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**WAGE BARGAINING THEORY,
DECENTRALISATION, THE
EMPLOYMENT CONTRACTS ACT, AND
THE SUPERMARKET SECTOR**

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Abstract

Models of wage bargaining and the effect of negotiating at different levels of centralisation are used to interpret changes in wages in a particular sector. The wage outcomes of supermarket checkout operators from 1987 to 1997 are derived across three hours of work scenarios from industrial awards and employment contracts for eight firms.

The impact of major changes in the wage bargaining environment, including the liberalisation of shop trading hours, and the introduction of the Employment Contracts Act are examined in the context of the particular characteristics of the supermarket sector. Possible extensions to wage bargaining theory are considered. These are the inclusion of an intergenerational effect which is the impact of wage changes on new workers compared with existing workers, and the effect of decentralisation of enterprise bargaining to single-sites compared with multi-site negotiations.

The results indicate a significant fall in wages for supermarket checkout operators in the period after the Employment Contracts Act. Reductions in wages are strongest among new generations of workers. A margin between multi-site wages and single-site wages becomes significant in the post-ECA period. Possible explanations for these outcomes are discussed.

Contents

Acknowledgements		i
Abstract		iii
Contents		iv
List of Tables		vi
List of Figures		vii
Chapter 1	Introduction	
1.0	Introduction	1
1.1	Motivation for Thesis	2
1.2	Debate on Labour Law	5
1.3	Organisation of Thesis	7
1.4	Summary	11
Chapter 2	Wage Bargaining Theory	
2.0	Introduction	13
2.1	Bargaining Models	13
2.2	Decentralisation	26
2.3	Possible Extensions to the Model	35
2.4	Summary	42
Chapter 3	The Wage Bargaining Environment	
3.0	Introduction	43
3.1	Legislation and the Wage Bargaining Environment	43
3.2	The Supermarket Sector	60
3.3	Wage Bargaining in the Supermarket Sector	65
3.4	Summary	78
Chapter 4	Changes in Bargaining Variables	
4.0	Introduction	80
4.1	Changes in Bargaining Variables	81
4.2	Summary	93

Chapter 5	Data and Results	
5.0	Introduction.....	94
5.1	Data Construction.....	94
5.2	Results.....	105
5.3	Is this an ECA Effect?.....	119
5.4	Summary.....	125
Chapter 6	Summary and Conclusion	
6.0	Introduction.....	127
6.1	The Extent of the Fall in Wages.....	128
6.2	An Intergenerational Effect.....	129
6.3	A Single-site Effect.....	130
6.4	Extent to Which the Fall in Wages can be attributed to ECA.....	131
6.5	Relevance of Wage Bargaining Theory.....	132
6.6	Possible Extensions of the Model.....	133
6.7	Options for Further Research.....	134
6.8	Conclusion.....	134
	Bibliography.....	136
	Appendices.....	146

List of Tables

Table 3.1. Market Share of Supermarket Operators.....	64
Table 3.2. Retail Wage Differential from Average Wage.....	68
Table 4.1. Supermarket Stores and Fulltime Equivalent Employment.....	89
Table 4.2. Unemployment Benefit Changes April 1991.....	90
Table 5.1. Wages for all Workers with up to 3 years' Service.....	106
Table 5.2. Percentage Wage Change in all Firms for All Workers with Up to 3 years' service	106
Table 5.3. Wage for all Workers with up to 5 years' Service.....	107
Table 5.4. A Comparison of those who started in 1987 with those with one year's service over new workers.....	108
Table 5.5. Percentage Margin of 1-year service and 1987-Start Workers Over new Workers.....	109
Table 5.6. Comparison of the Wage Path of Workers Commencing In 1987, 1991, and 1994.....	110
Table 5.7. Comparison of Workers with up to 3 years' service in Chainstores and Single-stores.....	112
Table 5.8. Percentage Margin Between Chainstore and Single-store Wages..	112
Table 5.9. Comparison of New Chainstore and New Single-store Wages.....	113
Table 5.10. New Workers in Single-stores.....	114
Table 5.11. Percentage Wage Change for New Workers in Single-stores.....	114
Table 5.12. Real GDP Change 1986 to 1997.....	120
Appendix 1. Table 1. Retail/Wholesale Wages 1991 to 1996.....	147
Appendix 2. Table 1. Analysis of Supermarket Contract Information from "Harbridge" Series.....	148
Table 2. Changes in 1993/94 Between New Contracts And Previous Contracts.....	148
Appendix 3. Table 1. Unemployment Rate 1987 to 1997.....	150
Appendix 4. Real Wages Supermarket Checkout Operators 1987 to 1997.....	151

Figures

Figure 4.1. Unemployment Rate 1987 to 1997.....	87
Appendix 5:	
Figure 1: Wage Changes for Workers in each Scenario with up to 5 years' service in 1991, 1994 and 1997.....	163
Figure 2: Scenario 1 Chainstore vs Single-store Workers with up to 3 years' service.....	164
Figure 3: Scenario 2 Chainstore vs Single-store Workers with up to 3 years' service.....	164
Figure 4: Scenario 3 Chainstore vs Single-store Workers with up to 3 years' service.....	164
Figure 5: Wage Path for Scenario 1 New Workers Commencing in 1987, 1991, 1997.....	165
Figure 6: Wage Path for Scenario 2 New Workers Commencing in 1987, 1991, 1997.....	165
Figure 7: Wage Path for Scenario 3 New Workers Commencing in 1987, 1991, 1997.....	165
Figure 8: Comparing Scenario 1 New Workers with 1 year service workers, and 1987-starts.....	166
Figure 9: Comparing Scenario 2 New Workers with 1 year service workers, and 1987starts.....	166
Figure 10: Comparing Scenario 3 New Workers with 1 year service workers, and 1987-starts.....	166
Figure 11: Scenario 1 Workers starting in 1987.....	167
Figure 12: Scenario 1 Workers starting in 1987 (with buyout).....	167
Figure 13: Scenario 2 Workers starting in 1987.....	168
Figure 14: Scenario 3 Workers starting in 1987.....	168
Figure 15: Scenario 1 Start Rates.....	169
Figure 16: Scenario 2 Start Rates.....	169
Figure 17: Scenario 3 Start Rates.....	170

CHAPTER 1

INTRODUCTION

1.0 Wages of Supermarket Workers

It will come as no surprise to any observer of the New Zealand labour market to be told that the wages of supermarket checkout operators fell in the period after the introduction of the Employment Contracts Act in May 1991. It is generally understood that the removal of industry and occupational awards which provided legally binding minimum rates of pay, and the changes in the legal status and rights of unions, are factors which contributed in some cases to a decline in wages. But, what was the extent of the fall? What was the differential impact on employees employed at the time of a particular negotiation (existing employees) and those who commenced after the new contract applied (new employees)? What differences can be observed in the wage outcomes of those employed in chainstores compared with single-store enterprises?

What were the wages of supermarket checkout operators six years after the introduction of the Employment Contracts Act? To what extent can the changes in wages be attributed to the Employment Contracts Act? In addition, do the wage outcomes conform to the predictions of wage bargaining theory, particularly the generalised Nash bargaining solution, and the literature on the effects of decentralisation of bargaining?

This thesis examines these questions. The particular research question can be stated as – what happened to the wages of supermarket workers after the Employment Contracts Act (ECA)

and how did this differ between generations of supermarket workers and between chainstores and single-stores?

1.1 Motivation for Thesis

This thesis is motivated by an interest in examining the application of wage bargaining theory to a particular sector. This thesis attempts to introduce greater precision by disaggregating the analysis to examine wage trends for workers under different scenarios. This includes different hours of work (with and without penal rates), whether the workers are new recruits, or continuing employees in each year (different generations), and whether the employment contract and bargaining is at a single-site store or across all sites owned by a chainstore (different levels of enterprise bargaining). All three scenarios are examined within the same narrowly defined job classification to abstract from any differences in the nature of the job.

In a sector such as the supermarket industry, an approach using different hours of work scenarios is much more informative than an analysis which only uses base hourly or weekly rates. Actual earnings in the secondary sector are often reliant on the particular hours worked (day, evening or weekend), and specific allowances.

The supermarket sector is a large employer of workers. Hammond and Harbridge (1995) note that a study of the retail industry is interesting because of the high reliance in wage setting placed on the centralised legal framework that existed prior to 1991. The effect of legislated decentralisation of wage bargaining is likely to be

significant in such an industry. There are several studies of wage outcomes in the retail sector but none that analyse supermarket wages at this level of detail. A reason for analysing the supermarket sector was access to the employment contracts of firms covering a significant number of workers. In addition, it was known that in the period after the ECA there had been grandparenting of wages and conditions in some cases. The term “grandparenting” is a common way of describing the situation where existing workers continue to receive a benefit, but new workers do not.

This raises the question of whether in such sectors, the general effects of a new policy such as a change in wage bargaining legislation can be observed at an early stage by narrowing the focus to the effect on the latest generation of workers. If the effect on new workers establishes a trend for all workers in a competitive sector, this factor should be included in the analysis of policy outcomes.

It was also known that, in the supermarket sector, bargaining subsequent to the introduction of the ECA occurred at multi-site and single-site levels. Chainstore and single-site contracts are coincident in the one sector. This factor creates an opportunity to analyse enterprise bargaining at different levels of decentralisation. A comparison can be made between industry bargaining outcomes, and enterprise bargaining outcomes at two levels of decentralisation.

This thesis is a study of wages. There is no attempt made to analyse changes in the levels of employment in the supermarket sector. It is noted in Chapter 4 that full-time equivalent employment in the supermarket industry fell in 1992, recovered in 1993, and from 1994

exceeded employment levels of 1991 by a growing margin. This growth in full-time equivalent employment understates the growth in actual employment due to the greater incidence of part-time employment.

There have been many changes in the supermarket sector over the 1987 to 1997 period. It is not an export sector, but has a significant degree of international ownership, and is driven by market competitiveness. New stores are opened regularly and a large supermarket will often share the anchor role for a shopping mall with a large department store. The range of products has expanded significantly. The formats have altered so that there are full-service, as well as large discount operators. The technology at checkouts includes EFTPOS, scanning equipment, and sophisticated checkout stands. The checkout operator in some stores scans the items, weighs produce, and packs the groceries.

Trading hours have been greatly extended. A growing proportion of staff is female or young. Wine is sold at supermarkets 6 days a week, and further liberalisation is likely to extend that to other categories of alcohol and allow Sunday sales. Extensive bakeries and delicatessens are included in many stores. Some also incorporate a play area for children, a café, dry-cleaning service, or photo processing. Banks have opened branches recently in several supermarkets. Shopping patterns have changed due to extended trading hours, and the higher proportion of fresh-food sales. One major chain has developed (in Auckland and Wellington) an Internet ordering system with home deliveries. Another chain has developed

the availability of fresh foods into pre-packaged home meal replacement.

In the midst of this innovation and development, workers have needed to adapt to many changes in working practices. Training requirements have changed. Flexibility in hours of work is expected. This is the context in which the Employment Contracts Act has operated. It is, therefore, an example of a dynamic industry, with many factors that could impact on the wages and working conditions of the many thousands of supermarket workers. There are some difficulties therefore in isolating a specific ECA effect on wages. However, to add to the literature on the ECA, this thesis will discuss what the particular nature of the ECA implies for variables important in wage bargaining theory, and how in turn these can be expected to influence wages.¹

1.2 Debate on Labour Law

The Employment Contracts Act is strongly opposed by the union movement. At the time of writing this thesis, a general election is due within the next 12 months. The New Zealand Labour Party and the Alliance have both promised to repeal the Employment Contracts Act. The New Zealand Council of Trade Unions have drafted a Workplace Relations Bill which, it proposes, should form the basis for a new labour law. While not endorsed by all unions, it focuses on the primacy of collective bargaining. It suggests mechanisms for “good faith” bargaining. It does not restore

¹ See Beaumont and Jolly (1993) for a similar discussion at an aggregate level.

“compulsory unionism” or a complex system of union registration, but would comply with International Labour Office (ILO) conventions.

On the other hand, employers (almost) universally endorse the Employment Contracts Act. Employers have welcomed the flexibility in the structure, negotiating process and content of employment contracts that have resulted from the legislation. It has ushered in an overwhelming trend towards enterprise bargaining and, in many cases, individual contracts. It has removed what employers regarded as monopoly rights of centralised trade unions. It has, in their view, facilitated closer relationships between management and employees due to the removal (or reduced role) of a “third party union”. It has allowed rapid change in the content of contracts in some cases.

These strongly held but differing views mean that the ECA is contentious. It has not delivered long-term stability in labour law. There will be ongoing debate, and if there is a major change of Government, a new law will be introduced. There will be strong lobbying from stakeholders at that stage and it is anyone’s guess whether a new law would grow to have general acceptance from employers, unions and the wider public.

This thesis, however, has a narrow empirical focus rather than a broad normative one.² The thesis considers alternative explanations for wage changes and tries to let the wages data “tell its own story”.

² I have had a long involvement with the union movement which naturally colours my views. The thesis however is based on actual employment contracts, not the views of any person.

It concentrates on two characteristics that do not apply to all (or even most) sectors. The intergenerational effect through the employment of new workers on different terms from the previous generation, and the decentralisation effect of single-site compared with multi-site bargaining are not factors that can be universally applied to all industries. However, they may be significant for the wider retail sector, service sector, and similar industries. These employ a significant and growing proportion of New Zealand workers.

1.3 Organisation of Thesis

1.3.1 General Outline

In Chapter 2, the literature on wage bargaining theory is surveyed to provide a theoretical framework to interpret trends in wage outcomes. Possible extensions to this theory that might be relevant to the supermarket sector are discussed. The wage bargaining environment is described in Chapter 3. Changes to wage bargaining variables are discussed in Chapter 4. The data construction and results are in Chapter 5. The summary and conclusion is in Chapter 6.

1.3.2 Wage Bargaining Theory

There is a large literature on wage bargaining covering wage bargaining models, bargaining power, and decentralisation of bargaining. Bargaining model variants (right to manage, efficient

contract, and median voter) are discussed. A function for firm wages is outlined based on the generalised Nash solution. This incorporates variables that influence the alternative wage for the worker, the strength of the union relative to the employer, and the firm's ability to pay. The application of the Calmfors and Driffill model of a hump-shaped relationship between centralisation of bargaining and real wages is examined in the context of a sector where employer preferences are a significant factor. Possible extensions to incorporate an intergenerational effect and an enterprise single-site decentralisation effect (or "single-site effect" for short) are considered.

1.3.3 The Wage Bargaining Environment

The supermarket sector has particular characteristics which affect wage bargaining outcomes. During the 1987 to 1997 period, there were major changes in the wage bargaining environment. Two significant changes were the extensive liberalisation of shop trading hours, and the introduction of the ECA. The ECA is an example of legislated decentralisation of bargaining. In addition, there were shifts in bargaining power from unions to employers. Studies on the general effect of the ECA, and specific retail sector studies, are discussed. The post-ECA changes in bargaining structure, process, and the content of employment contracts are outlined.

1.3.4 Changes to Wage Bargaining Variables

The wage bargaining environment is further analysed from the perspective of changes in the economic variables influencing wage

outcomes. The changes in these variables are discussed with particular reference to the supermarket sector. Some variables changed independently from the ECA (for example, the benefit cuts were part of an overall policy package, but were separate from the ECA). However, the ECA directly impacted on some of these variables (employer fall-back, bargaining strength). An ECA effect on wages can be analysed through the changes in these variables.

1.3.5 Data Construction and Analysis

The wages of checkout operators in the period 1987 to 1997 (5 years prior to, and 6 years after the ECA came into force) are derived from awards and contracts that applied during this period. A total of 48 documents covering 3 supermarket chains and 5 stand-alone stores were analysed to extract the relevant wage rates for new and existing workers in each year, penal rates, service pay, and allowances (meal, laundry, School Certificate, attendance, till, and protective).

The method of calculating wages was to use three scenarios on grading and hours of work and assume they were constant throughout the period. These scenarios were used to capture the differences between those working evenings and weekends compared with those working Monday to Friday during the day, and to compare the wage changes for adults and young workers. Scenario 1 (referred to as “part-time adult” or “PT adult” for short) is a worker aged over 21 years working 28 hours a week including Sunday and one early evening. Scenario 2 (referred to as “part-time student” or “student” for short) is a student, aged 16 years at commencement, working 14 hours a week including some hours on

two evenings and Saturday.³ Scenario 3 (referred to as “full-time adult” or “FT adult” for short) is an adult working 40 hours a week, Monday to Friday with no evening hours. Over 1500 separate calculations were made to establish a data series. The data analysis is separated into the overall change in wages, the intergenerational effect, and enterprise single-site decentralisation effect.

It was not possible to obtain actual earnings for workers in these firms during the 1987 to 1997 period. The data used in this thesis can be characterised as a “halfway house” between a simple description of wages and allowances as set out in awards and contracts (without any application to an estimated real scenario), and the actual earnings for supermarket checkout operators over the period in all 3 chainstores and 5 single-stores.

Previous analysis of the ECA has been at an aggregate level (e.g. Beaumont and Jolly, 1993), or has used surveys of employers and/or workers, or has set out contract data without extensive interpretation. There are difficulties with a survey approach to a study involving a large number of workers spread across 8 firms and an eleven-year period of employment. The problem with simply setting out the terms of the contract, and the changes from year to year is that although changes are detected, they cannot be easily quantified. For example, it is difficult to assess the impact of the removal of penal rates without using some scenarios of working hours. An analysis of the contract data may reveal that penal rates still apply. But if they

³ Students progressed through the pay scale at a slower rate in some cases than non-student juniors. There are many students employed in supermarkets so this was the more typical scenario.

only apply to work after 9 p.m. whereas they previously applied to work after 6 p.m., that can be extremely significant. Also, the contract may continue to provide for a meal allowance. But it could have changed from applying if a worker was employed after 6.30 p.m. and had worked at least 2 hours, to only applying after 10 hours work in any day. If the data is applied to a realistic scenario, these changes and their effect on earnings are picked up. The advantage of the data used in this research is that it can, with reasonable accuracy, pick up the actual changes in wage outcomes.

1.4 Summary

This research uses a non-cooperative wage bargaining model to analyse wage outcomes in a particular sector. The literature on wage bargaining models and the effects on wages of decentralisation of bargaining is surveyed. Possible extensions incorporating an intergenerational effect and an enterprise single-site effect are examined. The wage bargaining environment in the supermarket sector from 1987 to 1997 is outlined. Some predictions are made on the basis of the extent of decentralisation and the type of union structure, and changes to variables in a firm wage function. A data series is developed through over 1500 individual calculations of real wage outcomes using 48 different awards and contracts applying over this period to 8 firms.

Three hours of work scenarios were applied. The trend in wages for all workers was traced. The wage outcomes for new employees are compared with previous generations. The wages of single-store workers are contrasted with those in chainstores. The impact of the

Employment Contracts Act is considered along with alternative explanations for reduced wages. Policy implications and possibilities for future research are discussed.

CHAPTER 2 WAGE BARGAINING THEORY

2.0 Introduction

In this Chapter the essential elements of wage bargaining theory are discussed. The literature survey concentrates on wage bargaining theory as developed in the labour economics literature. This is distinct from the extensive literature in industrial relations, and labour law, on wage bargaining techniques and legal structures, although there are areas that overlap. Empirical studies relevant to New Zealand are surveyed in Chapter 3 as part of the description of the wage bargaining environment. This Chapter outlines a wage model that combines the contributions from non-cooperative strategic bargaining theory, and the effects of decentralisation of bargaining. Section 2.1 examines different wage bargaining models. Section 2.2 discusses decentralisation of bargaining. Section 2.3 explores possible extensions to the model to include an intergenerational effect, and an enterprise single-site effect.

2.1 Bargaining Models

2.1.1 Introduction

Wage bargaining behaviour in the real world of economic agents has been a subject of very considerable interest. Relevant issues include the economic factors affecting outcomes, the bargaining power of the parties, and the institutional structures. Ochs and Roth (1989) observe that bargaining is a complex social phenomenon which gives bargainers systematic motivations distinct from simple income

maximisation. In this Section, wage bargaining is analysed by using economic models. Bargaining model variants are examined in Section 2.1.2. In Section 2.1.3 the axiomatic approach of Nash (1950) is outlined. Section 2.1.4 discusses the strategic approach of Rubinstein (1982). Section 2.1.5 discusses bargaining power in greater detail.

2.1.2 Wage Bargaining Models

In any negotiation there is a range of possible outcomes. Bargaining theory examines the question of what the outcome of a negotiation will be if agents behave rationally. There is a large literature on bargaining theory and bargaining models. For surveys see Binmore and Dasgupta 1987, Osborne and Rubinstein 1990, and Binmore, Osborne and Rubinstein 1990.

A key issue is whether or not the bargain is over employment as well as wages. A right to manage model is where the bargaining is over wages only and the employer determines how many people to employ. A special case of the right to manage model is the union monopoly model where the scope of bargaining is restricted to wages, the union has complete bargaining power and sets the wage, and the employer sets the level of employment.

The efficient contract model is where the bargain is over both wages and employment and is Pareto efficient.⁴ The wage lies on the

⁴ Espinosa and Rhee (1989) note that when the repeated nature of the wage bargaining process is considered, the equilibria are neither as inefficient as the monopoly model predicts, nor as fully efficient as the prediction of the efficient bargaining model. They suggest that the two models can be regarded as particular cases with certain discount rates.

contract curve which is where the union indifference curves and the firm's isoprofit curves are tangential. There is a range of wage possibilities over the contract curve.

In the median voter model it is assumed that the union membership has heterogeneous preferences with respect to wages and employment. The source of this heterogeneity in preferences is the assumption that the order of layoff is by inverse seniority. The order of layoff gives rise to a corresponding distribution of most preferred wage demands on the part of the membership. In a one period model each union member would want the union to raise the wage until he or she was the next to be laid off. The wage is determined by the preference of the median voter. The application of the median voter model depends on the extent of democratic electoral processes in the union, a majority vote among all possible pairs of outcomes on contracts and that preferences are well-ordered and a function of only a single variable.⁵

In the context of wage bargaining in New Zealand, it is unusual for employers and unions to bargain over employment levels. A right to manage model is therefore more appropriate than an efficient bargain model. A median voter model could also apply where layoffs are generally by inverse seniority and unions are democratic.

⁵ See Yang (1995) for a discussion on how last-in-first-out layoff rules and a median voter can mean that efficient contracts are on the labour demand curve. See also Kaufman and Martinez-Vasquez (1990) who argue the superiority of the median voter model in terms of the descriptive validity of its assumptions, and its ability to explain major features of union wage determination. They suggest that the predictive ability of the 3 models (monopoly, efficient contract, and median voter) is impaired by major theoretical or conceptual shortcomings. Examples are: the aggregation of preferences, the principal-agent problem, strike costs, dynamics leading to changing preferences, and incentive compatibility. They argue that these limitations are less severe in the median voter model.

Although most redundancy agreements in New Zealand take seniority into account, it is by no means the case that layoffs are all on a last-on, first-off basis. Union preferences could therefore be characterised as in the “median voter” model in some circumstances, but not in all cases.

A wage bargaining model also needs to include a theory on how bargaining solutions are derived. This is where the contribution of game theory arises and is discussed in the next two Sections.

2.1.3 The Nash Solution

Nash (1950) considered bilateral bargaining as a cooperative game. Cooperative game theory concerns those situations in which players can negotiate before the game is played about what to do in the game. It is assumed that these negotiations can be concluded by the signing of a binding agreement. Under these conditions, it is argued (Binmore, 1992), the precise strategies available in the game will not matter very much. What matters is the preference structure of the game as it determines what contracts are feasible.

Wage bargaining results in legally enforceable employment contracts which can be regarded as binding agreements as in a cooperative game. Nash defined the bargaining problem as consisting of a set of feasible agreements and a pair of disagreement pay-offs specifying what each side would obtain in the absence of an agreement (Flanagan 1993:95). The axiomatic approach of Nash considers the properties (other than equity considerations) that an equilibrium would possess, and then examines whether any of the

possible outcomes meet these requirements.⁶ He assumed that (1) the solution is Pareto efficient, (2) the bargain is symmetric, (3) the solution is invariant to equivalent utility representations, and (4) the independence of irrelevant alternatives. The Nash solution is the utility pair which maximises the product of the players' gains in utility from agreement over disagreement. The Nash solution is a unique outcome, given the above axioms.

This can be set out as:

$$\text{Max } W = (u(w) - u(w_A)) (\pi - \pi_f) \quad (1)$$

Where $u(w)$ = union utility

$u(w_A)$ = union utility if bargaining breaks down

π = firm profit or utility

π_f = firm utility if bargaining breaks down

2.1.4 The Generalised Nash Solution

Non-cooperative game theory in the strategic approach of Rubinstein (1982) derives results from a specific model of the bargaining process. This process is one of alternating offers from each party continuing until agreement is reached. Non-cooperative game theory calls for a complete description of the rules of the game to be given so that the strategies available to the players can be studied in detail. The aim is then to find a suitable pair of equilibrium strategies to label as the solution of the game.

⁶ See Roth (1979) for a survey of axiomatic models.

The bargaining rules can be set out using a simple example. If player A makes an offer, player B can agree, which will end the game. Alternatively, in the next period, player B can make a counter-offer. This process continues until a settlement is agreed. There is a strong incentive to agree because there is no utility for either player in the absence of agreement. With a game of alternating offers, time becomes an important factor. Therefore, any outcome after the initial period needs to be discounted with respect to time.

