

Salary and wage fixing
procedures in the
New Zealand State Services
1972

Report of the Royal
Commission of Inquiry

June 1972
Wellington

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THE ROYAL COMMISSION ON
SALARY AND WAGE FIXING PROCEDURES
IN THE
NEW ZEALAND STATE SERVICES 1972

Chairman

The Right Honourable Sir THADDEUS McCARTHY

Members

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JOHN TURNBULL, O.B.E.

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Investigating Mathematician: G. E. Dickinson

Secretariat

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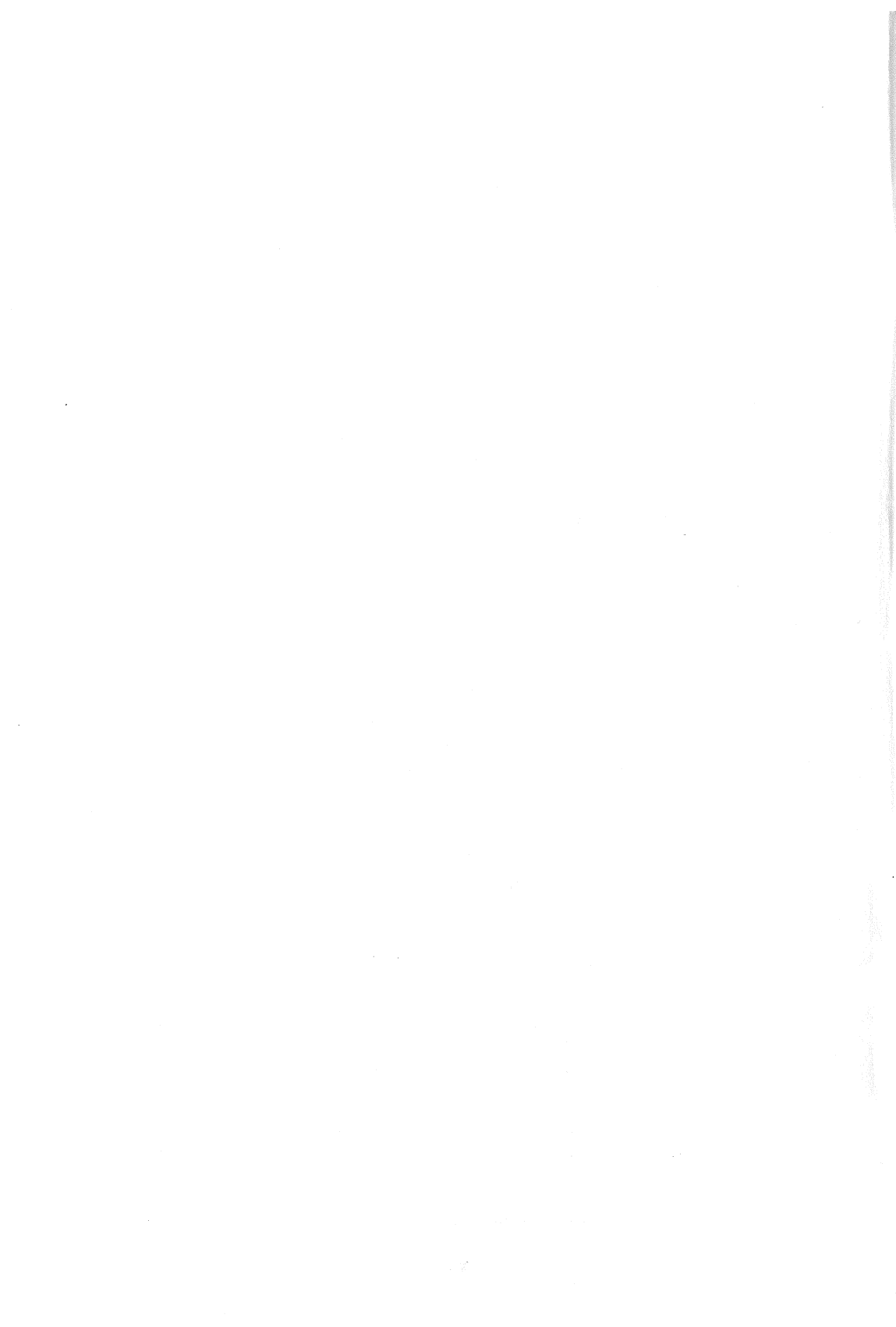


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WARRANT

Royal Commission to Inquire Into and Report Upon Salary and Wage Fixing Procedures in the State Services

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, New Zealand, and Her Other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith:

To Our Trusty and Well-beloved the Right Honourable SIR THADDEUS PEARCEY McCARTHY, a Judge of the Court of Appeal of New Zealand, SIR CLIFFORD ULRIC PLIMMER, K.B.E., of Wellington, retired company director, JOHN TURNBULL, O.B.E., of Wellington, retired secretary, and RALPH HERBERT BROOKES, of Wellington, university professor:

GREETING:

KNOW YE that We, reposing trust and confidence in your integrity, knowledge, and ability, do hereby nominate, constitute, and appoint you, the said

The Right Honourable SIR THADDEUS PEARCEY McCARTHY;
SIR CLIFFORD ULRIC PLIMMER, K.B.E.;
JOHN TURNBULL, O.B.E.; and
RALPH HERBERT BROOKES

to be a Commission to receive representations upon, inquire into, investigate, and report upon the salary and wage-fixing procedures used in the State Services of New Zealand (which expression shall, where used herein, unless the context otherwise requires, have the particular meaning given to it in section 2 of the State Services Remuneration and Conditions of Employment Act 1969), having regard to the report of the Royal Commission of Inquiry into Salary and Wage-fixing Procedures in the State Services in New Zealand submitted to His Excellency the Governor-General on the 26th day of August 1968, and to the enactments relating to the State Services of New Zealand or any part thereof; and, in particular, to receive representations upon, inquire into, investigate, and report upon the following matters:

1. Whether, accepting the principle that rewards of State employment be kept broadly in line with those of comparable employment outside the State Services, the systems for fixing and adjusting the wage rates and salary scales of State servants under the provisions

of the State Services Remuneration and Conditions of Employment Act 1969 should be changed in the light of experience, and particularly :

- (a) Whether the effect of those systems has been to produce, for broad categories of State servants, rewards not broadly in line with those of comparable employment outside the State Services :
- (b) Whether the present procedures for implementing that principle give rise to inflationary effects.

2. What changes should be made, whether in legislation, by administrative action, or otherwise, to achieve any desirable modifications in the systems for fixing and adjusting State wage rates and salary scales.

3. Any associated matters that may be thought by you to be relevant to the general objects of the inquiry.

And We hereby appoint you the said

The Right Honourable SIR THADDEUS PEARCEY McCARTHY to be the Chairman of the said Commission :

And for the better enabling you to carry these presents into effect you are hereby authorised and empowered to make and conduct any inquiry or investigation under these presents in such manner and at such time and place as you think expedient, with power to adjourn from time to time and place to place as you think fit, and so that these presents shall continue in force and any such inquiry may at any time and place be resumed although not regularly adjourned from time to time or from place to place :

And you are hereby strictly charged and directed that you shall not at any time publish or otherwise disclose, save to His Excellency the Governor-General, in pursuance of these presents or by His Excellency's direction, the contents of any report so made or to be made by you, or any evidence or information obtained by you in the exercise of the powers hereby conferred on you, except such evidence or information as is received in the course of a sitting open to the public :

And it is hereby declared that the powers hereby conferred shall be exercisable notwithstanding the absence at any time of any one of the members hereby appointed so long as the Chairman, or a member deputed by the Chairman to act in his stead, and two other members are present and concur in the exercise of the powers :

And We do further ordain that you have liberty to report your proceedings and findings under this Our Commission from time to time if you shall judge it expedient to do so :

And, using all due diligence, you are required to report to His Excellency the Governor-General in writing under your hands, not later than the 31st day of May 1972, your findings and opinions on the matters aforesaid, together with such recommendations as you think fit to make in respect thereof :

And, lastly, it is hereby declared that these presents are issued under the authority of the Letters Patent of His Late Majesty King George the Fifth, dated the 11th day of May 1917, and under the authority of and subject to the provisions of the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand.

In witness whereof We have caused this Our Commission to be issued and the Seal of New Zealand to be hereunto affixed at Wellington this 28th day of February 1972.

Witness Our Right Trusty and Well-beloved Cousin, Sir Arthur Espie Porritt, Baronet, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Knight Commander of Our Royal Victorian Order, Commander of Our Most Excellent Order of the British Empire, Governor-General and Commander-in-Chief in and over New Zealand.

ARTHUR PORRITT, Governor-General.

[L.S.]

