke takes credit and states that Keating was reluctant (Hawke 1994, 233-247). Edwards, one of Keating's chief advisors concludes that Hawke's account is, "certainly quite wrong" (Edwards 1996, 217). According to Keating in his account appended in Edward's biography of Paul

Accompanying the decision to float the dollar was the abolition of capital controls (Edwards 1996, 229-230; Hawke 1994, 242).[166]

The decision to float the dollar changed wage bargaining policy profoundly, a fact not lost on Edwards:

> "The value of the Australian dollar could be immediately and dramatically influenced by the views of the participants in the foreign exchange market. This essentially theatrical effect was to become one of the important influences on the pace of economic reform" (Edwards 1996, 229).

From December 1983 when the dollar was floated until June 1985, the dollar devalued around 30% (see figure 10.2). The increased price of imports placed great upward pressure on the inflation rate, which almost quadrupled from just over 2% for 1984 to over 8% for 1985. As a result, the wage deal struck between the ACTU and the government in September 1985 (Accord II) agreed to discount the CPI wage increase by 2% for 1986 in exchange for equivalent tax cuts and improved superannuation (pension) contributions (Stilwell 1989, 17). The tax cuts, in association with the Trilogy promises made at the 1984 election meant that public sector spending would be constrained. The approach taken by the ALP governments to public spending shows

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Keating, Keating went to Hawke with a plan to float the dollar in May 1983, a plan to be used in the event of a major run on the dollar (Edwards 1996, 547). That run came in December 1983, and the decision was made.

[165] During 1983, large volumes of money came into Australia, expanding the money supply and placing upward pressures on interest rates. The appreciating dollar was pricing Australian exports out of some markets and also encouraging massive speculation on the dollar enabled by the Reserve Bank's intervention into the market each day to buy unsold foreign currency in an attempt to hit a pre-announced daily exchange rate target (Kearney 1997, 88). Speculators used this to offset risk in a market where the dollar was almost sure to appreciate each day. Keating concluded is his characteristically colorful language that the, "crawling peg system had seen its best" and that, "speculators…after a while they are playing you like a trout on a line" (quoted in Edwards 1996, 545).

[166] In September 1984, foreign banks were allowed to apply for licenses for entry into the domestic market (Hawke 1994, 254).

great similarity to the Irish experience: tax cuts paid for by relative expenditure cuts. Keating stated of the 1985 budget that:

> "None of these tax cuts will be financed by adding to the government's deficit. They will be achieved by the most rigorous restraints on public sector outlays" (quoted in Stilwell 1989, 18).

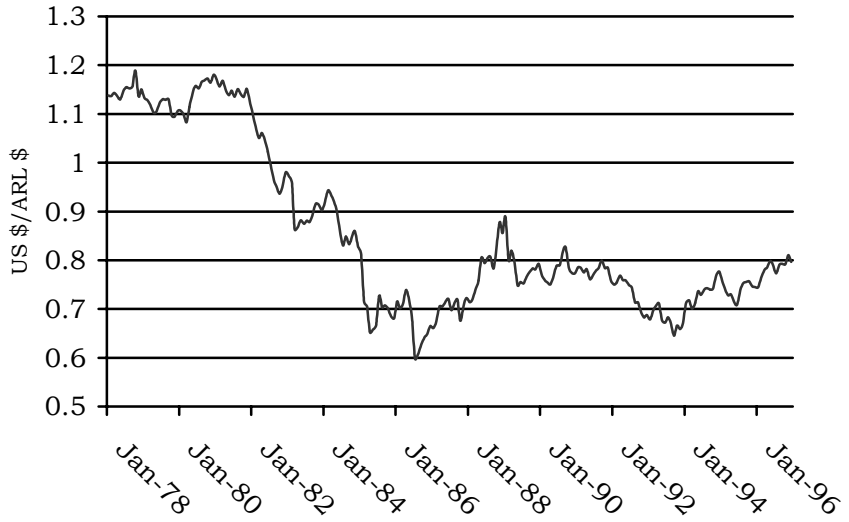

Figure 10.2: Average monthly exchange rate, Australian dollar in US dollars, 1978-1996
Source: Reserve Bank of Australia, Bulletin Statistics, Table F11 (rba.gov.au, updated 11 May 2005)

The imperatives of openness were already making themselves felt. Accord II marked a bridge between the increasing preoccupation of the ALP government leadership that wage bargaining policy should enhance firm competitiveness and the founding assumption that it was designed to stabilize inflation (Edwards 1996, 260-263).[167] Accord

[167] At the September 1985 National Wage Case, employers argued that CPI wage increases should be discounted in order to mute inflationary pressures that would eradicate the increased competitiveness of exporters that arose from the devaluation (Stilwell 1989, 17).

II also marked the end of the social wage trade-off policy path and the entrenchment of the tax trade-off for wage restraint policy path inferred by the Trilogy announced in the November 1984 electoral campaign and begun in the August 1984 budget.[168] The attempt to move the economy away from a liberal and towards a northern European model (be it social democratic or Christian democratic) had been stopped almost as soon as the Accord had left the starting gate.[169]

10.3 The Banana Republic and Accord III

It was the economic and political events of 1986 that took the changing assumptions that began to appear in Accord II – of wage bargaining primarily being used as an instrument of firm efficiency rather than as a mechanism to reduce inflation – and crystallized them. This was the year when it became obvious that the institutional mechanism that was used to deliver the centralized system was not up to the job of providing pay flexibility. It ended with the formulation of plans for the introduction of a two-tier system.

This marked the beginning of the decline and marginalization of the wage tribunals. The Robe River dispute that began in the middle of the year demonstrated that unfettered export sector flexibility within a centralized system, *a la Ireland*, was not possible in Australia and that exporters, especially mining companies, wanted wage bargaining change. The centralized system as run through the arbitration

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[168] The 1984 budget gave earners of between $240 and $520 per week (gross) a $7.20 tax cut (Edwards 1996, 246).

[169] This has been the basis of critique among left-leaning academics and commentators in Australia. See, for instance, Stilwell 1989; and Hampton 1996.

tribunals gave unions considerable amounts of power at the plant level. Decentralization arose as a result of a three-pronged attack by exporters on centralized bargaining, the tribunal system that limited exporters desire for more control over the process of setting of pay, and on unions who owed much of their power to the tribunal system. The central power of the tribunals over management had to be reduced in the view of the 'new right' and the BCA in 1986. Writing in early 1987, Plowman (1987, 89) concluded that Robe River had shown, "that what seemed daring in May [1986] now appears very tame…A new policy, with greater New Right input, is on the drawing board." That policy was the decentralization of wage bargaining.

Government adopted the view that decentralization was necessary to enhance competitiveness. The reasoning was that exporters and those firms competing against imports needed pay to reflect their own productivity, rather than the needs of the macro-economy. Second, there was a discernible hostility towards the tribunals themselves, especially when they attempted to block the move to enterprise bargaining in 1990. Decentralization was clearly a means to marginalize the tribunals in order that the goal of enhanced competitiveness could be achieved through the quelling of the 'irresponsible' use of union power. The tribunals themselves vested much of that power. This concern became clear in PM Hawke's and senior ministers reactions to the Robe River dispute.

The government began to explore decentralizing options in the name of improved competitiveness after the BCA had rejected Accord II and the government's proposed consumption tax at the Tax Summit in

June 1985 (Kelly 1994, 277; Edwards 1996, 276). At the start of 1986, the government had publicly rejected enterprise bargaining on the basis that the additional flexibility it offered were outweighed by the wage restraint centralized bargaining offered (Stutchbury 1986a, 1). By the end of the year they were preparing to introduce what became known as two-tier bargaining which incorporated a universal wage rise component, and a local or plant-level component based on productivity gains. It was a significant u-turn in the space of one year.

The reason for the change was the continuing shocks from international economic forces, namely a worsening trade balance and a currency that continued to decline in value against the US dollar.[170] By April 1, a cadre of senior Cabinet members was publicly pushing for greater wage flexibility (Hywood, 1986a, 1, 4).[171] Disagreement in mid-April from Industrial Relations Minister, Ralph Willis, before a presentation in mid-May to the ACTU executive on wage flexibility indicated that it was a matter of hot debate within Cabinet and the ALP caucus (Taylor 1986a, 16; Noonan 1986b, 3).

At the same time, the BCA soft-pedalled on the view that decentralization of wage bargaining was necessary, preferring to comment more on the power of trade unions (Noonan 1986a, 7). Since early 1986, the BCA had been lauding the need for a greater emphasis on improving efficiency at the plant level. That was soon to change in

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[170] A declining dollar was of no help to mining commodity exporters, whose contracts were usually negotiated in US dollars (see Copeman 1987).

[171] Senator Peter Walsh, Minister for Finance, John Dawkins, Minister for Trade, and Senator John Button, Minister for Industry.

late 1986 and early 1987 with the development and publishing of policy that explicitly argued for EB or decentralized wage bargaining.

The timing of the BCA shift is striking. It came after the government let it be known how serious it viewed Australia's competitiveness problems and its resolve to alter the situation for the better: the government were serious about growing an economy that was open to world trade and financial markets. It also came in the shadow of the Robe River dispute. Coinciding with the March 1987 National Wage Case, the BCA released its first fully-fledged policy document that declared an open preference for enterprise or decentralized bargaining (EB) (see chapter 9).

As the exporter-dominated BCA shifted its attention to EB in the second half of 1986 so too did the government. The critical political event was Paul Keating's infamous 'banana republic' comment on Sydney morning radio. After a series of meetings with Treasury and Reserve bank officials in April and early May 1986 and the release of the April 1986 trade balance of payments figures that showed a record $1.48 billion deficit, Treasurer Keating took a morning phone interview in the kitchen of a hotel on May 14 where he was attending a fund-raising breakfast (Edwards 1996, 290-296). Speaking to Sydney radio interviewer, John Laws, Keating gave an assessment of the economy that framed labor market policy for the years to follow:

> "Keating: 'We are importing about $12 billion more than we are exporting on an annual basis. What it means is that we are living beyond our capacity to meet our obligations by $12 billion…we must let Australians know truthfully, honestly, earnestly, just what sort of international hole Australia is in. It's the prices of our commodities – they are as bad in real terms since the Depression…and if we don't make it this time

> we will never make it. If the government cannot make the adjustment, get manufacturing going again and keep moderate wage outcomes and a sensible economic policy, then Australia is basically done for. We will end up just being a third-rate economy…If in the final analysis Australia is so undisciplined, so disinterested in its salvation and its economic well being, that it doesn't deal with these fundamental problems, then the fallback solution is inevitable because you can't fund $12 billion in perpetuity every year…the only thing to do is to slow growth down to a canter. Once you slow the growth under 3%, unemployment starts to rise again.
>
> Laws: 'And then you have really induced a depression.'
>
> Keating: 'Then you are gone. You are a banana republic'" (quoted in Kelly 1994, 212).