Where each player is using their best strategy given the strategy of the other party the outcome is known as the Nash equilibrium.⁷ In some games the Nash equilibrium is unique but there can be many different outcomes at Nash equilibrium. One way of narrowing down this range of outcomes is to eliminate non-credible threats. Rubinstein therefore uses the concept of subgame perfection which requires that a particular strategy would imply a Nash equilibrium not only in the current round of the game but in all subsequent rounds. Rubinstein showed that this will produce a unique equilibrium in the bargaining game. There is an assumption of perfect information. This produces an immediate agreement rather than alternating offers.

If one party is more willing to wait then it will receive a bigger share. Weightings to reflect bargaining strength are introduced (Binmore, 1992). Therefore, the assumption that bargaining is symmetric is dropped. Relative bargaining strength incorporates

⁷ This is not the same as the Nash solution.

time preferences and risk perceptions. The time preference is the willingness to wait and reflects the discount rate.⁸ The risk perception is in essence the risk to each party of bargaining breaking down.

The generalised Nash solution provides an approximation to the outcome of the strategic bargaining game. It is more general than Nash's axiomatic solution, as the strategic bargaining game allows the parties to have different discount rates (Beaumont and Jolly, 1993).

The generalised Nash solution can be shown as:

$$\text{Max } Z = (u(w) - u(w_A))^\alpha (\pi - \pi_f)^{(1-\alpha)} \quad (2)$$

Where $u(w)$ = union utility

$u(w_A)$ = fall back utility during a strike or job separation

π = firm profit or utility

π_f = firm utility during a strike, lockout

α = bargaining strength of union

The solution is where the marginal effect = 0.

$$\frac{\partial Z}{\partial w} = \beta (\frac{\partial u}{\partial w}) / (u - u(w_A)) + \frac{\partial \pi}{\partial w} / (\pi - \pi_f) = 0 \quad (3)$$

where $\beta = \alpha / (1 - \alpha)$ = relative bargaining strength of union

⁸ See for instance Kahn (1993) who discusses distributive bargaining over a fixed total, and integrative bargaining which seeks bargaining solutions that raise both sides' utilities. He posits that cooperation is chosen by labour and management on the basis of discounted costs and benefits. The more that parties discount the future the greater is the temptation to defect from cooperative behaviour.

and $\partial\pi/\partial w =$ return to firm for holding out for a lower wage

and $\partial u/\partial w =$ return to union for holding out for a higher wage

Factors which impact on the variables in (3) will determine changes in wages. $\partial\pi/\partial w$ depends on the degree of competitiveness in the market for the firm's products, and the labour elasticity of demand. $u(w_A)$ is determined by benefit levels, the rate of unemployment, and wages paid at other firms.⁹ β is influenced by union resources, security of contract, and a whole host of factors influencing the risk perceptions and time preferences for unions and employers. π_f is affected by the level of fixed costs, the ability to hire temporary labour and non-union labour and otherwise maintain production when bargaining breaks down.

Beaumont and Jolly (1993) in a paper on "Wage Bargaining and the Employment Contracts Act" set up a generalised Nash solution assuming a profit function of:

$$\pi(w,p) = pQ(p) - wN(Q)$$

where p is output price, $Q(p)$ is the demand curve, and $N(Q)$ is the number of workers required to produce output Q . In this simple case, the bargained real wage is the sum of the strike income, plus a share (determined by the union's relative bargaining strength) of the profits in excess of the firm's fall-back per employee. This is a "rent-

⁹ Holmlund and Zetterberg (1991) also note that the higher the wage, the savings generated while in work, can boost fall-back income.

sharing" model of wages.¹⁰ By including a profit function in the generalised Nash solution they derived a wage function for the firm of:

$$w = \frac{w_A - U(w_A - b) - \beta\pi_f/N}{1 - \beta[\theta/\phi - 1]} \quad (4)$$

where:

w_A , the alternative wage has a positive effect by making strikes less costly to workers;

U , the unemployment rate has a negative effect by reducing the chance of getting alternative work;

b , the unemployment benefit has a positive effect by also making strikes less costly to workers;

β , the strength of the union relative to the employer has a positive effect, since the union is relatively more willing to endure a strike or lockout;

ϕ , the degree of competitiveness of the firm's product market has a negative effect;

θ , the responsiveness of employment to output has a positive effect;

¹⁰ See also Christofides et al (1992) in a study of 600 labour contracts who conclude that the microeconomic forces that influence real wages are not fully understood. They found that the real wage is an increasing function of past profitability in the employer's industry and a decreasing function of the level of unemployment in the employer's region. These results are consistent with rent-sharing theories.

π_f , the fall-back of the firm has a negative effect;

Beaumont and Jolly discuss in general terms the effect of the Employment Contracts Act on these variables at an aggregate level and argue that many variables bear on the wage outcome. They suggested that the ECA will tend to reduce real wage settlements due to an improved fall-back position for employers but that if the ECA has a positive effect on productivity then wages could rise. The degree of precision in measuring changes in these variables is hindered by the unavailability of statistics that capture their effect, and uncertainty about the extent of impact of any one variable. Changes in these variables during the 1987 to 1997 period are discussed in Chapter 4.

Savage (1996b) also notes that it is not possible to be precise about wage outcomes. Given the potential wage-employment outcomes that lie between the monopoly model and the efficient bargaining model it is very difficult to predict the impact of economic and labour market reform. Knowledge would be required of: the extent to which legislative wage floors diverge from the market clearing wage; the extent of non-competitive factors affecting labour demand and supply; the scale of any excess profits generated in product markets; the effectiveness of unions in gaining a share of those rents and; the bargaining strategies of unions and firms.

Savage (1996b) also outlines a simple model which shows the relationships between labour market structures (institutions, bargaining agents, bargaining power, objective functions, skill

specificity, reservation wages, training systems), labour market outcomes (employment, unemployment, labour force participation, wages, labour productivity) product market structures (number of firms, economies of scale, asset specificity, tradeables and non-tradeables, strategic behaviour) product market outcomes (product prices, output, firm profits) where shocks or triggers (legislative changes, liberalisation, new competitive pressures, international prices and demand) produce macroeconomic outcomes (economic growth, inflation, household incomes). The model shows a considerable lag in the effects of shocks. Such a model suggests a broad analysis of economic factors in the determination of wages.

2.1.5 Bargaining Power

The literature on wage bargaining uses both the terms “bargaining power” and “bargaining strength”. In some cases, the terms are synonymous. In other cases, there are differences in meaning. For instance, Kaufman (1994) states that bargaining power could be defined as one's ability to induce an opponent to agree on one's own terms (Kaufman, 1994). It includes the ability of Party A to impose costs on Party B, and the ability of Party A to insulate itself from retaliatory cost-imposing sanctions from Party B. Underlying factors include the nature of the product, the technology of production, economic conditions, the structure of bargaining, the militancy of employers and workers. These all affect the impact of a strike.¹¹

¹¹ See Manning (1993) who examines the situation where non-union members in a workplace or sector affect union bargaining power, specifically in the degree to which they do not support a union strike. See also Booth and Chatterji (1995) who develop a model of wages and union membership where membership of the union is voluntary and the union faces a budget constraint.

Leap and Grigsby (1986) suggest that while collective bargaining has been the subject of a great deal of research, relatively little effort has been devoted to the development of a theory of bargaining power.¹² They argue that a number of sources determine potential bargaining power, including: public policy, economic conditions, industry structure, product demand elasticity, and political or social factors. Bargaining parties will be able to exert varying degrees of control over bargaining power sources to maximise their potential bargaining power. However, the degree to which potential power is transformed into actual power will be determined by the extent to which parties are committed to bargaining relationships, their available alternatives, and their access to information.

There is a growing literature on the effect of different union organising methods on bargaining power. This is relevant to unions in the secondary labour market. Warskett (1996) observes the difficulties of union organising in the service sector and attributes a decline in the welfare of women workers partly to a failure of unions to adopt new organising methods which rely on membership participation rather than legal processes.¹³

¹² Kirkbride and Durcan (1987) criticise the existing literature on bargaining power as too narrow. They develop a tentative model or conceptualisation of power in which power exists simultaneously as a structure of domination, a function of resources, and as transformative capacity. The model acknowledges that there are behavioural and structural conceptions of power. The model encompasses power as measured by outcomes, and by resources, and strengthens the results by assessing the pattern of domination in the industry and in the wider society.

¹³ See also Pringle (1996) and Oxenbridge (1998).

The term “bargaining strength” in this thesis is used more narrowly than the term “bargaining power”. Bargaining strength reflects the bargaining strength parameter (β in the generalised Nash solution) incorporating discounting and risk. Time preferences will affect the attitude of the parties towards reaching agreement. Risk perceptions of a temporary breakdown in relations between the parties also have a significant impact on wage bargaining. The threat of a strike or lockout, assessed on the basis of knowledge of the other party, and the circumstances of the negotiations, will therefore be a determining factor in the wage outcome.

Risk perceptions and time preferences could alter with strike costs. Doiron (1992) in a study of the British Columbia Wood Products industry found that bargaining strength can be modeled as functions of exogenous variables which influence the parties' relative strike costs. Exogenous variables in that study were wages, employment, output, materials and supplies, capital services, output price index, materials price index, capital services, rental rate index, rate of interest, capital utilisation rate in the industry, average change in firm's inventories over previous five years, unemployment rate, level of unemployment insurance, and the real alternative wage.¹⁴

The sequence of bargaining can also make a difference. Dobson (1994) in a paper on multi-firm bargaining, pattern bargaining and oligopoly argues that unions will in these circumstances gain by first bargaining with a firm which is in a relatively weak bargaining position and impatient to settle, or a firm with relatively large

¹⁴ See also Kiander (1991), Stahl (1994) and Kiander (1994).

profits. He suggests that sequential bargaining across firms in an industry results in asymmetric wage rates in the industry.¹⁵

Relative bargaining strength is influenced by the extent of centralisation of wage bargaining. This is discussed in Section 2.2. Relative bargaining strength could also be influenced by other factors such as legislation governing the rules of bargaining. The Employment Contracts Act altered the relative bargaining strength of employers and unions. This is discussed in Chapter 3.

2.2 Decentralisation

2.2.1 Introduction

In the 1987 to 1997 period, the structure and the process of wage bargaining were changed significantly with the introduction of the ECA. One of the key objectives of the ECA was to encourage enterprise bargaining rather than national (or regional) industry or occupational awards. Bargaining was to be decentralised. The literature on how centralisation or decentralisation of bargaining affects wage outcomes is therefore relevant.

Section 2.2.2 outlines the Calmfors and Driffill (1988) model on the relationship between centralisation and real wages. Section 2.2.3 discusses wage bargaining and co-ordination. Section 2.2.4 examines where New Zealand fits into the centralisation spectrum.

¹⁵ See also Kovenock and Widdows (1989) who construct two models of sequential Nash bargains to explain wage determination in the case of a single firm employing two types of labour. Union and employer preferences on bargaining sequences are discussed.

2.2.2 Calmfors and Driffill Model

Calmfors and Driffill, (1988) showed empirically that there is a hump-shaped relation between centralisation across countries and real wages (or unemployment). Centralisation was defined as “the extent of inter-union and inter-employer cooperation in wage bargaining with the other side” (Calmfors and Driffill, 1988:17). This definition is not confined to formal structures and the actual level of bargaining. It is based on the behaviour of the parties, and includes union or employer coordination. The extent to which coalitions are formed among unions and employers is therefore the main focus.

To explain the hump-shaped relationship, Calmfors and Driffill used the monopoly-union model to illustrate the impact on wages of increasing centralisation. As unions amalgamate across employers, they gain greater control over the labour supply. They expand their market power. This is in contrast to workers in an individual firm. They have little market power. If there is a nominal wage increase in an individual firm, there would be a fall in employment. The firm is not able to raise its output price unless all firms in the industry do so. In the situation where the union controls the labour supply to all firms, then each firm in the industry has the same incentive to raise prices because they will not be undercut by firms in the same industry. Substitution of jobs in that case only occurs in relation to firms outside the industry where jobs are less substitutable. As a consequence, an industry union will tend to set a higher wage compared to separate unions in different firms. This can be called a market power effect.

However, there is an offsetting effect. Market power and the effects of wages on prices work in opposite directions. There is a lower real wage gain from the money wage increases because the larger number of earners involved in a centralised bargain has a stronger flow-on effect to prices. This means that the real wage gains of a given nominal wage increase are reduced. Whether real wages will rise or not depends on which effect outweighs the other.

Where the wage negotiation behaviour of a union is independent of any other union, the union will maximise its own welfare. However, as Calmfors and Driffill argue, when industry unions cooperate, the welfare implications for each other are taken into account. The effect of a wage rise for workers in one industry is moderated by consideration of the effect on real wages for workers in the other industry. This suggests that wages are moderated to the extent that large unions cooperate (which is centralisation in the Calmfors and Driffill definition).

Where there is complete decentralisation unions face external competitive pressure to undercut each other's wages so as to improve their particular firm's share of industry output and employment. The formation of an industry union will raise wages where workers are substitutes across firms. Cooperation between large unions may reduce real wages to the extent that unions consider the flow-on effects of a wage rise in their industry to the purchasing power of workers in another industry. Thus the hump-

shaped relation between real wages and centralisation arises.¹⁶ Wage increases are restrained where there is decentralisation and where, in a central setting, wage setters recognise broader interests.

The Calmfors and Driffill model is highly sensitive to modification in its assumptions about the nature of bargaining. For instance, if bargaining is motivated by a degree of social responsibility, or longer-term, rather than short-term interests, then the effect on employment is moderated significantly.

Calmfors and Driffill assume that union amalgamations occur uniformly across the whole economy so that all unions are always identical in size. Rowthorne (1992) relaxes this assumption. The economy is divided into two major sectors. Within each sector unions are the same size, but are a different size between sectors. Bargaining is simulated at different levels of centralisation. Outcomes for wages and employment are compared for symmetric bargaining (identical unions at the same level) and asymmetric bargaining (different sized unions bargaining at different levels).

The results suggest that the greater the degree of asymmetry, the more extensive is the wage dispersion between the two sectors of the economy. This implies that as bargaining is decentralised, there can be different wage outcomes between sectors depending on the extent to which unions amalgamate in each sector.

¹⁶ See also Layard, Nickell and Jackman (1991) and Davidson (1988).

2.2.3 Wage Bargaining and Co-ordination

The Calmfors and Driffill definition of centralisation of wage bargaining includes coordination among unions. The level of bargaining and coordination have been examined separately by others. Dowrick (1993) distinguishes between the locus of bargaining, and the organisational structure (coverage) of unions and employers. The locus of bargaining influences the cost of disagreement by linking one set of wage negotiations with another, and the structure of union and employer organisation determines the extent to which the spillover effects of bargaining are internalised or externalised (Dowrick, 1993:394).

This suggests that a union may remain capable of a centralised strategy even where bargaining has been decentralised to an enterprise level (Dowrick, 1993, Soskice 1990). If workers are substitutes across firms and bargaining is at craft level with independent firms, Dowrick shows that the formation of an industry union will raise the wage. This higher wage occurs because the external effects of a wage rise (or a strike) are likely to result in increased demand for labour at rival firms. The formation of an employers' association to match the industry union has ambiguous effects on the wage. The centralisation of bargaining from the firm level to industry level has ambiguous effects because disagreement will result in a strike of workers (and loss of profits) across all firms in the industry. Therefore a change in the level of bargaining will have clearly identifiable effects only if it is accompanied by similar

changes in the level of organisation of the bargaining parties, and in particular the level of organisation of unions.¹⁷

In equation (3) in Section 2.1.4 it was noted that union utility for holding out for a higher wage $\partial u/\partial w$ is influenced by a number of factors including product market competition and labour elasticity. In equations (5) and (6) below, the effect of one group (or firm) on another is incorporated. If there is union 1 and union 2, and two firms A and B, then:

$$\partial u_1/\partial w_1 = \partial u_1/\partial w_1 + \partial u_1/\partial w_2 \cdot \partial w_2/\partial w_1 \quad (5)$$

and

$$\partial \pi_A/\partial w_A = \partial \pi_A/\partial w_A + \partial \pi_A/\partial w_B \cdot \partial w_B/\partial w_A \quad (6)$$

For firm A and Union 1 in the above equations there is a conjectural variation due to the anticipated response of the other firm or union. $\partial w_2/\partial w_1$ can be used to represent the degree of co-ordination between the two unions. For union 1 there is a direct effect on utility from their wage, and an indirect effect via the wage of union 2. At issue here is that if a union gets higher wages at a particular firm which then becomes uncompetitive, then to what extent will another firm agree with another union (or set of union members) to pay the same increase? The degree of coordination is relevant. If unions coordinate then the conjectural variation ($\partial w_2/\partial w_1$) tends towards 1 as it did when there was an award system. If there is no co-ordination, then the conjectural variation tends towards 0.

In an earlier paper, Dowrick (1989) discusses the effect of both labour and product market characteristics on prices and wages. In

¹⁷ See also Mishel, 1986.

the model used by Dowrick for this analysis, wages and price-cost margins depend on product market conditions, the bargaining situation (efficient bargaining or bargaining over wages only), and the bargaining parameters (relative bargaining strength, union fall-back utility, and firm fall-back profit).

Dowrick shows that structural conditions (number of firms) in the product market which result in higher profit margins will generally lead to higher wages. Product market behaviour (e.g. collusion) also has an impact. In the efficient bargaining case, collusion among firms leads to higher profits and wages. Competitive behaviour restricts the extent to which can increase wages. However, in the case of bargaining over wages only, there is an unusual result. As collusion between firms increases, the market share of each firm is more sensitive to differences in firm costs. Each union has a greater incentive to undercut industry wages. Dowrick (1989:1139) observes therefore that in this case, wages are at their minimum levels not only at perfect competition, but also where there is fully collusive monopoly.

Decentralisation models therefore can usefully incorporate product market structure and behaviour, and distinguish between the locus of bargaining and the level of coordination (arising from the organisational structure of unions and employers). In the context of the supermarket sector there is a highly competitive product market. There is an industry union. The product market structure and behaviour will tend to reduce wages. Decentralisation of bargaining from the industry "locus" to the firm "locus" could have ambiguous

effects. Wages will, however, be higher with coordination through an industry union compared with the case where the union organisational structure is at the firm level. The implications of decentralisation models for the supermarket sector in the 1987 to 1997 period is discussed in Chapter 4.

2.2.4 Fitting New Zealand into the Centralisation Spectrum

In Calmfors and Driffill, OECD countries were ranked according to their degree of centralisation.¹⁸ They argued that intermediate systems (such as Belgium and the Netherlands) with bargaining at the industry level are likely to contribute the least to wage restraint. Wages are highest in this intermediate case. New Zealand was ranked as an intermediate case of 9th out of 17 countries. This ranking applies to the 1986/87 period.

This suggests, in the New Zealand context, that wages would be higher while the award system prevailed and there was independent bargaining by industry unions. That is, that wages would be higher than if bargaining had either been centralised or decentralised. However, some care needs to be taken with such a characterisation. There might have been more centralisation than was apparent because of cooperation between large unions. In fact, it was often the case that a wages trend was established after an element of consultation between “peak” unions, government and employers. There were attempts to establish a more formal element of

¹⁸ Note that Soskice, (1990) states that Calmfors and Driffill wrongly classified some countries, neglected the “pushfulness” or otherwise of unions at local level, and did not take account of differential effects on wage restraint of open or closed economies.

centralised cooperation (e.g. the Compact, the Growth Agreement) similar to the Accord in Australia but these were unsuccessful.

Applying Calmfors and Driffill to the post-ECA period after 1991 suggests that wages would tend to be lower because bargaining was decentralised to an enterprise level. By 1997, there was almost no industry-level bargaining. Therefore, the Calmfors and Driffill analysis would suggest that if bargaining moved from a predominantly industry-level to an enterprise level, then wages would tend to be lower, all other things being equal.¹⁹ Wage dispersion between sectors in the economy will be greater to the extent that bargaining is asymmetric (Rowthorne, 1992). If the level of bargaining and the extent of coordination are examined separately, then the shift in bargaining from the intermediate (industry) case to the decentralised (enterprise) case, could have ambiguous effects depending on the extent of union coordination.

In the supermarket sector, some enterprises were chainstores and others were single-stores. However, the union remained an industry union in effect (through a Federation) up until 1992, and then formally merged at that point into one union. A possible extension to the model of the relationship between decentralisation and real wages to look at decentralisation from chainstores to single-site stores is discussed in Section 2.3.3.

¹⁹ Note that the model described in Calmfors and Driffill assumes union monopoly bargaining and that bargaining power is derived from eliminating job competition. In the supermarket sector, the effect of the ECA and decentralisation of bargaining meant the employer had considerable bargaining power. Employer preferences had a major influence on bargaining structures, the negotiation process, and wage outcomes. This factor limits the application of such models to the wage bargaining environment that applied in the supermarket sector in this period.

2.3 Possible Extensions to the Model

2.3.1 Introduction

In the supermarket sector in New Zealand it is known that contracts formed after the ECA was introduced included grandparenting provisions meaning that wages for a new generation of workers were usually lower than for the existing generation. In addition, the decentralisation of bargaining to an enterprise level resulted in different wage outcomes for multi-site and single-site bargaining in the one sector. This section explores possible extensions to wage bargaining models which might illustrate these characteristics.

2.3.2 Intergenerational Effects

The observed difference in supermarket wages for new workers in the post ECA period could be referred to as an intergenerational effect. This factor has had little consideration in the theoretical literature. However, an intergenerational effect is closely connected to insider-outsider theory. Insider-outsider models presume that unions will seek to maximise wages for employed union members without regard to the desire of unemployed workers to seek work at a lower wage.²⁰ Insider-outsider theory defines insiders as existing employees whose position is protected by the existence of significant labour adjustment costs such as firing, hiring and training costs. Outsiders, mainly unemployed, are prevented from direct

²⁰ See Sapsford and Tzannatos (1993), and Carruth and Oswald (1986). For analysis of a broader range of insider factors and outside pressures affecting wages see also Nickell and Wadhani (1990), Nickell, Vainiomanski, and Wadhani (1992) and Blanchflower et al (1990).

competition because of labour turnover costs.²¹ The insider-outsider framework suggests that wage rates are being determined on behalf of insiders by unions with no direct reference to unemployed outsiders (Smith, 1996).

There are some circumstances where there could be greater concern by a union about the wages of outsiders than indicated by insider-outsider models. Doiron (1995) examines the sensitivity of the trade-off between wages and employment to the level of union membership and found in one study that the union favoured senior workers but still cared about the growth of union membership. Similarly, Carruth and Oswald, 1987 suggest that in boom conditions, sufficiently high product prices make it feasible for both insiders and the firm to profit from an expansion of employment above current membership. It is not always optimal for insiders to take demand increases solely in the form of pay increases. They also observe that unions sometimes seem to wish to negotiate about the employment level when it is cut but let the employer fix employment unilaterally when it is raised.

Using elements of insider-outsider theory it could be argued that the labour market does not spread risk among different generations. Gollier (1987) argues that an intergenerational effect is one way of shifting risk from existing to new workers. Gollier observes that “unlucky generations” entering the labour market during a recession bear almost all the risks, whereas older workers are protected by implicit contracts offering a downward rigid wage. Gollier used

²¹ Some studies have found only a small and insignificant insider effect. See for instance Forslund (1994).

three two-period models (bargaining was over wages and employment) with overlapping generations of workers to analyse the conflict of interest between insiders and outsiders.

Gollier states that new recruits could be paid wages that clear the labour market while previously employed workers would keep wages at their level determined by contracts. In recession periods, unions can cut firms' wage costs, and protect jobs, without accepting lower pay or harder work. The wage discrimination between generations will depend on the incentive of insiders to raise the hiring-wage. Gollier (1987) argues that such wage discrimination is greater in a decentralised wage-setting procedure compared to the case where the union has members in several firms (industry level). In those circumstances the union is interested in sustaining a higher hiring wage in order to ensure better job opportunities for laid-off workers from declining firms.

Wage discrimination between existing and new workers has also been discussed by Rees (1993). He examines the situation in the 1980's in the USA where a number of unions for the first time negotiated two-tier wage structures in which newly hired employees were paid less than previously employed workers doing exactly the same work. This included the retail food industry. Such wage structures arose where employers were under severe competitive pressure from non-union firms. It was an alternative therefore to reducing the wages of present employees. It was observed that as the lower paid workers become a majority in the bargaining unit, and as

resentment grows by workers receiving lower rates the two-tier differential will be reduced or eliminated.

This implies that intergenerational wage discrimination will be temporary. Rees argues that perceptions of unfairness due to wage discrimination have a significant correcting influence. The wages of others are a powerful force in determining worker satisfaction such that the utility goes down when the wages of others go up. Fairness is based on a comparison with another employer, union or person.²²

The literature includes consideration of other methods by which a firm can reduce wage costs without reducing wages of current employees. This includes promotion rate changes, recruitment rate changes, changes in the quality of new recruits, and changes in hours (see Blandy and Richardson, 1984). Firms can allocate the costs and benefits of change differentially within its existing workforce. Those with firm-specific skills or those who can, by shirking, seriously reduce their productivity are likely to be protected. Adjustments are expected to minimise long-term losses to the firm and to employees. It may be both privately and socially efficient to concentrate adjustment pressures on those who have yet to establish a long-term employment link. This may include not only new entrants but also those who are changing jobs within the firm.

²² For further discussion of fair-wage considerations within and between firms see Ferguson (1994) and Smith (1996). Note also that employers may derive utility from being perceived as a fair employer. Rees argues that the exercise of discretion in setting wages is more important than recognised in the literature and that fairness plays a large role in the exercise of discretion. Fairness primarily affects the supply of work from experienced, long service workers either because of a sense of grievance will increase labour turnover or because workers who feel unfairly treated will withhold effort. There is an interdependence of utility functions. Ochs and Roth (1989) also note that some agents incorporate distributional considerations which is further support that some employers derive utility from being perceived as a fair employer.