By His Excellency's Command—

J. R. MARSHALL, Prime Minister.

Approved in Council—

P. J. BROOKS, Clerk of the Executive Council.

WARRANT

Extending the Time within which the Royal Commission to Inquire Into and Report Upon Salary and Wage Fixing Procedures in the State Services may Report

ELIZABETH THE SECOND, by the Grace of God of the United Kingdom, New Zealand, and Her Other Realms and Territories Queen, Head of the Commonwealth, Defender of the Faith:

To Our Trusty and Well-beloved the Right Honourable SIR THADDEUS PEARCEY MCCARTHY, a Judge of the Court of Appeal of New Zealand, SIR CLIFFORD ULRIC PLIMMER, K.B.E., of Wellington, retired company director, JOHN TURNBULL, O.B.E., of Wellington, retired secretary, and RALPH HERBERT BROOKES, of Wellington, university professor:

GREETING:

WHEREAS by Our Warrant dated the 28th day of February 1972, issued under the authority of the Letters Patent of His Late Majesty King George the Fifth dated the 11th day of May 1917, and under the authority of and subject to the provisions of the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand, you were appointed to be a Commission to inquire into and report upon the matters in Our said Warrant set out, being matters concerning salary and wage fixing procedures in the State Services:

And whereas by Our said Warrant you were required to report to His Excellency the Governor-General, not later than the 31st day of May 1972, your findings and opinions on the matters aforesaid, together with such recommendations as you think fit to make in respect thereof:

And whereas it is expedient that the time for so reporting should be extended as hereinafter provided:

Now, therefore, We do hereby extend until the 30th day of June 1972 the time within which you are so required to report without prejudice to the continuation of the liberty conferred upon you by Our said Warrant to report your proceedings and findings from time to time if you should judge it expedient to do so:

And We do hereby confirm Our said Warrant and the Commission thereby constituted save as modified by these presents:

And it is hereby declared that these presents are issued under the authority of the said Letters Patent of His Late Majesty, and under the authority of and subject to the Commissions of Inquiry Act 1908, and with the advice and consent of the Executive Council of New Zealand.

In witness whereof We have caused these presents to be issued and the Seal of New Zealand to be hereunto affixed at Wellington this 15th day of May 1972.

Witness Our Right Trusty and Well-beloved Sir Arthur Espie Porritt, Baronet, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, Knight Commander of Our Royal Victorian Order, Commander of Our Most Excellent Order of the British Empire, Governor-General and Commander-in-Chief in and over New Zealand.

ARTHUR PORRITT, Governor-General.

[L.S.]

By His Excellency's Command—

J. R. MARSHALL, Prime Minister.

Approved in Council—

P. J. BROOKS, Clerk of the Executive Council.

Letter of Transmittal

To His Excellency Sir Arthur Espie Porritt, Baronet, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George, Knight Grand Cross of the Royal Victorian Order, Commander of the Most Excellent Order of the British Empire, Governor-General and Commander-in-Chief in and over New Zealand.

MAY IT PLEASE YOUR EXCELLENCY

Your Excellency by Warrant dated 28 February 1972 appointed us the undersigned THADDEUS PEARCEY McCARTHY, CLIFFORD ULRIC PLIMMER, JOHN TURNBULL, and RALPH HERBERT BROOKES, to report under the terms of reference stated in that Warrant.

We were originally required to present our report by 31 May 1972 but this date was extended by Your Excellency to 30 June 1972.

We now humbly submit our report for Your Excellency's consideration.

We have the honour to be
Your Excellency's most obedient servants,

THADDEUS McCARTHY, Chairman.

C. U. PLIMMER, Member.

J. TURNBULL, Member.

RALPH H. BROOKES, Member.

Dated at Wellington this 30th day of June 1972.

TABLE OF ABBREVIATIONS USED

Combined State Service Organisations	..		..	CSSO
Consumers' Price Index	..	..	..	CPI
Cost of Living Order	..	..	..	COL order
General Wage Order	..	..	..	GWO
Half-yearly survey:				
as a noun	..	..	..	HY survey
as an adjective	..	..	..	HYS
Higher Salaries Advisory Committee	..	..	..	HSAC
Pay Research Unit	..	..	..	PRU
Ruling rates survey:				
as a noun	..	..	..	RR survey
as an adjective	..	..	..	RRS
State Services Co-ordinating Committee	..	..	..	SSCC

Chapter 1. THE NATURE AND SCOPE OF THE INQUIRY

INTERPRETATION OF THE WARRANT

1. The members named by Your Excellency in the Warrant appointing this Commission had previously served on the Royal Commission of Inquiry into Salary and Wage Fixing Procedures in the New Zealand State Services (hereafter called the 1968 Royal Commission), to whose Report your Warrant directs us to have regard, and earlier on the Royal Commission of Inquiry into the State Services in New Zealand (hereafter called the 1962 Royal Commission). The 1962 Royal Commission dealt broadly with problems of structure, staffing, and control in the Departments of State. The 1968 Royal Commission investigated in greater depth the principles, machinery, and procedures for pay fixing in the State Services. Our present work is a continuation of the previous inquiries, but within a relatively narrow field.

2. The 1962 and 1968 Royal Commissions were called on to investigate, *inter alia*, the principles of State pay fixing, which they did at some length. Their conclusions can be summarised without undue distortion in the maxim that the rewards of State employment be kept broadly in line with those of comparable employment outside the State Services. Our Warrant requires us to accept that proposition; in other words, we are not on this occasion called on to probe principles or to consider criteria, but merely to check how the State pay-fixing systems have worked in practice since they were reshaped in 1969. More specifically we are directed to see whether broad categories of State servants have received, under those systems, rewards not broadly in line with those of their outside counterparts, and whether the present procedures give rise to inflationary effects. For those purposes, "State servants" are those covered by the provisions of the State Services Remuneration and Conditions of Employment Act 1969 (hereafter called the 1969 Act)—a definition somewhat narrower than that which guided the 1968 Royal Commission.

3. The witnesses who appeared before us devoted hardly any time to explaining what our Warrant may mean by "inflationary effects", perhaps because inflation has for so long been a feature of the New Zealand economy that we are presumed to know. To the man in the street, and more especially to his wife doing the shopping, inflation probably means "rising prices". At one time, economists were critical

of this layman's definition, maintaining that rising prices were merely a *symptom* of inflation, the essence of which was an excess of demand ("too much money chasing too few goods"). More recently, it appears, this contention has been modified; excess demand has been viewed not as the essence of inflation but as one possible cause of it ("demand-pull" inflation). Another possible cause, to which our attention has been drawn, e.g., by the Treasury and the Chairman of the New Zealand Monetary and Economic Council, is the spiralling of wages generated by increased militancy out of pay-fixing procedures ("cost-push" inflation). The Government Statistician has suggested to us that "the origin of inflation is generally at the same time part cost-push and part demand-pull", the relative importance of these two sources varying from one time to another. A rather similar interpretation was offered by the Combined State Service Organisations (hereafter CSSO).

4. Whether present procedures for State pay fixing give rise to inflationary effects is thus a two-fold problem:

- (a) do they lead to an excess of demand?
- (b) do they contribute to wage-wage spirals?

5. Obviously, pay increases for State servants (or others) add to total demand, and if the level of demand is excessive they will by definition have inflationary effects. However, it does not follow that they should not for that reason be granted. As the 1962 Royal Commission (p. 348, para. 16) observed:

. . . we are in no position to say that [the Government] would never be justified in modifying even the timing of a salary adjustment to take account of economic circumstances. Nevertheless, we think there is a powerful presumption in favour of maintaining the fair relativity principle, and consider that inflationary pressure should be checked by economic and fiscal policies, not by manipulating State salaries.

This presumption is echoed in our Warrant, in that we are directed to accept the principle that State rewards be kept broadly in line with those outside. Accordingly, we propose to disregard any excess demand created by observing that principle. It follows that *for our purposes*, State pay-fixing procedures can contribute to demand-pull inflation only if they result in State pay leadership.

6. State pay leadership may mean either of two things. It may mean levels of remuneration which are ahead of those in the private sector (or, if there is no private-sector counterpart, which exceed those needed to recruit and retain staff). But it can exist even though no gap between State and private rates is apparent, if private-sector rates are rapidly increased to close such a gap whenever it occurs. Which form State pay leadership will take—whether, when State

pay gets ahead, comparable private-sector pay will lag behind or will promptly be brought into line—will depend on conditions in the relevant labour market and on the power of private-sector trade unions in the occupations affected. But whichever form it takes, State pay leadership is central to our inquiry. It will contribute to demand-pull inflation even though private-sector rates lag behind, whilst if they follow it will contribute to cost-push inflation as well.

7. Accordingly, we have not attempted in this report to deal separately with items 1 (a) and 1 (b) in our Warrant, but instead have investigated whether there has been or is, for significant groups of employees, State pay leadership. In doing so, we have not overlooked the possibility that there might, for some groups, be a gap of the opposite kind (viz, a private-sector lead), as this would also be relevant to item 1 (a) of our Warrant; however, the evidence directed our attention mainly to the existence or otherwise of a State lead.

THE ENVIRONMENT FOR REVIEW

8. It is most unusual for a Royal Commission to be asked to retrace its ground only 4 years after a previous inquiry; and the reason is the most unusual circumstances of the past 4 years. The principles and machinery for State pay fixing recommended by the 1968 Royal Commission, and substantially embodied in the 1969 Act, took into account the scale of inflation experienced by the New Zealand economy in the years since World War II; prices had risen, for example, by an average of 3.3 percent annually during the previous decade. But the 1968 Royal Commission did not foresee—nor, for that matter, did anyone else at that time—the inflationary surge which was about to occur; prices rose by 10 percent in 1970 and 9.1 percent in 1971, and wages and salaries were increasing even faster. Average ordinary-time weekly earnings rose by 13.6 percent in the year to October 1970, and by 17.4 percent in the year following.

9. Although the explanations of this rising tempo of inflation offered by some of our witnesses differ in detail, it seems to be widely agreed that the initial impetus was of a demand-pull type as the economy began to expand again after the 1967–68 recession, but became increasingly “cost-push” as wages continued to spiral even after steps had been taken (in the June 1970 Budget and the October 1970 mini-Budget) to restrain demand. Whether this interpretation is correct or not it is a fact that it was becoming widely accepted. Public attention focused increasingly on wage-wage spirals as a source of the persisting inflation (i.e., on the continuous leapfrog as each group of workers claimed a wage or

salary increase because some other group had secured one), and the Government, too, reflected this line of thought when in 1971 it established the Remuneration Authority to check the process.