The 'banana republic' speech caused the dollar to fall three cents in an hour. In a speech to the nation on national television on 11 June that responded to the fall-out from Keating's off-the-cuff remarks PM Hawke announced that the tax cuts of Accord II would be delayed until late in 1986. On July 28 the dollar fell a further 10% of its value against the US dollar to a low of 57.15 cents, less than half its value in the first quarter of 1981 (see figure 10.2). The August 1986 budget as a result was aimed purely at deficit reduction. In addition it sought a 50% discount of CPI in wage increases for the following year ending, "wage indexation as an article of faith in the labour movement" (Hawke 1994, 283, 369, 377-379; Walsh 1995, 149-151).

The original Accord was now unrecognizable and was real wage restraint political vehicle that aimed to shore up union support for public sector and tax cuts rather than ensure social wage growth and non-market service provision expansion. This was the prelude to the introduction of two-tier bargaining: an experiment in combined central and plant level bargaining between March 1987 and late 1991 that

was a resounding failure in terms of its ability to restrain wage growth and to enable re-structuring of work and pay at the micro-level.

Keating's initial reaction to the fallout from the 'banana republic' speech was to call for a Workplace Practices Summit. PM Hawke initially vetoed this. His reasons were mostly political – he wished to avoid a sense of panic. But the call from Keating showed a clear linkage in his and PM Hawke's calculation between competitiveness and micro-economic efficiency (Kelly 1994, 214-216; Hawke 1994, 373-374). It also made public in a way not done so before, of the level of worry and attention that this issue had attained within the government. While the issue of wage flexibility and Australia's competitiveness had made regular appearances in Australia's non-tabloid press throughout the first half of 1986, the message that emanated from the government before the 'banana republic' speech was that wage flexibility and wage bargaining decentralization, even if only partial, was not necessary because the current centralized system was up to the job in ensuring that Australian goods and services remained competitive in export markets (see for instance, Stutchbury 1986a). The 'banana republic' speech and Keating's call for a mini summit on the workplace made it obvious that the government did not believe the current wage bargaining system was performing as it should, and that wage bargaining policy needed to re-address the issue of plant and enterprise efficiency. The political space for exporters to dictate terms on wage bargaining policy had been created. The Accord was transformed. The government was committed to an open economy, and international competitiveness was now the litmus

test for any wage bargaining policy. The September 1986 Economic Planning Advisory Council meeting[172] that Keating proposed to postpone for the Workplace Practices Summit, became a de facto workplace practices consultation. At the meeting, the BCA circulated a paper on restrictive workplace practices. The government agreed to a further meeting: Keating had his 'Workplace Summit' in late September. It was following this meeting that PM Hawke announced an end to wage indexation and the intention of the government to introduce a two-tiered wage bargaining system (Dabscheck 1990, 31-32).

Commenting later to a journalist in the June 1987 election campaign, Keating emphasized the importance of micro-efficiency concerns in a third term ALP government to journalists:

> "We have intellectually chosen the route of internationalisation. If you are going to internationalise it must be about being efficient in world terms, that is our place in the future. And that means you must attend to the micro issues of efficiency" (*Australian Financial Rev*iew, 29 May 1987).

The move to a two-tier wage bargaining system was a political decision as much as anything, and reflected the division in Cabinet and the ALP caucus between those who advocated wage flexibility such as Keating and Finance Minister Peter Walsh, and those like Ralph Willis, who were not yet completely in agreement with the idea. At the March 1987 National Wage Case, government, unions and employer representatives all agreed on the need for a two-tier system.[173] It is an indication of the power of the shocks that the economy suffered in

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[172] EPAC was formed at the 1983 Summit.

[173] This agreement gave employers an input into Accord III they never enjoyed under Accord I and II.

1986 that there was widespread agreement of the need for at least two-tier bargaining by the start of 1987. Under what became Accord III, a flat rate of $10 minimum or 1.5% was granted, with a further possibility of a 4% wage rise over two years based on demonstrated re-structuring and efficiency gains made at the plant level.[174]

10.4 The failure of the two-tier system

The two-tier system between March 1987 and November 1991 failed to bring about the widespread re-structuring of the Australian workplace or the wage flexibility that employers wanted (Harden 1991, 126).[175] That shortcoming documented in this section was enough to ensure its failure and meant that there was no real alternative to the BCA preferred policy of EB. Once the move to the two-tier system was made it was politically difficult to go back to the centralized system. The BCA had opposed Accord II, and had opposed a consumption tax proposal from the government during the mid-1985 Tax Summit, a rejection that had signalled the extent to which the BCA was prepared to sacrifice a preferred tax policy in the name of defeating the

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[174] Accompanying the move to two-tiers was an increasingly tight fiscal policy. The May 1987 Budget Statement cut spending further than the 1986 Budget allowed for. These were followed by further cuts in the 1987 Budget (Edwards 1996, 311).

[175] Some critics have argued that it delivered wage restraint without much benefit to the union movement. Ewer et al 1991, 29 argue that compared to other periods of economic growth such as 1974-75 and 1981-82, Australian workers missed out. Such arguments seem to ignore that the wage rises of 1974-5 and 1981-82 directly contributed to the loss of power of two governments, and were ultimately unsustainable. Some boosters have shown that because labor productivity rose after 1987, the second-tier system was somehow responsible (Drago & Sloan 1988, 461). This ignores the capital and investment associated with the opening of financial markets in 1983 through 1985 that enabled higher output per labor unit input.

government.[176] What would it do if faced with a re-centralization of wage bargaining?

The two-tier's one achievement from an employer perspective was to stop some of the pay relativities that flowed throughout the economy from the benchmark metals industry award. The slowness of the system and the patchy awarding of the second-tier increase also generated de facto wage restraint for a time.[177] In some quarters of the economy the inability or delay in winning second tier increases resulted in wages falling relatively behind, namely in some services (transport and storage, wholesale trade, cultural and recreational

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[176] The Tax Summit involved business leaders and umbrella association representatives, members of the ACTU executive, representatives from welfare groups and Cabinet members and support bureaucrats. In many respects it was the only time during the Accord that consultation approached the broad corporatist deliberative approach of Irish Social Partnership. The purpose of the Summit was to examine three taxation proposals from the government – taxation reform promised in the 1984 election campaign. The first ('A') was favored by Treasury officials and included a capital gains tax on all assets except the primary residence, a taxation on non-remuneration employee benefits (so-called 'fringe benefits'), Reduction of negative gearing on rental properties, an identity card system in order to curtail tax avoidance, restrictions on farm write-offs, taxes on gold mining income, and foreign tax credits for foreign sources of income for Australian citizens. These changes would all fund a cut in the marginal rates of income taxation. Options B and C included elements of Option A, but an emphasis on the introduction of a broad-based consumption tax (AKA VAT) to fund cuts in the marginal rates. Option B, proposed a consumption tax of 5%- a straw man for Option C. Option C was preferred by Keating and the ALP Caucus after much debate and proposed a consumption tax of 12.5%. Ultimately the BCA (along with the National farmers federation, the Australian Mining Industry Council,, the Australian Chamber of Commerce and the Confederation of Australian Industry) opposed Option C. they complained that Option C would lift business costs by 30% and reduce investment and growth because of the curtailment of various income shelters, and the taxing of fringe benefits and capital gains (see Kelly 1994, 155-177 for a full account of the events and proposals). The final tax package passed included a watered down wholesale tax reform, a handful of reforms to various tax shelters and no consumption tax.

[177] By the end of 1987, 25% of the workforce had won the second tier gains (Dabscheck 1989, 108). By June 1988, the figure had risen to 45% (Drago & Sloan 1988, 461). In the heavily unionized metals industry, second tier increases were negotiated in December 1987. But in other areas of the economy with less militant unions and lower skill workers second tier increases still hadn't reached around 20% of all workers covered by awards by the end of 1989 (Ewer et al 1991, 26, 27).

services and personal services) and in public administration and defense (see chapter 8). But real wages having fallen since November 1983 began to rise again in November 1988 and rose throughout the two-tier years (see chapter 8).[178]

The two-tier years covered three versions of the Accord (III, IV and V) and were based around small universal wage increases and second tier increases based on supposed productivity-enhancing improvements. The two-tier years were framed by two principles that guided local negotiations. The 1987 Restructuring and Efficiency Principle (Accord III) allowed for up to a 4% pay-rise over two years based on productivity-enhancing changes being made at the applicant workplace. The Structural Efficiency Principle was introduced in Accord IV (August 1988) and allowed for a 3% pay rise in September 1988 provided that employees agreed to an award review process. The second tier increase of $10 per week was available in March 1989 provided real productivity improvements were made. SEP continued in Accord V (August 1989) and meant that total pay increases to June 1990 when added to the 3% maximum centrally agreed increases did not exceed 6 ½% in total. Again productivity-based increases were the basis of a successful local claim.[179]

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[178] While the second tier pay rises were slow in coming in some quarters of the economy, there is evidence to suggest that most workplaces received the 4% second-tier with little or no actual changes too work practices. See Norris 1989, 113).

[179] Reflecting Australia's mix of workplace, industry and multiple employer bargaining that operated under the centralized Accord agreements between the ACTU and the government and ratified in the various National Wage Cases, second tier increases were negotiated and applied via a mix of wholly industry, partially industry and partially workplace, coordinated workplace ('pattern bargaining') and non-coordinated workplace bargaining. Reflecting the tendency of state tribunals to follow the lead of the federal tribunals, the states adopted two-tier wage bargaining

The available evidence suggests that the changes at the workplace were relatively minor under the two-tier system, certainly not startling or widespread. The two-tier system proved too slow in implementing change (Dabscheck 1995, 52; Mitchell 1991, 112).[180] This was an indictment of the inability of the tribunal system to deliver the process aspect of pay flexibility. The intimate involvement of the AIRC in the second tier generated wage increases tended to restrict employers in their quest for more flexible work practices and the pursuit of more flexible remuneration practices.

A comparison with the Irish system illustrates the degree to which exporters were hampered by the tribunals and the centralized system.

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principles that were substantially similar to the federal model (McDonald & Rimmer 1988, 478, 483).

[180] The metals industry was the most enthusiastic adopter of second-tier bargaining. Indeed, some evidence suggests that in the March 1987 wage case, the Metal Trades Industry Association and metals unions were prime movers and supporters for the two-tier system (Sheldon & Thornthwaite 1996, 181-185). Frenkel & Shaw (1989) in a study of second-tier changes in a representative sample of 23 workplaces in the metals industry demonstrate that despite this support at the umbrella association level there is, "little evidence of fundamental change which is so necessary for gaining a competitive edge in world markets" (112). In an examination of 12 of what the authors term as 'major agreements', and a content analysis of workplace agreements in 1334 metals plants, Rimmer & Zappala (1988) find little evidence of actual wage flexibility being introduced via second tier agreements. The sole exception is in the banking industry (580). Most of the changes to wage flexibility were minor, such as agreements to change payment methods (i.e. to electronic transfer of funds) (571-573). According to these studies, the only major award to see any introduction of variable pay was in the Bank Officers Federal Award where performance-based pay increments based on performance appraisals were introduced (572).