Alternative methods of adjustment are discussed further in Chapter 5. However, given the significant incidence of grandparenting in the supermarket sector it is appropriate to specifically consider incorporating an intergenerational effect. Combining the contributions of Gollier (1987) and Rees (1993), an intergenerational effect on wages implies that in a recessionary period, an “unlucky generation” could, at least temporarily, experience the main burden of adjustment. This is significant for an analysis of supermarket wages. This thesis will suggest later that such an “unlucky generation” (or generations) arose in the period after the ECA was introduced in New Zealand.

2.3.3 Enterprise Single-Site Decentralisation Effect

The literature on the effects of decentralisation suggests that the decentralisation of bargaining from the intermediate (industry) case to the decentralised (enterprise) case will result in a fall in wages. Where the level of bargaining and coordination are examined separately, the decentralisation of bargaining from the industry to the enterprise level could have an ambiguous effect on wages in the situation where industry level union organisation remains.

This study covers a period when the level of bargaining was decentralised by legislation but an industry union continued. However, in the supermarket sector, there was enterprise bargaining at the multi-site level and at the single-site level. This level of decentralisation is between chainstore contracts (one for instance covers 62 stores, 3 major brands, and 9000 employees) and stand-

alone store contracts (which apply to a single store only with 100 to 300 employees). Can bargaining at the single-site level be characterised as a further level of decentralisation?

In this case there is (in effect) one industry union bargaining with both chainstores and single-site stores. It is a competitive sector. Chainstores compete with each other and with single-site stores.²³ Store sizes and staff levels vary but the single-store sites are not necessarily smaller than “branches” of chainstores. There is union coordination, but not employer coordination.

Using the Calmfors and Driffill model, when there is decentralisation of bargaining from the industry to the enterprise, there is reduced market power (or bargaining power) of unions due to competition for jobs. When there is decentralisation of bargaining from the multi-site to the single-site level, there could also be reduced union bargaining power, even though job substitution is unchanged. Instead, the reduction in bargaining power could arise through lower levels of union membership in single-site stores, a reduced level of union delegate participation, and a lower concentration of union resources in single-stores because it is more costly for the union to organise where there are small numbers of workers.

The union, as will be described in Chapter 3, was under considerable stress in the early period after the ECA and had to prioritise

²³ Subsidiary-chains or brands within a chainstore also compete to an extent but they are generally well-differentiated by the branding and to an extent whether they are full-service or discount. The degree of geographical separation is also a factor.

negotiations. But time was a very important factor as it allowed the employer a period to take the initiative on bargaining arrangements. It could well have been the case that by the time the union commenced negotiations with single-site employers, their bargaining power was lower than it would have been if they had been able to commence negotiations at an earlier time in the period after the ECA was introduced.

If the wages at single-stores are lower than at chainstores, yet the extent of union coordination does not change (because it is an industry union in each case) then this suggests that the level of bargaining does make a difference, separate from coordination.²⁴ Although employers would have other reasons why they might prefer multi-site bargaining in some cases (e.g. transaction costs), this implies that even with an industry union, if all bargaining was at single-site level, wages in the industry would fall for all workers. In the case where a wages margin occurs between a multi-site enterprise and a single-site enterprise, there would be a job substitution effect. However, this effect, theoretically, is no greater than the job-substitution effect between any enterprises in the industry (e.g. between two multi-site enterprises). It does mean nevertheless that such a margin would tend to narrow over time. Therefore, where union market power (or bargaining power) continues to reduce through a further level of decentralisation beyond the industry to enterprise case, this can possibly be

²⁴ Alternatively, it could be argued that union coordination across multi-site and single-site stores was weaker than across multi-site stores despite the existence of an industry union. It is perhaps a quasi-industry union where so many stores had no union members, and some had very few.

incorporated into a model of the relationship between levels of centralisation and real wages.

2.4 Summary and Conclusion

In this Chapter, the relevant literature on wage bargaining theory is surveyed. Bargaining model variants were outlined. The Nash solution and generalised Nash solution were explained. It was shown that the firm wage can be expressed as a function of a range of variables: the alternative wage; the unemployment rate; the unemployment; the strength of the union relative to the employer; the degree of competitiveness of the firm's product market; the responsiveness of employment to output, and; the fall-back profit for the firm.

The Calmfors and Driffill model of the relation between real wages and centralisation of bargaining was reviewed. A variation of this approach where a different definition of centralisation is used (as in Dowrick) allowed the separate effects of decentralisation and coordination to be discussed. There was a brief analysis of where New Zealand fits into the centralisation spectrum. Finally, possible extensions to the model were considered to take account of an intergenerational effect between new and existing workers, and a single-site decentralisation effect between chainstores and single-site stores. This model will be used to interpret the likely wage outcomes in the wage bargaining environment as described in Chapter 3. Discussion on changes in bargaining variables are considered in Chapter 4 before an analysis of the data in Chapter 5.

CHAPTER 3 THE WAGE BARGAINING

ENVIRONMENT 1987-1997

3.0 Introduction

Chapter 2 outlined the theoretical framework relevant to an analysis of changes in negotiated wage outcomes. This Chapter describes legislative changes and bargaining structures at the general level, in the retail sector, and specifically in the supermarket sector. Changes in bargaining processes, and the content of contracts are outlined. Section 3.1 describes the changes in the wage bargaining environment through legislative change, and in particular the industrial relations legislation. The general impact of the ECA on wages, and the effect of the ECA on wages in the retail sector is examined. Section 3.2 describes the supermarket sector. Section 3.3 discusses wage bargaining in the supermarket sector in the 1987-1997 period. Section 3.4 is the summary and conclusion.

3.1 Legislative Changes and the Bargaining Environment

3.1.1 The Impact of Legislation

There are many factors in the wage bargaining environment. A key aspect of this environment is the nature of legislation governing the rules of bargaining. There are many laws that impact on the workplace (e.g. legislation concerning holidays, health and safety, wages protection, minimum wages). There may also be other

legislative change that affects market competitiveness, or other variables which determine wage outcomes. Of particular interest however is the legislation that relates to bargaining.²⁵ How does it affect union and employer bargaining power? Does it promote a particular level of bargaining such as industry-level or enterprise-level? These are the relevant questions to this particular research.

3.1.2 Industrial Relations Legislation 1987-1991

By 1987, the ability for unions to rely on arbitration to make progress on award claims had been weakened. The 1984 amendment to the Industrial Relations Act 1973, removed the ability of one party to a dispute of interest (negotiation to renew or make an award or agreement) to refer the dispute to arbitration. This meant, in effect, that unless employers and unions agreed, an award or agreement could not be decided by the Industrial Commission.

The Labour Relations Act in 1987 further extended the principle of self-reliance for the direct parties (Hince, 1993). Except for the possibility of final-offer arbitration in a restricted number of circumstances, the 1987 Act removed any element of compulsion in the processing of disputes of interest. Unions were also required to be a size of at least 1000 members to reduce the number of unions. Second-tier bargaining was severely restricted. Unions were required to cite employers out of the award if there was to be any enterprise bargaining. Unions did however devise “enabling clauses” in awards which allowed some site bargaining on hours of work,

²⁵ For a detailed discussion on industrial relations in this period see Brosnan et al (1990), Deeks (1990), Deeks et al (1994) and Geare (1988).

shift allowances and so forth. The citing out provision was designed to encourage workers on above award rates to negotiate stand-alone agreements at an industry or enterprise level (Beaumont, 1993). However Harbridge and McCaw (1992) found that of only 563 employers cited out of awards, 113 were party to new documents under the Labour Relations Act. Ironically, the restriction on second-tier bargaining tended to reinforce the centralisation of bargaining at the level of industry awards rather than encourage decentralisation through enterprise bargaining as intended by the citing-out provisions.

3.1.3 Employment Contracts Act 1991

In May 1991, the Employment Contracts Act (ECA) became law. The significant changes included the removal of specific legal recognition for unions, and the abolition of multi-employer contracts in the form of blanket coverage industry or occupational awards. Strikes in pursuit of multi-employer contracts were made unlawful. The legal requirement for workers covered by an award to join the registered union with the coverage of workers under that award was also removed.

The ECA was based on freedom of association in the sense that no duress can be placed on workers either by unions or employers to join, or not to join a union. As its title suggests, the ECA removes reference to agreements, or awards, and bases bargaining on contracts – individual or collective. Employers are required to recognise bargaining agents, but are not effectively required to

negotiate. A collective contract remains in force until expiry and the terms then convert to the form of an individual contract unless a new collective employment contract is negotiated. The Mediation Service, Arbitration Commission and the Labour Court were replaced by the Employment Tribunal and Employment Court.

There is a growing literature specifically on the Employment Contracts Act. This literature is informed by local and overseas academics, employers and employer associations, unions, political parties, and many commentators. There are diverse views on the merits of the ECA. For most employers, there has been support for the ECA because of enterprise bargaining and individual contracts, reduced union influence, a trend towards more direct employer-employee communication, and flexibility in the content of contracts. Unions oppose the legislation primarily because, in their opinion, it unfairly favours employers in the bargaining process. Harbridge and Hince (1993) describe the thrust of the ECA as: promoting individual rights over those of the collective; decentralisation of bargaining, and; deunionisation of the workplace. However, this thesis is mainly empirical, and is focussed on negotiated wage outcomes. Therefore, there is only limited discussion of the ECA in itself.

3.1.4 Other Legislative Change

There were other significant changes to labour-related legislation early in National term of Government. The Employment Equity Act of 1990 was immediately repealed later that year. The Distribution Workers' Federation had lodged a case under this legislation

comparing the wages of (mainly female) checkout supervisors with (mainly male) mailroom supervisors. A provision allowing for pendulum arbitration (where either the union claims in total, or employer claims in total are accepted) in the case where award negotiations remained unsettled for two years was immediately removed. Also the Union Representatives Paid Education Leave Act (1986) was repealed in 1992.

Market deregulation introduced through legislative changes in this period also impacted on wage outcomes. In the supermarket sector, the major changes in this period were the deregulation of wine sales which allowed supermarkets to sell wine, and more significantly, the Shop Trading Hours Act Repeal Act 1990 which extensively liberalised shop trading hours. With some limited exceptions, prior to this legislation, trading had not been permitted on Sundays, public holidays and evenings after 9 p.m.

When liberalisation of trading hours occurred, major supermarkets actually improved their market share. This occurred because local dairies, convenience stores, fruit and vegetable markets, and to a growing extent, service stations, had been capturing trade in the evenings and on Sundays. But with the change in the law, supermarkets could compete directly with these smaller operators across the whole week. Many of these smaller businesses used family labour and would not have therefore been paying penal rates for double-time on Sundays for example. The significance in the change in shop trading hours for supermarket wages was that the extended hours were entirely at penal rates under the awards which prevailed at the time. Therefore, employer pressure to change such

penal rates (including time worked on a Saturday where trading had been permitted prior to 1990) increased significantly.

The deregulation of shop trading hours had opposite effects on working hours of key/supervisory workers compared with the majority of workers. Key staff were pressurised to work longer hours, whereas most other workers were under pressure to reduce, split, and change hours of work to cover the busier periods of the week and reduce employment during relative down times.

3.1.5 General Impact on Wages of the ECA

3.1.5.1 *Wage Bargaining Behaviour*

There were significant changes in wage bargaining behaviour. Some enterprises took the opportunity to begin or speed up strategic industrial relations reforms, although others seemed to have focussed on removing union rights and cutting labour costs in the short term. Adjustment was concentrated in the larger firms. The Department of Labour Surveys of Labour Market Adjustment in 1992 and late 1993 showed that enterprise bargaining and individual contracting had become far more widespread even though industry documents were still permitted under the law.²⁶ Direct approaches were made to workers for new contracts. One of the results of this change was that although wage relativities did not immediately disappear, the concept of a “wage round” collapsed.

²⁶ See Whatman, Armitage and Dunbar (1994). Also, a survey of 1250 firms by NZIER found that individual contracts were the predominant form of contract in just under half the firms surveyed (New Zealand Herald, 29/4/96).

Under the award system, not only was there pressure from unions to link settlements in one industry or occupation with another, but the negotiations were often in a similar time frame, and settlements for a similar period (usually a year). Also, if (say) a supermarket employer had already agreed to pay their clerical employees a certain wage settlement in the ‘General Clerical Award’ (or similar occupational document) then there was some logic in paying the same amount to grocery employees. However, under an enterprise bargaining arrangement, there was a much greater likelihood of wages competition between firms. This opened up the possibility of an employer leading wages downward depending on labour market conditions.²⁷

It is important to recognise that the ECA was regarded by employers, and unions as a watershed. It followed a period of significant economic deregulation, and was introduced following a major electoral defeat for the Labour Government. Unions were therefore demoralised. The ECA therefore had a “shock effect” in that it was such a major change to labour law. Consequently, it had a very significant effect on wage bargaining behaviour.

3.1.5.2 *Did Wages Rise or Fall?*

The New Zealand literature on wages since 1991 reveals some divergence of opinion on what has happened to real wages. Some of this divergence may be explained by different time frames, different wage measures, and also by the lack of uniformity of experience

²⁷ See Gosche (1993) for a description of the competitive wage pressures being generated in the service sector by what he describes as ‘less scrupulous employers’.

under the ECA. Maloney (1994) found that average real wages fell by 0.5% (and full time equivalent employment grew by 4.4%) from the introduction of the ECA until the end of September 1993. Rasmussen and Deeks (1997) find that average real hourly earnings were static in the 1991-1996 period. Savage (1996b) argues that from 1991 to the end of 1995, real wages increased slightly. Maloney and Savage (1996) argue that it is the combination of welfare, product and labour market reforms that have altered labour market outcomes. They used Australia as a counterfactual and showed that real wages have grown at a slower rate than Australia since 1991.

Savage (1996b) concludes that the ECA has not impacted significantly on the long run value of wages but has increased the stability of nominal wage settlements. Ordinary time wages have increased but total wage costs have fallen. He argues that the signaling effects of the ECA could be just as important as the direct effects and states that survey evidence indicates a lack of uniformity of experience under the ECA. Savage and Cooling (1996) found that positive net impacts from the ECA tended to be most strongly associated with higher ordinary-time wages, more flexible work practices, fewer demarcations, greater multiskilling, greater use of performance pay, higher part-time and casual employment, higher productivity and greater operational flexibility.

Dannin (1997) criticises the Business Roundtable for claiming that wages increased by 8% in the two years after the introduction of the ECA. She argues that many employer surveys have been selective

and subjective. Factoring in inflation shows a real decline in income in the two years after the ECA although some workers had large increases. She also observes that penalty rates for overtime, shift and weekend work were eliminated quickly after the ECA. She describes work intensification, pay cuts and greater unpaid work as consequences of ECA.

A survey by the Employers' Federation in 1992 covering 1172 employers, 200,833 workers found that 32% of contracts featured changes to hours of work, and 45% of contracts featured changes to penal rates. Maloney (1994) comments on the comparison between the NZIER 1993 and 1995 surveys and suggests that in the initial couple of years after the ECA firms were focused mainly on cost-cutting and productivity gains. In the post 1993 period they may have switched to longer-term investments in employees such as increased training and higher wages.

This brief survey of wages studies of the post-ECA period indicates some disagreement about outcomes. Some studies suggest an increase in part of the period, others a decrease, and another describes real wages (hourly) as static. However, this does not address the issue of wage dispersion, or the impact of changes in allowances, penal rates and other award-related payments.

There are also dynamic aspects of the legislation in the sense that there may be lagged effects. For instance, Savage (1996b) has analysed first order effects (wages, employment) and second order effects (economic growth, inflation, household incomes) of the ECA. A reduction in union bargaining power would be expected to

reduce the ability of unions to extract rents from firms. Savage (1996a) has noted that the effects on wages from industry rationalisation, welfare reforms, and reduced union bargaining power would tend to lower wages. The effects of higher minimum wages, and productivity gains would tend to boost wages. He concludes that the net effect of the legislation on wages is an empirical question.

If wages fell in the period after the ECA, this does not necessarily mean that the fall can be attributed directly to the ECA. Clearly, the industrial relations framework cannot be isolated as the only factor that impacted on wages in the 1987-1997 period. The effects of the ECA are intertwined with other aspects of the contexts in which workers negotiate with their employers.²⁸ Real wages, at times, have either increased or decreased during periods of a stable industrial relations legislative regime. Further, it can reasonably be surmised that if the ECA had been introduced at a time of severe labour shortages, the impact of a sudden decentralisation in wage bargaining could have been radically different. The extent to which reductions in wages can be attributed to the ECA is discussed in greater detail in Chapters 5 and 6, after the data analysis is presented.

3.1.5.3 *Union Membership and Wages*

In December 1985 there were 259 unions with a total membership of 683,006 members, a union density of 43.5%. In May 1991, there

²⁸ See Hill and Du Plessis (1993).

were 80 unions with 603,118 members and union density of 41.5%.²⁹ By December 1997, there were 80 unions with a total membership of 327,800 and a union density of 19.2%. This was not a uniform decline. In the public and community service sector there was a 21% decline in members from December 1991 to December 1997. In the retail, wholesale, cafes and accommodation 'industry' the decline has been 77% in this same period.³⁰ This is a reduction from 64,335 members to 14,499 members (Crawford et al, 1997). The most significant fall in union density was in the period from May, 1991 (41.5%) to December, 1992 (28.8%).

These statistics confirm the general perception of a rapid decline in union membership after the ECA. However, it also confirms that there were different sectoral effects. A study by Cregan, Rudd, and Johnston, (1995) examined the impact of New Zealand's Employment Contracts Act on trade union membership. Two separate surveys of labor market participants were conducted in Dunedin on the eve of the legislation and one year later. The findings demonstrated that, for these samples, trade union membership in aggregate was not based on compulsion before the legislation, and remained at a similar level a year later.

It was also demonstrated that most members wanted the union to act as their bargaining agent and felt few pressures regarding their choice of employment contract. In other words, employers did not utilize the provisions of the Act to weaken union membership, at

²⁹ The Labour Relations Act required unions to have at least 1000 members. This reduced the number of unions.

³⁰ The details of the reduction in membership in supermarkets are in Section 4.1.3.

least in the short term. However, another analysis suggests that, overall, the shift from CEC's (collective employment contracts) to IEC's (individual employment contracts) together with a fall in union density have brought large changes to bargaining representation.³¹

This, in turn, may have impacted on wages. Maloney (1994) attributes the 0.5% fall in wages he estimated in the May 1991 – September 1993 period to falling union membership as a result of the ECA. He observes that the largest relative declines in union density after the ECA were experienced in industries that had the lowest levels of unionisation prior to the ECA. Industries which had the highest levels of unionisation prior to the ECA experienced the largest absolute declines in union density after that legislation was introduced. The wage effect of the ECA was highest in the high union density sector. This suggests that, rather than a direct ECA effect on wages, it is through the ECA impact on union density that wages are affected.

3.1.5.4 Wages Dispersion

A study by Dixon (1996) showed little major change in aggregate dispersion in pre-tax hourly earnings in the period 1984-1994. Mitsuhashi (1996) similarly found a minimal overall effect of the ECA on wage dispersion. However, other studies, have found an increase in wage dispersion in the two years following the

³¹ See Rasmussen and Deeks, (1997).

introduction of the ECA.³² The different results may be explained by the extent to which an analysis of reductions in penal rates was incorporated as well as the wages of very part-time workers.

A widening of the gap between male and female wages has been observed.³³ The Quarterly Employment Survey indicates that between 1986 and 1996 the (nominal) weekly earnings gap between women and men increased from \$114 to \$181. Women's average weekly earnings in 1996 were 74% of men's. The hourly rate was 81% of that earned by men. The hourly rate however has changed only slightly in the 1991 to 1996 period. This is in contrast to the period 1986 to 1991 when the margin reduced by more than 2 percentage points. It should be noted however that in the sales and service sector, in 1991, females received only 61% of the income of men.

Hammond and Harbridge (1993) predicted a widening of the male/female wage differential. Greater flexibility in the variation of working time had come at the cost of allowances. Women were disadvantaged in this process. Their analysis of 1101 contracts covering 187,000 workers and 8300 employers divided contracts into those covering mainly men, mixed and mainly women. They found that workers in the mainly men contracts were significantly more likely (42%) to have had a wage increase of 4% or more in the period compared with mixed (27%) and women (29%). These

³² Ibid.

³³ See Skiffington (1998) and Brown, 1997.

results were exacerbated when provisions for clock hours were included in the analysis.

Harbridge and Street (1995) in a survey of service workers asked the same questions on hourly rates, overtime rates, and overall take-home pay, as in the Heylen Survey (this is the same survey as the Department of Labour Survey). They found that there had been 21% reporting an increase in take-home pay and 30% with a decrease, compared with 42% and 18% respectively in the Heylen survey. Given the wage differentials between the service sector and the average wage, it is not surprising that there should have been a more negative impact on take-home pay, than was found in the Heylen survey. However, the extent of the difference was significant. Those in the Harbridge and Street survey were all women, and this survey suggests that women may have fared worse, on average, than men under the ECA.

Harbridge and Street also note that their survey was skewed in favour of older workers who had been in their present jobs for more than two years. They note that anecdotal evidence suggests that younger workers and those who have been with their employer for a relatively short period of time are the most likely to have experienced the largest reductions in employment conditions.

Of particular significance to this thesis is any difference measured between new workers and existing workers. Unfortunately, this does not appear to have been studied in any great detail. However, it is relevant to note that the Heylen Survey in 1993 found that grandparenting of provisions affected 26% of employee's

workplaces. This does not necessarily mean that the grandparenting affected wages. (For instance, an extra week's holiday for service could have been grandparented). It also suggests that the extent of generational differentiation in wages was not high across the entire workforce, even if it was typical in the supermarket sector.

There have been some differences observed in wage outcomes for workers in different sized firms. Cassino (1995) found that contracts in New Zealand covering large numbers of workers have involved smaller wage increases on average in the March 1992 - June 1994 period. He suggests that one explanation is the greater use of casual and part-time workers by large employers.

There could be a degree of hidden wage dispersion due to segmented labour markets. Although there are minimal changes in overall wage dispersion, it is possible that those in the secondary labour market have had a relative decrease in wages.³⁴ Secondary labour markets are characterised by low levels of unionism resulting in reduced bargaining power.³⁵

The attitude of employers may also have affected wage outcomes for a period. For instance, Rasmussen et al (1996) refer to different employer groups - mainstream, high trust, and cutters. This implies that there were variable employer responses to the introduction of the ECA. Some employers focussed on maintaining relationships with unions and negotiating through consultative arrangements

³⁴ See Mitsuhashi (1996). Also Beaumont (1993) posits a dual labour market hypothesis with skilled workers on a higher and smoother wage path than the less skilled.

³⁵ See Sayers (1993).

towards desired changes. Other employers had a clear focus on achieving immediate cost reductions through employment contracts.

3.1.6 Impact of the ECA in the Retail Sector

There have been several studies of the impact of the ECA on the retail sector, but only one specifically on the supermarket sector.³⁶ The reports by Harbridge et al (1994, 1995, 1996, 1997) are a comprehensive analysis of contract clauses across all sectors. The supermarket sector contract analysis was not separated from the retail sector as a whole until 1993/94. These reports indicate that by 1997, penal rates applied only in rare cases, overtime rates apply in 30% of contracts, and youth rates continue in almost all contracts. The percentage of workers covered by contracts with no penal rates increased from 23% in 1993/94 to 89% in 1994/95 and 96% by 1996/97. (See Appendix 2).

This same database of contracts was used by Hammond and Harbridge (1995) to specifically examine collective bargaining in the retail sector in New Zealand and Australia. They analysed 110 contracts covering 21,700 employees in a database covering the period 1991 to 1995. They found that there had been a significant decline in wage costs as employers removed penalty rates and lowered base rates for new employees. Some workers were estimated to have had a 30% pay cut. They also found however that there has been a similar trend in Australia, but the effects were mitigated by the award system.

³⁶ See Pringle (1996) on Continuities and Discontinuities in the Supermarket Sector in NZ.

A study of bargaining in the retail non-food sector in the 1991/92 period argues that in the context of a stagnant market, the ECA enabled employers to pursue long held goals of flexibility in relation to hours and penal rates and has been associated with the reduction of union influence in small firms.³⁷ This study suggests that conditions have deteriorated for some workers and describes the environmental factors as low levels of retail demand, shop trading hours changes and the ECA.

Pringle (1996) analyses changes in numerical and functional flexibility in relation to the ECA. (See also Harris and Daldy, 1994). He suggests that supermarket employers have made considerable across-the-board gains in internal labour market flexibilities. He relied mainly on interviews with employers, union officials and some employees.

Brosnan (1991) in a case study of labour market flexibility in the retail sector describes the trend towards intensification, casualisation, juvenalisation and feminisation of work prior to the ECA.³⁸ Brosnan correctly predicted the attack on penal rates, greater incidence of weekend work, and increased casualisation. He also suggested that there would be a significant reduction in unionisation in the sector and that it would be easier for "unscrupulous" employers to further exploit retail workers.

³⁷ See Hector, Henning, and Hubble (1993).

³⁸ See also Sayers (1993) who argues that there is evidence of job intensification in the part-time retail sector.

McLaughlin and Rasmussen (1998) report on a survey of 1000 retail workers in Auckland. The 27% response rate was skewed towards older workers working more than 30 hours a week. They found that 25% of respondents were union members, 45% were required to work weekends, 23% were required to work evenings, overtime rates applied for only 25% of respondents and allowances for only 19% of respondents. The survey found that bargaining power was lower among younger workers and in smaller establishments.

