

# **WAGE RESTRAINT AND THE CONTROL OF INFLATION**

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An International Survey

Edited by  
Beth Bilson

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Volume 2

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*An International Survey*

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**BETH BILSON**

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AND THE  
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INFLATION**  
**An International Survey**

**Edited by Beth Bilson**

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## INTRODUCTION

The industrialised nations of the world have had an exciting ride since the end of the Second World War. For most of those countries, the period was until recently one of the great - in the case of Germany and Japan, one might say miraculous - economic prosperity, of nurture of the welfare state, and of optimism about continued economic growth. The people of these nations have enjoyed an unprecedented level of material comfort and economic security, which it appeared they could hope continually to enhance.

In the 1970s, however, doubts were increasingly voiced about the soundness of the foundations on which this amazing structure stood. The shock of the petroleum crisis of 1973 was perhaps the major factor leading to a reorientation of the industrialised world, but there were others - the instability of food prices, the growing insistence of the less industrialised countries on a voice in the setting of international economic policy while their own economic problems placed an increasing strain on that policy, the rise of a very public advocacy directed at environmental issues, to name a few.

One of the problems associated with the economic history of the post-war period has been inflation. Inflation has, of course, a certain symbolic value for politicians and economic decision-makers, because of their swift association of the word with wheelbarrowloads of worthless marks in the 1920s, or with the more recent economic desperation of countries like Argentina. Throughout the last several decades, inflation has been viewed as a serious threat to the goal of economic growth and prosperity, more or less serious at various moments, but always requiring some attention in the

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course of economic policy-making.

Discussion of any topic with economic implications has been complicated by the differences of outlook between the Keynesian and neoclassical modes of economic thought which have dominated the policies of western nations. For three and a half decades after 1945, the assumptions on which economic policy proceeded by and large, were grounded in a Keynesian or crypto-Keynesian view of the world; though governments might deviate from Keynesian orthodoxy in various ways there was underlying consensus about the efficacy of some sort of demand-management technique and an acceptance of government's role in guiding the economy.

The late 1970s saw the rise (or perhaps resurgence) of interest in neoclassical theory, and the renewal of a commitment to the forces of the market as the preferable fountain-head of economic activity. Governments with a specific commitment to supply-side economic policy were elected in a number of countries, including several of those discussed here, and supply-side ideas influenced policy development and debate elsewhere.

There are certain obstacles to any comparison or even coherent discussion of these two views since they count their successes and describe their objectives in terms sufficiently different that they can hardly be talked about as though they operate on the same plane.

This volume is concerned with wage inflation, and more particularly, with the measures taken by a number of industrialised countries to combat wage inflation. Already, in this description of the book's compass, a problem appears, for the use of terms like 'measures' and 'combat' suggest that we are only concerned here with positive action undertaken with a view to bringing wage inflation under control.

In fact, the Keynesian and the supply-side policy-makers approach this problem from different directions, or perhaps define it as a different problem. From the neoclassical point of view, the problem is one of liberating economic forces so that they may moderate wage inflation in their own way, while the Keynesian theorists see the question rather as one of what combination of economic tools should be used to guide the economy in the desired direction.

This is - it goes without saying - a simplistic version of these economic theories, and describes in terms of polarity what is really a much more complex

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and differentiated continuum of economic thought. It is put in these terms to indicate the range of economic outlook travelled by governments in the post-war period.

In implementing the tenets of variants of these economic theories, governments have from time to time adopted or invented what might be called incomes policies; though incomes policies themselves vary widely in sophistication in objectives and in rigour, the term may be roughly defined to include those policies where the objective is to moderate wage inflation in some organised way. More recently, the use of incomes policies has been in some cases replaced by what could be described as anti-policy to suggest the neoclassical determination to eschew the utilisation of government instruments to pursue economic improvement.

The essays in this volume deal with both incomes policy and anti-policy; they represent an attempt both to describe what approaches have been taken at various points by the governments of selected countries, and also to indicate what the effects of those policy choices have been.

None of the contributors to this book make their living as economists and economists will perhaps be critical of the temerity shown by us in embarking on a discussion of economic policy. Yet, in our view, economic policy is too important to be left entirely to those trained to be economists. Economists themselves are generally not shy about mounting a critique of politics, educational policy, or other social phenomena on the grounds that they have economic implications. Equally, it is arguably legitimate to examine economic policies with special attention to the effects they have on a society and on the citizens within that society. What we have tried to do here is to sketch some of the implications which these policies have in the non-economic sphere.