10. In these circumstances it was inevitable that State pay fixing would command its share of attention. The State in New Zealand employs a sizeable proportion of the labour force (between 15 and 20 percent, depending on how one defines the State Services). The 1969 Act provided for half-yearly adjustments to keep State pay in line with that in the private sector, and as the inflation gathered speed some State servants obtained adjustments more frequently even than that. Moreover, the practice of backdating most State pay increases caused growing concern, as it meant periodic massive injections of purchasing power into the economy; on three occasions in 1970 these sums exceeded \$10 millions, twice in 1971 they exceeded \$20 millions, and in March 1972 (the month when our inquiry began) \$32 millions of back pay was distributed.

11. The 1962 and 1968 Royal Commissions had recommended, as has been explained, that State remuneration should be kept in line with that in the private sector; and that was the intention behind the 1969 Act. However, by late 1970 the New Zealand Employers' Federation (Inc.) was making representations to the Government that the legislation was in practice producing, at least for some occupations, rates higher than in the private sector. During 1971 such accusations were voiced publicly, by the Employers' Federation and others, with increasing frequency, and were given wide currency by the Press.

12. This, then, was the climate of opinion when in December 1971 the New Zealand Monetary and Economic Council published its Report No. 22 entitled *Inflation and the Labour Market*. Much of that Report dealt with wage spirals in the economy generally; but in chapter 8 the linkages between the private and public sectors were examined, and reasons advanced for thinking that the procedures for State pay fixing adopted in 1969 were inflationary. It was also claimed that, in the 2 years to April 1971, average ordinary-time earnings in the State sector had risen by 35 percent compared with only 28½ percent in the private sector. Chapter 8 of *Inflation and the Labour Market* was doubtless the catalyst which caused the Government to conclude that a further inquiry into State pay fixing was needed.

THE PROCESS OF THE INQUIRY

13. Your Excellency's Warrant was published in the *New Zealand Gazette* of 2 March 1972. Even before that date, and before our

terms of reference were known, we had (in an effort to expedite the inquiry) sent a preliminary letter to organisations and individuals from whom submissions might be expected, stressing the urgency of our prospective proceedings and calling their attention to chapter 8 of *Inflation and the Labour Market* as a preliminary indication of the ground which might need to be explored. Our terms of reference were supplied to them as they became available, and were also advertised in metropolitan and provincial newspapers with an invitation for submissions.

14. On 20 March we opened our inquiry and announced the procedures we proposed to follow, which were those adopted by the 1968 Royal Commission and are described in its Report (and, more fully, in an appendix to the Report of the 1962 Royal Commission). Representatives of 14 organisations announced their presence on that occasion. Not all of those organisations subsequently made separate submissions. Several of them were State employing authorities, which generally presented combined submissions through the State Services Co-ordinating Committee (hereafter SSCC), though the Treasury made additional submissions of its own. On the other hand, several organisations which had not announced their presence on 20 March made submissions subsequently, as did a number of individual people. In all we received 44 submissions (1102 pages) from the people and organisations listed in appendix 1. Supporting oral evidence was recorded verbatim, and ran to 827 pages.

15. We sat in public, in Wellington, on 19 days, in the period from 20 March to 29 May. Our hearings fell, in effect, into four phases. In the opening phase (20–22 March) we received submissions from the SSCC, the Chairman of the Monetary and Economic Council (Professor Brownlie), the Treasury, and the Department of Labour. These provided an historical and analytical perspective on events since 1968. In the second phase (from 18 April) we heard criticisms of State pay fixing, most comprehensively from the Employers' Federation but also from other organisations and individuals. During this period other background papers were also presented, including that by the Government Statistician and two further ones by the Secretary of Labour. Cross-examination on the Employers' Federation's initial paper was not completed till 5 May, and not till the week beginning 15 May were we able to hear the opening submission by the CSSO in defence of the existing procedures and that by the Railway Tradesmen's Association proposing certain changes in them. During the concluding phase, 25–29 May, the main participants were given an opportunity to present final submissions. We are grateful to them, and indeed to all our witnesses, for meeting what

were necessarily tight deadlines. To have required them to prepare their submissions at even greater speed would have denied them a fair opportunity to present their views. Accordingly, since our Warrant originally specified that we report not later than 31 May, and our hearings were not completed till 29 May, we were obliged (reluctantly, in view of the known urgency of the problems) to ask for a month's extension.

16. The types of evidence mentioned in the previous paragraph are those clearly relevant to our investigation. In addition we received submissions of two other kinds, less central to our purposes. Several of them dealt with the links between pay fixing in the State Services (as defined for this inquiry) and in other organisations, such as local authorities and universities. We shall comment on those links later in this Report. The Association of Scientists was the only organisation proposing to us a radical redesign of the machinery for State pay fixing, in a submission updating the proposals which they had presented to the 1968 Royal Commission. Their current proposals still raise a number of the difficulties to which that Commission drew attention at pp. 146-7 of its Report, and in the time available we have not felt it appropriate to explore them in greater depth than did that Commission, especially as no other evidence suggested the desirability of such dramatic changes at this time. Moreover, those proposals as they affect pay fixing for scientists in the State Services (as defined for this inquiry) do not seem to us urgent, since the spokesman for the Association of Scientists conceded that the procedures adopted since 1968 had effected an improvement, and that enough scientists can at present be recruited except in certain specialised fields.

17. In addition to the evidence presented in submissions and elicited in cross-examination thereon, other matter relevant to our investigations was obtained by us, in three ways. First, we recognised at an early stage in our proceedings that one of the key questions on which we would have to express a considered opinion was the desirability of shifting the emphasis in State pay fixing from general adjustments to specific reviews based on pay research, and that our answer to that question would depend largely on the practicability of such a shift. Accordingly, to get a better understanding of some of the practical difficulties and potentialities of pay research, we arranged to have three pilot studies conducted, one by the Department of Statistics (on quantity surveyors), one by the Department of Labour (on tourist clerks), and one by W. D. Scott and Co. (on computer programmers). In the limited time available, the occupations chosen had to be ones in which fairly close job comparability was expected in State and private employment, and the samples

compared had to be confined to Wellington and not drawn nationwide. Nevertheless, while the limitations of time and area might prevent our regarding the specific findings of these surveys as definitive, we were confident that they would give us a better understanding of the process of identifying in the State and private sectors comparable jobs, having regard to such factors as qualifications, skill, responsibility, and pressure, and of the measurement of effective remuneration for those jobs, having regard to fringe benefits as well as pay; and indeed they did so.

18. It also became apparent early in our investigations that we might find ourselves in the undesirable position of having, as laymen, to decide which sets of statistics to accept when the experts for the various organisations were in disagreement. This problem was specially acute in measuring the divergence between average State and private-sector pay over time. Accordingly, we arranged for a working group to be convened by Mr Dickinson (the investigating mathematician on our staff), including expert representatives from the SSCC, the Department of Labour, the Monetary and Economic Council, the Employers' Federation, and the CSSO, to produce an agreed set of figures, following certain guidelines suggested by us, and so far as possible to reach agreement on how much of the divergence thus revealed was attributable to each of the identifiable causes. On 24 May, after several meetings, the working group completed this assignment for which we are very grateful to them. It was thus possible for the participating organisations in their final submissions, and for this Commission in its subsequent deliberations, to focus attention on how the figures should be interpreted instead of on which figures should be used.

19. Finally, believing that the final court of appeal in disputes over State pay is inevitably the public at large, we studied extensive files of clippings from metropolitan and provincial newspapers dealing with such disputes of this kind as have arisen during the past couple of years, to see what opportunities the public have had to acquire from press news reports an understanding of the principles and issues involved, and what lead the Press has given through editorials to assist the public to pass judgment.

20. In completing this review of the process of our inquiry we must stress the value of its having been held, irrespective of the conclusions to which it has led us. There can be no doubt that the material assembled in the submissions provides, for the first time, a substantial body of information about a controversy hitherto characterised by conflicting allegations grounded (on both sides) on suspicions rather than on facts. Nor can it be doubted that the material

would not have been assembled had our inquiry not been held. Moreover, the exchange of views among the major participants, in cross-examination and otherwise, while certainly not leading to consensus, has stimulated in several respects a more sophisticated appreciation of the points at issue. The progress thus made can perhaps best be summarised by saying that, while chapter 8 of *Inflation and the Labour Market* seemed as recently as February like a frontier post, it must now appear to the major participants as no more than a staging point into the territory since explored.

THE STATE SECTOR AND THE PRIVATE SECTOR

21. It is apposite, before concluding this introductory chapter, to put in perspective the field of our inquiry. Pay fixing in the State Services is only a part of the process of setting wage and salary levels in the economy as a whole; and that in turn is only part of the process by which incomes are determined; and those incomes in turn inevitably affect costs, prices, taxation, levels of saving and investment, and other variables important to the functioning and growth of the economy.

22. It was forcibly argued before us, for example by Federated Farmers of New Zealand (Inc.), that in recent years the machinery for wage and salary fixing—private-sector as well as State—has failed to mesh with the rest of the economy, partly because most New Zealand employers, except in the export industries, operate in a protected environment in which the extra cost of increased wages can be passed on in higher prices in the home market. The unfortunate consequences, they continued, fall hardest on other sections of the community, such as the export industries and consumers on fixed incomes. Professor Brownlie, too, speaking for the Monetary and Economic Council, said in reply to a question that—

. . . we are not saying that either sector is the culprit; the public sector or the private sector. It may be that the culprit is the system of income determination with the public sector being just a part of this system.

There is further support for this view in the latest report (No. 23) of the Council (page 76).