Evidence from the 1989-90 Commonwealth Department of Industrial Relations AWIRS survey shows that within the private sector, 12% of workplaces introduced or changed dispute-settling procedures (the procedural dimension of wage flexibility). Of the changes that may have affected wage outcomes (or the amount paid by an employer for any particular task for any particular period), 35% of workplaces made alterations to award classifications (matching job title and job description to wages) 23% introduced new career paths, 21% introduced new pay increments, 38% altered working time arrangements, and 34% introduced new unspecified work practices. The introduction of electronic fund transfer for actual employee payment was the most common change, introduced at 34% of workplaces. 17% of private sector workplaces made no changes at all (Callus et al 1991, table 9.8).

Whereas in Ireland, exporters were and are free to negotiate directly with employees over pay changes when re-structuring of the workplace is required by changes to production or service delivery (driven by 'the need for speed' discussed in chapter 2), Australian exporters, indeed all employers, had to navigate a cumbersome and slow tribunal system that delivered pay verdicts that often did not reflect the comparative strengths of the bargaining parties. The enhancement of union power via the tribunals and the Accord partnership meant that any wage policy move to enhance the pay flexibility of Australian exporters would have to marginalize the tribunal system. The obvious route was to introduce no limit enterprise bargaining, which then removed the tribunal as a closely supervising umpire on plant and workplace bargained wage levels. This is where Australian wage bargaining was headed after 1993.

While the system was failing to deliver pay flexibility, economic pressures continued unabated. The October 1987 stock market crash increased pressure on policy-makers to align the wage bargaining regime with the needs of the traded sector. In the December 1987 National Wage Case, the previously cautious Industrial Relations Minister Ralph Willis in his submission to the bench, spoke of the need for more wage flexibility and more scope for enterprise bargaining.

By this stage, the BCA was engaging in research that became the basis of its 1989 publication, *Enterprise-based Bargaining Units*. Policy-makers were primed and ready for a decisive lobbying move from export employers. The decision to open the economy had been

made, and worsening economic outcomes, especially the balance of payments, was exposing the rigidity problems of the centralized system. Key export employers such as Peko-Wallsend had rejected arbitration, centralized bargaining and the Accord. The exporter-dominated BCA was becoming increasingly vocal in its opposition to the rigidities imposed on employers by the centralized system. The two-tier system was not up to the task of providing export employers with the flexibility they wanted. Pressure for enterprise bargaining was building in the Cabinet. The decentralization of Australian wage bargaining seemed only to be a matter of time.

10.5 The Keating government & enterprise bargaining

By 1989, the framework by which wage bargaining policy would be judged had been established. The measure would be flexibility and productivity-enhancement. The goal was improved competitiveness within the world economy and Australia's trading partners. Paul Keating later described the wage bargaining decentralization policy thus:

> "Later in the period of the Labor Government, once the shares between wages and profits had been adjusted, we began to move away from broad wage adjustments through the national wage cases to enterprise bargaining. The objective was to lift enterprise productivity and share it by agreement between employers (profits) and employees (wages)" (Keating 1999).

While 1989 and 1990 were the years when the final decisions were made to decentralize wage bargaining, the seeds of the decision came much earlier. The events of 1989 and 1990 dotted the i's and crossed the t's on earlier causal events that shaped the move to decentralization: in 1983 (the float), and in 1986/7. The 1986 balance

of payments crisis and the 1987 policy shift from the BCA in favor of EB meant that once the two-tier system had shown it shortcomings, there appeared to be a naturalness and inevitability about the move to EB: "[H]ow could it be stopped once it started?" concluded Keating speechwriter, Don Watson (Watson 2002, 367).

Continuing economic pressures reminded policy makers of the need for pay flexibility. The balance of payments problems of 1989 and 1990 reinforced the perception within the Cabinet of the need for increased wage flexibility at the plant level just as the 'banana republic' crisis of 1986 crystallized the change of purpose in wage bargaining policy from inflation control to micro-economic efficiency-enhancer (Middleton interview 2001).

Accord VI (September 1990) marked the start of the EB era. While key parts of centralized wage bargaining remained, namely the commitment to an 2.5% increase (ratified by the AIRC in April 1991), most of the potential wage increases were to be negotiated at the plant level based on improved productivity. The 'no extra claims' provisions of previous NWC and that were central to the Accord I through V negotiations was abandoned.[181]

The BCA was now setting the agenda on wage bargaining policy within the political space created by the decisions to open the economy that started with the float of the dollar in 1983.[182] Pre-launch copies of

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[181] 'No extra claims' provisions within AIRC agreements and written into each of the first five Accords prohibited extra over-award claims by unions at the plant-level.

[182] The BCA was aware of the vital importance of that decision. A June 1990 *Business Council Bulletin* article, concluded:

"When the Hawke government floated the $A in December 1983, and removed the exchange rate controls that still applied to the capital movements in and out of Australia, it let loose a variety of forces which were destined to have a profound effect

the BCA's *Enterprise Bargaining Units* had been available for five months (Dabscheck 1995, 61). During 1990, EB became the preferred policy position of not just the government and the BCA, but one with varying degrees of support from the ACTU and other business associations that had previously opposed it. In February 1990, the ACTU's chief Accord negotiator and Secretary, Bill Kelty was quoted as saying that is wasn't a question of whether enterprise bargaining would occur, but what kind of things and what kinds of goals would be bargained over at the enterprise level (from a quote in Dabscheck 1990, 62; also see Tingle 1994, 289).[183] This was a reversal from the *Australia Reconstructed* (ACTU 1987) wage bargaining policy position that had recommended industry-level bargaining within a centralized wage bargain pact framework as its preferred option: a policy solution very much based on the Swedish model. The Confederation of Australian Industry in March 1991 felt compelled to release a statement in an Australian academic journal explaining that the organization was not opposed to decentralization of wage bargaining, but it was concerned about, "attempting to retain an appropriate degree of control over aggregate outcomes" (Noakes 1991, 75). This was a reversal of 1989 opposition to the move to EB (Tingle 1994, 77). The MTIA shifted its policy towards enterprise bargaining albeit within industry guidelines in late 1989. Within the Metal Trades Industry Association, splits between small domestic and niche market and

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on the workings of the Australian economy…[T] he most profound change wrought by the floating of the $A was the extent to which it opened the Australian economy to international influence" (BCA 1990a, 4).

[183] The ACTU response to the BCA and its role in the emergence of EB are further examined below.

larger exporting employers appeared with the larger employers strongly pushing for EB and the rest for industry-level bargaining (Sheldon & Thornthwaite 1996, 185ff). In 1990, after Accord VI was negotiated, more than 30 of the MTIA's larger members had already struck enterprise agreements. By the end of 1992, the MTIA was calling for a widened scope for enterprise bargaining (Sheldon & Thornthwaite 1999c, 84-85).

Accord VI was negotiated in February 1990 in the lead up to the 1990 federal election. Partially ratified in the National Wage Case that September, it allowed for enterprise bargaining with an upper limit on wage rises, in exchange for tax cuts and superannuation increases.[184] In a slice of economic fortune, the recession of the second half of 1990 and the first half of 1991 meant that tax cuts were no longer necessary to generate wage restraint and the tax/wage trade-off was postponed until 1992 (Edwards 1996, 418, 420).[185]

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[184] Since 1983 the top marginal rate had been cut from 60% to 48% (Mitchell with Bassanese 2003, 134). Keating believed that the tax cuts that began in earnest with Accord II had begun to reach their limit, a belief that underlines the argument that the use of tax cuts to motivate wage restraint in the Irish system has a use-by date and that at some point, government must find other policy avenues that motivate wage restraint without boosting public spending.

[185] The recession arose out of a dual desire of the government to control inflation and to arrest the decline of the Australian dollar. In 1989-90 long term interest rates rose from the 3.6% of the previous financial year to an average of 7.5%, rising again to 9.2% for the first quarter of 1991 (Argy 1992, 205). This reflected a growing political interference in monetary policy from the middle of 1986. Keating, via Treasury was influencing the Reserve Bank to use interest rates policy as a crude macro-economic device in which inflation rate target goals were traded off for exchange rate target goals. This was done in the service of alleviating short-term balance of payment difficulties and to ease debt repayment burdens (Kearney 1997; Argy 1992, chapter 21; Tingle 1994, chapter 3). A succession of bad inflation and current account figures in early 1989 prompted the government to move interest rates higher from 14.5% (mortgage) to 16.25% between January and March 1989. Rates were further increased to 18% by the end of the year (Tingle 1994, 50). The result was a recession that Paul Keating later described famously as the, "recession we had to have" (quoted in Kelly 1994, 617).

During 1991, the AIRC rejected, and then adopted the enterprise bargaining principle of Accord VI. The April 1991 decision asserted that employers and unions lacked the maturity for EB and that the two-tier years had not seen enough progress in award re-structuring.[186] Threatened with legislation to enforce the Accord decision and protestation from government, treasury officials unions and employers, the commission reluctantly changed its mind and reversed its April 1991 decision in October 1991 (Edwards 1996, 420-421). In private, Keating threatened to abolish the AIRC if it refused to ratify the move to EB (Edwards 1996, 420). Kelly concluded on the tribunal's failure to ratify the move to EB in the April 1991 decision that it had, "signed the death warrant for its influence" (Kelly 1994, 669).

The spread of EB accelerated with the start of the Keating government at the end of 1991.[187] A major policy document, *One Nation*, released in February 1992 endorsed EB. Accord VII was released to the public on February 19 during the election campaign of the 'unwinnable election' of 1993.[188] The centralized component of the deal was reduced to a guaranteed and arbitrated safety net of three $8 increases for low-income earners. EB was to have no upper limits but would be carried out with regard to competitiveness, efficiency-

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[186] This was essentially the position of the MTIA, the only submission to the bench that did not back some kind of move to EB (Briggs 2001, 36).

[187] Paul Keating initiated a leadership spill in Caucus and defeated PM Hawke by five votes on 29 December 1991.

[188] So named because of the high interest rates, high unemployment and, until polling day, the consistent trailing of the ALP government to the conservative Opposition in opinion polls.

enhancement, productivity improvements and job creation (ACTU 1993 in Wilson et al (eds) (2000, 358-363, 371).

Following the election win (the ALP's fifth since 1983), Keating appeared to broaden the idea of the safety net. Speaking to the Institute of Company Directors (ICD) on April 21, Prime Minster Keating addressed the issue of EB. He promised to extend EB, but within an AIRC monitored safety net that would ensure that employees received at least a prescribed minimum standard of pay and conditions of work. Here the safety net appeared to be the extent of the award system, rather than a set of minimum standards for it. Keating's speechwriter described the deepening of EB:

> "In line with thinking that only a few years before was confined to the right, the Labor government now wanted the great majority of wages and conditions to be negotiated in workplaces by enterprise bargaining" (Watson 2002, 368).