The survey format brings with it certain frustrations both for the writers and the readers, for it is inevitable that generalisations must be made, outlines must be blurred rather than sharp, important shadings must be omitted. The advantage of this form in dealing with this particular subject is that it can convey, as perhaps nothing else could, the astonishing variety of ways in which these countries have characterised and confronted the wage inflation problem.

To begin with, of course, the five countries whose experience is described here represent a range

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of political, constitutional and social systems which must be understood to at least a minimal degree before specific policy choices can be evaluated. Several features of the national life of these countries are of particular importance in a discussion of their respective approaches to inflation: the constitutional arrangements which may affect economic policy; the political system, particularly as it touches the roles of labour and of business in the society and - a more indefinable characteristic - the stand of the society to questions of social justice and economic redistribution.

The term 'constitutional' is somewhat ambiguous when applied to the countries discussed in these pages. In Canada, for example, the constitutional question has traditionally been one of the proper allocation of legislative jurisdiction to national or provincial governments. This has also been an issue in Australia. This continuing tension over the appropriate jurisdiction for economic policy-making reflects differing-regional interests and political outlooks; the stance of the Canadian province of Quebec, for example, is informed in part by French-Canadian nationalism, while the governments of several other provinces have been influenced by their dependence on natural resources.

More recently in Canada however, another type of constitutional issue has surfaced, concerning the impact of an enumeration of protected rights and freedoms on the making of economic policy and the status of economic actors such as trade unions. In West Germany, where constitutionally-entrenched protection extends specifically to economic activity, the same issue arises as to the permissible scope of economic measures which may affect such protected activity. Oddly enough this issue has not been raised in quite this way in the United States, where there has also been entrenchment of rights and freedoms over a long period of time.

A more pertinent constitutional issue in the United States relates to the disposition of influence between the branches of the governmental system; as we shall see, much of American policy directed to wage inflation has depended on the influence of the Presidency. This aspect of the constitutional inquiry perhaps surfaces in its commonest form in the assertion, common to all these countries, of judicial authority to interpret economic legislation, to adjudicate the rights of various economic actors and to limit the exercise of

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executive or legislative power. Political developments in any country are clearly relevant to the course taken by economic policy, as are the shifting political relationships of constituent groups in any society. The relationship which has most immediate influence on policies concerning wages is that between any government and the labour and business constituencies.

The business sector of any industrialised society generally has access to a number of instruments of political influence, through lobbying, through political contributions, through utilisation of the government industrial policy. The representation of labour and the role of trade unions is far more uneasy, owing partly to the hostility of these states to early trade union activity. The importance of labour acquiescence in economic policy is now widely acknowledged nonetheless, and the support of workers for measures to control wage inflation has on occasion been actively sought and, indeed, been made a cornerstone of restraint policy.

The form this may take depends greatly on the nature of labour's participation in the political life of its society. In European countries including Great Britain, labour typically speaks in the political forum through political organisations which purportedly embody the aspirations and interests of workers. This allows labour to exercise a degree of direct political clout and renders possible the implementation of the kind of policy often referred to as a 'social contract,' in which labour may co-operate in forwarding government economic policies in return for governments's acceptance of certain labour objectives.

Clearly, the social contract type of policy, which has appeared in various guises, is more likely to be put into effect when a government representing labour, or at least sympathetic to it, is in power. Under those circumstances both labour and 'its' government are more aware of the mutual gains which may be made, and there is a greater degree of the trust necessary to reach agreement on the policy. Thus, in Great Britain, for example, leaving aside the Social Contract of the mid-1970s, there were several other periods when trade unions made clear their expectations of a Labour government and agreed to lend their support to restraint policy, in return.

For non-labour governments as well, the benefits of winning labour support are obvious. The



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most common way of trying to marshall this support has been through the creation of tri-partite bodies to serve as a focus for the discussion of economic policy. Though these bodies have on occasion echoed with acrimony, and with harsh denunciations of government policy, in Europe, at least, these syndicalist mechanisms have generally survived as a vital force.