23. To accept such a proposition is not to excuse State pay leadership, if it occurs. It is, however, to recognise that cost-push inflation is unlikely to be eliminated by changes in the State sector alone. As the Government Statistician put it, “the 15 percent of tail does not wag the 85 percent of dog”. Accordingly, we feel ourselves to be dealing with only part of a much wider problem. Of the witnesses who appeared before us, only Mr J. N. Laurenson took a significantly

different view; in elaborating his proposals before us, he was optimistic that if the State sector set a good example by adopting pay-fixing methods which took adequate account of the economy as a whole, the private sector might more cheerfully do so.

24. We confess that we discerned no enthusiasm in the State sector, either among employing authorities or employee associations, for setting a good example in this fashion. They may well have felt bound, as we do, by the provision in our Warrant that the rewards of State employment are to be kept broadly in line with those outside. But if the State Services are thus to follow wage and salary trends in the private sector, the elimination of cost-push inflation must depend on the acceptance by both employers and employees of a greater measure of discipline (either self-discipline, or continuing State control) in private-sector wage and salary fixing. We have no special knowledge of what progress has been made to that end in negotiations, still less of what new principles and machinery may in time emerge. It may well happen that such changes will lead to the establishment of completely new patterns of relationship between State-sector and private-sector pay fixing, rendering obsolete both the current procedures and machinery in the State services, and the comments and conclusions about them in this Report.

25. For the time being, however, we cannot help but deal with the State system as we find it, assuming no immediate radical changes in the private sector. In the next chapter we shall briefly describe that system, from its conception in the Report of the 1968 Royal Commission to its birth in the 1969 Act and its turbulent childhood to date. In the following chapters we shall consider the criticisms made of it, evaluate various proposals for its improvement, and make our recommendations.

Chapter 2. THE STATE PAY FIXING SYSTEM 1968-72

THE 1968 ROYAL COMMISSION

1. As was explained in the previous chapter, we are not required on this occasion to investigate the principles and criteria for State pay fixing. They were carefully examined by the 1968 Royal Commission, whose conclusions can be summarised thus:

- The State Services should be divided into occupational classes.
- The aim should be to set for each occupational class a pay scale which would enable the State services to recruit and retain an efficient staff, and would be fair to the taxpaying public and to employees in the State Services.
- To this end, the main criterion should be to keep the effective remuneration of each occupational class (taking into account both pay and fringe benefits) broadly in line with that of comparable groups in outside employment, i.e., external relativity.
- Supplementary criteria should be: to maintain between different levels of each occupational class adequate margins for skill and responsibility (i.e., vertical relativity); to maintain appropriate horizontal relativities between jobs having similar requirements, if closer comparisons are not available; and to have regard to the needs of recruitment and retention, when there is abnormal ease or difficulty in attracting and holding enough competent staff.

2. The 1968 Royal Commission also devoted a great deal of attention to improving the procedures for settling State pay disputes by negotiation and arbitration. The resulting proposals for negotiating machinery and a reformed system of Tribunals did not loom large in our present inquiry.

3. The 1968 Royal Commission renewed and amplified the recommendation of the 1962 Royal Commission that, as a means of measuring external relativities more accurately, a Pay Research Unit should be set up. It proposed that the Unit be placed in the Department of Statistics, and its operations be guided by a steering committee representative of State employing authorities and employee associations, with an independent chairman; but that if staff associations were not willing to co-operate, the Unit should nevertheless be established in a form which would enable them to participate whenever they might decide to do so.

4. As an aid to more accurate pay fixing at the top levels of the State Services, a Higher Salaries Advisory Committee (hereafter HSAC) had already been established in consequence of a recommendation of the 1962 Royal Commission. The 1968 Royal Commission proposed that the HSAC continue to conduct its triennial reviews.

5. The 1968 Royal Commission also recommended the continuation of the ruling rates survey (hereafter RR survey) for the purpose of discovering the rates paid to tradesmen and labourers in outside employment, but proposed that the uniform rate for State tradesmen be split into four separate rates, two for the building trades and two for the engineering trades.

6. The RR survey had hitherto been used not merely to ascertain pay levels for tradesmen and labourers, but also as an index of movement by which to adjust other State wages and salaries. The 1968 Royal Commission was convinced by evidence and experience that pay research could not develop fast enough to eliminate the need for such broad-brush adjustments, and reluctantly concluded that “. . . we must for the present move the emphasis and conceive a system based not on pay research supplemented by interim adjustments but, mainly, on general adjustments checked and (where necessary) modified by pay research”. It recommended, however, that as the index of movement for this purpose, the RR survey should be replaced by the Department of Labour's half-yearly survey (hereafter HY survey) of average ordinary-time weekly earnings in the private sector, corrected for varying proportions of women and part-time workers.

7. The 1968 Royal Commission proposed a major change in applying these general adjustments. Hitherto they had generally been made on a flat-rate basis, thus relative margins tended to shrink until revised on the occasion of the next HSAC review. A change to percental adjustments, to avoid these triennial fluctuations, was recommended. A number of detailed limitations on the application of general adjustments were also proposed; they can be found at pp. 118-124 of the 1968 Royal Commission's Report, but do not warrant recapitulation in this brief summary.

8. The backdating of adjustments raised problems in 1968, as it does now. The 1968 Royal Commission recognised that there was a case for backdating, on the ground that the movement in private-sector earnings had been occurring throughout the 6 months between surveys. On the other hand, backdating had obvious practical disadvantages, its disturbing effects on the economy being noted. While leaving the resolution of the problem to negotiation between

the parties, the 1968 Royal Commission expressed its preference for minimising backdating to the period between the date of the survey and the subsequent adjustment.

ACTION ON 1968 RECOMMENDATIONS

9. Most of the recommendations of the 1968 Royal Commission were adopted, some with minor modifications, and only a few were not adopted or were substantially modified. Here as in the previous section, we shall deal only with those which have relevance to our present inquiry.

The 1969 Act

10. After lengthy negotiation between the Government and the employee organisations the State Services Remuneration and Conditions of Employment Act was passed on 22 October 1969, 14 months after the 1968 Report was presented. We were told that agreement on the action to be taken was reached as a "package" settlement on 25 September 1969; that it was in general a compromise settlement; and that there had indeed been some compromise not only between the Government and its employees, but also among the employee organisations themselves.

11. The "package" settlement provided for—

- (i) the negotiating and arbitration structure recommended;
- (ii) the criteria as recommended, with minor additional provisions which were not inconsistent (see appendix 2);
- (iii) the HSAC and certain other advisory committees;
- (iv) the establishment of a pay research unit in the Department of Statistics;
- (v) the adoption of the HY survey of average weekly ordinary-time earnings in the private sector as the basis for interim adjustment of State pay scales on a percental basis;
- (vi) the retention of the RR survey as a specific review for tradesmen and labourers;
- (vii) the splitting of the uniform tradesman's rate (but into six separate rates instead of the four recommended).

12. Apart from the modifications referred to in (ii) and (vii) of the preceding paragraph, the main departure from the 1968 recommendations was that certain recommended limitations on the percental adjustment of higher salaries at the HY survey immediately preceding a review by the HSAC were not accepted.

13. The Act makes no specific reference to the backdating of interim adjustments, but provides in s. 24 (7) that—

. . . an employing authority may . . . issue a determination to come into force on such date as may be specified therein (being the date of the determination or any other date, whether before or after the date of the determination) making such adjustments in the pay scales in the State services as may be required to ensure that employees in the State services are not at a disadvantage compared with persons employed outside the State services by reason of movements in pay scales outside the State services that have taken place since the date of the last survey.

Ruling Rates Survey Retained as One Index of Movement

14. Although the Act provides (as recommended) that the HY survey shall be the index of movement for interim adjustments, we were informed by the SSCC that subsequent action has resulted in the agreement of the Government and CSSO to use the RRS system as the method of adjusting the salaries of trades and related groups.

15. The Act was not amended to provide for interim adjustments on this basis, probably because the exercise was regarded as pay *fixing*—which indeed it was for those most directly affected—rather than pay *adjustment*. Also, whereas the 1968 Royal Commission had envisaged RR surveys being made at 2-yearly intervals (the building industry 1 year and the engineering industry the next year) they are now made twice yearly in April and October in both industries. The Department of Labour had in 1968 considered it impracticable to make both the HY survey and even a modified RR survey at the same time, but apparently this difficulty has been overcome.

16. Thus there was a substantial departure from the 1968 recommendations, and indeed from the 1969 Act. The SSCC told us that “it was necessary . . . to reach agreement with CSSO on what groups, if any, should, as suggested by the 1968 Royal Commission in paragraph 90, chapter 6, be ‘properly linked with the State group for which the review is being made’”. However, paragraph 90 related to pay *fixing* on the basis of specific surveys, to which the criteria set out in s. 6 of the 1969 Act should apply, whereas it appears that the RR survey has been used as a measure for pay *adjustment*, to which the criteria do not apply.

17. This departure from what was contemplated by the 1968 Royal Commission is of considerable significance to the matters we are now required to inquire into as will be seen from the later discussion. At this stage we merely point out that it placed very strong accent on the preservation of internal relativity, and that a great many employees in a great variety of occupations are involved.

Of those employed in the Public Service, Post Office, and Railways at 1 April 1971, 43.9 percent had their pay either fixed or adjusted by RR surveys.

Percental Adjustments

18. The February 1968 and 1969 RR surveys were those immediately preceding the introduction of the new system. To correct at the time of that introduction (effective from 15 June 1969) for any shrinkage in margins since the preceding HSAC review, the upward movement (8.78 percent) shown by those two surveys was applied percentally throughout the scales, less the flat increases already received.