It was at this point that the ACTU and the government began to diverge in their vision for the future of wage bargaining (Watson 2002, 368-369; Green 1994, 101-102). Such was the dominance of the BCA on the debate and the government's concern to improve the competitiveness of the economy. Enshrined into legislation as the *Industrial Relations Reform Act* (1993), Accord VII legislated a key BCA policy demand: an Enterprise Flexibility Agreement (EFA) that was certifiable by the AIRC. Along with Certified Agreements, a stream of bargaining was established that was enterprise-based and separate from the awards system. For unions, the worry was that non-union bargaining could now create agreements that were equivalent to awards (Creighton & Stewart 2000, 6.64; Nomchong & Nolan 1996).

Eligible unions (those covering at least one employee) could make representations to the employer about the content of an EFA but could be shut out of the negotiation process. Non-union collective agreements could substitute for awards provided they past the 'no disadvantage test'.[189] The Certified Agreements clauses of the 1993 Act allowed for plant level agreements that could replace awards, provided employees under those agreements suffered from 'no disadvantage; a major concession to the ACTU, and their chief worry with the 21 April 1993 speech to the ICD which omitted mention of the 'no disadvantage' test.

Negotiations between the ACTU and the government over the EFA proposal were intense during the southern winter of 1993. The ACTU Secretary described the idea of non-union agreements as a, "scab show as a part of a bargaining trick" (quoted in Green 1994, 106). Green (1994, 108) describes the eventual union reaction to the 1993 legislation as one of, "relief rather than enthusiasm." The Keating government was now increasingly overt in its support of the views of employers, especially that of the BCA.[190]

The support for the non-union bargaining agenda was the breaking point for relations between the ACTU and the Keating government. Kelty described the 1993 legislation allowing non-union

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[189] The no disadvantage test means that employees under a Certified Agreement or an EFA must not suffer a disadvantage in conditions and pay compared to award workers in similar jobs. This usually involves a great deal of interpretation by the AIRC (see Creighton & Stewart 2000, 6.111).

[190] For instance, in a speech to the Confederation of British Industry not long after the April 21 speech the new Minister for Industrial Relations, Laurie Brereton told listeners that in return for a recognition of the right to strike by employers, unions would have to accept measures that allowed collective non-union wage bargaining.

certified agreements as, "ill conceived" (Kelty 2003, 344). This break manifested itself in the events surrounding the industrial dispute at Weipa, a bauxite mine owned and operated by CRA, on the coast in remote northwest Queensland just three months before the 1996 federal election. CRA had been slowly replacing its mining employees with independent contractors. As old employees left, independent contractors were employed. These contractors earned far more than trade union member employees doing the same job. CRA was clearly trying to drive union members out of its operation. Weipa revealed the ugly truth behind the McKinsey path to employee/management trust and mutual obligation: a novel approach to union busting.[191] In response to this, the ACTU imposed a maritime ban on Weipa operations. Other unions struck at CRAs coal mines in sympathy. CRA lawyers threatened employees with civil actions in a repeat of the 'new right' strategies of the mid-1980s at Dollar Sweets.

In a stunning turn of events, Bill Kelty hired ex-Prime Minister, Bob Hawke, the very same PM ousted in a bitter and acrimonious political battle by Paul Keating five years prior in a leadership spill vote in Caucus, to represent the unions at the AIRC hearings.[192] While the motives of Kelty are unclear, the move clearly showed the level of mistrust between the government and the ACTU executive, and the suspicion over whether the Labor government would fully support the union movement against an export employer seeking to de-unionize a

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[191] Remembering that Sir Rod Carnegie was an ex CRA CEO and ex-McKinsey consultant.

[192] Hawke settled the dispute, in a bad defeat for the government just weeks before an election they eventually lost.

key workplace. Keating responded in private that the dispute signalled the end of the Accord (Watson 2002, 655-664). The new conservative government further entrenched decentralized bargaining in 1996 legislation by allowing for individual workplace agreements (AWAs) that were reviewable by the AIRC and that could replace awards.

The striking aspect of the period of decentralization after 1987 is how reforms delivered the BCAs core wage bargaining policy preferences: award rationalization (moving towards single unit bargaining), plant-level bargaining, and then finally, non-union plant level bargaining. This was despite the ALP's close relationship with the union movement, and the shared policy deliberations that accompanied Accords I through VI. The policy-influencing power of exporters was never more dramatically clear.

10.6 Alternative causal explanations

I now briefly examine two alternate arguments for the decentralization of wage bargaining. First, I examine the claims of Briggs (2001), and Dabscheck (1995) that trade unions were partially or wholly responsible for wage decentralization. Second, I examine whether public sector wage growth and expansion were responsible – the other path to LME wage decentralization I argue for in chapters 1 and 2 and demonstrate was responsible for wage decentralization in Ireland in the early 1980s.

I argue both sets of arguments fail to convince based on the evidence. On the union argument: The actions of trade unions were largely reactive to employer moves and government accommodation to those moves to decentralize wage bargaining. However, the political

rationalization used by the ACTU that guaranteed support from militant member unions was that EB would enable higher wage rises than under a centralized or semi-centralized system. This suggest that while wage drift did not directly cause the decentralization of Australian wage bargaining, the repression of it led unions to abandon their earlier opposition to decentralized bargaining and justify their defeat on the issue by export employers.[193] In discussing this alternate explanation, I summarize the argument that supports my theoretical perspective here: that export employers had their wage bargaining policy preferences accommodated by the government once the open economy model and path to economic growth became a framing policy assumption.

On the public sector argument: Public sector wage rises and employment expansion remained relatively restrained during the centralized and two-tier years of the Accord, thanks mainly to the adoption of the 'twin deficits theory by policy makers' that linked increased public spending to worsening balance of payments.

10.6.1 Were trade unions responsible for decentralization?

After the 1996 election, ACTU Secretary and chief Accord negotiator, Bill Kelty remained defiant in his belief that decentralization was caused by the union movement and the Labor government acting together. This they did for the benefit of Australians, future economic security, and the future of the union movement (see his comments in Briggs 2001, 33 and Kelly 1994, 670).

[193] Indeed, ACTU leaders from the time have since claimed that they were responsible for decentralization. In light of the reversal of opinion, this can only be described as a self-serving justification.

This appears to be post hoc rationalization, or as Kelly concludes "wisdom of hindsight" and "pontification" (Kelly 1994, 670).

Briggs (2001) argues that union influence is key to understanding the decentralization of wage bargaining during the Accord. But the sequencing of events suggest otherwise. First, the economic environment changed after Labor floated the dollar. After that, the balance of payments and debt drove wage bargaining policy away from a pure focus on inflation control, and towards the issue of improved productivity and efficiency. The assumptions behind Accord I were replaced. Ultimately, that replacement opened a political opportunity for export employers who exploited it both individually via key disputes, through the hard line radicalism of the HR Nicholls Society formed opportunistically for the purpose of eradicating the tribunal system and centralized wage fixing, and through the research driven, agenda-setting and consistently moderate Business Council of Australia.

Second, the balance of payments and the rapidly depreciating dollar drove policy-makers to pay immediate heed to the issue of how wage bargaining policy could be used to increase export firm productivity. The answer was quick: changes to the centralized system in a decentralized direction. This was a politically palatable 'half-way house' to a fully decentralized system, one that unions were prepared to accommodate.

Third, the two-tier system did not work. The reasons were neatly summarized in the 1989 BCA report, *Enterprise Bargaining-based Units*: wage setting was still too coordinated. Workplaces had too many

unions. Centralized rigidities prevented plant level flexibility. BCA literature became increasingly anti-union in line with its alignment with the McKinsey HRM way of thinking that firmed after Sir Rod Carnegie became President and Fred Hilmer was hired as the head of research.

Fourth, 1989 and 1990 saw the government shift policy again as Australia's balance of payments continued to worsen. Earlier ACTU opposition to EB, expressed most forcefully in the ACTU's 1987 policy document *Australia Reconstructed*, was reversed in reaction. It was a matter of agreeing to the wage bargaining changes and staying at the policy table, or rejecting the changes and risk being, as Keating adviser Don Russell termed it, "no longer being part of the ruling group" (quoted in Watson 2002, 661). This hardly appeared to be the actions of an organization taking the lead on wage bargaining. The result was Accord VI where decentralized wage bargaining was allowed without a centrally set limit to increases.

Fifth, the Keating government deepened the decentralization changes in 1993 legislation that allowed enterprise agreements and, worse still for the union movement, non-union agreements. This was major win for the BCA and a legitimating of non-union workplaces within the wage bargaining policy regime. This aroused considerable suspicion among unions in 1993. The events surrounding Weipa demonstrated that suspicion, and the lack of ACTU trust in the Keating government to support the union campaign against CRA.

Arguments for the causal effect of trade unions in wage decentralization in the late 1980s and early 1990s in Australia rely on

the personal accounts of key participants. But essentially structural and economic causes will rarely be gleaned from a reliance on such information. In this chapter, I have argued for the causal effect of export employers. But the extent of their influence is, in many respects, subtle and structural. A simple counterfactual clarifies the argument: If export employers had announced they were happy with the centralized system, or with the two-tier system, would the ACTU have so readily changed its policy preference from the 1987 position that was pro-industry-level bargaining, to the 1989 and 1990 position that was pro-enterprise bargaining? Would the government have initiated a move to EB without export employer support? Would the ACTU support for EB be enough? This seems extremely unlikely. After the float and the banana republic, wage bargaining policy was, at the least, about accommodating employers' labor market regulatory preferences as far as politically possible. In practice, this meant a gradual shift to EB, one that tested and eventually found the limits of ACTU loyalty to the Labor government.

Briggs claims that the August 1989 Accord VI NWC decision changed the policy position of the ACTU. Left-wing unions could hold back wage pressures from their skilled membership no longer (also see Spooner 1990 on the disquiet within the union movement in 1989). Skilled, blue-collar workers within left unions that pushed for the move to a more decentralized wage bargaining regime in order to access larger pay rises according to Briggs (2001, 32-34). Unions supported the move to decentralization to release latent wage drift pressure.

This strategic mistake by the ACTU certainly aided the decentralization cause even if, as Briggs claims, the goal of ACTU support was to merely win over-award wage rises in order to release wage pressures (2001, 35).[194] But, given the open economy economic growth policy assumptions held by the Labor government, the relatively poor economic environment and trade balance and the persistent and consistent voicing of the BCA decentralization preference -- a combination at work for four years -- it is hard to see the ACTU move as doing little to actively cause decentralization. It may have advanced the timing of it by a couple of years. But the ascension of the Keating government made decentralization look inevitable, with or without union blessing. As the 1993 legislation and machinations and union suspicions that arose from the negotiations around it makes plain, the Labor government was prepared to test the loyalty of the union movement as far as possible. I would suggest, therefore, that the desire from the ACTU to release wage pressures by acquiescing to Accord VI and the decentralization of wage bargaining, only brought forward that event but not enough to support an argument that the union movement caused the decentralization of Australian wage bargaining.