In North America, it is perhaps fair to say that neither direct political action by labour nor tri-partism have really been influential factors, though both have surfaced in Canada and the United States. The strength of the two-party system in American politics has pretty well foreclosed the possibility of a 'labour' party in the United States though the union movement has traditional ties - and even a degree of influence - with the Democratic party. In Canada, there is a social democratic party which ostensibly represents labour, but which exerts limited influence on the national political scene.

Various attempts have been made at tri-partite discussion in both countries, but, perhaps because of their degree of political disenfranchisement, the labour movement has been wary of such arrangements. Thus, in Canada, a flurry of enthusiasm for tri-partism among officials of the Canadian Labour Congress was quelled in 1978 when it became evident that constituent unions were cool to the idea. In any event, the decentralised nature of North American collective bargaining and trade union organisation raised difficult issues regarding representation and the co-ordination of activity on a national scale. It has been argued, as well, that the weakness of class identification, in the European sense, has made it difficult to sustain tri-partite discussion in North America.

It is obvious that a survey of this sort can really do no more than hint at the stand which any society may take at any given point to issues of redistribution or social justice. There are, of course, certain clues which may be gathered from the nature of policies which are adopted. One may conclude - from the inclusion of a low-pay exception to wage limits or from the orientation of a given policy towards the market - certain things about the commitment of a nation to the adjustment of income levels or shares in national wealth, but these are rarely made explicit, and there is not room to explore them fully within these pages.

The kinds of national characteristics which

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have been sketched here - and numerous other threads, from Domesday Book and Martin Luther to Botany Bay, the Canadian Pacific Railway and the New Deal, which cannot even be alluded to here - form the background against which the struggle to defeat wage inflation has taken place. Though the experience of these countries has varied a great deal, there are certain features which have recurred from time to time and place to place, and the measures attempted have exhibited some characteristics common enough to suggest a theme, if not a pattern.

At some point or another, it would appear that almost every imaginable type of policy which might have an effect on wage inflation has been attempted - though no doubt, there are some which have yet to be imagined. There have been positive and passive policies, policies which depended on the power of persuasion and policies backed up by statutory sanctions, measures which articulated very specific objectives and those which merely pointed a general direction.

Within the range of policies which define themselves as incomes policies, as opposed to those which reject that tag, there have been many kinds of administrative mechanism devised to advance the aim of restraint of wage inflation. At times these have been quite elaborate; one thinks of the Canadian Anti-Inflation Board with its staff of a thousand. At other times there has been no purpose-built structure, and monitoring has been conducted by an ordinary government department or official. In some cases, mechanisms devised for other purposes have assumed an important role in wage restraint. This would include the courts, in some sense, but perhaps the clearest example is the Australian Conciliation and Arbitration Commission, which has proved so amenable to use as part of incomes policy.

Much of the administrative tone of any policy is likely to be set by the choice of whether to attempt to monitor all wage settlements or to focus on settlements which are regarded as sufficiently significant as to set the pattern for other agreements. The notion of 'key settlements' has figured large from time to time in most of the countries here surveyed; it has been addressed particularly explicitly at some periods in the United States, and elaborated by American economic theorists.

In a way, the idea of pattern-setting or key

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settlements has been implicit in much of the discussion and the decision-making concerning how the public sector wages are to be dealt with. The flowering of public sector employment in the post-war Keynesian state, along with the recognition that public sector wages are not determined and do not move in the same way as those in the private sector, have inevitably caused the public sector to be accorded a different kind of attention in any incomes policy. One common manifestation of this has been the kind of policy in which the government attempts to set a good example for the rest of society by imposing limits on the wage increase of its own employees. This kind of policy has obvious political attractions, though there is very little evidence that private sector wages do follow the example set in the public sector.

The recent period of neoclassical influence has produced its own version of this policy. Supply-side policy-makers would not describe it as an incomes policy, in that they eschew all policies which could divert the forces of the market. Nonetheless, it is clear that one of their major objectives is to cut back the level of government spending, and thus reduce the dependence of the economy on the public sector; attempts to achieve this aim can have an effect on the wages of public sector employees not unlike that of a formal incomes policy, as unions representing public employees vociferously point out. Insofar as governments must make conscious decisions about the wage levels which they will accord to their employees, there will inevitably be some sort of 'incomes policy' in effect, even for a government which is in other sectors opposed to such policies.