19. It is worth noting that this 8.78 percent was the total average trade movement for 2 years, and *included* the effect of the August 1968 5 percent General Wage Order. The "wage explosion" had not yet taken place. Even the HY survey of October 1969 disclosed a movement which was assessed at only 3.3 percent for the preceding 8 months. In annual terms (4.95 percent) this was not much higher than had been experienced in the previous 10 years.

Backdating

20. The 3.3 percent was applied from 15 June 1969, the mid-point between the February RR survey and the October HY survey. This date became the starting date for the new system.

Separation of Trade Rates

21. The February 1969 RR survey had shown reasonable stability in average pay between the various trades since February 1968. The gap between the highest (electrician) and the lowest (painter) was 18.4 cents per hour, but had increased by less than 1 cent per hour in the preceding year.

22. When the uniform trade rate was abandoned, from 15 June 1969, painters' and carpenters' rates were below the "average" determined rate of \$2,328 p.a. and in accordance with the 1968 recommendations would have remained on that figure (instead of being cut back to their true rates of \$2,098 and \$2,305) until overtaken by ruling rates.

23. However, because of the changes which were later found to be taking place in private-sector tradesmen's rates it was agreed that the "standstill" should not be applied. The two trades were allowed to advance with the average rate when this was increased (by the October 1969 HY survey) by 3.3 percent to \$2,405. At this point the highest trade rate, that for electricians, was \$2,566.

Pay Research Unit

24. The 1969 Act provided in s. 25 for a Pay Research Unit (hereafter PRU) to be established in the Department of Statistics, to operate under rules agreed "between the SSCC and the service organisations whose members are likely to be affected thereby, or failing agreement, as prescribed by the Minister after consultation with the service organisations". This accorded well with the recommendations of the 1968 Royal Commission.

25. However, the PRU has not yet been established, although there was agreement in 1970 that it should be, and an expectation that it would be in operation by 15 April 1971. Not until May 1972 was agreement reached between the SSCC and the CSSO on a constitution and rules for the PRU and also on certain related matters, including:

- (a) the date of application of increases arising from the Unit's reports is to be a matter for negotiation in each case;
- (b) acceptance of the results of pay research exercises does not imply abridgment of the rights of either party under HY surveys without negotiation between the parties, but the Government is not committed to the continuation of such surveys or any other pay-fixing procedures which have been referred to this Royal Commission.

Occupational Classification

26. The 1962 Royal Commission recommended that the Public Service be classified on occupational rather than divisional lines and that this be done also in the Post Office and Railways with modifications to suit their special circumstances.

27. By 1968 considerable progress had been made towards occupational classification in the Public Service (115 classes having been created) and the process has since been completed, with 136 classes listed as at 31 March 1971 in the State Service Commission's Annual Report to Parliament. It is interesting, and it may be of significance for such issues as pay research, to note:

- (a) that of the 51,371 employees classified, 13,701 are in the clerical occupational class;
- (b) that no other class has 2,000 members, and that only 12 others have 1,000 or more;
- (c) that some classes have very few members, 22 of them having fewer than 20;
- (d) that some classes are obviously closely related to others and can be linked for pay research and wage-fixing purposes.

28. The Railways Department has been occupationally classified into 27 classes, the principal accent having been on whether pay is adjusted on the HY or the RR survey, and if on the latter, whether on the tradesmen's or the labourers' rates. This is no doubt a practical approach to present procedures and should be capable of further refinement to adapt to pay research, especially when it is remembered that many of the classes related to the HY survey will be inter-service classes, and that many of the occupations related to the RR surveys will have no close counterparts in the private sector.

29. In the Post Office it appears that little progress has been made towards occupational classification but negotiations commenced in 1971 and are apparently continuing. Here again there are numerous occupations without substantial counterparts in the private sector, and internal relativities assume great importance and are jealously defended.

THE SYSTEM IN OPERATION

The Wage Explosion

30. The February 1970 RR survey showed that dramatic changes were taking place in private-sector wage rates. The engineering trades led the way, fitters increasing by 13.42 percent over February 1969. Carpenters with 1.79 percent and painters with 5.37 percent lagged behind; overall the trades average rose by 7.80 percent, and the combined labourer average by 7.61 percent.

31. When the February 1970 survey results were available and being negotiated on, it was known that agreement had been reached on new award rates for carpenters and painters and it was expected that their ruling rates would rise substantially. It was considered unfair to ignore this, and while other trade rates were advanced on the basis of the February survey, carpenters and painters were allowed to advance by 2.5 cents per hour instead of having to "stand still". Their rates became \$2,458 from 1 December 1969 compared with the average trade rate of \$2,510, and rose to \$2,510 from 7 May 1970 as an advance against a special RR survey of painters and carpenters which it was agreed should be held in June.

32. The June survey showed a sharp rise in the ruling rates for painters and carpenters and it was necessary to increase the State rates for these trades again, by 6.06 percent for painters and 8.21 percent for carpenters.

33. All of this was indicative of the wage explosion which was taking place in the private sector, and to which the State wage-fixing procedures—themselves in a state of flux—were having great difficulty

in responding. The Secretary of Labour informed us that between February 1969 and April 1971—a little over 2 years—award rates for the eight trade occupations covered by the RR survey rose by 44.9 percent, while the average ruling rate rose by 31.25 percent. When the latter figure for 2 years and 2 months is compared with the 50.5 percent increase from 1 October 1958 to 1 August 1967 (nearly 9 years) it will be seen that an annual increase of less than 5 percent compound had escalated to one approaching 14 percent compound.

34. We do not know how much this escalation of actual rates was caused by the move, commenced in early 1970 and facilitated by an amendment to the Industrial Conciliation and Arbitration Act in October 1970, towards eliminating the “wage drift”—i.e., the differential between the minimum award rate and the actual rates paid. We have seen that while award rates rose by 44.9 percent actual rates rose by only 31.25 percent and the Secretary of Labour said that “The immediate effect was to substantially reduce the margin between the award and the ruling rate”.

35. He also said that the increase in the ruling rate average for the eight trades was 22.5 percent between February 1970 and April 1971, and “Much of this is also directly attributable to the move to write the award rate into closer relationship with the ruling rate”, because of the effect in low-wage areas (where the award rate was also the ruling rate) and “pass-on” provisions in some awards.

36. In the slightly shorter period of 1 year from April 1970 to April 1971, the HY surveys showed that standardised ordinary-time weekly earnings in the private sector rose from \$49.09 to \$58.46, i.e., by 19 percent.

Divergence between Tradesmen's Rates

37. Reference has already been made to the divergence between the ruling rates for different trades which became acute at the time of the February 1970 RR survey. This had quite significant repercussions.

38. The SSCC told us that—

The size of the increases heightened the margins problems encountered earlier, and further extensive argument ensued about how the supervisory grades should be treated. This was finally settled by means of an arbitrary upward adjustment of the bulk of the supervisory grades by the equivalent of a one grade translation on a scale which had been improved by an increase of 4.4 percent representing the agreed upon difference between the February 1969 and February 1970 RR surveys of 7.8 percent less the amount of 3.3 percent already paid out as a result of the October 1969 HY survey.

Had this or some similar adjustment not been made, there would have been no margin, or only a minimal one, at that particular time for the promotion of leading hand electrician to the supervisory grade.

39. An example of the effect of this, and possibly an extreme one, is seen in the maximum rate for foreman-overseer, Class 1, in the Public Service. From 15 June 1969 this rate had been \$3,430. The 4.4 percent plus one grade step \$140 brought it to \$3,721 (an increase of 8.5 percent) from 1 December 1969; then a further adjustment based on the June 1970 RR survey raised it to \$3,970 from 7 May 1970. The October 1970 RR survey brought a further increase to \$4,188 from 15 July 1970.

40. It is interesting to compare the movements which took place about this period in respect of indentured tradesmen's rates and those of this supervisory position.

Table 1

COMPARISON OF MOVEMENTS—INDENTURED
TRADESMAN/FOREMAN-OVERSEER RATES

Date and Adjustment	Indentured Tradesman				
	Average Trades		Fitter		Foreman-Overseer
	Annual Rate	Annual Rate	Margin over Average	Annual Rate	Margin over Fitter
	\$	\$	\$	\$	\$
15/6/69, including percental adjustment since 1967 ..	2,458	2,521	63	3,320	799
15/6/69, October 1969 HY survey 3.3 percent ..	2,535	2,600	65	3,430	830
1/12/69, February 1970 RR survey and "arbitrary upward adjustment" ..	2,640	2,840	200	3,721	881
7/5/70, June 1970 RR survey	2,807	2,840	33	3,970	1,130
15/7/70, October 1970 RR survey	2,953	3,070	117	4,188	1,118
Total increase	495	549	..	868	..
Percent increase	20	21.8	..	26.1	..

41. To the extent that the "arbitrary upward adjustment" was designed to preserve or restore the margins between the supervisory grades and the highest paid trade rates—and there seem to have been other considerations as we mention later—it seems that the adjustment was made at an unfortunate time, when the gap between

the average trade rate and the highest trade rates was greatest. Moreover, it seems to have been known, or at least foreseen at the time, that the building trades would be closing the gap (*vide* para. 31) and when this was recorded by the June 1970 RR survey the supervisory grades nevertheless received in full the consequent increase in the average trade rate which was then only \$33 below the fitter's rate, whereas it had been \$200 below a few months earlier.