These studies, while useful, are mainly about the retail sector as a whole, and do not analyse wage outcomes to the level of detail in this thesis. They do however add to the description of the wage bargaining environment in the retail sector in the post-ECA period. The next section examines the characteristics of the supermarket sector in more detail.

3.2 The Supermarket Sector

3.2.1 The Retail Sector in General

The retail sector has around 48,000 employers in nearly 100 different categories employing 275,000 full-time equivalent staff. Employment in the sector can be characterised as largely in the secondary labour market. The sector is a significant employer of women and young workers and employs 18% of the total workforce. But many of these staff were family members, or more connected with wholesale or distribution or car sales. The number covered by awards was much lower. Prior to the introduction of the ECA there

were 48,500 employees covered by 10 retail awards. Approximately 20,000 of these workers were unionised and belonged to either the Northern Distribution Union or the New Zealand Distribution and General Workers' Union (since amalgamated to form the National Distribution Union).

3.2.2 Supermarket Sector

3.2.2.1 *Size of the Supermarket Sector*

This paper concentrates on the supermarket sector. Annual grocery turnover in 1994 was \$4.6 billion (Pringle, 1996). In 1991 there were 19,750 (FTE) employees at 395 supermarkets. In 1997 there were 23,865 (FTE) employees at 388 locations. This sector is characterised by intense price competition. The major employers in this sector are Woolworths (NZ) Ltd which also owns Franklins at Big Fresh and Price Chopper, Progressive which owns Foodtown, Countdown, 3 Guys and Supervalu, and the Foodstuffs group which is three regional cooperatives that include the Pak'n Save and New World stores.

3.2.2.2 *Foodstuffs*

The Foodstuffs group is the largest supermarket operator. It is also the largest grocery outlet in New Zealand. It is not however a chainstore. It began in 1925 as a group of individual grocers who combined into a purchasing association. There are three regions operating as autonomous retailer-owned cooperatives. They do however combine on some matters in a federal body – Foodstuffs

(New Zealand) Ltd. Foodstuffs have an extensive range of “own label” products (the chainstores have increasingly developed their own labels also) manufactured under contract. They operate distribution warehouses, “cash and carry” wholesale services to dairies, caterers, commercial establishments and other outlets. They operate a range of supermarkets. The full-service supermarkets trade as New World. The discount stores trade as Pak’n Save and Write Price. The convenience and grocery stores trade as Four Square, Four Square Discount or On the Spot.

As at June 1994 the Foodstuffs companies comprised 126 New World Supermarkets, 20 Pak’n Save stores, 10 Write Price food barns, 451 Four Square and Four Square Discount stores, 192 On the Spot service stores and 271 non-banner member stores. Each of the stores has a separate employment contract. Collective employment contracts apply at many of the supermarkets but there are some supermarkets where staff are entirely on individual contracts. By May 1998, the Foodstuffs companies comprised 121 New World Supermarkets, 30 Pak’n Save stores, 8 Write Price food barns, 350 Four Square and Four Square Discount stores, 220 On the Spot Service Stores and 184 non-advertising member stores. The Foodstuffs banner groups of New World, Pak’n Save and Write Price had a 49.8% market share.

3.2.2.3 *Woolworths*

Woolworths (NZ) Ltd is a fully-owned subsidiary of Franklins Supermarkets Ltd of Australia, a subsidiary of Dairy Farms International registered in Hong Kong and owned by Jardine

Matheson and the Hong Kong and Shanghai Bank. Woolworth (NZ) Ltd has two discount chains – Franklins at Big Fresh, and Price Chopper. The full service supermarkets are branded mainly as Woolworths. There are currently 64 supermarkets in the Woolworths group. All staff, except some supervisory positions, are covered by the same collective employment contract. The company has also commenced trading through the Internet with home deliveries.

3.2.2.4 *Progressive*

Progressive Enterprises Ltd is the second largest grocery group. The major shareholder (57%) is Foodland Associated Ltd based in Western Australia. The 1993 merger of Progressive Enterprises Ltd and FAL (NZ) Ltd combined the Foodtown full service supermarkets, the Countdown discount chain, Three Guys discount chain, and the Rattray group of companies trading under the Supervalu, Dollarwise, Pricecutter, Family Fare, Foodmaster, Super 7 and IGA banners. The 3 Guys chain has been integrated with Countdown and now has 10 stores compared with 1991 when there were over 30 branches. There are (June 1998) 31 Countdown stores and 34 Foodtown supermarkets. Progressive Enterprises Ltd is listed on the New Zealand Stock Exchange. There are collective contracts at Foodtown, Three Guys, Countdown and some Supervalu stores.

3.2.2.5 *Market Share*

The supermarket sector is highly competitive. Fractions of a % change in market share are significant. Percentage market shares in 1989, 1993 and 1996 are in Table 3.1.

The most significant growth in market share during this period has been in the Pak'n Save stores. Their market share grew from 8% in 1989 to 22% in 1993 and then consolidated to 24%. This tripling of market share can be attributed to a number of factors. There is no doubt that the Pak'n Save format appealed to customers. In 1992 there was a heightened focus on price due to the recession and benefit cuts. Pak'n Save kept the discount format in the large centre

Table 3.1 Market Share of Supermarket Operators

	1989	1993	1996
Woolworths	20	17	14
Big Fresh/Price Chopper	1	6	9

Countdown/3 Guys	13	17	15
Foodtown	17	13	10
Supervalue	4	4	4

New World	29	21	24
Pak'n Save	8	22	24

(Source: Boston Consulting Group)

of their stores, but around the edges had the specialty areas - fish, deli, bakery - that some other discount formats did not have at that time. There was a significant increase in the number of Pak'n Save stores in the 1991 to 1997 period.

3.2.2.6 *Greater International Involvement*

During the period under study there has been greater international involvement in the industry. Pringle (1996:119) observes that with the entry of international food firms, food retailing in New Zealand has become a large scale business assuming many of the

characteristics exhibited overseas. These characteristics include a tendency to integration and concentration, an increase in part-time work, a work force changed by age and gender and a relatively low level of union organisation or participation. These factors have combined with the changes in the legislative and economic environment in this country to exacerbate the level of competition in the industry. This has resulted in employers placing a high priority on the search for greater flexibility in the structure of their internal labour markets. Wage costs are estimated to be 70% of non-stock spending cost (Pringle, 1996:94).

3.3 Wage Bargaining in the Supermarket Sector

3.3.1 Introduction

This Section describes wage bargaining in the 1987 to 1997 period. There was relatively little change in the 1987 to 1991 period whereas from 1991 there was significant adjustment to the options created by the ECA. There is no attempt in this Section to quantify these changes. It does however provide background prior to analysis of changes in wage bargaining variables in Chapter 4, and the presentation of the results of data analysis in Chapter 5.

3.3.2 Awards in the Supermarket Sector

From 1987 to 1991 there were two main industrial awards which applied to the supermarket sector. Most workers were covered by either the New Zealand Retail Grocery and Supermarket Award or the New Zealand Butchers' Award. Both applied until 3 December

1991. Occupational or secondary awards and agreements covered clerical staff, storepersons at distribution centres, and drivers. Bakers also had awards and some agreements in the supermarket sector.

The awards were negotiated by the Union and employer representatives. The employer representatives included major supermarket chains, in addition to smaller employers and independents. NARGON (the National Association of Retail Grocers and Supermarkets of New Zealand) and the Employers' Federation also had a role in the negotiations. The Union parties to the negotiations changed throughout the 1987 to 1991 period as a result of amalgamations. Retail Unions were affiliated to the New Zealand Distribution Workers Federation. In the northern area the Butchers and Grocers Union joined with the Drivers Union and the Stores Union to form the Northern Distribution Union from 1987. Subsequently, retail unions in the rest of the country joined with the Drivers Union from the central region and Stores Union from Canterbury (and some surrounding areas) to form the New Zealand Distribution and General Workers' Union. By 1990, these were the two unions involved in negotiations for the two main supermarket awards.³⁹

These awards were comprehensive minimum documents which applied to every employer in the industry. In addition to a pay scale based on age, classification, and industry experience, they included allowances for length of service to the employer, meal money,

³⁹ Subsequently, the Distribution Workers Federation was disbanded at the time the Northern Distribution Union and N.Z. Distribution and General Workers' Union amalgamated to form the National Distribution Union in 1992.

payment for educational qualifications, supervision duties, laundry costs, first-aid attendants, container unpacking, and, in certain circumstances, transport costs. Penal rates of double-time applied to all weekend work. Work after 6 p.m. Monday - Friday was at time-and-a-half. Hours over 8 per day, 40 per week, or on a sixth or seventh day were at time-and-a-half for the first 3 hours then double-time.⁴⁰ There were specific protection inserted after the liberalisation of shop trading hours in 1990.

During the 1987 to 1990 period there were annual renegotiations of these awards. These negotiations agreed on increases in pay and allowances that were generally close to the established overall trend for that 'round'. There were also changes in hours of work including agreement on some additional evening trading. In 1989/1990 there was a Working Party of unions and employers established to discuss the formation of a new award that would apply to supermarket chains but not to the smaller grocery and convenience stores. However, these talks foundered and with the imminent election of a National Government pledged to drastically alter labour laws, the discussions were abandoned.

⁴⁰ For many workers, the most significant and applicable allowances apart from penal rates, were service 'pay', meal allowances which applied after 5 hours in the weekend and after 2 hours for early evening work, and the laundry allowance.

3.3.3 Supermarket Wages

In March 1987 the lowest hourly rate for a junior was \$3.19 an hour for under 17 workers in their first 6 months. The rate for a Grade 1 senior was \$6.50 an hour. By 1991, pay rates started at \$3.85 an hour for an under 17 year old covered by the N.Z. Supermarket Employees Award. The printed rates for graded senior workers varied from the Grade 1 rate of \$7.71 in the N.Z. Grocery and Supermarket Employees Award, to a butcher covered by the N.Z. Butchers' Award on \$9.55 plus up to 73 cents an hour for 10 years' service making an hourly rate of \$10.28. The prevalence of juniors employed at evenings and in the weekend made the \$3.85 an hour rate effectively either \$5.78 (time-and-a-half) or \$7.70 an hour (double-time).

It should be noted that retail wages have historically been at low levels. Inter-industry wage differentials from 1971 to 1995 show retail trade wages as significantly below the economy average for 31 industries. This is shown below in Table 3.2.

Table 3.2 Retail Wage Differential from Average Wage (percentage).

Retail Trade	1971	1975	1979	1983	1987	1991	1995
	-23.3	-23.4	-21.5	-28.5	-28.3	-30.7	-32.8

This shows a widening difference as a trend. Retail trade occupied the bottom place for all the above years except for 1995 when it ranked second to bottom (see Mitsuhashi, 1996).

3.3.4 Wage Bargaining Post-ECA

3.3.4.1 *Comprehensive Change*

Since the introduction of the Employment Contracts Act there has been significant change in bargaining structures, negotiation processes and the content of contracts (i.e.: pay and conditions). It has been a period of major adjustment for employers and unions. While it was not the sole factor influencing change, there is no doubt that the pace and scale of adjustment escalated drastically. This subsection discusses separately the changes in the structure of wage bargaining in the supermarket sector, the bargaining process changes, and the alterations to the contract terms.

3.3.4.2 *Bargaining Structures*

The 1990 negotiations of both the Grocery and Supermarket Award and Butchers Award occurred after the election of the National Government. The precise nature of the Employment Contracts Bill was not known until December. Whereas the retail non-food employers declined to renew the award for a further term, employers in the grocery and supermarket sector agreed to a further one year term from 4th December, 1990.

Because the Grocery and Supermarket Award and the Butchers Award remained in existence until 3rd December 1991, there was a period after May, 1991 when the ECA became law and early December when employers and unions prepared for bargaining under the new circumstances. There was however one major aspect

of the new law that was acted on from May. This was the matter of union membership. Although technically covered by the awards and required to belong to the union, in reality the union could not enforce that once the ECA became law. Although membership among existing workers at chainstores did not fall to a great extent, the fall in membership at many of the New World and Pak'n Save supermarkets and among new workers was significant. This appears to have had the effect that to a large extent by the time the union had negotiated with the supermarket chainstores, there was not a strong membership base in many of the single-stores to enable collective bargaining to occur.⁴¹

There was one employer who did not want to wait until December, 1991 to establish a company agreement. Woolworths (N.Z.) Ltd agreed to negotiate a collective agreement under the Labour Relations Act with the union just before the Employment Contracts Act became law. This gave the employer an opportunity to discuss changes in hours of work and penal rates before the awards expired (and therefore before other employers also involved in extensive Sunday and late night trading unless they opted for an agreement under the Labour Relations Act). For the union this was an attempt to establish a lead document as a base for pattern bargaining.

⁴¹ The National Distribution Union in its submission to the ILO Direct Contact Mission in 1994 includes a copy of a letter sent on 7 January that year to the Labour Department by Berice Edwards, a checkout Supervisor at Pak'n Save, Henderson. The letter states that "As soon as the Employment Contracts Act came in everything changed in this place. We were told now – he'd do it his way. First he got rid of the union, and some were threatened if they belonged to the union they would be down the road. The contracts were never negotiated. We were called in one by one and given this printed document with a place to put your signature. Some of the young ones were not allowed to take their contracts home for their parents to read. The first year, all of us who already worked there got penal rates and as people left or were sacked, the new ones went on to a flat rate and there was no set amount – they were all getting different wages. Within a year there was a 90% rollover in staff".

By late 1991, preliminary or substantial negotiations had commenced with other major chainstores. As a result, the structure of bargaining changed from the two main awards to a number of enterprise collective employment contracts with Woolworths, Foodtown, Countdown and 3 Guys. These are company-based collective employment contracts covering the entire chain. Single-store collective employment contracts were established at a small number of separate Pak'n Saves, New World and Supervalu stores. But the union was not a party to the formation of most of the establishment collective contracts or individual contracts which developed within the Foodstuffs group.

3.3.4.3 *The Bargaining Process*

Employers welcomed the opportunity to negotiate company-specific contracts. However, for the union, the bargaining process had become both extensive and intensive. Not only was the union negotiating with many separate employers instead of several awards and a relatively small number of agreements, but the negotiation process for each contract even covering (say) 1000 workers was as intense if not more so on occasions than an award negotiation which had covered 15,000 workers. For each negotiation a round of pre-negotiation meetings of members in each store in the chain (e.g. 64 stores for Woolworths group) covering day, night and weekend workers would be followed by post-negotiation report-back meetings for ratification. Some employers attempted to modify the bargaining process by making it an extended consultation process occurring simultaneously in several venues. For instance, Foodtown

in 1994 launched a new contract which was then discussed by between 9 and 13 regional groups on a weekly basis over a ten week period. This stretched union resources to the utmost.

The bargaining process in respect of new stores (which the union calls “greenfield sites”) presented employers with an opportunity to introduce a tailor-made contract as there were no pre-existing terms. The circumstances therefore favoured new stores in respect of labour costs. Under the award system, the minimum pay and conditions specified in the awards automatically applied to new stores. But under the ECA, unless there was a chain-wide enterprise contract, a new store could open with an employer -generated specific contract for that store. Enterprise collective contracts were negotiated with Foodtown, Woolworths, 3 Guys and Countdown. So a new store would be covered by the company contract.

However, the Pak’n Save and New World stores all had separate establishment contracts. So as new Pak’n Save stores opened a new contract was introduced in each case. Needless to say the bargaining power of non-unionised workers who had not commenced employment was minimal. The union tried to exert pressure on such employers but had no legal rights of access unless workers had authorised the Union, and had no practical access to workers until the store opened for trade by which time the new contract was already in effect.

As has already been noted, this is a highly competitive sector. In this context the quite large time lags between separate company negotiations could create a period of competitive advantage for an

operator. For instance the Employee Relations Manager of Magnum when they owned Countdown described (New Zealand Employers' Federation, 1991) the outcome of contract negotiations in this way:

"There's no doubt that what we've achieved has given Countdown a competitive edge vis-a-vis labour costs and workforce flexibility in a very highly competitive low margin industry. Our principal competitors still pay some penal rates for Saturday and Sunday work. At Countdown we have no clock hours - people can be employed on any day of the week on ordinary rates, or at any time of the day on ordinary pay rates. Penal rates apply only when an employee has worked eight hours a day or forty hours a week. The Employment Contracts Act made this possible".

This indicates that the bargaining process was extremely dynamic in the early stages after the introduction of the ECA. Employers were keen to establish a competitive advantage. The huge increase in the number of negotiations, and the intensive nature of bargaining made it difficult for the union to operate effectively on several, let alone all fronts.

Because bargaining was at an enterprise level, and wages were one of the competitive factors for firms, then individual employers were able to argue that wage increases would lead to higher prices, fall in product demand, and reduced employment. The union did take account of these factors. In particular, employers would often say that a wage increase would result in reduced hours of work. These threats were very effective at times.

There were in essence twin pressures operating. The union was trying to co-ordinate separate negotiations and introduce a form of pattern bargaining using better contracts to mobilise workers in other

firms to seek similar settlements. But firms paying the higher rates would also be using the existence and evidence of lower paid contracts as an argument to support their requirement to reduce labour costs at the next negotiation. These effects working in opposite directions were a backdrop to the circumstances of collective contract negotiations and both impacted on wage outcomes.

3.3.4.4 *Changes in Contract Terms and Conditions*

In addition to the major changes in the structure and process of bargaining, there were significant alterations in the actual content of employees' contracts as had been expressed by the prior awards. The priority of employers in 1991 and 1992 was to reduce or remove penal rates. The huge increase in trading during weekends, evenings and public holidays as a result of the liberalisation of shop trading hours had pushed up labour costs. There were employer claims on penal rates at every negotiation. Under the circumstances, the issues in most negotiations on penal rates concerned, not whether there would be change, but how much, how soon, and the method of implementation.

In crude terms, there were two alternatives. The first was to apply a significant wage increase across-the-board, and then reduce or remove penal rates. This would have the effect that some existing staff (especially those working Monday to Friday between 8 a.m. and 6 p.m.) would get a big wage increase. But those working proportionately more weekend and evening hours would get a major wage cut.

The second option was to protect the earnings of existing staff, and allow new workers employed after the new contract was agreed to be paid on terms which reduced or in some cases (eventually nearly all contracts) removed penal rates. They would however usually be on a higher base rate. The second option was more acceptable in all negotiations.⁴² The form of protection for existing employees was usually in the nature of an allowance that equated to an historic level of penal rate earnings with a method for adjustment should hours change. The rare cases where there was an actual penal rate preserved for existing workers did not last long. The allowance form of protection meant that when new hours were available, both new and existing employees would work them on the same terms with respect to penal rates. Over a period of time, these allowances came under pressure, and optional buyouts of up to one year's worth were offered by employers and accepted by the vast majority of employees. However, this process generally occurred after several years of penal rate protection for existing employees through such an allowance.

This additional and significant variation in labour costs between existing and new workers had a number of effects, including pressure from firms to reduce hours of work for existing workers. However, one of the main results was that new stores with either chain-wide or establishment contracts, could open with much lower wage costs than existing stores. For example, Foodtown, which had

⁴² The "grandparenting" of penal rates and allowances created a scenario where "insiders" protected their own wage, but were prepared to accept a lower wage for outsiders. The higher base rate was not at such a level as to compensate most new workers for the loss of penal rates and allowances.

33 stores at that time (1991/92), declining market share, relatively low labour turnover, and reasonably high redundancy costs if they laid off workers, was not able to lower labour costs at the rate of some other firms even though penal rates had been removed for new workers. Those that gained most were the discount stores such as Countdown, Big Fresh and especially Pak'n Save as they opened many new stores during this period. As stated above, Pak'n Save had the added advantage of being able to fashion a new contract for each new store. There was no pre-existing contract.

There have been some improvements in conditions - more flexibility in sick leave, greater accumulation of sick leave, 4 weeks holiday after 6 rather than 7 years in the awards, some paid parental leave, small contributions from employers towards superannuation. The main improvement has been in the pay rates for junior workers (under 20 years). The lowest rate of \$3.85 an hour in 1991 was closer to \$6.00 an hour in 1997 across the range of different contracts in the sector.

However, the removal of penal rates has meant a reduction in the actual earnings for such young workers (although existing staff had their earnings protected as outlined above). There are differences in pay and conditions between supermarket operators. But the competitive pressures have resulted, notwithstanding the separate enterprise bargaining, in a gradual realignment of pay and conditions across the sector but at a lower level. There are no penal rates, overtime rates apply only in rare cases, service pay remains at Woolworths only. Meal allowances are hardly ever paid. Laundry

allowance, education payments, and most other allowances have been removed.

Pringle (1996:106) describes these above changes in terms of labour market flexibility. These include: external numerical flexibility (trial periods, temporary contracts, casual engagements); internal numerical flexibility (40 hour week over 7 days, 10 hour ordinary day, variation and reduction of hours more discretionary for employer, removal of proportions clause); functional flexibility (greater interchange of staff, single contract covering grocery, bakery, butchers, broader-band job classifications); wage flexibility (performance pay, no penalty rates, reduction or removal of allowances, payment by direct credit), and; procedural flexibility (variation of contract with specific employees, stringent disciplinary procedures).

Pringle (1996:116) argues that the extent to which the employer was able to maximise the benefits of changes in internal labour markets was enhanced by: computer analysis of customer flows so as to remove as much dead time; routinisation of work; deskilling; a lack of a strong group-based culture among the industry workforce, and; low levels of union resistance and collective action.⁴³ Technology has also reduced skill levels and the training required of staff, including checkout operators (Pringle, 1996: 97)

⁴³ It could be argued that union resistance weakened at the point in negotiations when the employers amended their claims so that the main effect of any concessions was on new workers. There were, however, several disputes in this period including a significant strike and pickets at Foodtown in 1994.

Just as it is important to recognise the combined effect of a number of factors which influence wage bargaining in the supermarket sector, it is important to recognise the combination of factors that changed so as to affect take-home pay for employees. The precise combination for a particular employee of changes to their hours, penal rates and allowances, the degree of protection, the extent of any offset for these changes by increases in base pay, and their length of service, all had an impact.

3.3.5 Summary

This section outlines the extensive changes to the structure, and process of bargaining, and the alterations in the content of supermarket employees' contracts in the 1987-1997 period. Change was concentrated in the post-ECA period which followed major liberalisation of shop trading hours. This Section is qualitative. It is a broadly based description of wage bargaining in this period and illustrates some of the key differences which emerged for single-store employees compared with those in chainstores, and for new workers compared with existing workers.

3.4 **Summary and Conclusion**

This Chapter has described the wage bargaining environment so that the application of wage bargaining theory as discussed in Chapter 2 can be set in the relevant context. The changes in industrial relations legislation, and the Employment Contracts Act in particular, were identified as a major factor in the environment during this period. Because this thesis examines a particular sector, the characteristics

of the supermarket sector were described. Wage bargaining in the 1987-1997 period was briefly summarised. This serves as a background for discussion in Chapter 4 on changes in wage bargaining variables in the supermarket sector in particular.

CHAPTER 4 CHANGES IN WAGE BARGAINING VARIABLES

4.0 **Introduction**

This Chapter builds on the description of the wage bargaining environment in the 1987 to 1997 period to examine in more detail the changes in wage bargaining variables, particularly in relation to the supermarket sector. In Section 4.1, the specific changes to bargaining variables are discussed. Section 4.2 is the summary and conclusion.

4.1 **Changes to Wage Bargaining Variables**

4.1.1 Introduction

The variables analysed in this section are those set out in 2.1.4 which reproduced the wages function derived by Beaumont and Jolly (1993):

$$w = \frac{w_A - U(w_A - b) - \beta\pi_f/N}{1 - \beta [\theta / \phi - 1]}$$

During the period after the ECA, there was a range of factors that could have impacted on these variables. An ECA effect can be analysed through the changes in wage bargaining variables. The ECA had a direct effect on these variables (e.g. bargaining strength and employer fall-back profit) and as a consequence there was an effect on wage outcomes. However, the changes in benefit levels

and unemployment also directly affect wages. In this Section, the different factors affecting the changes in these variables, and the extent of change is discussed.

4.1.2 Workers' Fall-back

During the period when the award system operated the base wages were the same throughout the sector. If there was a strike or lockout across the whole sector (which there was not) then the workers' fall-back (w_A) would lie outside the sector and be dependent on the general level of wages paid in jobs which supermarket employees would be able to access. Once, the ECA was introduced, the workers' fall-back could be more variable, as there was a range of contracts. For some, the alternate wage would be higher. For others it would be lower.

The adult minimum wage fell from over 46% of the average wage in February 1990 to under 44% of the average wage in February 1994 (Maloney and Savage, 1996). This may also have acted to reduce the alternate wage. The increase in the relative costs of running a union could also have affected the ability of the union to support workers during a strike or lockout. If the hours of work offered in alternative employment tended to be lower than the levels of workers already employed, then this factor would also reduce fall-back income. There was a trend after the introduction of extended shop trading hours, to offer smaller "parcels" of hours across the working week. There was growing part-time work at this time. However, the greater availability of casual and temporary work could have enhanced the

alternate wage.⁴⁴ Because of the growth in (very) part-time work, alternative hours of work (and therefore weekly wages) could also have reduced in this period.

It is difficult to assess the extent of change in workers' fall-back. Obviously, the effect of changes in benefits, and the availability of alternate work are also factors. These are discussed below. Overall, although it is difficult to quantify, it is likely that workers' fall-back (alternate wage) would have fallen over the period after the introduction of the ECA.

4.1.3 Bargaining Strength

It is readily apparent that bargaining strength (β) reduced because of the removal of awards. The failure to reach agreement in an award negotiation prior to 1991 meant that the current award remained a minimum document for all workers in the sector for at least two years. This acted as a powerful incentive for employers to negotiate change, rather than attempt to impose it. For the Union, it meant that delays in negotiating a new award could affect the timing of a pay increase or improvement, but there was a relatively small risk of concessions with a long delay.

