

## Prices and Incomes Policy:

### reasons for prices and incomes policy

**unwind inflationary expectations** - The solution to the Friedman-Phelps analysis

- By directly restraining the rate of growth of prices and incomes, unemployment and inflation can be reduced simultaneously.
- Prices & incomes policy represents an attempt to shift the short-run Phillips curve to the left.
- A prices and incomes policy is not as painful as the 'fight inflation first' fiscal and monetary policy strategy of the Fraser government and the Keating government.

### possible elements of prices and incomes policy in Australia

#### **prices and incomes policy**

- government intervention which aims to control inflation by restraining the growth of prices and incomes
- forms:
  - restraints on all prices and incomes
  - restraint on selected prices and incomes
- advantages
  - potential to reduce cost inflation and improve international competitiveness by breaking wage-prices spiral
- disadvantages
  - misallocation of resources
  - costly and time consuming monitoring process
  - industrial unrest

**collective bargaining:** settlement of industrial disputes via direct negotiation

- conciliation: involves an independent and impartial third party to recognise the views of those in the dispute
- arbitration: involves the intervention of an independent and impartial third party who makes a recommendation for the resolution of the dispute which is binding on both unions and employees.

**Industrial Relations Commission:** the Australian constitution specifies the kinds of industrial disputes and the manner in which disputes are to be settled.

- The dispute must extend beyond state boundaries
- conciliation and arbitration.

**Centralised wage fixing:** minimum wages and working conditions are ultimately set by government industrial tribunals following consultation with employer and union groups.

**national wage case:** hearings by the Australian Industrial Relations Commission to determine the size of a general increase in *Federal Award Wages*

- To determine the national wage the AIRC uses:
  - the cost of living
  - capacity to pay
  - the share of national income going to wages
  - the state of the Australian economy

- To determine individual industry awards the AIRC uses
  - work value
  - productivity
  - comparative wage justice
  - the maintenance of wage relatives

**Wage indexation** refers to the practice of linking changes in the level of money wages to changes in the general level of prices

- the main kinds of wage indexation are
  - full indexation
  - partial indexation (proportion of CPI)
  - plateau indexation (up to a level)
- advantages
  - eliminates harmful redistributive effects of inflation; inflationary psychology; leapfrogging
  - promotes industrial harmony
  - vital element in attacking inflation
- disadvantages
  - accelerates rate of inflation
  - must be accompanied by tax indexation to be effective
  - will not eliminate industrial unrest
  - disadvantages those not indexed
  - raises questions as to the measurement of the CPI

### **decentralised wage fixing**

- advantages
  - wages set by supply and demand
  - wage rates reflect capacity of each industry to pay
  - pay increases depends on productivity rises
  - easy resolution of industrial conflict
- disadvantages
  - reflects relative strength of trade-unions
  - no guarantee of fewer industrial disputes
  - contributes to inflationary pressures
  - claims bear little relation to the national interest
- role of industry tribunals
  - AIRC provides conciliation services
  - ratification of agreements

### **Price and incomes accord**

- Agreement between the ALP and the ACTU prior to the March 1983 election
- social contract outlining policies to be used to combat inflation and unemployment
- tax cuts and increased social welfare payments to unions in return for wage restraint
- move towards a more decentralised wage fixing process.
- VII: end of traditional national wage cases
  - bargaining at the industry or enterprise level

**enterprise bargaining:** direct negotiation between employers and unions at the enterprise or industry level to determine wage arrangements and conditions of work for that workforce

- advantages
  - greater correlation between wage rises and productivity
  - encourages work place reform
  - better distribution of resources
  - more likely to take account of current economic conditions
  - workers more realistic in their wage demands
- disadvantages
  - unrestrained growth in wages may occur as the economy recovers
  - productivity is difficult to measure
  - non-unionised workers in a poor bargaining position
  - bargaining power varies
  - according to the AIRC there is disagreement between the Federal government, unions and employers as to the operation and application of enterprise bargaining.

### **Liberal party's Industrial Relations Policy**

- hasten the spread of enterprise bargaining and individual contracts, whilst protecting workers minimum entitlements
- role of the IRC to be reduced and the power of the unions greatly diminished
- will replace Enterprise Flexibility Agreements with Australian Workplace Agreements
  - must comply with certain minimum entitlements
    - minimum of four weeks annual leave
    - two weeks paid sick leave
    - 12 months unpaid parental leave
    - equal pay for work of equal value
    - long-service leave and superannuation entitlements as prescribed by the relevant award
  - "take home pay" including ordinary-time earnings, overtime, penalty rates and leave loadings - must be no less than that prescribed under the award
  - liberal version of "no disadvantage test"
  - the agreements will bind only those employees who have resigned
  - employees may appoint agent to negotiate agreement on their behalf and agent may be union
  - the IRC will not have any part to play in AWAs
  - the Employee Advocate will advise job applicants, employees, and small employers of their rights and obligations under the law, investigate allegations of duress,
  - workers will be free to choose whether they stay under the award system
  - IRC to promote simplification of awards
- attempts to limit union power
  - workers given more choice - which union to join

### **prices surveillance**

- the PSA (Prices Surveillance Authority) has been merged with the TPC (Trade Practices Commission) to form the ACCC (Australian Competition and Consumer Commission)

limitations to government influence over prices and incomes

- Australian constitution imposes a number of very important limitations upon the powers of the Federal government. Except in times of war, the Commonwealth government has no legal power to fix either prices or incomes.
  - Control over prices and incomes rests with the states
  - If the policy is to be successful, it must be voluntary - based on co-operation between business, unions and the Federal Government.