42. Erratic movements in the different trades continued, but tended in the longer run to relate fairly closely to one another. Thus the Secretary of Labour was able to say—

... the 18 cent per hour differential between the highest and lowest rate in the building trades in February 1969 was still in evidence in April 1971, although absolute rates had risen from \$1.01 per hour—\$1.18 per hour to \$1.33 per hour—\$1.50 per hour. This means that the percentage differential between the highest and lowest paid occupations in the building trades has narrowed over the period. A similar trend is in evidence in the engineering trades, where the 7 cent per hour differential between the highest and lowest rates in February 1969 was more or less maintained in April 1971, although absolute rates had risen from \$1.08 per hour—\$1.15 per hour to \$1.47 per hour—\$1.53 per hour.

43. This trend towards the resumption of traditional relativities is also apparent between the building and engineering trades, as is seen when the RR survey rates for fitters and carpenters are compared with the average rate for all the trades surveyed:

Table 2

RELATIVITIES BETWEEN BUILDING AND ENGINEERING INDENTURED TRADESMEN

Date of Adjustment	Indentured Tradesmen				
	Carpenter		Average	Fitter	
	Hourly Rate	Margin Below Average	Hourly Rate	Hourly Rate	Margin Above Average
	cents	cents	cents	cents	cents
February 1968 ..	100.893	3.253	104.146	108.106	3.960
February 1969 ..	110.743	1.090	111.833	114.742	2.909
February 1970 ..	112.722	7.830	120.552	130.139	9.587
June 1970 ..	130.538	..	128.631	..	..
October 1970 ..	131.543	4.105	135.648	141.029	5.381
February 1971 ..	..	..	145.332	151.514	6.182
April 1971 ..	143.141	3.836	146.977	152.551	5.574

44. The trend for painters to lose ground as compared with other trades persisted, however, throughout the period. The gap to "average" widened from 10 cents per hour in 1968 to 14 cents in 1971, despite changes in the survey coverage which might have been expected to narrow it. But in May 1971 the Remuneration Authority approved for painters in the private sector an interim adjustment aligning their rates with those in the carpenters award of December 1970. This may bring painters' actual rates into closer relativity with those of other trades.

45. The special adjustments for trades supervisory grades were triggered off by the splitting of the trades rates and by the wide divergence between different trade rates disclosed by the February 1970 RR survey. But pressures had earlier built up which no doubt contributed to the increased margins. When the 6.25 cents margin was obtained by indentured tradesmen it extended upwards only to leading hand tradesmen, thus narrowing the supervisory margins. External as well as internal relativities may also have exerted some pressure: building supervisors had, before April 1966, lodged a claim based partly on external relativity and from this they had obtained a half-grade increase from April 1969.

Opposition to Splitting of Trades Rate

46. The splitting of the trades rate, although agreed to by the CSSO, was not universally accepted, being opposed in the Public Service by Devonport Dockyard employees and in the Railways by the Railways Tradesmen's Association.

47. The dockyard employees based their claims for a common trades rate on the "uniqueness" of naval dockyard work; the very close association of the different tradesmen working together on a ship; the specialised work and the fact that in practice trades tended to overlap; and the consequent interests of efficiency and harmony. Investigations and negotiations were protracted and employees restricted their output in order to obtain a decision in their favour.

48. Although investigations did not support the claims that the dockyard should be treated differently from the other services, the SSCC states—

It was finally agreed to pay a single rate for all trades in the dockyard so calculated as to ensure that payment of all trades at the one rate would equal the payment which would have been made if each of the various trades concerned had been paid the same rate as applied to each of the trades in other State Service establishments.

In addition the special dockyard allowance was increased, partly to incorporate the "survey" allowances which we refer to shortly.

49. The Railway Tradesmen's Association opposed the splitting of the trades rate largely on the grounds that the erratic movements of the individual trade rates disturbed relativities between tradesmen and closely related occupations, some tradesmen indeed finding themselves on lower rates of pay than other groups over whom they had traditionally enjoyed a pay advantage. They made a submission to us on these lines and it will be discussed later.

Ex Gratia Travelling Time

50. The comparatively unfavourable position in which building tradesmen found themselves on the splitting of the trades rate prompted a complaint that the survey inadequately recorded ruling rates in the building industry because it did not cover regular *ex gratia* travelling time payments paid in some circumstances when no travelling time may have been involved. The February 1970 RR survey was broadened to cover this factor, and as a result a so-called "survey" allowance was introduced; it is now being paid at the following rates:

Table 3

SURVEY ALLOWANCES (TRAVELLING TIME) FROM 12 DECEMBER 1970

	Per Hour c
Electrician and electrical fitter	5.64
Plumber	3.02
Painter	1.83
Carpenter	3.04
Labourer	1.16

51. The payment of this allowance to all State tradesmen in the particular categories has been criticised on the grounds that it has an inflationary effect through the link with rates paid by local authorities and some other employers, and that it departs from true external comparability in that in the private sector *ex gratia* travelling time is paid only in certain districts and in specific circumstances. These aspects are further discussed later.

Painters—Exclusion of Brush Hands

52. Another reaction to the temporarily unfavourable position of building tradesmen was a claim for the exclusion of "brush hands" from the RR survey of painters. By agreement between the parties any painter earning 80 cents or more per week below the award rate for an indentured or 5-year experienced painter is now excluded from the survey.

53. How effective this is in excluding "brush hands" it would be difficult to say, but it must certainly raise the survey average for painters, and thus the platform rate on which the State rates are constructed.

The Clerical Adjustments

54. The adjustments made to the salaries of the trades supervisory grades and the subsequent movement arising from the February and June 1970 RR surveys led to a sharp divergence between their salaries and those of clerical classes with which they had been in traditional relativity but which were governed by the HY surveys. "This loss of relativity," the SSCC stated, "was not very evident in the Public Service where Occupational Classification had been in operation for several years and the traditional linkages had become less pronounced." In the Post Office, however, we were told there were numerous representations seeking restoration of previous parities, and "threatened industrial action" which indeed eventuated in the form of a "go-slow".

55. The disparity which had developed is well illustrated by figures quoted to us comparing a Class III clerk and a Class III trades supervisor in the Post Office. From 15 June 1969 both of these positions had a salary of \$3,290. The adjustments following the February and June 1970 RR surveys brought the supervisor, first to \$3,721, then to \$3,970. Meanwhile the clerk, by reason of the April 1970 HY survey had moved to \$3,455. There was a difference of \$515 or 15 percent between two positions which had been paid exactly the same less than a year before.

56. Meanwhile the HSAC had made its triennial report as at April 1970. The general effect of the Committee's recommendations was to provide for higher salaries an increase of approximately 21.8 percent on the 1 April 1967 salaries, less the increases already received, which amounted to some 19 percent. The specific recommendations of the Committee were thus for further increases for Permanent Heads ranging from 2.675 percent to 3.567 percent on the 1967 base.

57. The service organisations sought to have comparable increases given to executive scales down to and including Class V; this became merged with a claim for a new clerical scale from the basic grade upwards; and then with the Post Office claim for restoration of relativity with trade groups.

58. This complex situation was finally resolved by a complex settlement which provided for four principal salary adjustments. They were:

- (a) *Margins Adjustment*: In addition to the specific adjustments recommended by the HSAC, scales up to and including

C.Sp.(10) (but not those linked to the RR surveys) were raised from 15 April 1970 to 21.8 percent above the 1 April 1967 levels.

- (b) *Basic Grade Adjustment*: This was designed to raise basic grade clerical and allied salaries by varying amounts, but at the maximum from \$2,630 to \$2,750, or by 4.56 percent, also from 15 April 1970.
- (c) *Clerical "Bulge"*: Special increases were granted from 15 July 1970 for the lower supervisory grades in clerical and allied classes, ranging from \$70 at C.V to \$140 from C.IV to C.I and reducing to \$70 at C.Sp.(1).
- (d) *Three percent Advance*: At the same time an advance payment of 3 percent was granted to all HY survey classes up to C.Sp.(10), to be set off against any increase arising from the October 1970 HY survey.

59. The effect of these adjustments was to raise the Class III clerk's salary from \$3,455 to \$3,820, thus reducing from \$515 to \$150 the disparity with the supervisor. Subsequent changes have not substantially altered the position, and the supervisor still had an advantage of \$132 at 31 January 1972.

60. The agreement covering the above adjustments contained some other provisions, including:

- (a) agreement of the CSSO to co-operate in the establishment of the PRU; acceptance that this should be possible by 15 April 1971; and agreement to co-operate in preliminary work to aim at a pay research exercise on clerical pay rates as at 15 April 1971;
- (b) agreement that regrading in the Post Office and Railways on 1 April 1971 would "have some regard to the respective movement in levels of remuneration of the trades and clerical areas. This does not imply that parity in the respective supervisory grades will necessarily be restored".

Comparability of Railways and Transport Workers

61. During 1970 the Amalgamated Society of Railway Servants (now the National Union of Railwaymen) claimed substantial pay increases for labourers and other semi-skilled groups on the grounds that the RR surveys were too restricted and that railwaymen should have external comparability with transport workers on waterfront and in shipping. This claim was strenuously pressed but was opposed by the SSCC and the Government, and finally rejected by the State Services Tribunal. The Tribunal commented, however, that because of its limitations the RR survey may not be entirely fair to labourers and recommended that its basis be reviewed.

Frequency of Surveys and Adjustments

62. The 1968 Royal Commission had envisaged that State employees generally would have interim pay adjustments twice yearly, based on the HY survey, with the RR survey being used at 2-yearly intervals to fix the wages of labourers, tradesmen, and closely related groups. Although a subsequent decision was taken to use the RR survey as an interim adjustment basis for a large section of the State Services, the employing authorities apparently did not then consider that more frequent RR surveys would be necessary. However, this was forced on them by the "wage explosion".