However, under the ECA a contract switched to having only individual application to existing workers after expiry as a collective contract. This meant that individuals could agree to the employer offer even if other union members did not. Non-union members

⁴⁴ See Beaumont and Jolly (1993).

could make a different deal and undermine the union position, and new workers could be employed on the employer's terms.

This meant that the time preferences for the union were considerably shortened and the perception of risk involved in holding out against agreement greatly increased. Because of the huge uncertainties about what could eventuate when the contract expired, the union preference was usually to settle on the next contract prior to the expiry of the existing contract. This was despite the fact that the legal right to strike only commenced at the expiry of the contract.

In 1991 to 1993, Employment Court decisions allowed some direct employer approaches to union members thus bypassing the authorised bargaining agent (union). Under previous law, agreement could only be reached on an award or agreement with the union signature. This had all changed. So the union was, at times, risk averse, because if it did not agree to an employer proposal, there was a chance that (many) union members would accept that proposal or a worse one, if directly put to them. There was a likelihood that non-union workers would accept the offer and undermine the union bargaining position.

Reduced union resources, the huge transaction costs involved in negotiations and the multiplicity of negotiations weakened union resistance. Also the removal of the ability to strike for a multi-employer contract had a negative effect. Union density fell significantly during this period, particularly in single-store companies. Membership in the supermarket sector was reduced from approximately 12,000 in 1991 to 6000 in 1994. It is also relevant

that within enterprises, the contracts reached between union staff and the employer were extended to non-union workers. In this sense, non-union workers were free riders.⁴⁵

4.1.4 Employer Fall-back

The ECA significantly enhanced the employer fall-back profit (π_f). Beaumont and Jolly (1993) detail how it made lockouts less costly, and guaranteed that agreements reached through use of a lockout would not be set aside by the Employment Court.⁴⁶ They also cite the ability to hire temporary workers to replace striking employees as making strikes less effective, and the lockout threat more credible. The higher proportion of non-union staff who might be available to work during a strike by union members also enhanced employer fall-back profit.

The fall-back profit increased mainly because of the factors affecting β already mentioned. Employers were able to continue to operate in many cases despite non-agreement with the union. Union solidarity was more difficult because strike action including bans on products and so forth by other workers not directly involved in the single

⁴⁵ It was commonly interpreted that to pay union members and non-union members at a different rate was a possible breach of the duress provisions of the ECA. In addition, there could be problems for the union if non-union members were employed on worse terms and conditions which undercut the employment security and available hours of work for union members.

⁴⁶ Although this was later overturned by the Employment Court and the Court of Appeal, for a significant period employers were able, in addition to a full lockout, to use a partial lockout to impose a settlement. Such partial lockouts meant that the employer could use the lockout mechanism to breach current contracts on the basis of the exact concessions being sought from the union/workers.

employer contract was illegal. The Employment Court allowed striking workers to be sacked and replaced in some cases.

In the supermarket sector, the growth in the proportion of non-union workers, and the availability of casual and temporary staff, improved the effective operational level that an employer could ensure during a union strike. For a number of reasons, including the flexibility introduced through the ECA, there was a greater ability for supermarket operators to directly source product from manufacturers. This reduced the effect of a strike at the warehouses with direct employees of the supermarket chain or group.

4.1.5 Degree of Competitiveness

The degree of competitiveness, ϕ was accentuated by the ECA because it introduced the possibility of minimum wages, allowances and conditions of workers being an additional component in the drive by owners and managers to gain a degree of competitive advantage. But it was already a very competitive sector prior to the ECA. The degree of competitiveness increased due to 7 day trading due to shop hours deregulation, the growth of the discount format, a long price war from December 1993 when Foodtown tried to reposition, and various local price wars, the growth of the Pak'n Save format, and the opening of new stores.

Changes in ownership are also relevant. During the 1991 to 1996 period, Dairy Farms Ltd purchased Woolworths, and Countdown was sold by Magnum to Foodlands which later also bought the Coles Myer 57% share in Progressive Enterprises Ltd. Foodstuffs remains

a New Zealand owned cooperative. The overseas parent companies have at times financed expansion into new stores, and price wars. (In this sector it is the wholly overseas owned group, Woolworths, that pays the highest wages). It is possible that the Foodstuffs group with less access to such funding was at a disadvantage and therefore more intent on labour cost reductions.

The ECA was introduced at a time that the full extent of the shop trading hours deregulation was being experienced. The Shop Trading Hours Act Repeal Act of 1990 allowed 24 hour, 7 day trading except for 3 1/2 days a year. This was a huge change. The competitive pressures meant that when one chain opened on Sundays, others followed suit. This spread to late night opening up to midnight, and trading on public holidays. This did not happen overnight however. In the transition period, individual supermarkets attempted to gain an advantage by opening for longer hours than competitors. This intensified the degree of competitiveness.

The extension of trading hours coincided with the economic recession in 1992. In particular the April 1991 commencement of benefit cuts of \$1.3 billion annually exerted significant downward pressure on retail demand. This had a number of results. One was a focus on reducing costs - particularly penal payments for late nights, weekend and holiday work. Another result was the growth of discount formats. In 1990 the discount format accounted for less than one-third of supermarkets. By 1997 it was approaching 50%. The discount format obviously emphasises price competition and has a reduced range and less customer service (e.g. facilities, packing of groceries etc) compared with "full service" supermarkets. The

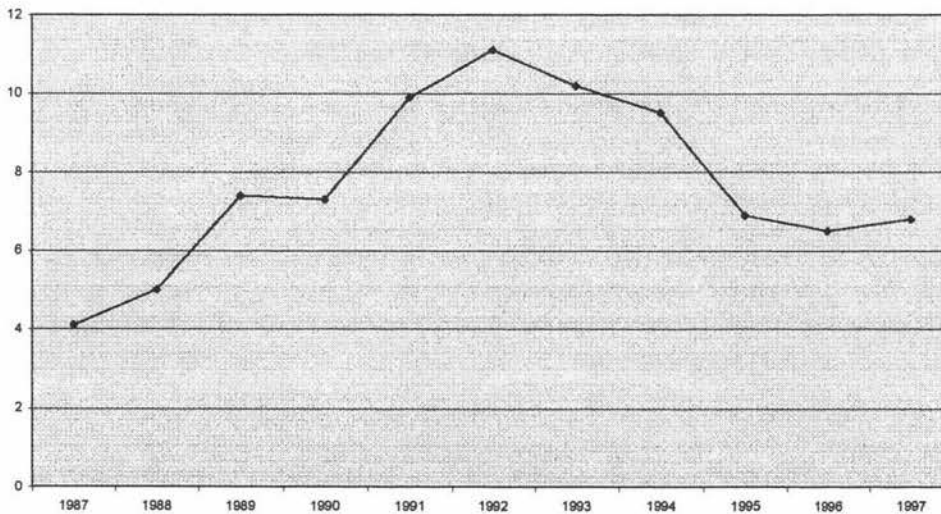
distinction between full service and discount stores has narrowed due to competition. The “price wars” in this period were a result of market share campaigns in a period of heightened price sensitivity of consumers induced by the benefit cuts and recession.

4.1.6 Unemployment

Unemployment, (U) increased in 1992 in the sector but the numbers employed increased after that. However this coincided with a period of considerable reductions in hours for workers. For instance, Woolworths increased their staff from 7500 to 9000 but the total hours worked by 9000 workers was not significantly different from the 7500 of a few years earlier.

The rate of unemployment in this period can be seen in Figure 4.1.⁴⁷

Figure 4.1 **Rate of Unemployment**
% Unemployed 1987-1997



During the critical period following the introduction of the ECA and for two to three bargaining periods of one-year collective contracts,

⁴⁷ See Appendix 4 for full details on quarterly unemployment rates in this period.

unemployment was at an historically high level. It was not until early 1994 that the rate started to fall to any great extent. These figures are the officially measured unemployed and are lower than statistics for jobless, and also those wanting work.

There was also considerable underemployment. Those wanting permanent and/or additional hours of work increased from 41,000 in 1990 to 92,400 in 1992. This was also a very significant factor which increased the supply of available labour. Part-time workers, casuals, and temporary workers might seek additional part-time work, or full-time positions. Suffice to say, the combined effect of unemployment and underemployment indicates an excess labour supply during this period.

Employment in the supermarket sector was contracting during a key period of negotiations as can be seen by the (full-time equivalent) figures in Table 4.1 below. Employment in 1992 and 1993 was lower than in 1991 even though the number of stores had increased slightly. In the supermarket sector, there was a degree of involuntary part-time work which can be characterised as underemployment.⁴⁸ There was a number of store closures, and staff reductions in the 1991/92 period. For instance, Foodtown closed several stores at that time. There were also significant reductions in working hours. There were also new stores opening in this period. It was not unusual for there to be over 3000 applicants for 300 positions.⁴⁹

⁴⁸ See Bollé (1997).

⁴⁹ See National Distribution Union (1996).

Table 4.1 Supermarket Stores and Full-time Equivalent Employment

Year	Units	Engaged/FTE
1990	381	19,334
1991	395	19,750
1992	387	18,331
1993	391	19,042
1994	397	20,725
1995	387	22,112
1996	388	23,865

(Source: Business Activity Survey)

4.1.7 Benefits

There were considerable changes to benefits, (b) during the period. Unemployment benefits were drastically reduced at almost precisely the time the ECA became law. From April 1991, the stand-down period was increased from 6 weeks to 6 months. This meant that there was no access to an unemployment benefit at all for those who had been dismissed, refused two job offers, or failed to attend an arranged job interview. The age for youth rate unemployment benefit was raised from 20 to 25 resulting in a drop in income from \$143 to \$108 for those affected. The single adult unemployment benefit was reduced by \$14 a week. An inflation adjustment scheduled by the previous Government was axed.

Widows and those on Domestic Purposes Benefit had reductions of 9-16%. The universal family benefit was abolished but targeted family support compensated low-income families. The relative value

of unemployment benefits fell by nearly 10% for single 18 or 19 year olds and nearly 13% for married people with two children. Eligibility criteria for a range of benefits were tightened.⁵⁰ This is indicated in Table 4.2.

Table 4.2 Unemployment Benefit Changes April 1991

Without children	Old Rates	New Rates
Single 18 – 19	\$114.86	\$108.17
Single 20 – 24	\$143.57	\$108.17
Single 25+	\$143.57	\$129.81
Couple	\$223.22	\$216.34
With Children		
Single 1 child	\$213.14	\$185.93
Single 2 children	\$228.87	\$202.83
Couple 1 child	\$255.08	\$229.88
Couple 2 children	\$255.08	\$229.88

Source : Doyle (1993:160)

4.1.8 Responsiveness of Employment to Output

The responsiveness of employment to output, θ , increased. Redundancy provisions were relatively widespread and employers did make workers redundant, particularly in 1992. Because most workers preferred temporary reductions in hours to redundancy, and as a result of the improved bargaining position of employers, they were able to introduce clauses into contracts which allowed greater elasticity of labour.

These clauses essentially allowed the employer after due notice to the union and the workers concerned, to reduce an employee's

⁵⁰ See Maloney and Savage (1996).

working hours (by up to 25% in some cases) without facing a redundancy claim. Early decisions by the Employment Court confirmed that any changes to contracted hours had to be by mutual agreement, so it was significant that the union agreed to contract provisions allowing employers a degree of unilateral reduction in previously agreed hours.

In this case the theoretical effect of an increase in labour demand is that the employer is more likely to agree to (say) a higher wage claim because the employer knows that it can cut back on paid hours of employees if necessary using the reductions in hours clauses in the contracts. In fact employers were often explicit in saying that if the union persisted with a wage claim of a certain magnitude, then that was a possible outcome. The cut back in hours would actually reduce the incomes of workers but also the level of customer service so it was not always a credible threat. The flexibility in hours using these clauses contributed to a decline in average hours of work, and made part-time permanent workers more closely resemble the employment status of casuals.

An additional factor in increasing θ was the removal in some cases of minimum hours, and the removal of restrictions on the employment of casual and temporary labour. But the key change was in the ability to, in effect, employ part-time workers on variable hours. Such clauses could have been agreed under the award system, but were not. There were sometimes an exchange of letters between individual employers and the union which did allow some flexibility in hours as an alternative to permanent redundancies.

4.1.9 Summary

This section has discussed sector-specific changes in relation to wage bargaining variables identified in a firm wage function (Beaumont and Jolly, 1993). In summary, it is readily observable that only one variable changes in a way that has a positive effect on wages. w_A decreases which reduces a positive effect, U increases which adds to a negative effect, b decreases reducing a positive effect, β decreases which reduces a positive effect, π_f increases which adds to a negative effect, ϕ increases which also adds to a negative effect, and θ increases which adds to a positive effect. This suggests an overall negative effect on wages, particularly in the post-ECA period. It also implies that because only one variable change has a positive effect on wages, there could have been a significant fall in wages in this period.

While it is recognised that the ECA lies behind some of these changes, there is also the impact of unemployment levels and general economic activity, changes in benefits, shop trading hours liberalisation and changes in ownership. It is arguable that if the award system had remained (i.e. no ECA effect), then the pressure on wages and conditions exerted by changes in some of the above factors would still have exerted a major negative effect on wages. (This is discussed in greater detail in Chapter 5). However, changes to bargaining structures and processes due to the ECA are shown in the above analysis of changes in bargaining variables to contribute to a trend of falling wages.

4.2 Summary and Conclusion

An application of wage bargaining theory to the supermarket sector in this period suggests that wages will fall. The change in variables in the firm wages function created a negative effect on wages in all cases but one. This implies a significant fall in wages. This thesis also considers an intergenerational effect where new workers experience the main initial burden of adjustment to this fall in wages. The impact of decentralisation of bargaining was examined in Chapter 2. This also implies a fall in wages as bargaining is decentralised from the industry to enterprise level, but this could be offset by the maintenance of union coordination through an industry union. The effect of a further level of decentralisation of bargaining from the multi-site level to the single-site level is also considered as a possible extension. However, the extent of the overall fall in wages, and any differential outcomes for successive generations of workers, and chainstore compared with single-store workers, are empirical issues. An analysis of wages data in order to examine these questions follows in Chapter 5.

CHAPTER 5

DATA AND RESULTS

5.0 Introduction

This Chapter sets out an analysis of the data on wages for supermarket checkout operators in the period 1987 to 1997. The data is analysed to ascertain the extent of change, and identify any differences between new workers and existing workers (intergenerational effect) and between single-stores and chainstores (single-site decentralisation effect).

Section 5.1 outlines the method of data construction. Section 5.2 sets out the results. This is separated into the overall change in wages, the intergenerational effect and, the single-site effect. Key findings are summarised. Section 5.3 discusses whether the results are an ECA effect. Section 5.4 is the summary.

5.1 Data Construction

5.1.1 Establishing the Data Series

A data series was established in order to analyse wage outcomes in a number of supermarkets. Eight enterprises were chosen. Three of these (A, B and C) are chainstores consisting of 107 supermarkets. The other five (V, W, X, Y and Z) are all single-store enterprises. One chainstore operates nationally. The other two operate in the North Island, mainly in the upper half. The five single-store enterprises are from Auckland, Wellington, and New Plymouth.

Wages data for these enterprises was obtained by using the New Zealand Grocery and Supermarket Awards from 1987 until 1991 and then each relevant collective employment contract from 1991 or 1992 until 1997. A total of 48 separate awards or collective employment contracts were analysed. The year 1987 was chosen as a starting point so that several years prior to the introduction of the ECA could be observed. The year 1987 was also used to avoid the inclusion of a significant wage increase in 1985 in the aftermath of the Government imposed wage freeze, and a significant fall in wages in 1986 when high inflation rates eroded much of those gains in real wages. The main objective was to ensure that several years of wage bargaining under the Labour Relations Act (1987) were included in the data prior to the ECA taking effect.

In all cases the National Distribution Union (or its predecessors, the Northern Distribution Union, and New Zealand Distribution and General Workers Union) were the effective bargaining agent. In some cases only a minority of employees belonged to the Union but nevertheless the Union was the sole or main negotiator of the contract with the employer. The data does not include any contracts which applied at totally non-union stores because of difficulties in getting contracts for the period 1991-1997. The same difficulty has meant that stores which opened after 1991 were not included except where they are part of a chainstore. This is unfortunate because the fact that there was no pre-existing contract is intuitively likely to disadvantage the many workers who applied for positions. The employer in this situation is able to write a contract, and provided there are sufficient applicants, employ staff on those terms, rather than negotiate a contract with staff and/or their representatives.

Some new supermarkets in this period had over 3000 applicants for 300 mainly part-time jobs.

Contracts applying to the workers in one major chainstore were not used because, for much of the period subsequent to 1991, a performance pay system operated. Each employee was, according to the contract, assessed every three months and pay could vary according to the "score" achieved. A decision on which checkout operator rate to apply for the purpose of this study would have been entirely arbitrary. A median point on the scale could have been used but that could be a poor approximation of actual earnings without detailed knowledge of weightings.

The job classification of checkout operator was chosen because there is reasonable consistency in that job classification between each supermarket and over the time period. In some cases the checkout operator also packs groceries, but the duties are substantially the same across the industry. Checkout operators are highly visible. Their pay rates are in the mid-range in that they are higher than the general worker pay rates (usually Grade 1) but lower than butchers' pay rates. In the 1987 to 1997 period there were some occasions when different categories of workers were treated differently in wage negotiations. Butchers for instance, had a separate award prior to the ECA. But the differences in treatment with respect to allowances, penal rates and service pay, were not significant in the post-ECA period. Therefore, the changes in the wages of checkout operators are representative of changes to all supermarket workers in the eight firms.

The three chainstores are a large sample of all chainstores. However, the five single-stores are a small sample of all single-stores. This limitation is mainly due to the difficulties in obtaining a series of employment contracts for these firms in the 1991 to 1997 period. Union sources maintain that the contracts in the sample are likely to be “better” in general than single-store contracts where in many cases there is no union representation.⁵¹ However, this could not be tested.

It was not possible to obtain actual wage outcomes for checkout operators in each of these firms. There are obvious difficulties in getting access to detailed wage and time records across a number of separate employers. However, copies of each contract were obtained. These can be regarded as actual and accurate base documents which determine an employee’s wage outcome, given the hours of work and applicable grading. The hourly rate is only one component of wages. Therefore, the weekly wage has been used as a far more accurate measure of actual wage outcomes derived from the awards and contracts.

In some cases there are “above-contract” payments. In Company B there was (for a period) a classification system which added around 3% to some rates. In Company A there is a merit pay system which adds to the pay rates for specific high-performance employees. There is also a profit share scheme. In Company C there was a till allowance (paid because checkout operators were required to remember the price of each item prior to scanning being introduced).

⁵¹ Union source was Carol Beaumont, National Industrial Officer (Retail) for the National Distribution Union.

There was also an attendance allowance. Because both these allowances were standard for all employees in that company, they were included. This means however that the wages for Company A are understated throughout the period and B are understated for the period 1987 to 1993 in some cases. This only has a slight effect on the single-site to multi-site comparison of wages, and is largely concentrated in the pre-1992 period.

5.1.2 Hours of Work Scenarios

What is it that determines the actual weekly wage earned by a supermarket checkout operator? Obviously, it is the wage rate per hour and the number of hours worked each week. The entitlement to allowances will have an effect. However, in the retail sector, the application of penal rates has been a key factor in the determination of wage outcomes. In order to “capture” this effect, three hours of work scenarios were developed.⁵²

Scenario 1

Adult checkout operator aged over 21 years working 28 hours per week:

Monday	0900 – 1430 hours
Tuesday	0900 – 1430 hours
Wednesday	1200 – 1900 hours
Thursday	0900 – 1430 hours

⁵² Note that in all scenarios there is a 30-minute daily unpaid meal break.

Sunday 1000 – 1700 hours

This scenario has a moderate penal rate effect. It describes an adult part-time worker who works one weekend day and one early evening and is referred to as “part-time adult” (or “PT adult” for short).

Scenario 2

A 16 year old (as of 1st March in the initial year of employment) student checkout operator working 14 hours a week:

Wednesday 1630 – 2100 hours
 Thursday 1630 – 2100 hours
 Saturday 0900 – 1530 hours

This scenario has a major penal rate effect. Almost all hours are in the evening or weekend. This scenario is referred to as “part-time student” (or “student” for short).

Scenario 3

An adult checkout operator aged over 21 years of age working 40 hours a week:

Monday 0830 – 1700 hours
 Tuesday 0830 – 1700 hours
 Wednesday 0830 – 1700 hours

Thursday	0830 – 1700 hours
Friday	0830 – 1700 hours

This scenario excludes a penal rate effect as all the hours are on Monday to Friday during the day. This scenario is referred to as “full-time adult” (or “FT adult” for short).

There is a limitation to the application of these Scenarios. This is due to the fact that prior to the introduction of the Shop Trading Hours Act Repeal Act in 1990, there was not any general supermarket trading on Sundays. Therefore the inclusion in Scenario 1 (PT adult) of Sunday hours is for comparison purposes only in the pre-1990 period. If this Scenario had included a Saturday instead of Sunday, it would have made little difference to the results as double-time rates applied on Saturday under the applicable award. In addition, there was a period prior to the introduction of the ECA when most supermarkets were open for trading on Sunday. Many workers would have worked the pattern of hours in Scenario 1 (PT adult) at that time. Therefore, the limitation is not significant.

The choice of scenarios is based on a knowledge of patterns of hours of work, discussions with union officials and delegates, and an analysis of a chart of hours for one large supermarket. On this basis it is reasonable to assume that many adult part-time checkout operators work a weekend day and an evening. It is also reasonable to assume that many students and young workers work hours that are concentrated into the evenings and weekend.

5.1.3 Wages Calculation

The calculation of the gross wage outcome as of 31 March in each year was derived from multiplying the contract pay rate for the checkout operator by the weekly hours (or expanded weekly hours where penal rates apply). Any hourly allowances were incorporated into the rate prior to multiplication if they were to be included for the calculation of overtime. This included, in some instances, service pay, till allowance, and payments for School Certificate. Weekly or flat allowances were added. These included, in some instances, meal allowance, laundry allowance, payment for School Certificate, till allowance, and attendance allowance. Protective allowances to compensate for lost penal rates were also calculated where applicable according to the particular contract. It was assumed that the student achieved School Certificate, which attracts an allowance, for a junior only, but no higher qualifications (e.g. Sixth Form Certificate, University Entrance) that may have resulted in additional allowances. The payments for such educational attainment were deleted from contracts in most cases during the 1991 to 1997 period.

There was no attempt made to include any factor into the wage outcomes that was not a specific pay rate, allowance, or penal rate. This means that changed payments for public holidays, amended sick leave entitlements and other such provisions which indirectly or occasionally affect weekly income were ignored.

The data series was established by making approximately 1520 individual calculations. Because of the differential impact for employees depending on the year of commencement, the

calculations were in some cases fairly complex. In one case service pay applied to new employees after a longer qualifying period than for existing staff, but was then phased out entirely for another set of new employees in a subsequent contract. In addition, the progression of employees through the junior pay scale, when that scale is constantly changing added to the complexity. In other cases, the calculation was relatively simple.

In order to trace the possible wage path of employees in each Scenario, a table was constructed which showed the progression of pay for an employee (assuming no change in job, but incorporating the effects of moving up through a junior scale, or receiving service pay, or a service related step in grading) commencing in 1987 right through to 1997.⁵³ The gross weekly pay as at 31st March each year is shown for those 11 years inclusive. By contrast, for an employee commencing in 1997, the gross weekly pay at 31st March 1997 is the only wage outcome shown. The table therefore incorporates the effects of employment contract changes, as well as individual entitlements according to the contract such as service pay steps, age-based increments for juniors, and school certificate payments.

For firms A, B and C, there were protective allowances from 1991 and 1992 for existing staff who had previously qualified for penal rates, meal allowances and other allowances.⁵⁴ These were calculated by using a relevant prior period to establish the difference in weekly pay between the new contract and the previous contract.

⁵³ See Appendix 4 for these tables in real (\$1997) wages.

⁵⁴ The single-stores also protected the wages of many existing employees but tended to use a protected hourly rate, rather than a protective allowance.

This difference was then paid as a weekly protective allowance. There were various mechanisms to allow a pay increase in the base wage and not the protective allowance, and also to adjust the allowance to reflect changes in individual hours of work. The fact that the protective allowance did not attract percentage increases was also taken into account in the calculation of wage outcomes.

The protective allowances differed for each worker, but could also differ between generations. For instance, in firm A, the pre-1991 workers had a protective allowance based on double-time for weekend hours and time-and-a-half for evening hours. A second group in a later period received a protective allowance based on time-and-a-half for weekend hours. This occurred in the staged process of the removal of penal rates and meal allowances.

In the 1994 to 1996 period, these 3 firms offered to buy out the protective allowances of these workers with a one-year lump sum. Almost all workers accepted the buy-out. The calculation of this buy-out effect is included in the data on the basis of continuing the allowance for one year after the buy-out offer to include the effect of the value of that buyout on weekly wages as at 31 March in the ensuing year.⁵⁵

5.1.4 The Nature of the Data

The data series is based on calculating wage outcomes for each year, for workers commencing in different years, and working three

⁵⁵ In Appendix 4, the tables showing the effect of removing the protective allowance are shown as A1a, B1a etc.

different hours of work scenarios. This means that in a sense the data is a “half-way house” between actual wage outcomes from wage records (or a survey of all workers in the period that was accurate enough to capture wage outcomes) and a “face-value” analysis of the contracts as in the “Harbridge” series.⁵⁶ The “Harbridge” data has accurately summarised trends, and has outlined changes in penal rates, allowances and conditions. It has also measured changes in wages. However, it does not attempt to analyse the overall effect of these changes by calculating weekly wage outcomes in the way this study does.