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[194] Briggs (2001) argument here is supported by the observation made by Chief Industrial Advocate for the Australian Chamber of Manufacturers that:

> "[T]he ACTU concept of decentralized bargaining is not the same as advocated by most employer groups. One wonders whether the ACTU would accept wage decreases based on company losses and whether they would always accept common accounting standards for measuring profit. Some employer groups entered the concept of enterprise bargaining, provided the agreement was freely entered into, flow-ons were prevented, real improvements in productivity were achieved and the quantum reflected individual circumstances" (Harden 1991, 132).

10.6.2 Was public sector wage drift & employment growth responsible?

In 1999, Keating summarized the public sector policies of the Hawke and Keating governments:

> "We wanted a public sector large enough to sustain the social contract but not so big that it crowded out employment-creating private investment. Unlike some people on the left of politics we believed that if the call by the government sector on national resources was too high it did squeeze private sector activity and initiative" (Keating 1999).

Evidence supports this small state goal. As expected by Iversen & Wren (1996) and anticipated by the analysis of policy makers actions above, liberal economy Australia showed no signs of expansion in public sector expenditure and employment during the Accord years. Figure 10.3 shows that after a minor increase in public sector employment at the commonwealth and state levels between 1983 and 1985, employment then declined slowly throughout the 1980s, and dipped further in the 1990s as the Commonwealth privatized some public corporations.[195] These trends in public sector employment and expenditure are consistent with the Irish experience in the 1990s and show a trend towards fiscal restraint in LME-style corporatism.

Public sector expenditure as a percentage of GDP remained steady during the Accord, averaging 33.8% between 1980 and 1989, and 33.6% in the 90s. Spending as a percentage of GDP rose slightly during the recession of 1990/91 (1990, 32.8%, 1991 34.5%) but

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[195] States rely upon the Commonwealth on what are known as Section 90 block grants (after the constitutional section) to fund a significant part of their annual spend. Hence federal government budget decisions will greatly influence state spending. The result is that we observe a secular trend across state and federal jurisdictions with respect to public employment.

declined again to 33.7% by 1996 when the ALP lost power (OECD 2001, table 6.4).

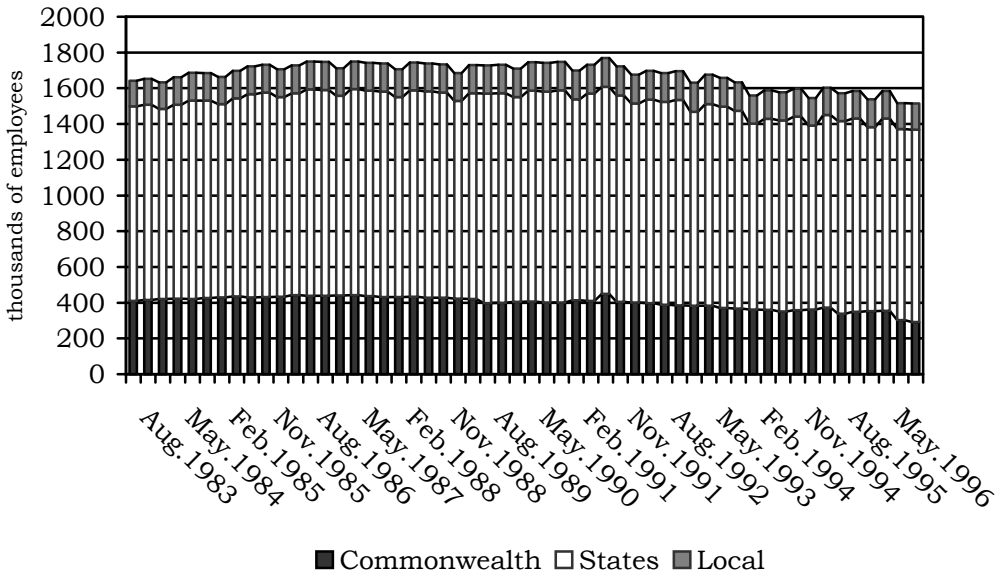

Figure 10.3: Public sector employment, Australia 1983-1996
Source: ABS cat. 6248.0.55.001.

As the above analysis suggests, this reduction in spending was achieved because of the large deficit inherited by the Hawke government, and the persistent balance of payments problem that has driven a budget surplus motivation in order to reduce debt and capital outflow that would contribute to negative current account figures. Early manifestation of this was the Trilogy commitment in the 1984 election. But it was the Banana Republic that cemented this as a core policy for the ALP. The May 1987 Budget statement made bigger spending cuts than the June 1986 allowed for. As Edwards summarized, the message the government came back to time and time

again in 1987 was, "'foreign debt is bad'…The threat of foreign debt was used to drive fiscal tightening" (Edwards 1996, 311).

Public and sheltered sector wages were kept in check, too, during the Accord. Real wages for government administration and defense, education, health and the electricity, gas and water declined from 1983-1987. During the two tier years when real wages rose on average between 2% and 4.5% in the export and foreign firm high competition industries (mining, manufacturing, finance and insurance and property and insurance), public administration and defense real wages remained at the CPI, while sheltered real wages with the exception of the highly innovative communication services rose by less than 2%. Real wages in the services declined in the two-tier years, reflecting their inability to generate 'productivity-rises' in weakly unionized areas of the economy. Hospitality and retail real wages rose by over 2% as unemployment declined (see chapter 8).

From this data, it is obvious that existent public and sheltered sector wage drift and employment growth were not responsible for the decentralization of Australian wage bargaining during the Accord years.

10.7 Australian wage decentralization

The Australian and Irish experiences with central wage bargaining are very different and not just in their outcomes. The two differed markedly in the institutions they used to deliver central wage bargaining and in the economic environment central wage bargaining was conducted. The Accord was a far more rigid centralized system with far greater controls from the center over local wage outcomes.

This was due to the set of institutions the Accord was to. Essentially composed of legal institutions, the Australian system gave procedural and bargaining power to unions and managerial discretion over actual wage outcomes to tribunal judges. The Australian centralized wage bargaining experiment was far more ambitious than the Irish system, which has allowed a significant and easy opting out safety valve for exporters (and indeed any employer who wants it).

Whereas Ireland was an extremely open and trade dependent country in 1987, Australia was still struggling towards the basic decision to open the economy; something the Irish had done in the late 1950s and early 1960s. With that decision firming in the 1983-1986 period, policy-makers began to consider wage bargaining policy in a new light. No longer a mechanism to deliver low inflation, it became a means to improve the trade performance of Australia. This change in attitude reflected the problems of the tribunal system: it was far too rigid and slow and made pay flexibility difficult. Export employers had made this plain through key disputes and the activities of the BCA. Decentralization therefore not just arose as a way of giving exporters and import competing firms more control over pay outcomes, but it was also designed to minimize tribunal interference in that process.

Events since 1996 have furthered this marginalization. 1996 legislation under the Howard right wing government minimized the aspects of enterprise agreements that the AIRC could review, and introduced individual agreements that could over-ride awards (called Australian Workplace Agreements or AWAs). Legislation slated for late-2005 proposes to remove the pay review function from the AIRC

altogether to a new body, called the Fair Pay Commission. Minimum wages will be legislated, rather than arbitrated.

Chapter 11
Comparing Irish & Australian experiences with centralized wage bargaining.

In this concluding chapter, I address a number of issues raised by this dissertation. In the first section I explicitly answer the first set of research questions asked in chapter 1, about the causes of the differences in outcomes between the Irish and Australian cases. I then consider five issues raised by this dissertation. First, I consider the temporal scope and possible application to non-liberal economies of my argument. Second, I examine the question of compensatory polices for wage restraint and ask: When are they successful in helping generate wage restraint and when are they not? Third, I examine what implications my study has for state theory. Fourth, I re-examine the core dynamics of LME employer collective action, re-visiting arguments from chapters 2 and 3. Finally, I discuss a series of conditions that suggest that wage bargaining centralization may be increasingly an institutional configuration of the past. I use this discussion to introduce my final commentary of this dissertation that is based on the second and third sets of questions raised in chapter 1: Is Ireland a new breed of economy? What are the implications of this study to questions of institutional convergence?

11.1 Explaining the different outcomes

In chapter 1, I asked why has Irish Social Partnership and wage bargaining centralization lasted since 1987, and why did Australian wage bargaining decentralize in the early 1990s? In answering the

question I have proposed that there are two paths to wage bargaining decentralization in liberal market economies: because exporters found the centralized system compromised the flexibility of their pay policies and practice, or because of large public sector wage drift.

Australia during the Accord fell down the first path: where export firms faced constraints on their ability to set pay as they see fit. This resulted in them lobbying for the release of those constraints in the form of a non-coordinated plant level bargaining regime. This lobbying was successful because the state had made the decision and was committed to an open economy model of economic growth. This made firm competitiveness a primary concern of policy-makers. Exporter preferences were given special attention and priority in wage bargaining (and labor market) policy because these firms were considered a competitiveness litmus test by policy-makers. As we have seen from the Australian and Irish post-1987 case, this road to decentralization is dependent to some degree on two factors: the rigidity of the institutional arrangements that constructs and maintains the centralized wage bargaining regime, and the degree to which exporters are likely to be become highly vocal in their opposition to the centralized regime. Australia was and is different from Ireland on both counts.

On the first: In Australia, the central institutions delivered a considerable amount of power to unions by giving them a guaranteed bargaining forum via compulsory arbitration. Decisions made by the tribunals were legally enforceable. This gave unions a second road to an industrial relations victory in a dispute via the courts. In Ireland,

while the Labor Court and the LRC are able to pass judgement on disputes, they are only binding if and only if both parties agree that they will be binding. The Irish system is voluntarist, whereas the Australian system is legally based. This meant that the Australian system was less likely to give export employers the freedom over the wage setting process they desired. This coupled with the second major point of difference between the two cases – the structure of the export sector – meant that Australian employers became loud opponents of the centralized system. By contrast, the Irish system sought to accommodate exporter preferences to remain largely separated from the coordinated and centralized wage system.

On the second: How does the structure of the export sector matter for the likelihood that employers will become militant? The key is the degree to which export employers have possible alternative locales for their operations. There are three dimensions that are relevant: skill requirements, the cost of sunk capital, and specific geographical factors. In general, the lower the skill requirement of the export sector, the lower the amount of sunk capital and the less the importance of geographic factors, the more likely firms will use the threat of exit from the economy to coerce policy-makers into line with their preferences. As the amount of sunk capital and the labor skill required by the export sector increases, the more likely that the threat of exit will be less credible. Sunk capital may be sunk, but unless depreciation schedules are very steep, firms still worry about abandoning capital-intensive plant. Where skill requirements are high, the relatively small group of countries that have the quantity and quality of labor required

compromises the credibility of firms threatening exit. While we know that FDI patterns do suggest that firms, among high skills countries, choose lower labor cost and lower labor regulatory countries, the probable high store of firm-specific knowledge that would be lost by moving to a new locale, and the cost of training a new cadre of employees suggests that exit is a fairly drastic move.