63. A special RR survey was conducted in June 1970, and in the same year it was decided henceforth to conduct these surveys in the same month as the HY surveys "at least during the period that outside rates continued to escalate rapidly". Accordingly, a RR survey was taken in October 1970, but because there were subsequently large award increases for fitters, plumbers, and motor mechanics an additional survey of several trades was taken in February 1971. A further survey of all trades was taken in April 1971, and it may be assumed that the April-October half-yearly pattern had been established, although it was immediately interrupted by the Stabilisation of Remuneration Act 1971.

64. But even five RR surveys within 14 months did not fully meet the claims for rapid adjustment. We were told that there was a special advance increase for plumbers and motor mechanics from 19 October 1970 to bring their rates up to the new private sector awards; and later that year a lump sum was paid out to most of the groups governed by the RR survey in advance of the adjustment arising from the October survey. Moreover, rates generally were increased from 23 November 1970 in recognition of the Court of Arbitration's 3 percent General Wage Order. This was treated as an advance on any increases arising from future surveys, and was scaled down at the higher levels to phase out at C.Sp.(6). From 15 January 1971 carpenters were given an interim adjustment to bring their rates up to the new award rates.

General Wage Orders

65. There were only two General Wage Orders (hereafter GWO) made by the Court of Arbitration during the period with which we are concerned. The first, for a 5 percent increase, was made on 19 August 1968, a week before the 1968 Royal Commission made its report. This applied throughout the State Services with a maximum

increase of \$1.60 per week and phasing out at C.Sp.(8). The 5 percent increase was subsequently absorbed by the adjustments following the February 1969 RR survey.

66. The next GWO was that mentioned in para. 64. The 3 percent increase was given to State employees from 23 November 1970 (phased out at C.Sp.(6)) and was absorbed by the increases arising from the February or April 1971 RR survey and the April 1971 HY survey.

Stabilisation of Remuneration Act and Regulations

67. The general principles laid down by this Act in 1971 were that new wage-fixing instruments should not, without the consent of the Authority, provide for the 1 January 1971 base rate to be increased by more than 7 percent, and that they should remain in force for at least 12 months, subject to increases through cost-of-living orders (hereafter COL orders).

68. Part IV had particular reference to State employees, and it is not proposed to do more here than to mention those provisions which have relevance to our inquiry. Briefly stated they are:

- (a) the Remuneration Authority's consent was required for any increases to base-date remuneration (other than increases for individual employees on promotion, change of duties, or normal progression through scales);
- (b) the increases arising from the results of the February and April 1971 RR and HY surveys were specifically allowed;
- (c) the October HY survey 1971 was not to be applied. (No RR survey was made.) Instead any movement measured by the April 1972 HY survey (and presumably the RR survey) will cover a whole year, with adjustments backdated to 15 October 1971;
- (d) COL orders for 1971 were to apply to State rates but to be reduced by any increases effective since 1 January 1971; these COL adjustments will in turn be deducted from increases arising from April 1972 surveys;
- (e) the Authority could consent to occupational class regradings after 15 February 1971 only in special cases or if there had been substantial negotiations before that date.

69. Two COL orders were made. The first, of 4.8 percent, took effect from 21 July 1971, and the second, of 9.1 percent (including the earlier 4.8 percent), from 31 January 1972.

70. The COL orders would not have applied to the State services if the increases arising from the February–April RR and HY surveys had been backdated to the “midpoint”, 15 January 1971, because the increases were greater than 9.1 percent and would have taken place after the base date of 1 January 1971. However, the State Services Tribunal on 4 February 1972 fixed the date of application of the survey increases at 27 December 1970 (before the base date), so that the COL orders had to be applied.

71. The effect of this ruling was not to give State employees an additional 9.1 percent, because this will be deducted from any increases (estimated at 11 percent) arising from the April 1972 surveys and payable from 15 October 1971. State pay rates will not, in the outcome, be higher, but will have been increased earlier than they otherwise would have been.

72. As from 1 April 1972 the Stabilisation of Remuneration Regulations replaced the provisions of the Act. The Remuneration Authority remains, and is to place “paramount importance on the need to achieve and maintain stability in the levels of remuneration and prices”. It is, in general, precluded from making any adjustment designed to maintain or obtain comparability with State or State-related rates; and, with certain exceptions, in any new instrument any linkage to State rates will be void and of no effect.

73. A COL order (with offsetting provisions) will be issued by the Authority on the basis of CPI movement for the 9 months to September 1972. There is no provision in the regulations for this order to be applied to State Service rates, and the Department of Labour informed us: “the COL order does not apply to State Servants, pending the Report of the Royal Commission”. If it is not applied directly it would be reflected in subsequent HY and RR surveys, but probably not until April 1973.

Specific Reviews of Occupational Classes

74. The fact that the PRU has not been established does not mean that specific pay reviews of occupational classes could not be carried out, or that the State Services were entirely dependent on a succession of “interim adjustments”. Section 26 of the 1969 Act makes every employing authority “responsible for reviewing the remuneration and conditions of employment of occupational classes or groups under its control . . .” and authorises the authority to “have regard to a report from the Pay Research Unit or other agreed survey . . .”.

75. The RR survey is itself a pay research survey in respect of certain labourers and tradesmen. There are periodical “agreed surveys” in respect of printing tradesmen, and the HSAC carries out an “agreed survey” every 3 years.

76. Nor have reviews of the remuneration of occupational classes been limited to cases where an "agreed survey" has been carried out. Since 1968 there have been a considerable number of reviews, including the following which have resulted in salary adjustments:

Inter-Service	Public Service	Post Office
Shorthand typists	Scientists	Typists
Typists and machinists	Veterinarians	Office Assistants
	Science technicians	Female recorders
	Communications	Linesmen
	Pharmacists	Technicians
	Medical officers	
	Valuers	
	Journalists	
	Mental health nurses	
	Meat inspectors	
Railways		Other
Footplate staff		Medical photographers
Gangers		Physiotherapists
Refreshment staff		Radiographers
Guards and shunters		Primary school teachers
Signalmen		Secondary school teachers

77. In the great majority of cases the adjustments were agreed upon between the parties. In many cases it is fairly clear that relativity with other State Service groups was an important factor; in others increases in responsibilities or in required qualifications were important. But we were told that it was fairly common practice for the service organisation or the employing authority or both to bring to the negotiating table information which had been gathered as to rates paid for comparable work in the private sector and thus to use external relativities even though there had been no "agreed survey".

Tribunals

78. As already mentioned most of the specific reviews of occupational classes were settled by agreement. Consequently, comparatively few had to be decided by Tribunals. This was equally true of the application of general adjustments.

79. A notable exception was the case in which the State Services Tribunal decided to backdate the increases from the April 1971 surveys to 27 December 1970. The Tribunal considered that it was bound to do so by the wording of the 1969 Act which required it to make "such adjustments in the pay scales . . . as may be required to ensure that employees in the State services are not at a disadvantage compared with persons employed outside the State services . . .".

80. As already mentioned the State Services Tribunal declined the claim to have certain Railways rates aligned with those in the waterfront and shipping industries. The Railways Tribunal granted at least two claims which were contested by the employing authority.

81. The Railway Tradesmen's Association's claim for a uniform core rate instead of separate rates for Railway tradesmen did not reach the Tribunal, apparently because it was appreciated that the Act would not allow their remuneration to be dealt with as a single-service issue.

82. Another issue which notably has failed to reach a Tribunal since 1968 is that of the margins given to service tradesmen for 5 years' experience (1.25 cents per hour) and indenture (6.25 cents per hour). These margins were first allowed by the Railways Industrial Tribunal and later fixed at their present rates by that Tribunal in 1967. Although the SSCC has sought to have the issue recommitted and re-examined in the light of changed circumstances and the 1969 Act criteria, the employing authorities themselves have no power to take it to the Tribunal and the CSSO has steadfastly refused to do so.

83. The continuation of these margins has been widely criticised as breaching external comparability and as being inflationary. The growing practice of linking certain awards with State rates is claimed to intensify the inflationary effect. These aspects will be discussed later.

General Regradings

84. The 5-yearly general regrading of staff was for long the most important process for adjusting State Service wage rates, both for groups and individuals. For a number of reasons this is no longer so, and should not be so. But because occupational classification has not been completed, general regradings have remained important in the Railways and Post Office where they last took place as at 1 April 1971.

85. The Post Office general regrading resulted in there being 1,014 more officers in graded positions (i.e., C.IV and above in the HYS area and senior tradesmen, senior postmen, etc., and above in the RRS area) than there were at 31 March 1971. Thus the proportion of those above the basic grades has increased from about 20 percent to about 23 percent, which is to be expected when this sort of exercise is carried out only at long intervals. The distribution among the executive grades does not appear to have changed substantially; that is, the number in the higher grades has risen, but only in proportion to the total of graded positions. Although

the regrading cannot yet be regarded as completed—appeals, and consequent further regradings are yet to come—the higher salaries paid to over 1,000 officers will have been reflected in the public-sector wage payments in March and April of 1972.

86. The 1971 general regrading in the Railways has also been completed, except for appeals. Only a few new graded positions were created, but about 1,000 out of 4,500 graded positions had their maxima raised. Consequent pay increases will have been reflected in the April 1972 HY survey, and later surveys will also record the effect as the promoted officers move to their new maxima.

Retrospective Pay Increases

87. Reference has already been made to the recommendation of the 1968 Royal Commission that the question of the dates of application of interim adjustments “should be determined, if possible, when the index of movement is changed to the half-yearly survey; . . . and should take account of the desirability of minimising backdated payments”.