Besides the choice as to whether a policy should be comprehensive or merely cover key settlements, and whether it should depend on the moral force of the public sector example or extend to private sector settlements as well, the choice must also be made when an incomes policy is decided upon, to count on voluntary public compliance with the limits placed by the scheme or to provide formal sanctions in the event of delinquency. The search for an appropriate balance between voluntarism and coercion is a feature in the construction of much public policy; it is arguable that the legislative and administrative hallmark of a democratic society is the striving after consensus which can make a minimum of coercion necessary.

Both voluntary and mandatory control programmes

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have been tested at various times in the post-war history of the countries discussed in this volume, and both have had some success at achieving their objectives. Sheer moral suasion has on occasion, produced widespread self-restraint, as in Britain in the time of the austere Sir Stafford Cripps. At the other end of the spectrum there have been elaborate systems of formal sanctions, such as the fines and rollbacks available to the Canadian Anti-Inflation Administrator. Social contract policies on the lines of that in Australia recently or Britain in the mid 1970s are perhaps examples of what might be called 'formal self-discipline,' indicating an acknowledgment by the labour movement that it was necessary for them to assume responsibility for the direction of compensation trends.

It is again difficult to categorize 1980s economic policy regarding wages according to the principles mentioned earlier. To those policy-makers persuaded by supply-side arguments, voluntarism is more or less irrelevant, as it has Keynesian overtones of human control over economic forces. There can, as well, be little doubt that the depressing effect on wages of the high levels of unemployment, accepted with such stoicism by those same policy-makers, cannot be described as resting on voluntarism in the usual sense.

The choice of mandatory or voluntary controls depends in part on an assessment of likely public support for a regime of restraint, and that public temper is critical to the success of any incomes policy.

It is submitted that the consideration which most affects the sentiment of the public towards an incomes policy - and this, I suggest, includes the non-policies of the neoclassically-oriented decision-makers - is the public perception of that policy's fairness. This demand for fairness encompasses several things.

It takes in, first of all, the question of whether the form of any incomes policy satisfies whatever the public sees as the reasonable requirements of redistributive justice. It can certainly be argued that the interests of the low-paid (and the unemployed) are fairly cheerfully consigned to the flames when any period of restraint is announced, and that they suffer disproportionately from the pressure of limits on wages. Nonetheless, it is fairly common that formal incomes policies make some attempt to mitigate the harm to the low-paid by relaxing the limits in their case.

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Perhaps a more critical factor in public apprehension of the fairness of a policy concerning wages is whether that policy addresses itself to the moderation of prices and profits as well. Some of the policies which will be examined later have included a full range of controls to tackle the price question; this does not, of course, always prevent continuing criticism from the labour movement and others that the price control aspect of the programme is mere window-dressing, and that government policy-makers are at heart committed to a wage-push theory of inflation. This view has on occasion been fuelled by sophisticated explanations to the effect that pricing decisions are of a more complex nature than wage settlements and thus cannot effectively be controlled by a government policy.

As we shall see, it may be difficult to arrive at any firm conclusion as to whether the price control mechanisms which have been adopted have been effective in meeting their goals; whatever evidence may be advanced one way or the other, the sense of wage-earners that it is they who are being asked to make disproportionate sacrifices in the struggle against inflation may have a powerful influence over public support for a restraint programme.

In an assessment of wage restraint as such, a major criterion of fairness in public eyes which might be suggested is uniformity. As long as a wage restraint policy seems to be affecting all segments of society in the same way, it appears to have a better chance of maintaining public support. This poses something of a problem for those in charge of constructing the instruments of wage restraint, for the necessity to maintain uniformity puts them on the horns of a dilemma over whether the programme should hinge on the setting of norms (or guidelines, guideposts or guiding lights) and, if so, how those standards should be calculated.

If a norm or fixed limit of some kind is adopted, it has the virtue of providing an instant impression of justice, of the consistent application of one standard to all persons. The use of norms has some drawbacks, however. One of these is that the validity of the norm itself may come into question, either because there is open dispute about the way it has been calculated, or because it proves as time goes on to bear no relation to the course taken by inflation. In either event, there appears to be a tendency for public support to weaken and consensus to disappear as the anomalies which inhered in the wage pattern at the outset become