The least credible threat of exit is from an export sector that relies on geographic factors for its competitive advantage: be they a natural resource, or close access to markets in order to minimize transport costs. The clearest case is the mining industry, where the rarity of high grade deposits, the high cost and risks associated with finding them, and the very high transport costs in shipping product to consumer means that firms have little option in practice to 'go elsewhere' in order to find and build a facility that can fill its orders and that can be shipped at a competitive price. Add in the massive capital investment of a large scale mining operation and mining companies must rely, in the last resort, on the somewhat drastic threat of closing the mine: not so much exit as extinction. Their alternative is, using the Hirschman (1970, 36-43) exit/voice model, to use their voice to change policy in order to benefit them. Given that firms in the sectors such as mining or large-scale agriculture cannot make terribly credible threats of exit, in order for them to maximize their labor market policy influence in democratic states they must rely on policy makers being committed to an open economy. Their other sources of influence are, of course, the threat of loss of taxation revenues and employment due to mine closure. But in a closed

economy, the costs of these losses may be more easily offset and the threat of mine closure may be not as powerful influence on the government as in an open economy.

It is reasonable to expect that given the high cost of exit, mining companies will pour considerable resources into their voice option: a 'full court press' lobbying effort, irrespective of the policy orientation of policy-makers.[196] This certainly occurred in Australia, with mining executives and firms dominating the most important employer groups in the 1980s and early 1990s. Consistent with the discussion of the power of small groups in chapter 2, these groups rose to prominence quickly. The key to their success was their relatively small size (in terms of members) but considerable resources (in terms of member firms resources), and the propensity of policy-makers to pay heed to their demands once the decision to grow an open economy had been made and confirmed through the events of 1986.

In Ireland, the export sector is dominated by two kinds of firms: highly capital-intensive, high skill firms (pharmaceuticals, software, drink concentrate), and lower skill, but still fairly capital-intensive assembly manufacture (computers and precision instruments). Feeding off these industries is a number of service industries. The design of the Irish wage bargaining system is caused by the constant prospect of exit from the economy by a large proportion of the export sector, especially the lower skill 'high tech' sector, and the desire of

[196] The lack of credibility of exit also suggests why mining companies in non democracies and democracies where legal scrutiny of corrupt practices in the state is low or deficient, may be inclined towards various forms of corrupt and patronage practices. Chile and Jamaica appear to be cases in point here.

Irish policy makers to maintain the competitiveness of the Irish economy.[197] In practice this means keeping wages as low as possible and the means by which wages are set as flexible as possible.

Irish wage bargaining centralization is designed to curb public sector and sheltered sector wage increases. This keeps the price of labor low for exporters. The export sector is more or less excluded from the Social Partnership deliberative process, yet their benefit and growth is very much the subject of it. The exclusion of the export sector from the centralized bargaining process and the commensurate absence of wage movement responsibility that goes with being largely excluded from the process, allows the export sector a freedom to set pay as they wish. If they do find themselves with a labor supply or turnover problem, the virtual non-existent monitoring and coordination of export sector wages further enables export sector wage flexibility: they can raise wages in order to secure labor, with few macro-economic or political repercussions. A key to this arrangement is the growth of non-union plants in the export sector that has been encouraged by the Irish state (in particular, the IDA).

The limits to this arrangement are becoming clear. The limits question is important because it has ramifications for the question as to whether Ireland can be thought of as a new breed of economy since 1987. Ireland is in danger of falling down the second wage bargaining decentralization path as it did in the early 1980s: via massive public sector wage drift. The reality of the existence of real wage restraint in

[197] This threat of exit has become all the more real with the entrance into the EU of the ascension countries.

the Irish public sector is becoming increasingly debatable, and debated within the union movement. As the labor market tightened in the late 1990s, public sector unions became far more militant. They argued that private sector pay was far ahead of their own. But the reverse was true: there was still a healthy public sector wage premia in the mid-to-late 1990s. In order to break the old wage relativities from driving Social Partnership into a replay of the late 1970s where public service pay increased dramatically and made further centralized agreements untenable, the benchmarking process was introduced in 2001. But this has resulted in still greater public sector pay increases. The result has been a growing and now public rumble within the union movement about public sector pay moving ahead of private sector pay (EIRO 2005b). This may yet see a return to late 1970s style leapfrogging pay claims and the end of centralized wage bargaining.

11.2 Theoretical issues raised by the argument

I now briefly discuss the implications of this dissertation for five important theoretical issues.

11.2.1 The scope of the argument

There are two aspects to the theoretical scope of my argument: the time period and to the kind of economy to which it applies. I examine each in turn.

My argument is applicable for the last 25 years or since around the early 1980s. Clearly, the exporters' 'need for speed' outlined in chapters 1 and 2 is a fairly recent phenomena. In the last 25 years, several developments and trends have contributed to the need for and ability of companies to respond far more quickly to changes in

competitive markets. This has driven a wedge in terms of preferences over wage bargaining between firms serving these markets, who prefer pay flexibility and those serving more sheltered and local markets, who by comparison have less need or desire for pay flexibility. This development has created a growing need for states to accommodate the 'need for speed' and associated preference for pay flexibility among firms serving competitive markets, especially exporters who are critical to the macro-economic health of the open, trade-driven growth state. Even in standard product markets such as raw commodities, the growing 'need for speed' among companies using those products has lead to a growth in spot markets and a need for mining companies to be able to respond to changing demand. This has induced a preference for pay flexibility among mining companies as was illustrated in the case of Peko-Wallsend in chapter 9.

There are two major historical developments driving the 'need for speed'. First, there are the much-mentioned developments in computer and microprocessor technology that has greatly reduced the life span of the product cycle in competitive markets. The time from innovation to full production to imitation and copying and a renewed need for innovation is ever shortening. This is mostly due to the increasing computer-driven mechanization of production. This has led to a greater reliance by companies on a core of highly skilled, computer-literate employees who they must worry about retaining. This section of the workforce is the one Iversen (1999, 98ff) and Mathews (1989) focus on: the high skill worker who has received a great deal of firm investment in his or her human capital, and who is ultimately

responsible for the quality of the product or service the firm provides. Pay flexibility is necessary for these employees and means paying more than the centrally agreed terms when necessary in order to reflect skill investment by the firm and in order to thwart poaching of them by competitors.

Technological change also means the insertion of computer technology into every stage of the production, supply chain and sales processes. This too shortens the life span of the product cycle. Digital micro-processor technology has led to a quantum jump in the speed and volume of information available to firms about markets and has introduced the need for companies to respond ever more quickly to new and detailed information about markets, consumer demand, and the products of other firms. This has led companies to re-invent how they produce goods and services. Increasingly, goods and services are customized to the needs of consumers, rather than being produced en masse. While post-Fordism is a much-abused concept, technology has enabled companies to develop niche markets and specifically tailored products. At the extreme, this involves consumers designing their order and companies producing on that order. BMW is a classic case here, where consumers order their car how they want to see it, and BMW manufactures the car to those specifications.

Supply chains have been re-formed as the demand for and supply of goods and services to upstream firms has changed qualitatively. Upstream firms now pare down inventories and use sales information to generate orders from suppliers of components and services. In this case, computer technology both enables the speed of production of

components and targeted services and the speed of information flows necessary to make low inventories feasible. Suppliers must be adaptable to the changing inventories and needs of their upstream purchasers, and wary of new supplier competition using new technologies and promising cheaper and more reliable productions and services. This all implies a growing 'need for speed' and a growing need for pay flexibility.

For the company demanding supplies of goods and services, computer technology has enabled the increasing use of contracting out and outsourcing, especially in services to manufacturing firms. Countries such as Ireland and now India and Poland have become service centres for manufacturers and larger service companies who use cheap offshore labor to conduct routine tasks (see Friedman 2005). Computer technology, especially the internet, has enabled cheaper and easier monitoring of outsourced services and production. The lowering of this monitoring cost has encouraged greater use of outsourcing and contracting out. Hence within the production process, computer technology has not also enabled the emergence of the high skill, digital-savvy employee in upstream firms who handle core tasks and manage important relationships (with suppliers, consumers and other employees), but it has also enabled the emergence of new relatively low wage labor markets among suppliers and within upstream firms who have kept routine task and production within house. Computerization has not just created an increased demand among firms for upward pay flexibility, but also an increased need for

downward pay flexibility among suppliers and upstream firm non-core employees.

While we should expect these developments to affect all competitive markets, for the exporter hoping to compete in international markets and coping with the burden of transportation costs and costs associated with marketing and monitoring in places sometimes away from the central office, the need for pay flexibility associated with the changes is usually even greater.

More generally, computer technology has enabled highly developed consumer marketing strategies and product development based on surveys of consumers, analysis of actual sales and raw information about prices and products. Coupled with an increasing market in information about 'best practice' production and service processes, companies now adapt ever more quickly to changing markets with changes to production and service processes in a bid for greater efficiency. All these changes necessitate pay flexibility as employees must adapt to new roles and learn new skills while companies must ensure that pay encourages retention, and where necessary can be shifted downward to reflect keener competition and the need to lower unit labor costs.

The second historical development driving the 'need for speed' comes from the increasing density of equity and venture capital markets and the growing financial integration of the world in the last 25 years. These developments have meant that firms and entrepreneurs can respond more quickly to changing tastes, markets and new opportunities. It also means that firms find it increasingly

difficult to 'rest on their laurels' as their markets are likely to be eroded by new companies, or old companies doing new things. An existing dominant market position can still enable corporate strategies to create monopolies or oligopolies (for instance, Microsoft or amazon), but in many areas of the economy, the increase in investment has meant increasing competition between firms, and an increasing need for firms to be light on their feet and quick to respond to new market challenges. All these developments point to a growing need for pay flexibility, especially for firms wanting to be competitive in export markets.

Having addressed the temporal scope of my argument, I return again to the question of the kinds of economy to which my argument pertains. In chapter 1, I limited the scope of my argument to advanced capitalist liberal economies because this dissertation does not examine the experience of central wage bargaining in an advanced capitalist non-liberal economy, such as Sweden or Norway.

Is there reason to believe that my argument is more universal? The primary argument for limiting my thesis to liberal economies is to suggest that the non-liberal economies such as the social democratic states of northern Europe (Denmark, Norway, Sweden) or the Christian democratic states of central Europe (Germany, Austria, Switzerland) have something which limits the 'need for speed' among exporters, or which decreases the state's need to pay heed to exporters' preferences with regards pay flexibility.

There seems no reason to suggest either. A primary point of difference between liberal and these two classes of non-liberal states is

their supply-side training policy regimes where employers cooperate with various degrees of state assistance to ensure a steady supply of skilled labor (Soskice 1994; 1999). A second point of difference is a decreased reliance on equity-finance due to the penetration of bank finance (especially in Germany), while a potential third is various collusive practices in local markets that carve up markets and reduce outright competition. The second point of difference suggests differing time-horizons for primary investors giving managers more time to make returns on capital, while the third suggests that these practices may override the increasing competition caused by the two historical developments briefly described above.