The data series in this study includes an application of realistic hours of work scenarios to capture the effect of penal rate changes, and the inclusion of the effect of changes in allowances such as meal allowance, service allowance, laundry allowance and education allowances. This level of detail contributes to a data series which is more comprehensive and arguably, more realistic than the general description of employment contract outcomes as set out in the “Harbridge” data.⁵⁷

⁵⁶ See Crawford et al, (1994-1997).

⁵⁷ This is not a criticism of the “Harbridge” data which does not focus on a particular sector and has not attempted the type of analysis in this study. In fact the Hammond and Harbridge (1993) suggestion that wages fell by 30% for some retail workers is in line with some of the findings in this research.

5.2 Results

5.2.1 Introduction

In this Section, the real wage outcomes as set out in Appendix 4 are used to measure the change in wages in each of the scenarios. In some cases, the change in wages during three different periods is examined. These are: 1987 to 1991 (in some cases, 1989 to 1991 was used to get a “like for like” comparison); 1991 to 1994 and; 1994 to 1997. This compares wages before the ECA with wages in the years immediately after the introduction of the ECA, and then with a later period when the ECA had been in force for several years.

Section 5.2.2 examines wage outcomes for all workers in all stores. Section 5.2.3 sets out results for new workers compared with existing workers (intergenerational effect). Section 5.2.4 compares the results for chainstores with single-stores (single-site effect). Section 5.2.5 sets out some results from combining the intergenerational and single-site effect. Section 5.2.6 is a summary of the results.

5.2.2 Wage Outcomes for all workers in all firms

Table 5.1 shows the overall wage outcomes for all workers in all eight stores for each scenario. This is done by calculating for each

year the average of wages for all workers with up to, but not including, 3 years' service.⁵⁸

Table 5.1 Wages for All Workers with up to 3 Year's Service

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Scen 1	350.80	341.63	332.65	313.53	285.19	259.64	245.14	241.52	242.67
Scen 2	150.49	146.60	143.00	124.54	103.60	89.59	83.82	83.78	83.60
Scen 3	390.37	379.70	370.99	366.49	362.07	359.79	349.06	344.64	346.72

The percentage change in wages in the three different periods is shown in Table 5.2.

Table 5.2 Percentage Change in Wages in all Firms, All workers up to 3 years.

	1989 - 1991	1991 - 1994	1994-1997
Scenario 1	-5.2	-22.0	-6.5
Scenario 2	-5.0	-37.3	-6.7
Scenario 3	-5.0	-3.0	-3.6

This shows for Scenario 1 (PT adult) and Scenario 2 (student) a significant fall in wages in the 1991 to 1994 period. This is mainly the effect of the removal of penal rates. The fall from 1989 to 1997 is not the simple addition of the columns. The total reductions were 30.1% for Scenario 1 (PT adult), 44.4% for Scenario 2(student) and 11.2% for Scenario 3 (FT adult).

⁵⁸ The data series is from 1987 to 1997. However, if an average is calculated of wages in each year, there is one entry per firm for each scenario in 1987, but 11 corresponding entries per firm in 1997. A comparison between firms in each year is possible, but a comparison of wages between each year would be inaccurate because of composition differences. Therefore it is preferable to have a "like for like" comparison using wages of up to 3 years. This means that for 1989 the wages as at 31 March 1989 of workers commencing in 1987, 1988 and 1989 are used, and so on through to 1997 when the wages of workers commencing in 1995, 1996 and 1997 are used. There is a high proportion of staff with less than 3 years' service. A further comparison is done of workers with up to five years service.

Table 5.3 shows wages for workers with up to 5 year's service in 1991, 1994 and 1997. This will therefore include more workers with longer service than in Table 5.2.

Table 5.3 Wages for workers with up to 5 years' service

	1991	1994	1997
Scenario 1	335.25	290.25	246.74
Scenario 2	171.44	114.43	95.51
Scenario 3	374.01	366.46	352.30

These indicate a fall in wages between 1991 and 1994 of: 13.4% for Scenario 1 (PT adult); 33.3% for Scenario 2 (student), and; 2.0% for Scenario 3 (FT adult). The fall in wages between 1994 and 1997 was: 15% for Scenario 1 (PT adult); 16.5% for Scenario 2 (student), and; 3.9% for Scenario 3 (FT adult). Compared with workers with up to 3 year's service, these figures differ in that because there are more pre-1991 workers in 1994 in Table 5.3, the reductions are less. (This is due to the effect of protection for workers who had their original contracts formed under the award system, or had an element of protection in a staged reduction in penal rates and allowances). However, the reductions are greater in the 1994 to 1997 period.

The total fall in wages in each scenario respectively from 1987 to 1997 are 26.4%, 44.3% and 5.8%. Except for Scenario 3 (FT adult) where the reduction is nearly halved, the same overall trend is evident. This indicates that the reductions for Scenario 3 (FT adult) workers were later than for the other (penal rate) scenarios.

5.2.3 Intergenerational Effect

An overall fall in wages is indicated in the previous section. What is the differential impact of this fall on different generations of workers? This can be set out in a number of ways.⁵⁹ Table 5.4 compares in all firms in each year the wages of workers who had just commenced employment with those with one year's service, and with those who started in 1987. This is a comparison of the new generation with the generation that commenced a year earlier and with the "oldest" generation in the sample.

Table 5.4 A Comparison of those who started in 1987, with those with one year's service and with new starts.

Scen 1	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1997a
1987	350.12	351.47	354.40	347.72	340.16	344.13	343.05	343.42	334.72	331.29	332.21	303.30
1 year	355.86	350.69	351.43	342.21	333.25	329.43	279.03	256.30	249.88	247.28	247.26	247.90
0 year	350.37	345.45	346.02	336.98	327.99	264.35	234.52	233.63	228.10	220.77	223.34	223.34
Scen 2	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1997a
1987	132.74	145.12	171.86	205.17	227.86	229.28	228.63	227.93	222.61	220.71	220.50	186.25
1 year	146.57	145.12	146.53	142.84	139.24	132.44	97.55	84.74	81.51	82.80	82.34	82.34
0 year	132.74	131.01	133.07	129.50	126.48	89.80	77.38	77.21	74.84	73.50	75.24	75.24
Scen 3	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1997a
1987	389.80	391.89	394.55	386.72	379.72	383.31	383.11	384.69	375.44	373.06	376.22	372.45
1 year	396.50	390.95	391.10	380.92	371.60	373.45	372.17	366.19	356.05	353.06	353.53	353.53
0 year	390.05	384.63	384.78	374.80	365.71	346.22	334.73	333.16	325.63	315.48	319.18	319.18

Table 5.5 sets out the percentage margin of existing workers over new workers in 1989, 1991, 1994 and 1997. The final column of 1997a is where the protective allowance is assumed to have been bought out.

In Scenario 1 (PT adult) the main observation is that by 1994, the margin for 1987-start workers and those with one year's service had significantly expanded from the differences in 1989 and 1991 (which largely reflected service allowances payable under the

⁵⁹ Figures 5 to 17 in Appendix 5 illustrate the intergenerational effect.

awards). Table 5.5 shows that the timing of this change was from 1992 when the difference between wages for new workers and those with one year's service jumped from 1.6% in 1991 to 24.6% in 1992.

Table 5.5 Percentage Margin of 1-year service, and 1987-start workers over new workers.

Scenario		1989	1991	1994	1997	1997a
1	1987-	+2.4	+3.7	+47.0	+48.8	+35.8
1	1 year	+0.8	+1.6	+9.7	+10.7	+11.0
2	1987-	+29.2	+80.2	+269.0	+267.8	+247.5
2	1 year	+10.1	+10.0	+9.8	+9.4	+9.4
3	1987-	+2.5	+3.8	+15.5	+17.8	+16.8
3	1 year	+1.6	+1.6	+9.9	+10.8	+10.8

The margin in 1989 and 1991 in Scenario 2 (part-time student) for 1987-start workers (and to a lesser extent 1 year service workers) indicates the progression through the junior pay scale until adult rates are reached. However, the very high margin between 1987-start workers and new-starts in 1994 and 1997 for Scenario 2 (part-time student) is explained by the difference between adult and junior rates, but with a significant boost in the difference due to reduced penal rates and allowances.

In Scenario 3 (FT adult), from 1994 there is a significant intergenerational effect. The previous margin of 1.6% between new workers and those with one year's service increased to 9.9% (1994) and then 10.8% (1997). This largely reflects the reduction in allowances.

The reduction of the margin of 1987-start workers in Scenarios 1 and 2 in 1997a reflects the effect of the buyout of the protective allowances in firms A, B and C. Labour turnover is such that there would be few 1987-start workers employed in 1997. For example, firm A advises that as at June, 1998 only 11.8% of their supermarket employees were employed on 1st May, 1991. This means that existing workers employed in 1987 would be a very small proportion of staff. Also, union estimates are that in the single-stores, although there were not buyouts, the proportion of staff employed as of June 1998 who were employed in May 1991 would be less than 5%. This indicates that the combined effect of labour turnover, and the buyout of the protective allowances meant that by 1997 there were relatively few supermarket workers with such significant margins.

Another way of expressing the intergenerational effect is to examine the wage path of workers starting in 1987, 1991 and 1994 (see Table 5.6).

Table 5.6 Comparison of the Wage Path of Workers commencing in 1987, 1991 and 1994

Scen	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1997a
1987	350.12	351.47	354.40	347.72	340.16	344.13	343.05	343.42	334.72	331.29	332.21	303.30
1991					327.86	333.95	333.14	334.28	326.12	323.58	324.76	296.77
1994								238.79	250.51	250.05	252.64	249.49
Scen 2												
1987	132.74	145.12	171.86	205.17	227.86	229.28	228.63	227.93	222.61	220.71	220.50	186.25
1991					126.48	132.44	135.85	141.66	142.93	144.30	144.61	131.75
1994								77.21	81.51	94.95	104.93	104.93
Scen 3												
1987	389.80	391.89	394.55	386.72	379.72	383.31	383.11	384.69	375.44	373.06	376.22	372.45
1991					365.48	372.10	371.95	368.59	366.02	364.45	368.55	354.44
1994								302.48	356.94	356.44	360.39	360.39

In Scenario 1 (PT adult) the starting rate in 1994 is 68% of the 1987-start rate. In Scenario 2 (part-time student), the 1994 rate is 58% of the 1987 rate. In Scenario 3 (FT adult), the starting rate in 1994 is

78% of the 1987 rate. In Scenarios 1 and 3 the rate steps up after 1 year and then remains reasonably constant. In Scenario 2 (part-time student) the rate steps up each year due to the progression through the junior pay scale. As in the previous table, in 1997a the intergenerational effect is reduced.

Analysis of the data indicates a significant intergenerational effect in the period following the introduction of the ECA. The reduction in these commencement rates between 1987 and 1997 are:

Scenario 1 (PT adult)	36.3% reduction
Scenario 2 (part-time student)	43.3% reduction
Scenario 3 (FT adult)	18.2% reduction

It is possible that new workers overcame the intergenerational effect in subsequent years and “caught up” with workers who commenced prior to them. In Table 5.6 this does occur to an extent in Scenario 3 (FT adult). But for Scenarios 1 and 2, the removal of penal rates had such a significant effect that there was no catch up by post-ECA workers with pre-ECA staff.

5.2.4 Single-site Effect

To measure a single-site effect, a comparison was made (of workers with up to, but not including 3 years’ service, in each year from 1989 to 1997) of wages in firms A, B, and C with V, W, X, Y and Z. This is set out in Table 5.7.⁶⁰

⁶⁰ Figures 2 to 4 in Appendix 5 illustrate the single-site effect.

Table 5.7 Comparison of Workers with up to 3years' service in Chainstores and Single-stores

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Chain1	355.69	346.39	338.00	324.44	301.06	278.14	238.53	255.84	254.76
Single1	347.87	338.77	329.44	305.38	275.67	248.54	233.21	232.94	235.42
Chain2	154.30	150.31	146.62	127.15	109.54	93.16	87.51	84.99	84.42
Single2	148.20	144.38	140.83	122.92	100.03	87.25	81.61	82.15	83.10
Chain3	395.26	384.97	375.56	384.28	387.67	389.09	375.37	364.21	363.44
Single3	387.44	382.39	368.24	355.82	346.71	342.22	333.27	332.90	336.68

Table 5.8 shows the percentage margin between chainstores and single-stores for each Scenario and in each year. This illustrates that there was a single-site effect from 1992/93. The margin between single-stores and chainstores prior to 1991 is very small and largely reflects the effect of the till allowance at firm C. The margin at that time was higher for juniors as a proportion of wages because the till allowance was a flat dollar payment. By 1994, for Scenario 1 (PT adult) workers the margin was 12%. However, in all three scenarios there has been a narrowing of the margin by 1997.

Table 5.8 Percentage Margin between Chainstore and Single-store Wages

	1989	1990	1991	1992	1993	1994	1995	1996	1997
Scen 1	2%	2%	3%	6%	9%	12%	2%	10%	8%
Scen 2	4%	4%	4%	3%	10%	7%	7%	3%	2%
Scen 3	2%	1%	2%	8%	12%	14%	13%	9%	8%

This margin is increased if the single-site effect is confined to the new worker rate. This is shown in Table 5.9. The margin for Scenario 1 (PT adult) increases in 1994 from 12% for workers with up to three years' service, to 23% if the data is restricted to new workers. In all cases the margin narrows by 1997. This suggests that the single-site effect was strongest among new workers around 1994.

Table 5.9 Comparison of New Chainstore and New Single-store Wages

		1991	1994	1997
Scen 1	Chain 1	333.21	271.01	245.37
	Single 1	324.64	219.45	219.03
	Margin	3%	23%	12%
Scen 2	Chain 2	130.10	85.29	78.76
	Single 2	124.31	72.37	73.13
	Margin	5%	18%	8%
Scen 3	Chain 3	370.12	384.72	350.53
	Single 3	362.69	326.59	313.06
	Margin	2%	18%	12%

This is a very significant margin. High labour turnover implies that with this margin as indicated, a large number of workers in single-stores were on a much lower wage than their counterparts in chainstores. (The timing of the increase in the margin can be seen in Figure 15 in Appendix 5. It shows that the fall in wages in single-stores was generally quicker and more extensive).

5.2.5 Combined Effect of Changes

The three preceding subsections have illustrated the reductions in overall wages, as well as an intergenerational effect and a single-site effect. The fact that wages fell most in single-stores and for new workers implies that the greatest combined effect is for new workers in single-stores. This has already been indicated by the wider margin between chainstore wages and single-store wages in the case of new workers compared with all workers with up to 3 years' service. The combined result of both the intergenerational effect and single-store effect is shown in Table 5.10 (rounded to nearest dollar). Table 5.11 shows the extent of the changes in the three periods. This shows a considerable reduction for new workers in Scenario 1 (PT adult). The overall change for new workers in Scenario 1 (PT adult) from 1991 to 1994 was 28.8% compared with 32.4% in single-stores only.

The overall change for new workers in Scenario 2 from 1991 to 1994 was 39.0% compared with 41.4% for single-stores only.

Table 5.10 **New Workers in Single-stores**

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Scen 1	347	342	343	334	325	259	220	219	216	217	219
Scen 2	130	129	130	127	124	91	73	72	71	72	73
Scen 3	387	381	382	371	363	330	314	314	309	310	313

The percentage change for new workers in Scenario 3 (FT adult) in 1991 to 1994 was 8.9% compared with 13.5% in single-stores. This indicates, particularly for Scenarios 1 and 3, that the most extensive wage reductions for new workers were in single-stores in the period 1991 to 1994.

Table 5.11 **Percentage Changes in Wages for New Workers in Single-stores**

	1987 – 1991	1991 - 1994	1994 – 1997
Scenario 1	-6.5	-32.4	nil
Scenario 2	-4.7	-41.8	+1.1
Scenario 3	-6.2	-13.5	nil

For Scenario 1 (PT adult) workers the reduction in wages is a result of lost penal rates for evening and Sunday work, in addition to the removal of allowances. For Scenario 2 (student) workers the major source of the reduction is the removal of Saturday and evening penal rates. In Scenario 3 (FT adult) there is no penal rate effect. However, there is still a significant loss of wages due to the removal of allowances, the introduction of new wage grading systems and the failure of nominal wage increases to keep pace with inflation during the entire period.

5.2.6 Interpretation and Summary of Results

There is a reduction in wages throughout the period of the study and in the 1991-1994 period in particular. In all scenarios there is an intergenerational effect and a single-site effect after the ECA followed by a trend towards convergence between chainstore and single-store wages, and a weaker trend towards convergence between different generations of workers.

The main findings that emerge from the data analysis are:

- (a) The extent of the reductions in pay for supermarket checkout operators following the ECA is of significant magnitude.⁶¹ In some cases, these reductions exceed the estimate of Hammond and Harbridge (1993) of 30% for some workers.
- (b) There was an intergenerational effect. This was most prevalent in the 1991 to 1994 period. The wages of new workers reduced earlier than those of existing workers.
- (c) Wages for chainstore workers were generally higher than for single-store workers. This single-site effect was most apparent in the 1993 to 1996 period.

⁶¹ The results do not indicate that workers employed in these firms actually received pay cuts. This did occur where existing workers accepted a buyout of protective allowance, or where there were reduced hours for workers who then recommenced those hours on less favourable terms than previously. Also, real wages reduced because nominal wage increases did not keep pace with inflation. In some cases, existing workers had wage increases offset against their protected weekly wage. The reductions referred to in the results are largely due to the lower starting wage for new employees. This means that such workers did not receive a reduction in pay. Simply put – their start rate was lower than the start-rate for earlier generations.

- (d) As post-ECA workers became the majority, this factor combined with competitive pressures between firms to reduce the intergenerational effect and single-site effect.
- (e) The fall in wages is not solely an effect of the removal of penal rates as there was a real wage fall of over 10% from 1989 to 1997 for weekly wages that at no stage included a penal rate or overtime component.
- (f) The reduction in wages, and the timing, is in accordance with predictions from wage bargaining theory and conform with the direction of change in economic variables in the firm wages function.
- (g) Six years after the introduction of the ECA, in all three scenarios, wages are lower than in 1991. This suggests that there has not been a “recovery” in real wages.
- (h) The wages of new workers in the post-ECA period were therefore indicative of a wages trend that would affect all wages in the sector. This suggests that in this sector, and those of a similar nature, the effect of the ECA on wages for all workers could have been predicted at an earlier stage if the wages of newly employed workers had been analysed.⁶²

⁶² See Appendix 1 for a table on Retail/Wholesale Sector Wages from December 1991 to March 1996. In the December 1991 to December 1994 period there is a small increase in wages for male workers. For female workers there is a 1.4% fall in weekly wages and a 3.8% fall in the hourly rate. These statistics cannot be directly compared with the data from the 8 firms in this study as they include the entire retail and wholesale sector. However, it is clear that the large reductions, for new supermarket workers had little impact on the statistics.

There are some timing differences in the reductions of wages. For instance, new chainstore workers actually had an increase in wages (about 4%) in the 1991-1994 period. This is due to the increased rates of pay for new workers to partially offset the removal of penal rates (or their reduction). This meant that new Scenario 3 (FT adult) workers in chainstores gained the effect of the higher new rate, but did not lose penal rates because their hours were Monday to Friday during the day. However, the number of such workers would be low as most employed post-1991 were employed at least some of the week in the evening or weekend.

It is interesting to observe the reduction in real wages for Scenario 3 (FT adult) workers. For workers in all stores (average of rates representing up to 3 years' service), there was a fall of 11.2% in real wages in the 1989 to 1997 period. This illustrates that the reduction in wages was not simply the effect of reduced penal rates.

For single-store Scenario 3 (FT adult) workers there was not a higher rate for new workers to compensate for lost penal rates. The removal of allowances in single-stores generally occurred prior to their removal in chainstores. This meant that single-store Scenario 3 (FT adult) workers had wage reductions of nearly 14% in 1991 to 1994. This situation was reversed in 1994 to 1997 with new chainstore workers having a reduction of 9% whereas new single-store Scenario 3 (FT adult) workers had no reductions in pay.

The removal of allowances, the introduction of adult rates of pay that did not progress through the grades as under the prior awards, and the delays in nominal wages are the likely explanation for the

reduction in wages once the penal rate effect is set aside. Whereas under the award system there tended to be regular annual nominal wage increases, since the ECA there have been delays in the negotiation of some contracts. In addition, in an enterprise bargaining framework, the negotiations were influenced by particular circumstances in a firm. In several of the firms in the sample, there were delays in agreeing to wage increases, either because of union/employer failure to resolve issues, or because agreement was reached to extend the existing contract due to the financial difficulties faced by the firm and/or a restructuring process. In some of the firms, this was a factor that contributed in some periods to a decline in real wages.

What can explain the differences in wage outcomes between multi-site and single-site enterprise bargaining? It could be due to a single-site decentralisation effect as discussed in Chapter 2. Union density tended to be higher in the multi-site firms. Union delegates would meet regularly. There were opportunities to improve union organisation. Systems for recruitment of new union members were put into effect, and the general level of union resources were higher in the multi-site stores as the union recognised that the loss of unionism in an entire chain would have a much greater detrimental effect than the loss of unionism in a single-store. The union was forced to prioritise bargaining initially at the multi-site store level. The delay in bargaining with single-site stores, in this particular environment, meant that bargaining power had weakened by the time negotiations commenced in the "first round" after the ECA. It may also be the case, that the nature of the worker/employer relationship with a single-site owner is different than between

workers and managers of chainstore branches. The closer relationship, whether positive or negative, could act as a disincentive to workers to take a tough bargaining stance. Alternative explanations for this single-store/chainstore margin are discussed in the next section.

However, it is important to recognise that the extent of divergence narrowed over the period. Chainstores still paid higher wages in 1997 but the margin over single-stores had reduced significantly from 1992. There was also a margin between wages paid at different chainstores. Further research, including case studies, is necessary before a more definitive explanation of the extent of, and reasons for the difference between chainstore wages and single-store wages can be explored.

5.3 Is this an ECA Effect?

The results in this study cannot be assumed to show that the enactment of the ECA and its application by supermarket employers is the sole reason for the observed reductions in real wages. It is more likely that there has been a "cocktail effect" from a combination of the ECA, changes in shop trading hours, benefit cuts, and the rise in unemployment levels. The data shows that the effect from 1991 to 1994 was of a magnitude that it was in the nature of a "shock". This suggests that the ECA itself had a significant effect on wages.⁶³

⁶³ It is beyond the scope of this thesis to examine wages in another industry as a counterfactual.

There could be alternative explanations. Wages could have reduced because of the business cycle. Changes in real GDP in the 1986 to 1995 period (1982/83 prices, \$millions) are in Table 5.12.

Table 5.12 Real GDP Change 1986 to 1995

Year	Real GDP	% Change
1986/87	35005	2.10
1987/88	35437	1.23
1988/89	35140	-0.84
1989/90	35728	1.67
1990/91	35482	-0.69
1991/92	35243	-0.67
1992/93	36003	2.16
1993/94	37985	5.51
1994/95	40274	6.03

Source: Statistics Dept.

The business cycle was at a low point in 1991/92 and this coincides with a fall in wages. However, wages did not follow the upswing in GDP growth in 1993-95. Also wages did not fall significantly in 1988/89 when GDP fell by a similar annual amount as in each of 1990/91 and 1991/92. The existence of awards was, it is suggested, a significant factor in preventing a major fall in wages.

If the wage differential between single-site stores and chainstores is not a result of reduced market power (bargaining power) of unions, there are a number of alternative explanations. These include: size-wage differences; imperfect information including lags in information; the shock effect of the ECA; timing of negotiations; regional labour markets; insider factors, and; management style and beliefs. There is a large literature on size-wage differences. The

multi-site firms did not necessarily have larger levels of employment in at each store, but their overall size was significantly greater than the single-store enterprise. There was imperfect information. Initially, management at chainstores may have been unaware of the wages paid at single-stores. Also, the union was able to set a precedent at one chainstore and then attempt to pattern-bargain from that point. However, by 1992 and 1993, chainstores were becoming more aware of the wages paid at single-stores.

The models on decentralisation do not appear to discuss the impact of a law change in the nature of a “shock”. The Employment Contracts Act was enacted within 6 months or so of introduction and immediately abolished awards upon expiry. It was a totally new environment. Some employers were very focussed on developing their own particular contract and provided there were changes along the lines that the employer was seeking, they did not necessarily compare themselves to other supermarket employers initially. Negotiations took place at different times, so the employers who went first had some advantage in the sense that they achieved changes from the awards earlier than other employers, but were disadvantaged in the sense that those employers that followed were able to try to do “one better”. Perhaps, the best way to describe this is that chainstore employers may not have achieved optimal outcomes initially.

Another alternative explanation for the lower wages in single-stores compared with chain stores could be that there were localised labour markets operating for single-stores. However, all but one of the

single-stores were located in main centres. The one that did not, also had chainstores operating in the same regional labour market.

Insider factors such as higher labour productivity in chainstores could explain the chainstore/single-store wage differential. Management attitudes also appear to have been significant. For instance, Woolworths (N.Z. Ltd) advocated a partnership approach to unions. This willingness to recognise the union undoubtedly assisted union bargaining power. The union was less concerned with that company than with others that management would approach workers directly with contract offers and bypass union officials and delegates. The high transaction costs of separate site negotiations for each branch of a chainstore (potentially over 60 negotiations for one chainstore), and the administrative difficulties of variable contracts at branches with a “head office” structure, would also have been a disincentive for chainstores to seek site contracts.

If the ECA had not been enacted employers could have perhaps more intensively and extensively applied other methods of labour cost adjustment to respond to greater competitive market pressures and in particular the effect of increased late-night, weekend, and public holiday trading. If we assume that the awards remained and the ECA was not enacted, what options could employers have used to reduce labour costs? They could have instituted recruitment rate changes, quality changes, hours of work changes and promotion rate changes (Blandy and Richardson, 1984). Recruitment rate changes could have been to employ a lower number of new workers. Quality changes could be in the form of increasing the quality level of new recruits so that they are more productive than previously the case.

With relatively high levels of unemployment, there is a likelihood that this would have been an achievable strategy.

Hours of work changes were extensively applied in this sector. If the awards had remained in existence, the employers could have maximised the potential under the proportions clause in the awards to employ junior workers on cheaper pay rates in the penal rate hours in evenings and weekends.⁶⁴ The number of paid hours allocated to each department on a weekly basis could have been further reduced. Some aspects of the operation could have been contracted out. For instance, meat preparation could have been contracted out to meat plant operating shifts rather than full penal rates and overtime rates.

Employers could have reduced staff and intensified the work process for the remainder. Employers could have decided not to open their supermarkets so extensively in the weekends and public holidays. Employers also could have converted more of the lower level management staff to salaries and required them to work in the evenings and weekends. There was some potential for this despite the way awards were worded.

Another option for employers would have been to negotiate changes in penal rates, and allowances through award negotiations. Although employers could grant wage increases to individual workers, they could have refused to renew the awards with a general pay increase

⁶⁴ The proportions clause required that 50% of staff should be paid senior rates. Prior to the ECA, there were alterations to this clause to allow the calculation of proportions to be across the whole week rather than at any time.

unless unions agreed to changes in penal rates and allowances. (This is of course entirely speculative). The awards apply for two years after expiry. If the awards were not renewed, then by December, 1993, they would have expired and new workers could be employed on different terms. Existing workers could also agree to a new agreement in order to get (more) weekend work. However, the union still had extensive bargaining and representation rights under the Labour Relations Act. Also some workers may have gone on strike over the non-renewal of the awards.

However, there is no doubt that the unions involved were discussing options of penal rate adjustments as a trade-off to settle the awards.⁶⁵ This included consideration of reduced penal rates but higher base rates for new employees. It is possible therefore that a lower real wage for new workers would have emerged. However, it is highly unlikely that there would have been any difference between chainstores and single-stores. It is also likely that any changes in penal rates, overtime, service pay, meal money and allowances would have been much less extensive and much more gradual.

It is recognised therefore that to some extent employers used the ECA simply because "it was there". In the absence of such legislation, alternatives could have been used to lower labour costs. These alternatives were, however, limited in their nature and extent. It is not suggested in this thesis that the ECA was the only influence which reduced real wages in the post-1991 period. It is accepted also that alternatives existed. However, the ECA had such a significant

⁶⁵ This was in the context of an impending election likely to result in the election of a National Government pledged to repeal the Labour Relations Act.

impact on relative bargaining strength and the employer fall-back, that it is evident that the large fall in real wages in the 1991 to 1994 period can be attributed to the enactment of the ECA.

5.4 Summary and Conclusion

In this Chapter, the predictions from Chapter 4 of the trend in wages suggested by an application of wage bargaining theory to the environment of supermarket checkout operators in the 1987 to 1997 period were tested against the data. In Section 5.1, the method of data construction was outlined, including the use of hours of work scenarios. The calculation of over 1500 wage outcomes applying three different hours of work scenarios to 48 different awards and contracts comprises the database for analysis of negotiated wage outcomes. The nature of this data was compared with other available wages and contract data in the supermarket sector.

In 5.2, the results of the data analysis were set out firstly for workers in all firms, secondly for workers who were new employees compared with existing workers, thirdly for chainstore workers compared with single-store workers and, finally for new workers in single-stores to gauge the combined impact of the intergenerational and single-site effects. The main findings were set out in Section 5.2.6. The key observation is a considerable fall in 1991 to 1994 in wages with a higher fall among new workers and those in single-stores. In Section 5.3, alternative explanations to the ECA for the fall in wages are discussed.

The limitations in the data have also been discussed. It would have been preferable to include a much larger sample of single-stores. It would be useful in a more extensive study to examine a counterfactual sector.⁶⁶ In essence the data stands on its merits. It is the result of extensive interpretation and calculation of wage outcomes for supermarket checkout workers using their negotiated awards and contracts. Analysis of this data indicates unambiguously a decline in wages in the 1991 to 1994 period in particular resulting in a situation where real wages in 1997 are significantly lower than in 1987.

⁶⁶ As already noted the Heylen Survey (1993) found that grandparenting of provisions affected 26% of employee's workplaces. This suggests that the generation factor will only be significant in some sectors.

CHAPTER 6 SUMMARY AND CONCLUSION

6.0 Introduction

As indicated at the outset, it is not entirely unexpected that research into the wages for supermarket workers indicates that there was a fall following the introduction of the ECA. Most observers of the labour market would expect that to be the case. By 1997, there had been a number of studies of the retail sector, the decline in union membership generally, and the impact of the ECA on workers in secondary labour markets, and the economy as a whole.

This research has, however, provided a detailed examination of both the pressures leading to this fall in wages, and the particular outcomes for workers under different scenarios. The specific questions examined concerned the extent of the fall in wages, the effect on new workers, the differential impact on workers in single-stores and chainstores, and the degree to which the fall in wages can be attributed to the ECA. In addition, the research, while empirical in nature, is motivated by an interest in applying wage bargaining models to a specific sector.

Section 6.1 outlines the extent of the fall in wages. Sections 6.2 and 6.3 discuss the intergenerational effect and the single-site effect respectively. Section 6.4 examines the issue of the extent to which the fall in wages can be attributed to the ECA. A brief discussion on the relevance of wage bargaining theory is in Section 6.5. Possible extensions are discussed in Section 6.6. Options for further research are canvassed in Section 6.7. The conclusion is in Section 6.8.

6.1 The Extent of the Fall in Wages

Even workers in Scenario 3 which is a fulltime adult (in this case using an average of those with up to 3 years' service), where there were no penal rates payable at any time in the 1989 to 1997 period, had a fall in wages of 11.2% in that time. The reduction in commencement rates for new Scenario 3 (FT adult) workers from 1987 to 1997 was 18.2%. Real wages were falling prior to the introduction of the ECA, but the significant fall, particularly for new workers, was after 1991. The fact that wages fell to this extent for Scenario 3 (FT adult) workers indicates that the fall in wages cannot be solely attributed to penal rates being reduced or removed.

For Scenario 1 (PT adult) workers (up to 3 years' service), the fall in wages over the 1989 to 1997 period was 30.1%. There are many workers in supermarkets who work a Scenario 1 pattern of hours. Relatively high labour turnover means that there is a high proportion of staff with less than three years' service. This result therefore suggests a very substantial fall in wages in that period for a large proportion of supermarket workers.

For Scenario 2 (part-time student) workers (up to 3 years' service), the fall in wages over the period was 44.4%. This Scenario has the highest proportion of weekend and evening hours, so this fall largely indicates a penal rate removal effect. It is a scenario that is worked by many young, part-time workers. The result is an indication that despite large increases in base hourly rates for such young workers,

this has not offset to any significant extent the fall in wages through the removal of penal rates and allowances.

6.2 An Intergenerational Effect

The results of the data analysis indicate a significant intergenerational effect. In the post-ECA period, existing workers had formed relatively secure contracts based on the awards. The initial impact of the ECA was therefore on new entrants. In 1991, the margin between a Scenario 1 (PT adult) worker who started in 1987 and a new worker was 3.7%. By 1994 the margin between a worker who had commenced in 1987 and a new worker was 47.0%. An analysis of the wage path of workers starting in 1987, 1991, and 1994 shows that, in the main, there was not a catch-up by new generation workers. Scenario 3 (FT adult) workers, by 1997, started to get close to the wages of those who commenced in 1991.

The results show that the margin between new workers and longer serving workers was reduced when the protective allowance buyouts occurred. Given labour turnover rates, and the extremely high take-up rate of the buyout offer, it is likely that the actual convergence by 1997 was much stronger than shown in the data. The buyouts were in the chainstores. In the single-stores, the extent of protection for existing staff was mainly through a protected hourly rate that was held constant for a period. Union sources suggest that there was a very small number of such protected workers by 1997. Some would have been promoted and would be on a salary.⁶⁷ It is apparent,

⁶⁷ The data assumes no change of status or grading during the period and in that sense reflects the wage for the job rather than the wage path of any worker.

therefore, that the intergenerational effect was high in the period when initial contracts were negotiated after the ECA was introduced, but had weakened by 1997.

6.3 Single-site Effect

In 1989 the margin between wages in chainstores and single-stores ranged from 2% to 4% across the three scenarios. By 1994 the range was 7% to 14%. By 1997 the margins had reduced to a range of 2% to 8%. These were not uniform margins in the sense that Company A generally paid higher wages than Companies B and C. These are all chainstores. In addition, a large reduction in pay at Company C from 1994/95, and the buyout of protective allowances, reduced the margin significantly. It was also shown that the most extensive reductions were for new workers in single-stores in the 1991 to 1994 period. The single-site effect was strongest for new workers around 1994. For instance, Scenario 1 (PT adult) new workers in chainstores were paid 23% more than their equivalents in single-stores.

These results suggest that when bargaining is decentralised to an enterprise level, wages will tend to be higher where a firm and union bargain over a number of sites, rather than at a single-site. This single-site effect could be due to a number of factors. The union may have had a superior bargaining position in chainstores due to higher membership levels, and a greater concentration of union resources into chainstores as a survival mechanism in the early period after the introduction of the ECA. There are higher costs for unions

organising small numbers of workers. The margin could be explained by insider factors such as higher productivity in chainstores, or by other factors such as a size wage differential.

6.4 To What Extent Is the Wage Fall an ECA Effect?

The results show a dramatic fall in wages for new checkout operators employed after the ECA became law. Union bargaining strength which is a vital factor affecting wage outcomes was severely curtailed as a result of the ECA. However, there were other major influences on wages in this period. Unemployment rose steadily from 3.9% in September 1987 to 11.1% in March 1992 and reduced to 5.9% in September 1995. This means that it was at its peak in the period following the introduction of the ECA. Benefit levels and entitlements were subject to significant alterations from April 1991.

In addition, shop trading hours liberalisation from 1990 had placed major pressure on the payment of penal rates as employers had extended further and further into trading hours that attracted time-and-a-half and often double-time rates under the awards. This coincided with successive falls in GDP in 1990/91 and 1991/92. While supermarkets are less susceptible to falls in consumer purchasing power than the retail sector as a whole, there was a very strong focus on price competition in this period.

This thesis suggests that it was a “cocktail effect” of these factors that contributed to the drastic reduction in supermarket wages (for new workers in particular). It is likely that in the absence of the

ECA, the reductions would have been less severe, and more gradual. It is hard to escape the conclusion that the ECA had a very significant effect on supermarket wages.

6.5 How Relevant is Wage Bargaining Theory?

The negotiation of contracts between a union and a firm can be represented in a bargaining model as a non-cooperative game. Bargaining strength, reflecting discounting and risk, affects the outcome of the game. Changes in fall-back income for workers or employer fall-back profit will also have a significant effect. A firm wages function incorporating a number of variables was used to analyse the effect of changes in the wage bargaining environment in the 1987 to 1997 period. The direction of the changes lead to a prediction of a falling trend in wages in the post-1991 period. In fact only one variable changes in a way that has a positive effect on wages. This suggests that wages could be subject to significant downward pressure in this period. The Calmfors and Driffill model also predicts that as wage bargaining moves from the intermediate (industry) case to the decentralised (enterprise) case, wages would fall.

The firm wages function (and wage bargaining theory) is therefore relevant in that it predicts the trends in wages at a sector level, and the strength of the trend. However, it is difficult to control for all the variables in a firm wage function, as statistics for some are either not available, or are imprecise. In the absence of precise information, wage bargaining theory cannot accurately predict actual outcomes.

However, wage bargaining theory, as has been shown in this study, can give an indication of the effect of a policy change.

6.6 Possible Extensions to the Model

In this sector it was appropriate to incorporate into a wage bargaining model an intergenerational effect and a single-site effect. There is only a small literature on an intergenerational effect. This thesis has used the contributions by Gollier (1987) and Rees (1993) to consider, in a competitive sector, the phenomenon where the adjustment in wages is concentrated on what Gollier refers to as the “unlucky generation”. In the supermarket sector, given the effect of employer preferences in determining wage outcomes, and the use of grandparenting provisions to protect existing employees, it was both useful and relevant to incorporate an intergenerational effect.

The inclusion of a single-site effect is also useful. There is an extensive literature on the effects of centralisation of wage bargaining at an industry level, or at a national or general level. However, where bargaining is decentralised to an enterprise level, there can be variations in wage outcomes influenced by a number of factors. The essence of the extension considered in this thesis to the model of real wages and decentralisation is to consider a further decentralisation in the level of bargaining and to characterise the reduced bargaining power of the union in negotiating with single-site employers compared with multi-site employers as similar to the reduced union market power through higher job substitution when bargaining moves from the industry to enterprise case. The inclusion of an effect to capture the impact of single-site enterprise bargaining

in the decentralised case needs further consideration. However, this study suggests that such an extension to wage bargaining theory could be made.

6.7 Options for Further Research

The nature of the data used in this research is described as a “halfway house” between actual wages earned by checkout operators in these 8 firms between 1987 and 1997 as represented by wage records, and a simple analysis of wage rates and the existence or otherwise of penal and overtime rates, service pay and other allowances. The application of specific scenarios has allowed a comprehensive data series to be developed.

Further research could involve alternative or additional methodological options. Research could include more single-site enterprises, some “non-union” sites, and some single-site supermarkets which opened after December 1991 when the relevant awards had expired. Given that “grandparenting” of contract provisions, and multi-site bargaining are not features of all sectors in the economy, it would be useful to analyse wages in a counterfactual sector. This could also allow analysis of different union organisation structures.

A case study of the wage bargaining outcomes in a particular firm incorporating the perceived pressures from a management, worker and union perspective would also be useful. A survey of workers would also perhaps assist, but it is hard to get a high degree of accuracy, and considerable time has now elapsed since 1991.

Despite these limitations, the development and analysis of this data series allows a much more detailed examination of wage outcomes than in other retail sector studies to date.

6.8 Conclusion

This research has indicated a significant fall in wages of supermarket workers after the introduction of the ECA. The strongest fall in wages was for new workers. Wages for workers in single-stores tended to be lower than in chainstores. The data indicates that in such a competitive sector, a fall in wages for new workers, and for workers employed at single-sites, eventually resulted in a trend towards convergence between existing and new worker wages, and chainstore and single-store wages. This suggests that in such a sector, the ECA effect for all workers could have been detected at an early stage by examining the wage outcomes for new workers. This has implications for analysis of major policy changes in respect of wage bargaining legislation.

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APPENDICES

Appendix 1	Retail/Wholesale Wages 1991 to 1996
Appendix 2	Summary of “Harbridge Data” on Supermarket Contracts
Appendix 3	Unemployment rate 1987-1997
Appendix 4	Real Wages Supermarket Checkout Operators 1987 to 1997*
Appendix 5	Figures [#]

- Figure 1: Wage Changes for Workers in each Scenario with up to 5 years' service in 1991, 1994 and 1997.
- Figure 2: Scenario 1 Chainstore vs Single-store Workers with up to 3 years' service.
- Figure 3: Scenario 2 Chainstore vs Single-store Workers with up to 3 years' service.
- Figure 4: Scenario 3 Chainstore vs Single-store Workers with up to 3 years' service.
- Figure 5: Wage Path for Scenario 1 New Workers Commencing in 1987, 1991, 1997.
- Figure 6: Wage Path for Scenario 2 New Workers Commencing in 1987, 1991, 1997.
- Figure 7: Wage Path for Scenario 3 New Workers Commencing in 1987, 1991, 1997.
- Figure 8: Comparing Scenario 1 New Workers with 1 year service workers, and 1987-starts.
- Figure 9: Comparing Scenario 2 New Workers with 1 year service workers, and 1987-starts.
- Figure 10: Comparing Scenario 3 New Workers with 1 year service workers, and 1987-starts.
- Figure 11: Scenario 1 Workers starting in 1987.
- Figure 12: Scenario 1 Workers starting in 1987 (with buyout).
- Figure 13: Scenario 2 Workers starting in 1987.
- Figure 14: Scenario 3 Workers starting in 1987.
- Figure 15: Scenario 1 Start Rates.
- Figure 16: Scenario 2 Start Rates.
- Figure 17: Scenario 3 Start Rates.

***Note:** The wages in Appendix 4 are real (\$1997) wages. Scenario 1 is a 28 hour a week adult worker who works Monday, Tuesday and Thursday from 0900 – 1430, Wednesday from 1200 – 1900 and Sunday from 1000-1700 hours. Scenario 2 is of a student commencing at 16 years of age, working 14 hours a week on Wednesday and Thursday from 1630-2100, and Saturday from 0900-1530 hours. Scenario 3 is an adult working 40 hours a week, Monday to Friday from 0830-1700 hours. In all cases there is a half-hour meal break. Scenarios 1a, 2a, and 3a include the effect of the buyout of protective payments to existing workers.

#Note: Figure 1 shows an overall effect. Figures 2 to 5 show the single-site effect. Figures 6 to 17 show the intergenerational effect.

Appendix 1

Table 1: RETAIL/WHOLESALE WAGES DEC 1991 TO MAR 1996				
<i>Real wages expressed in 1991.4 dollars</i>				
Quarter	Female/hr	Male/hr	Female/wk	Male/wk
1991.4	10.96	13.91	392.20	532.15
1992.1	10.89	13.89	389.84	534.22
1992.2	10.86	13.92	388.68	535.56
1992.3	10.91	13.92	385.90	530.61
1992.4	10.78	13.87	393.28	539.13
1993.1	10.77	13.89	389.30	538.43
1993.2	10.77	13.97	389.50	543.81
1993.3	10.76	13.91	384.37	536.44
1993.4	10.79	13.85	392.37	540.44
1994.1	10.72	13.87	385.15	538.15
1994.2	10.80	14.00	399.37	544.94
1994.3	10.77	13.97	388.26	526.53
1994.4	10.54	13.61	386.77	535.78
1995.1	10.44	13.56	378.24	528.96
1995.2	10.47	13.54	381.66	530.38
1995.3	10.54	13.60	379.75	530.43
1995.4	10.48	13.49	384.29	530.04
1996.1	10.50	13.65	381.46	534.18

SOURCE - STATISTICS DEPT, NZ

Appendix 2

Table 1: Analysis of Supermarket Contract Information from "Harbridge" Series
(Percentages unless otherwise stated)

	1993/94	1994/95	1995/96	1996/97	1997/98
Contract Type					
Multi-union single employer		25	25	48	46
IEC		1	1	1	2
Multi-employer no union		17	18	21	0
Single employer/single union		57	56	30	52
New Employees in Contract					
Extension by consent	14	59	58	29	34
No extension	47	3	3	21	19
Automatic extension	39	38	39	50	47
Minimum Adult Wage					
		\$303	\$304	\$309	\$328
Youth Rates in Contract					
All contracts	57	57	41	36	
Supermarkets	94	95	95	97	
Days of the Week					
Monday to Friday					
Monday to Saturday		4	4	2	
Monday to Sunday		20	11	98	
4-day week		76	85		
Penal Rates					
No penal rates	23	89	96	98	97
Below standard		9	3	2	3
Standard		2	1		
Above standard					

Table 2: Changes in 1993/94 between new contracts and previous contracts

	Weekday		Saturday		Sunday	
	Previous	New	Previous	New	Previous	New
Flat rate	19	17	19	17	19	17
T1.5	8	36	8	34	6	33
3xT1.5,T2	72	36	24	22	10	16
T2	0	0	36	2	50	6
Other	1	11	13	25	14	29

Notes to Tables: Table 2 indicates the trend in overtime rates away from double-time in the weekend and the reduction of the overtime rate for weekday work from time-and-a-half for the first 3 hours, then double-time, towards time-and-a-half for all overtime hours. The data used in the thesis does not include overtime in any of the scenarios. Overtime is regarded as time worked in excess of 8 hours per day or 40 hours per week, rather than penal rates for time worked within 8 hours a day or 40 hours a

week but in the evenings or weekend. However, there were penal rates in some contracts in 1993/94 as indicated by the 23% of contracts in Table 2 with no penal rates. By 1994/95, that had jumped to 89%.

Appendix 3

Table 1: Unemployment Rates from 1987 to 1997

Quarter	% Unemployment
1987.1	4.1
1987.2	4.1
1987.3	3.9
1987.4	4.1
1988.1	5.0
1988.2	5.3
1988.3	6.1
1988.4	6.0
1989.1	7.4
1989.2	7.3
1989.3	7.0
1989.4	6.9
1990.1	7.3
1990.2	7.4
1990.3	7.7
1990.4	8.7
1991.1	9.9
1991.2	10.1
1991.3	10.7
1991.4	10.6
1992.1	11.1
1992.2	9.9
1992.3	10.0
1992.4	10.3
1993.1	10.2
1993.2	9.7
1993.3	9.0
1993.4	9.2
1994.1	9.5
1994.2	8.2
1994.3	7.5
1994.4	7.4
1995.1	6.9
1995.2	6.2
1995.3	5.9
1995.4	6.2
1996.1	6.5
1996.2	5.9
1996.3	6.1
1996.4	5.9
1997.1	6.8
1997.2	6.5
1997.3	6.6
<u>1997.4</u>	6.6

Appendix 5

Fig 1: Wage Changes for Workers in Each Scenario with up to 5 years service in 1991, 1994 and 1997