While a more reliable supply of skilled labor may mitigate the need for pay flexibility by easing poaching problems, it will do nothing to ease demand for downward pay flexibility. Also, the basic premise that coordinated market economies do training better and have fewer skill shortages than liberal economies is doubtful, even if good measures could be created on which to base a comparison. Finally, given the growing speed of markets and the shortening of product cycles, it seems doubtful whether all the skills at the 'right' price can be found and incorporated into the one workplace - hence the growing need for outsourcing and contracting out. Pay flexibility will still appear as an imperative.

The second point of difference is a peculiarity of Germany where recent changes allowing banks to divest holdings and the increase in equity finance suggests that even in that stronghold of bank finance, the managerial long-term profit horizon is under attack from the

penetration of equity finance (Grahl & Teague 2004). The third point of difference doesn't appear to be credible in the face of the changes I have outlined above. At best it appears to be a defensive mechanism that may stave off the inevitable day of full-blown competition, if it has not yet arrived.

These three objections to the travel of my argument from the English-speaking economies to continental Europe appear to be weak, but confirmation of the relevance and efficacy of my argument must wait until an examination of these cases as an explicit test of my argument; a future research project task.

11.2.2 Tax cuts & side payments

There is a further problem that threatens to bring Irish wage bargaining centralization undone and is a problem now for any government wanting to pursue wage restraints through a central incomes policy: the limits of the tax cut strategy designed to compensate workers for pay restraint. Tax cuts cannot go on forever. Budgets must be balanced: government debt, it is widely perceived, is bad. This suggests tax cuts have a 'use by' date as a side payment strategy. In addition, as the state stalls in size relative to that of the economy because of a stall in relative revenues, tax cuts limit new social welfare initiatives and policies as a potential side payment strategy. In Australia, the Labor governments turned to increasing pension contributions from employers, as well as the tax cut strategy. But this only increased a widespread antipathy to the Accord among employers.

The side payment strategies of the Australian and Irish governments both contain tax cuts but have considerable differences, however. Each had their limitations and weaknesses that caused strains on central wage bargaining. In the Australian case, the Accord was built upon the close relationship between the Australian Labor Party and the ACTU. This meant that when the social wage strategy was all but abandoned during the 1984 election campaign with the adoption of the 'Trilogy', tax cuts came into play. But a party of organized labor feels electoral pressure to deliver more than tax cuts, and this is why the pension strategy came into use.[198] This side-payment strategy caused its own tensions among employers, provoking opposition to the latter versions of the Accord that relied on increases in employer contributions to superannuation.

There is no such close relationship between the Irish union movement and any one political party. Nominally the Labour Party is supposed to be the party of labor, but the 1997 election win for Fianna Fail (FF) and exit poll data from that election suggest that FF currently gets the majority of union votes (Laver & Marsh 1999, 169-170). As a consequence of the divided loyalties of union voters, and the universal adoption of the Social Partnership process by all parties no government feels as compelled as the ALP was to deliver some kind of social welfare side payment in exchange for agreeing to real wage restraint. In addition, the experiences of the 1970s and the failure of government after government to deliver economic and job growth has

[198] Superannuation contributions also had the added effect of boosting saving which improved the balance of payments.

meant that job creation has become the number one 'social welfare' policy. Accommodating policy to the demands of markets has been the 1980s and 1990s policy response to create jobs. The tax cuts strategy dovetails neatly with this priority. But no matter how consistent the policy be with the pro-market aims of the succession of Irish governments since 1987, tax cuts as compensation for real wage restraint and decline is a finite strategy, suggesting that the widespread wage drift, especially in the public sector, may well soon create the demise of centralized wage bargaining, Irish-style.

11.2.3 Policy choice

I now turn to consider two wider sets of implications around state and group behavior arising from this dissertation. I consider state behavior first.

This dissertation has deliberately avoided an extensive discussion and over theorizing of how the state behaves. In general, my approach has suggested that policy choices are explained by interest group preferences. I have further argued that existing economic policies provide an economic or market environment that largely compels present and future policy priorities. In the case of wage bargaining policy, a commitment to an open economy model of economic growth creates a strong policy response logic. Specifically, this means that trade balances become a barometer of the health and veracity of labor market and wage bargaining policy. Governments react to bad news, as they did in the Australian case, and change wage bargaining policy so that firms can become more efficient in order that in time, export markets and sales will expand. Government's also anticipate and

accommodate export firms' needs in order to avoid bad news: the Irish case.

My conception of the state suggests no state autonomy from social interests or international economic forces at all. But it should be stressed that this implication is only relevant to certain kinds of economic circumstances -- that of an open economy -- and to certain kinds of policy domains: wage bargaining policy. I bracket the question as to whether states and policy-makers have degrees of choice over other policy domains, and in other kinds of economic conditions where protectionist policies are actively used.

The most important policy choice that is the most heavily contested (and it is by no means clear that exporters will win the debate) is over the question of openness itself. While open capital markets have come to characterize the OECD, they are by means open or largely open in developing countries. Malaysia is but one example of a country that has fairly strict capital controls (and widespread tariffs). In advanced industrial countries, the debate over free trade is ongoing and it is far from clear that the political movement for free trade will continue to win over protectionist forces. Manufacturing trade unions in the OECD have been in the forefront of anti-free trade political movements in recent years, as have broader-based NGOs worried about the decline in living conditions caused by job loss to developing nations. Domestic firms under threat from import competition are vociferous opponents of free trade and have proved to be very effective lobbyists for trade protection. The clearest cases of successful anti-free trade campaigns come from the various agrarian lobbies in the United

States. So to suggest that once the decision has been made that an open economy model of growth will be pursued – a decision that brings about the win of exporter preference for decentralized wage bargaining -- signals the end of classically centralized wage bargaining (and by extension classical corporatist arrangements) ignores the possibility that states will resort to protectionism and the re-assertion of capital and exchange rate controls. The re-emergence of the closed economy may well see a resurgence of more centralized wage bargaining. More importantly and as this dissertation illustrates, the Irish case suggests that a peculiar form of centralized bargaining, one where export firms and employees lie outside the system is possible and perhaps desirable.

11.2.4 Employer collective action

The aspect of employer collective action most notable in this dissertation is the high degree of opportunism exhibited by employers in forming, joining and leaving employer groups, if they bother with these groups at all. The lack of common interests in firms in liberal economies compared to ones in northern European countries has resulted in a very low degree of employer collective solidarity. Liberal economy firms are not motivated to remain in groups for the purpose of securing access to strike funds, gaining information about the technology of their competitors, for the purpose of coordinating training with their industry counterparts. They are actively driven apart by their product market competition.

In Ireland, the result has been a very atomistic approach to government-exporter relations that stands in contrast to the collective

approach between the state and the unionized, non-export parts of the economy. Exporters, largely MNCs in Ireland, have very little involvement in the peak employer body, IBEC. This is because the have very little that binds them to the non-export sector of the economy. They have no wish to be bound by coordinated and centrally negotiated wage deals, they rely on the Irish tertiary sector to largely provide them with skilled entry-level employees,[199] and far from sharing information with others about what they do, are secretive about operations because many of them are outsourced US operations and information about them may provoke a political backlash in the United States (Beesley 2005).[200]

Non-exporters in Ireland have been encouraged to remain within the centralized wage system because as detailed in chapter 5, it has delivered wage restraint (until the late 1990s) while allowing, thanks to the voluntarist nature of the arrangement, a great deal of wage flexibility if and when needed. Thus they have shown a high degree of unity but in circumstances, it should be stressed, that have not tested loyalty.

In Australia, exporters and large firms competing against foreign competitors in local markets decided very early in the Accord years that the existing employer groups did not serve their needs. Preferring

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[199] With the exception of the pharmaceutical industry in south-west Ireland, Irish exporters do not cooperate to overcome skill shortages and poaching problems associated with skill shortages (Rigney interview 2000).

[200] This secrecy was a source of irritation to this researcher, whose inquiries as to operations were met with constant refusals to take calls or replies of 'I don't think we can help you,' and 'We don't talk about those things outside the company.' Ex-Taoiseach, Dick Spring commented, "US companies don't like to talk about what they do here to journalists" (Spring interview 2000).

free trade and wage flexibility, they opted to form their own association largely for the purpose of dismantling the centralized system. In addition a new group of prominent individuals rather than firms, featuring many CEOs from mining and agribusiness, emerged for the sole purpose of eradicating the tribunal system altogether. This group proved to be very effective in shifting the debate on wage bargaining in a politically right direction, and created a political space for the more politically moderate BCA to control the agenda on wage bargaining reform.

The tendency of liberal economy employers to splinter and to have a low degree of associability does not appear to be a source of political weakness. Indeed, the external appearance of unity of purpose among small groups dominated or comprised of export employers is very powerful and sends a clear preference message to policy-makers. They are 'unsplittable' and hence policy-makers find it hard to use disagreement among them to weaken their message and to diffuse their campaign. Where splits do occur, firms rather than staying within the association to fight for a preferred policy position exit the group and move to a group with views more congruent with their own policy needs. This is what happened to the Confederation of Australian Industry (CAI). Hence employer groups in liberal economies do not so much as form, evolve and mature as different firms resolve their differences within the association, but are created quite quickly and either die quite quickly or left with a rump membership are merged and re-badged. As a result the liberal economy employer association landscape is quite volatile and in constant flux.

11.2.5 The growing likelihood of wage bargaining decentralization

There are three conditions and trends that mean that wage bargaining is far less likely to be centralized at either the industry or central level in the future. The first two concern the exporter-led road to wage bargaining decentralization; the third, the public sector wage creep road.

The first condition is the growing non-union preference of MNCs: a preference that is having an effect on domestic firms that must compete with MNCs in local and international markets. Starting in the US in the 1970s and picking up speed in the 1980s, the non –union workplace is being spread by US MNCs, in particular, throughout the world. But the evidence introduced in chapter 2 shows that the anti-union bias is not confined to US MNCs. MNCs base their investment decisions on union density and collective bargaining coverage, no matter what their country of origin. MNCs prefer countries with lower union densities than their home country's and with lower collective bargaining coverage than their home country. The Irish case detailed in this dissertation demonstrates how this practice then spreads to local companies. This spread is due to several factors. First, the demonstrated market success of these non-union firms both in profit terms, and in their ability to politically resist moves from the union movement to unionize their plants provides an example which domestic firms can monitor and copy. Second, evidence of non-union plants in the MNC sector is a clear signal from government that the move to non-union plants will not result in policy intervention to

encourage union recognition (such as in the UK). Finally, as the Australian case shows, the influence of consultants and employer groups who advocate the benefits of non-union plants is also critical, at least in the English-speaking countries. The role of HR and management consultancies, many of which are either themselves multi-national concerns (such as McKinsey, Mercer, KPMG and the 'big 5' accounting firms), franchise management consultancy systems from the US, or borrow ideas from the leading management consultancies should not be underestimated in accounting for the non-union workplace trend. The move to non-union plants is at least as driven by ideology as any demonstrated cost-savings from avoiding union presence.[201]

The second condition that indicates that centralized wage bargaining is less likely in the future is the preference of exporters for flexible forms of pay. As market competition increase thanks to more firms, information flows improving from customers to firms (market research) and from firms to customers (targeted advertising and marketing), transportation costs decreasing and product cycles shortening, product markets will be increasingly more volatile and profit horizons will shorten. The premium on flexibility within a firm – be it on manufacturing or service processes, research and development, the deployment of labor (increases in the use of contractors, part-time and temporary workers and the outsourcing of

[201] There is weak evidence in Australia in the late 1980s for a relationship between union presence and activity in a workplace and perceived lower productivity and profits, however. See Nunes et al 1993; Drago & Wooden 1992; Crockett et al 1992.

functions), or remuneration (increases in productivity-based pay, profit-based bonuses, gain sharing, performance pay, and competency pay, as well as greater control over the wage setting process) – means that exporters, in particular (but all firms in competitive markets eventually) will be less willing to compromise on wage setting outcomes and processes set through collectivizing institutions and more willing to campaign for decentralized and non-coordinated wage bargaining.