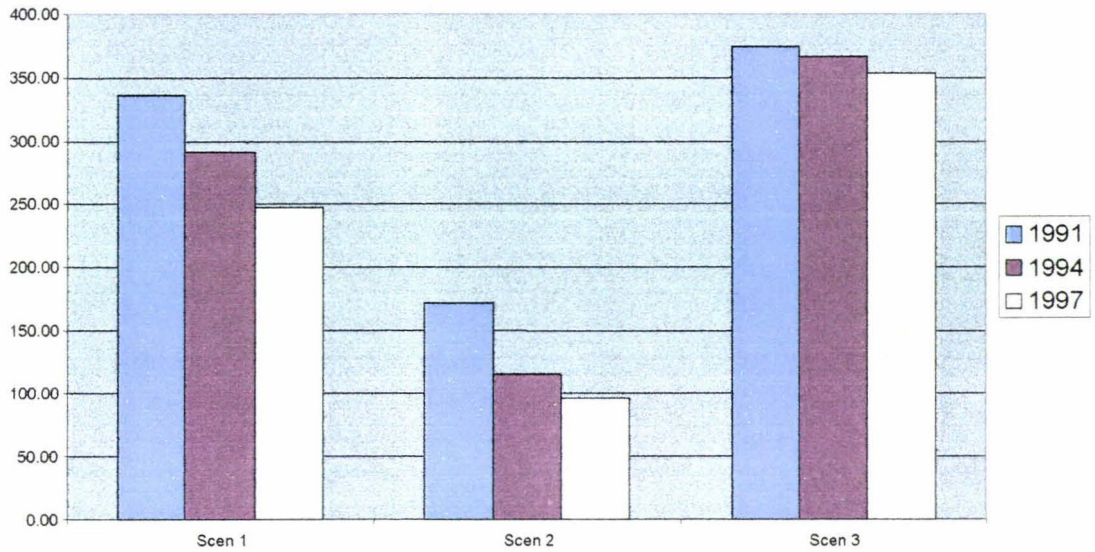


Fig 2: Scenario 1 Chainstore vs Single-store Workers with up to 3 Years Service

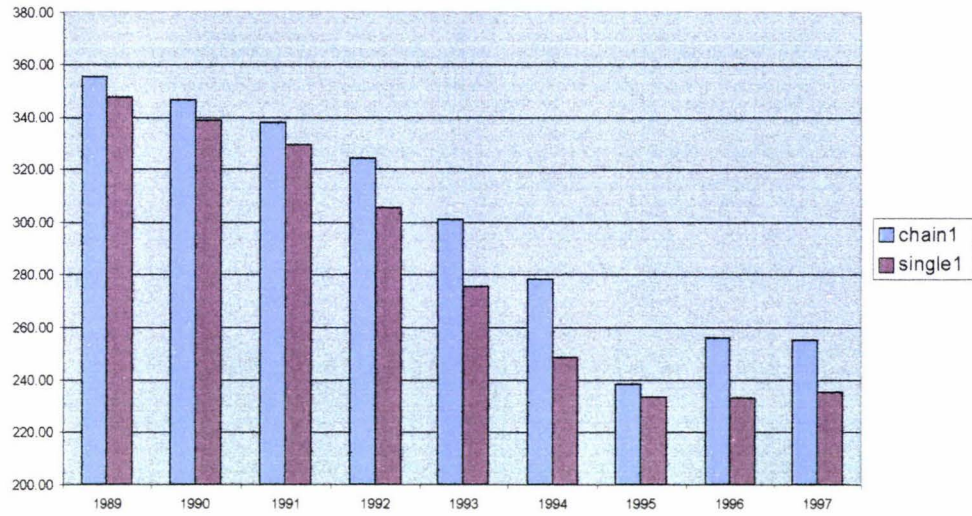


Fig 3: Scenario 2 Chainstore vs Single-store Workers with up to 3 years' service

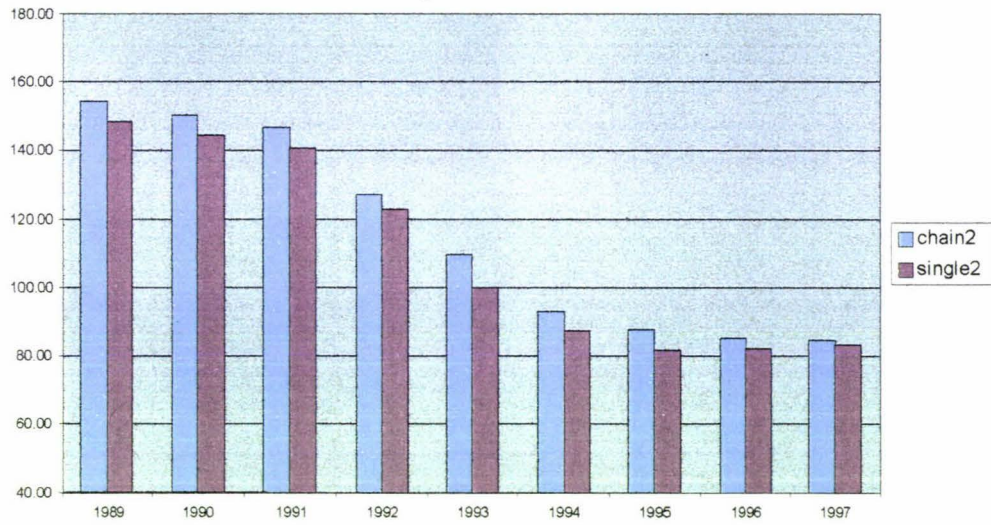


Fig 4: Scenario 3 Chainstore vs Single-store Workers with up to 3 years' service

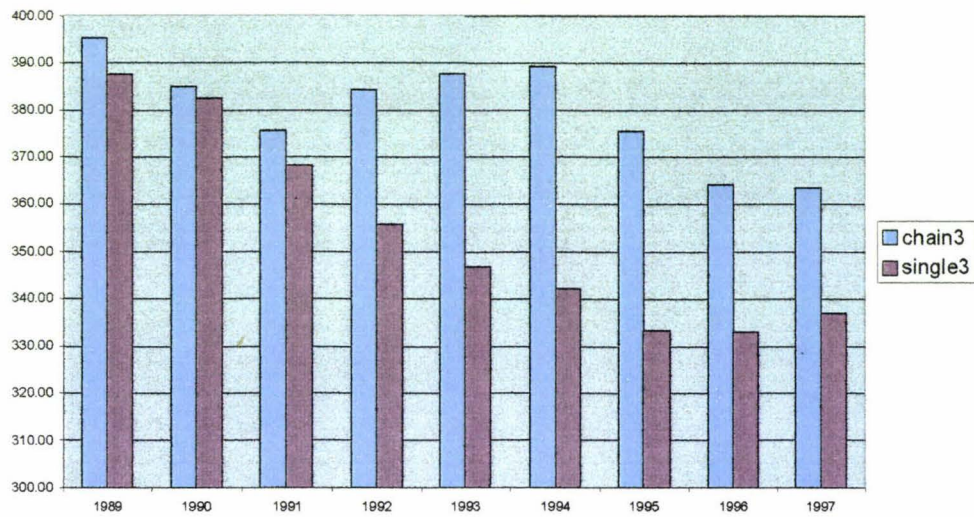


Fig 5: Wage Path for Scenario 1 New Workers Commencing in 1987, 1991 and 1994

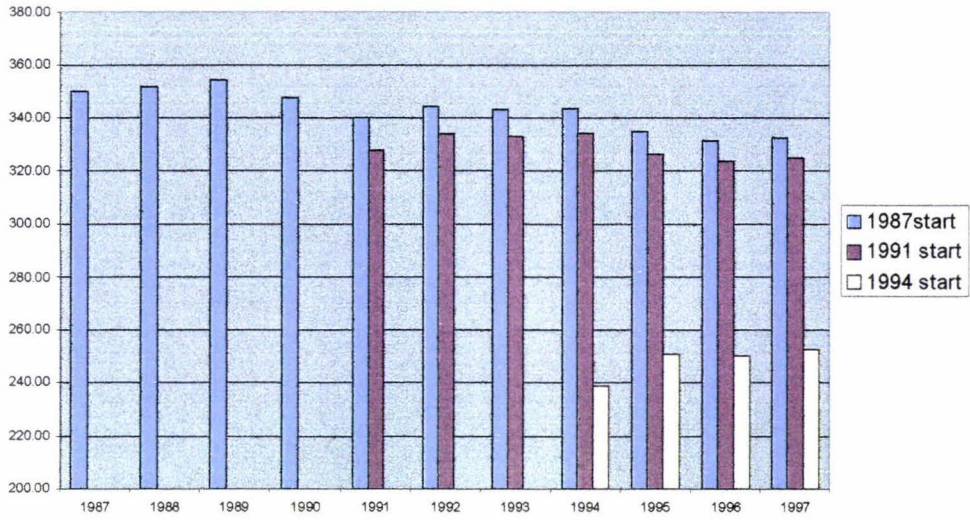


Fig 6: Wage Path for Scenario 2 Workers Commencing in 1987, 1991, and 1994

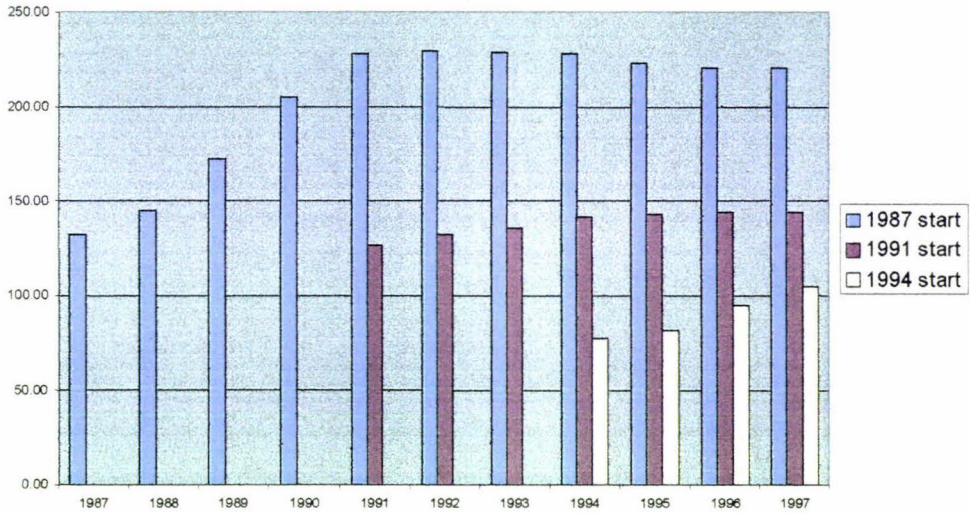


Fig 7: Wage Path for Scenario 3 New Workers Commencing in 1987, 1991, and 1994

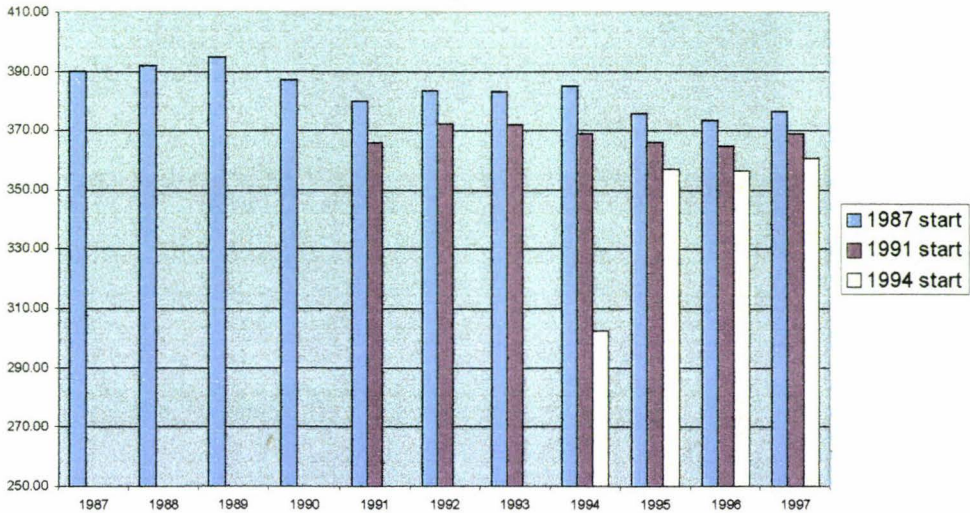


Fig 8: Comparing (Scenario 1) New Workers with workers with one year's service, and with 1987-start Workers

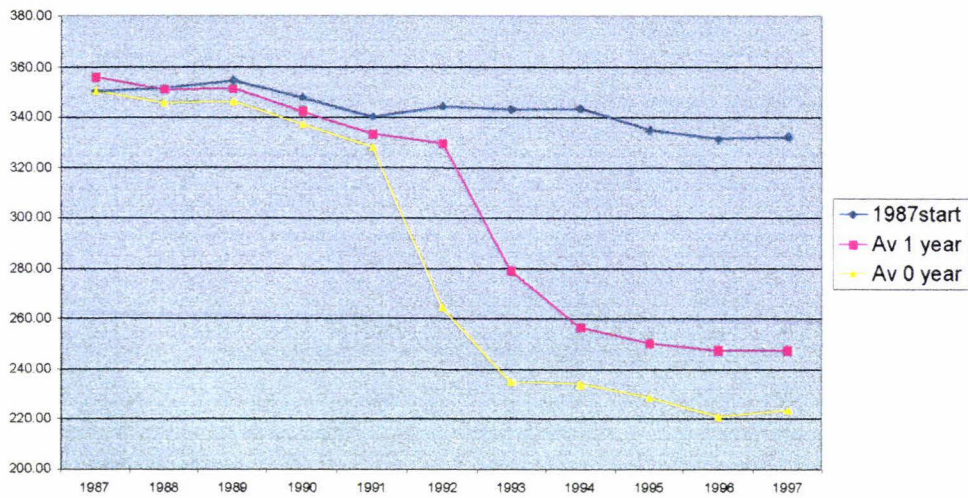


Fig 9: Comparing (Scenario 2) New Workers, with those with one year's service, and 1987-starts

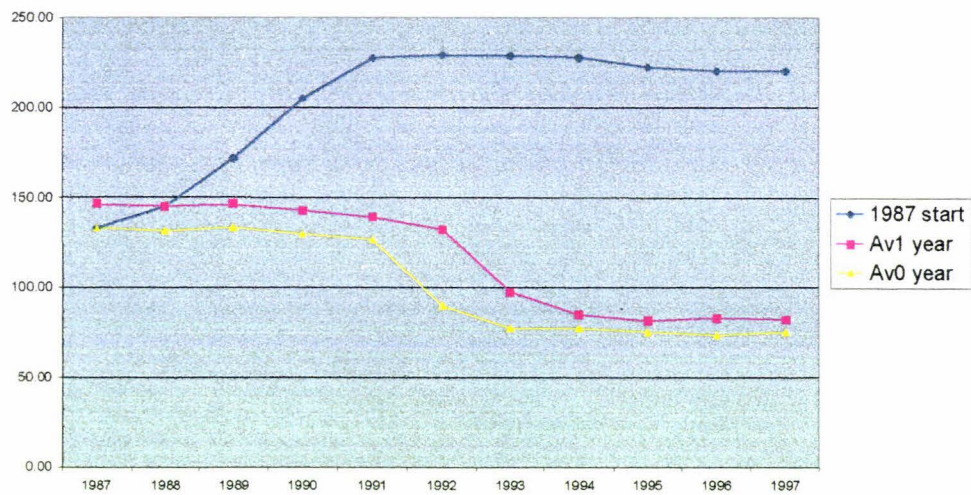


Fig 10: Comparing (Scenario 3) New workers with those with one year's service, and 1987-starts

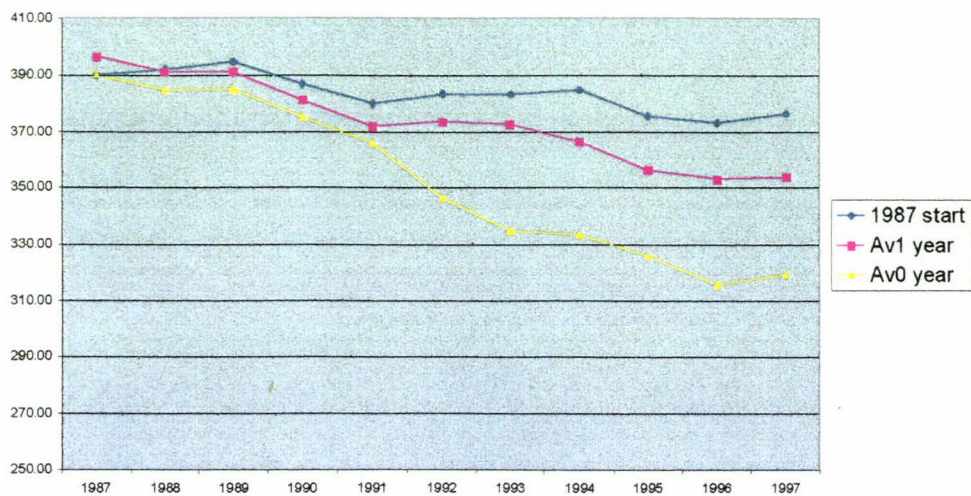


Fig 11: Scenario 1 Workers starting in 1987

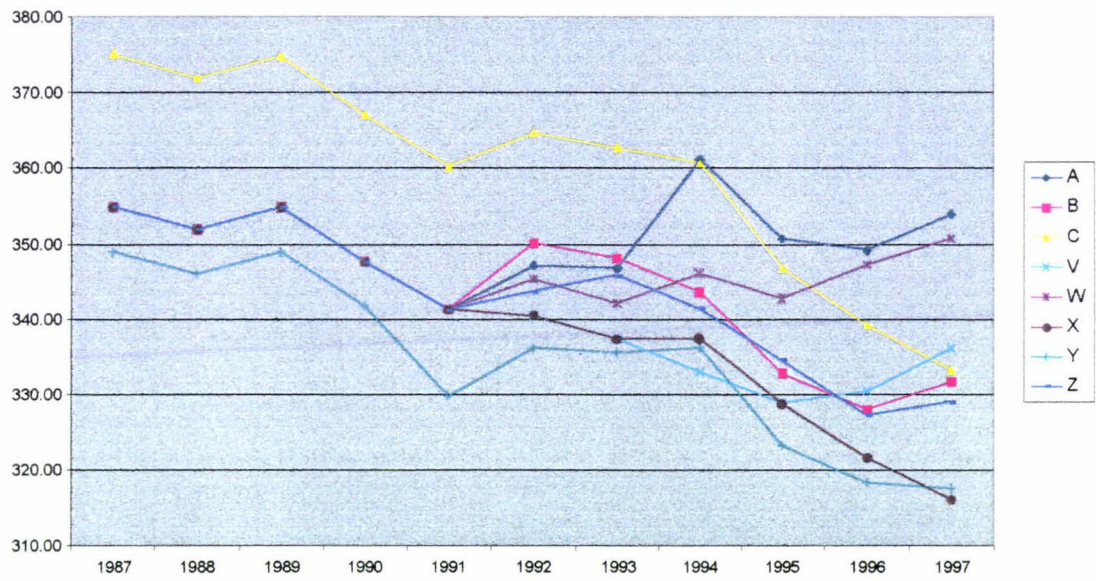


Fig 12: Scenario 1 Workers starting in 1987 (with buyout)

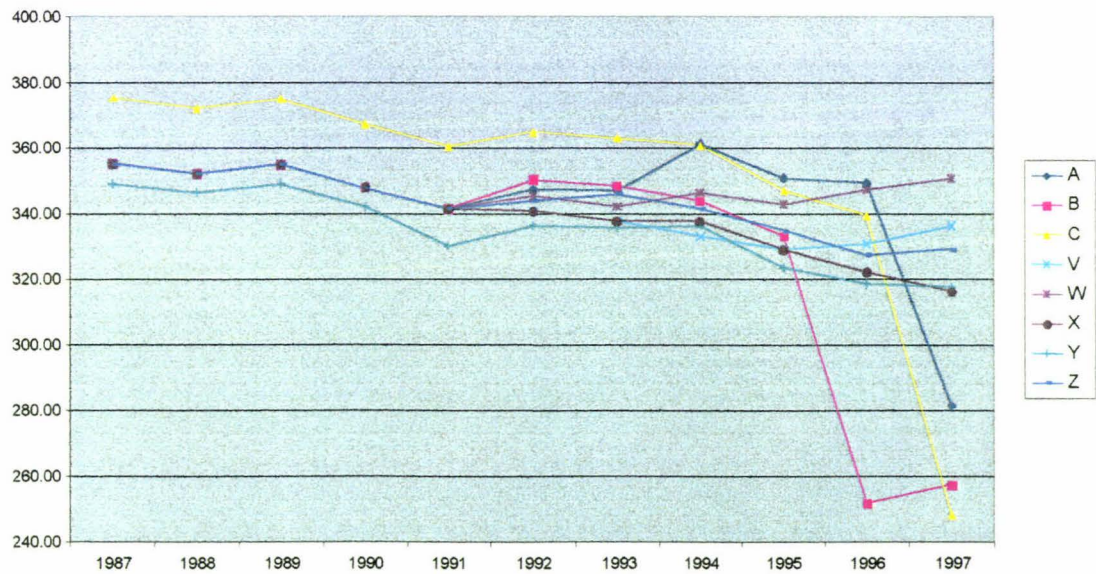


Fig 13: Scenario 2 Workers starting in 1987

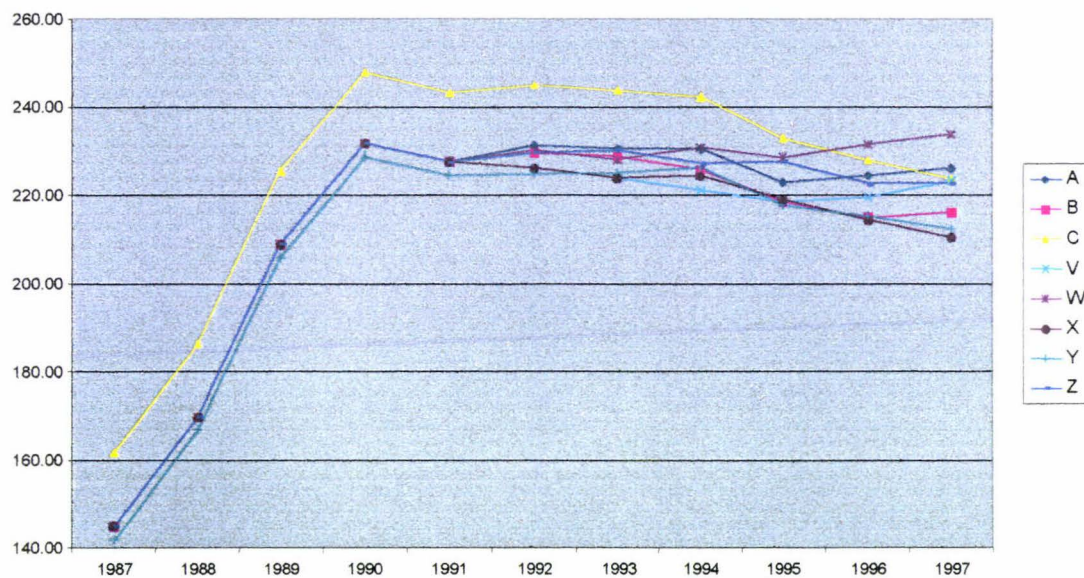


Fig 14: Scenario 3 Workers starting in 1987

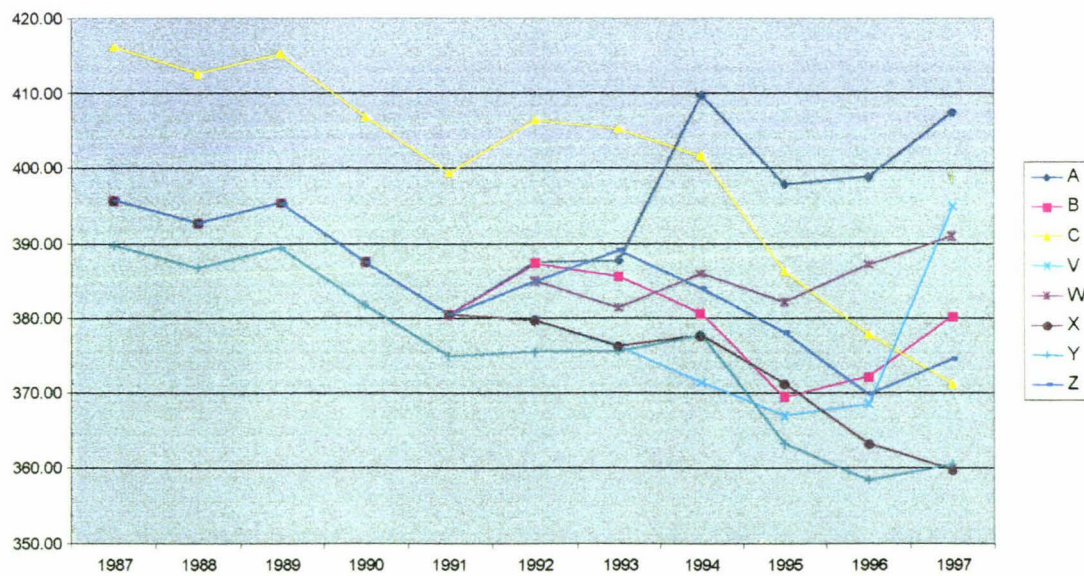


Fig 15: Scenario 1 Start Rates

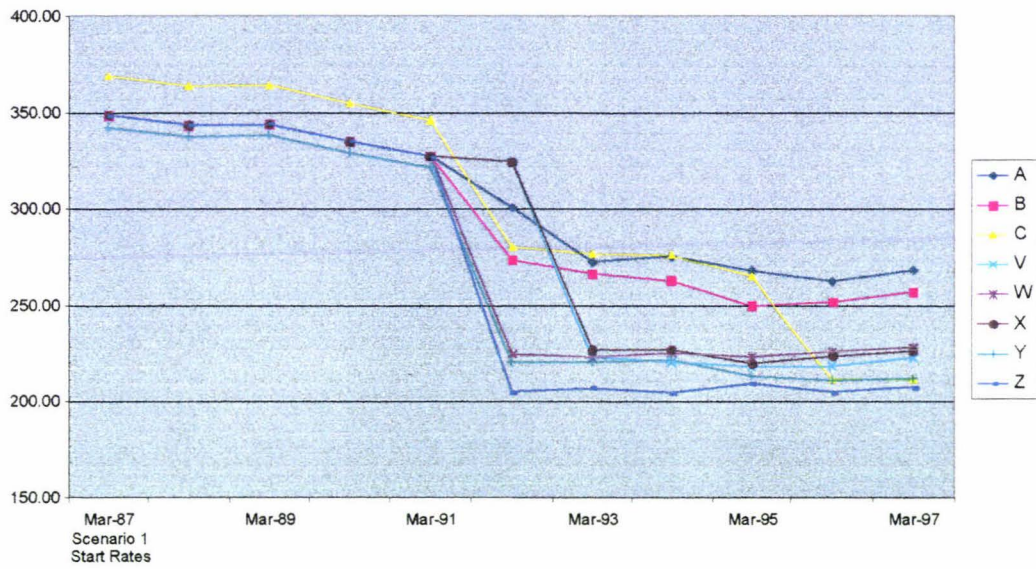


Fig 16: Scenario 2 Start Rates

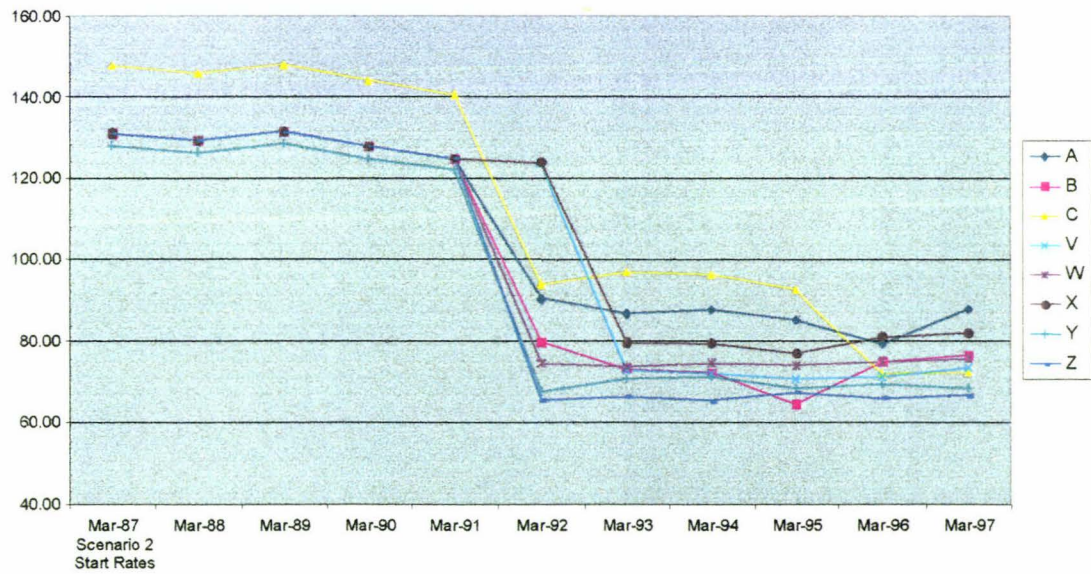


Fig 17: Scenario 3 Start Rates