The final condition concerns the public sector wage drift road to wage decentralization and has several components. There are two main motivators for public sector workers exercising wage restraint via centralized agreements: compensatory policies for wage restraint, and the desire to see left governments stay in power. Each has their own limitations that may lead to the re-emergence of pay drift and the undermining of centralized wage bargaining. As well as the potential problems from the limitations to the major motivations that drive public sector wage restraint, there is also the problem associated with a growing dominance within trade union movements in all countries of public sector workers.

To examine the main motivators and their limitations first: First, there must be compensatory policies for wage restraint. Tax cuts aimed at middle-income earners work in this regard to a certain extent because of the public sector wage premia and the tendency of the public sector to have a greater proportion of higher skill and higher paid jobs. This will result in a greater percentage of public sector employees that will benefit from the tax cuts than in the private sector.

But as I have argued many times throughout this dissertation, there are limits to the tax cuts strategy. They cannot go on forever. Even in a high income tax country such as Ireland, twenty years would appear to be the stretching the boundaries of what this policy strategy can achieve in terms of securing wage restraint. Still, twenty years is a significant period.

Second, one key reason public sector workers may exercise wage restraint is because they wish to ensure that a current left government oversees good economic performance, wins elections, and continues to expand the role of the state. There is a demonstrated affinity between centralized union movements, left government and economic growth, and low inflation and unemployment (Alvarez, Garrett & Lange 1991). Left governments in liberal economies, and to a lesser extent in no-liberal or coordinated economies, are liable to increase social welfare spending compared to right governments between 1962 and 1995 (Pontusson & Kwon 2003). Left government, high union density and highly open economies in OECD countries are associated with public sector expansion and higher government spending than other combinations of these three variables (Garrett 1998, 76-85).[202]

I would suggest that the value of such findings is somewhat limited when discussing wage restraint among public sector workers, however. While left governments may spend more and expand the public sector more than right governments, much of the motivation behind public sector wage restraint lies with the expectations of what the left government will do in power. Recent experiences in the OECD

[202] Referred to as the 'compensation thesis'.

suggest that high hopes will and were almost certainly dashed by restrictive economic circumstances. It is not so much a case of what was delivered, but how policies in practice matched the promises and rhetoric of election time and the period immediately before office. Whether it be the ALP u-turn in 1984 and 1985, the Mitterand u-turn in the early 1980s, the generally status quo policies of the Blair government in the UK, or the unwillingness of Mary Clark's government in New Zealand to overturn the radical deregulatory policies of the 1980s, left governments seem unwilling or unable due to economic circumstances to deliver traditional left policies such as welfare state expansion. While the argument has been made that partisanship does matter in terms of spending and taxation, the question must be asked: Is the difference so great as to be sufficient enough compensation for real wage restraint and, as in the Australian cases, decline? The labor movement in Australia has shown both under the Whitlam labor government in the 1970s and the Keating government in 1995 and 1996, that there is a point at which wage restraint and support for a left government is not worth the price for unions. Too little is delivered to the union movement, and too much is demanded of them in terms of wage restraint, especially when left governments remain committed to an open economy model of growth. Union members and their leaders feel, rightly or wrongly, that they are not being sufficiently protected by *their* party. In liberal economies this is an especially problematic issue, considering the already minimal welfare states and the low level of employment protection (unfair dismissal, redundancy etc). The public sector union motivation that

left governments remain in power is therefore precarious in these economies.

Table 11.1
Public sector share of trade union membership, 1967- 1990.

	%				
	1967-74	**1975-79**	**1980-84**	**1985-90**	**Change 67-74 to 85-90**
Austria	22	24	26	31	+ 9
Sweden	23	26	29	38	+ 15
Norway	29	33	35	44	+ 15
Finland	26	24	28	34	+ 8
Denmark	22	22	25	35	+ 13
Germany	29	28	28	30	+ 1
Italy	17	17	18	23	+ 6
UK	29	30	31	32	+ 3
Belgium	27	29	30	35	+ 8
Netherlands	31	34	36	43	+ 12
Australia	31	35	37	37	+ 6
Canada	20	24	28	35	+ 15
Japan	18	19	20	17	- 1
USA	23	24	25	34	+ 11
France	60	61	55	51	- 9

Source: Garrett1995, appendices A, B, C, D.
Note: Percents are period means.

This precariousness feeds into the implications of the trend that public sector unions are increasingly dominating union movements. In chapter 2, I reviewed how this could lead to pay drift based on work by Garrett & Way and Franzese. Table 11.1 shows the rise of the public sector share in trade unions in most of the 15 OECD countries reported (with the exception of France where union membership by the 1990s is under 10%, and Japan, where unions are employer-based entities). Growing public sector union power within a union movement compounds the problems of the limits of compensatory policies and

the relative absence of supposed benefits for public sector workers of having a left party in power. Public sector workers do not face the same incentives as traded sector workers to exercise wage restraint. They are not exposed to product market discipline, as are trade sector workers. They must be persuaded to exercise restraint by compensatory policies and the promise of left governments enacting favourable policies. Where both of these are in short supply, the growing power of public sector union workers will therefore threaten wage restraint more quickly and more fundamentally.

11.3 A new economy? & the issue of convergence

I conclude this dissertation with a discussion of the implications of its argument and findings for expectations of convergence among all advanced capitalist economies on a US-like model.

The critical case here is Ireland. Ireland has, against all prediction, apparently sustained a centralized wage bargaining regime for almost 20 years after 1987. The most important finding of this dissertation has been the way the export sector has been largely excluded both from the Social Partnership wage deal negotiations and from extensive monitoring of actual wage movements. Where labor markets have been slack, they have benefited from the wage restraint in the non-export, unionized parts of the economy especially in the public sector. As markets have tightened, exporters have been free to increase wages as needed in order to recruit and retain labor. In short, exporters have been free riders on the wage-coordinated sector of the economy. This

coordination has, however, been constructed mostly for their benefit.[203]

The second deceptive aspect of Irish wage bargaining centralization is implied by developments in the last five years that suggest that the central agreements are becoming increasingly irrelevant to wage outcomes. This suggests that the wage agreements before this time succeeded because they were largely consistent with market forces. In the mid-to-late 1990s there is a clear adherence to the wage deals throughout most of the economy, but the new millennia saw considerable pay drift in parts of the public sector and the export sector. Low unemployment has seen labor markets tighten and expectations about pay increases in the good economic climate increased. In short, market forces have re-emerged as important in the profitable parts of the economy, especially in the export sector. This has encouraged public sector unions to exercise their industrial power to extract higher wage increases. A new process designed to re-configure wage relativities ('benchmarking') and control public sector pay has failed to so because it has linked public sector pay grades to private sector pay grades during an economic boom. This suggests trouble for the future if and when the Irish 'Celtic Tiger' is put back on the leash, economic growth stalls and unemployment rolls lengthen again.

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[203] A second major goal of the wage component of Social Partnership is to stop wage movements in profitable export sector firms from driving up wages in the domestic sectors of the economy and causing job loss (a block on the so-called 'Irish disease').

To return to my second set of research questions posed at the beginning of this dissertation: Is Ireland a new breed of economy? My answer is, based on these arguments and the experiences of Australia where real constraints on wage setting behavior was attempted (and failed) via the centrally negotiated Accord deal, is that it is best considered a significant variation on the liberal economy theme.[204] The Irish case demonstrates the large variation possible within a broadly liberal economy context. Social Partnership represents liberal market institutional solutions to the policy need to coordinate and restrain wage growth. Is this a third way? Perhaps, but it is circumscribed by certain limitations. These are:

- Central wage bargaining must not coordinate and constrain export sector pay movement;
- Where non-export sector pay movements are restrained by central agreements, the inability of policy-makers to deliver anything other than tax cuts as a substantial compensation for real wage restraint suggest a time-limit to the central wage bargain policy strategy, and,;
- The tendency of market forces to re-emerge as powerful shapers of wage outcomes when labor markets tighten imply that employers in these economies lack the non-market cooperation around labor supply issues to enable wage-outcome effective centrally-negotiated pay deals in boom times.

[204] This statement would also apply to the question as to whether these cases represent a new variety of capitalism (see chapter 3).

The lack of complementary institutions such as coordinated training and different forms of finance predicating different attitudes towards profitability and hence, to labor cost issues proves to be a decisive set of barriers to any move from an essentially liberal economy. Also decisive is the if not small state, then the comparatively smaller state approach to liberal economy welfare and social policy development that hampers any compensatory policy strategy that may not just ensure a continued central wage bargaining system but also build labor supply capacity via training that would ease incentives to poach labor and induce wage drift.

On the final question: that of convergence, this dissertation has shown that while growing integration into international capital and product markets suggests some kind of homogeneity of response of governments in how they treat the export sector (towards lesser institutional interference in wage bargaining), considerable differences are still possible in how states handle public, domestic and the non-traded sector wage bargaining policy. Australia represents one solution, that of decentralization and marginalization of industrial relations institutions that was dictated largely by the inadequacy of the old institutions to cope with the process aspects pay flexibility demands of the open economy and to accommodate the needs and preferences of exporters. Australia's decentralization therefore is a story of an old institutional design encountering and not coping with new times.

On the other hand, Ireland's institution's proved to be far more malleable, thanks to their largely voluntarist raison d'etre. This proved

to be a perfectly compatible with the preference of exporters to be let alone with respect to wage bargaining. One could imagine that between the two systems, Australia's legalism and Ireland's voluntarism, a spectrum of institutional designs that allowed for export pay flexibility in order to maximize the trade performance of the economy, while attempting to solve the problem of public and the non-traded sectors' propensity for wage militancy. In the end, the conclusion to be made from the two cases examined here is a common-sense statement: growing economic integration has encouraged convergence in areas of the economy directly exposed to the international economy, but leaves scope for difference in areas that are not.

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