88. In respect of the specific reviews of occupational classes the 1968 Royal Commission did not contemplate that any backdating would be necessary. However, the situation has changed very greatly. Because of the magnitude of recent pay increases, “back pay” has assumed great importance. Moreover, the RR survey has remained as an index of movement for a large proportion of the State Services, while still being used as the basis of a specific review for some tradesmen and labourers. It would be manifestly impracticable to deny retrospection to fitters and carpenters while giving 3 months’ back pay to employees linked to them for interim adjustment purposes. And it would be equally impracticable to deny retrospection to employees linked to the RR survey while giving back pay to those linked with the HY survey taken at the same time.

89. The assumptions have in consequence developed that each surveyed increase in the private sector has occurred progressively over the period since the previous survey, and that in the absence of contrary information State employees will be fairly treated if they receive their corresponding increase from the midway point between surveys.

90. In practice it has been easier to establish the timing of increases in private-sector tradesmen’s rates than in the pay of groups whose State counterparts received HYS increases. This is because tradesmen’s increases have frequently followed certain known awards whereas many and more diverse factors contribute to average movements over the whole of the private sector.

91. Until the April 1971 surveys the date of application had been arrived at eventually by agreement between the parties. On that occasion, as we have seen, the CSSO sought a decision from the State Services Tribunal. Although the SSCC's assessor dissented from the decision to date the increases from 27 December 1970 instead of 15 January 1971, the Tribunal was unanimous in holding that the greater part (and probably much the greater part) of the *ruling rates* increase occurred in the first 3 months. The Tribunal found that the evidence that the HYS increase took place more in the first 3 months than in the second was much less precise.

92. The Tribunal then considered whether it should fix different dates for application of the two surveys, but decided to endeavour to fix a common date, even though this involved a compromise. It was on this issue that the assessor for the SSCC dissented, as he considered that the evidence in respect of the HY survey "was much less clear and did not establish that there was a sufficient margin of inequality of movement between the two halves of the survey period to warrant any change from the prescribed date of 15 January 1971", adding that his conclusion was reached despite the disadvantages which would stem from dealing differently with the two groups.

93. This is the only HY survey which has been made effective at other than the midpoint between surveys. The Stabilisation Act provided that any increase arising from the April 1972 HY survey should be applied from the midpoint, in this case 15 October 1971.

94. In respect of COL orders there has been no retrospection. They have taken effect in the State Services on the same date as in the private sector.

95. With RR surveys the position is more confused, but the following table shows the dates of the surveys and the dates of application, with explanatory notes.

Table 4

APPLICATION DATES OF RULING RATES SURVEYS

Survey Date	Applied	Comments
February 1969 ..	12/8/68	Midpoint
February 1970 ..	1/12/69	SSCC opposed retrospection but agreed because of "changeover" and rapid movement
June 1970 ..	7/5/70	Special survey
October 1970 ..	15/6/70	For non-beneficiaries of June survey
	15/7/70	For beneficiaries of June survey
February 1971 ..	15/1/71	Special survey
April 1971 ..	27/12/70	Tribunal Order

96. It is clear that the SSCC endeavoured to adhere to the 1968 Royal Commission's approach but adopted the midpoint principle under the pressure of events. The Tribunal's decision establishes that under existing legislation the midpoint may be departed from.

97. As to specific surveys—leaving aside the RR survey—the present position is that a Cabinet Committee on 15 November 1971

- (a) endorsed SSCC's view that a standard rule on the back-dating of increases arising from specific pay research exercises is undesirable; and
- (b) agreed that discussions with CSSO continue on the basis that the application of such increases be a matter for negotiation in each case.

DEVELOPMENTS IN THE PRIVATE SECTOR

98. Apart from the various matters referred to in the preceding paragraphs, notably the wage explosion and the endeavour to bring award rates into line with ruling rates, there have been other private-sector developments which have significance for State procedures.

Trade Qualification Differential Rates

99. The Secretary of Labour reported:

The last few years have seen the emergence of trade qualifications (trade certificates, advance trade certificates, etc.) in the private sector and the parallel emergence of differential award rates in recognition of such qualifications.

100. The following table indicates the number of qualification categories provided for by awards in respect of the different trades, and the difference between the award rates for the highest and lowest qualification in each case:

Table 5
QUALIFICATION DIFFERENTIALS IN AWARDS

Trade	Number of Categories	Differential Between Highest and Lowest Qualification	
		Per Week \$	
Fitters	3	2.88	
Boilermakers	4	6.18	
Carpenters	4	4.00	
Painters	3	4.94	
Electricians	7	10.30	
Plumbers	5	7.42	
Motor mechanics	3	2.89	

101. This trend is of importance to this inquiry in several ways. It provides a yardstick against which to judge the margins which have been added in the State Services for 5 years' experience (50 cents per week) and for indenture (\$2.50 per week); it indicates quite clearly that the RRS average is an average over a range of qualifications, and not only of the least qualified; and it offers a possible basis for relating the RR survey of private-sector rates more accurately to State rates. These matters are dealt with more fully later.

102. In the meantime it should be noted that in practice the private sector does not necessarily or closely follow the award provisions. The Department of Labour's figures indicate that there is a tendency for the actual differential against the lower qualified tradesmen to be less than the award differential. The Department said "private employers are willing to pay slightly more (in relative terms) in order to get some form of tradesman".

National Award Rates

103. There has been a trend to fixing *national* award wage rates. This might be regarded as further justifying the adherence to national rates within the State Services, but the evidence clearly shows that there are still considerable differences between districts in the rates actually paid.

Direct Bargaining

104. There has been a marked trend towards bargaining for "ruling rates" outside of the formal conciliation and arbitration machinery—sometimes to set district rates, sometimes to set "house agreement" rates in a particular undertaking, and sometimes virtually overriding the award rates.

Linkages between State and Other Rates

105. We were informed by the Department of Labour that "There has been a noticeable trend recently towards formalising the linkage between private sector and State rates of pay". That Department, the SSCC, the Employers' Federation and others submitted a good deal of evidence on this. It was suggested that the trend "effectively destroys the basis upon which State rates are determined", and that "the internal/external leap-frogging assumes serious proportions".

106. There has always been a degree of linkage between rates paid by local authorities and the State, but what has caused concern is that

- (a) linkages have been adopted in awards and agreements in the private sector;

- (b) they aim at preserving a fixed relationship with State rates;
- (c) the private-sector rates affected are thus increased by the margins which have been added to State rates, e.g. the indenture 6.25 cents and the "survey" or travelling time allowance;
- (d) this increase is then transmitted back to the State rates on the next RR survey.

107. The case most quoted was that of electricians employed

- (a) by electrical supply authorities, who as local authorities are excluded from the HY and RR surveys on which State rates are based, and
- (b) by electrical contractors, who are in both surveys, and are governed by two awards, the main one being the Northern, Taranaki, Wellington, Otago, and Southland Electrical Contractors Award.

108. The supply authorities have traditionally related their rates for electricians to those paid to State electricians. We were informed that as from 1 April 1971 the rate thus fixed was 159.4 cents per hour (including 4 cents for registration). The State Services rate for an indentured electrician at that time (i.e., before application of any increase from the April 1971 RR survey) was:

	c
Basic rate	147.70
Survey allowance	3.89
Indenture margin	6.25

Effective rate.. .. .	157.84c

There was thus, for the time being, a margin of 1.56 cents per hour in favour of the supply authorities, who informed us that the Remuneration Authority had agreed to that margin as a means of obtaining some recompense for the higher payments to State electricians during 1970.

109. The supply authorities award also contained a provision specifically recognising that the rate for a registered electrician was related to the rate for an indentured electrician in the State Services, and stipulating that the former should be increased by whatever percentage the latter received from the April 1971 RR survey or a COL order.

110. But we were also informed by the Department of Labour that "The electrical contractors have traditionally maintained a 1c margin below the rates in the electrical supply authorities award. To preserve this relationship, the contracting electricians negotiated increases comparable to those secured under the supply authorities award".

111. Thus, when the State rate rose (following the April 1971 RR survey) from 157.84 cents to 161.79 cents for an indentured electrician (including an increased "survey" allowance), the supply authorities' rate increased from 159.4 cents to 163.3 cents and the contractors' rate from 158.3 cents to 162.25 cents from 29 September 1971.

112. In the negotiations for the contractors' award it had also been agreed that the relationship should be formalised by stipulating that rates should be adjusted following any State determination made as a result of the April 1971 RR survey. The Remuneration Authority declined to consent to this clause (and the Court of Arbitration stated that in any event it doubted whether it had the power to make an award containing such a clause), but it seems, nevertheless, that the rates were in fact adjusted so that the same result was obtained: the electricians employed by contractors obtained the RRS increase, although at a later date.

113. The Stabilisation of Remuneration Regulations provide that in any new instrument any linkage to State rates will be void and of no effect, and with certain exceptions preclude the Authority from making any adjustment designed to maintain or obtain comparability with State or State-related rates. But these restrictions may be neither permanent nor effective, and the implications of such a linkage exist whether or not it is formalised or has official sanction. Those implications will be examined in a later chapter.

Equal Pay

114. In September 1971 a Commission of Inquiry appointed by the Government recommended that differentiation in rates of remuneration based on the sex of the worker should be abolished in New Zealand, and it is understood that legislation to give effect to this is being prepared. Any resulting rise in women's rates of pay will be reflected in the HY surveys. But women already have equal pay in the State Services, and this will have to be taken into account when interim adjustments—if they continue to be based on private-sector movements—are made to State rates.

SUMMARY

115. The recommendations of the 1968 Royal Commission were designed to lay down the principles and criteria and to improve the machinery whereby State rates of pay were to be kept broadly in line with private-sector rates. The principal changes then proposed, pending the time when rates could be based mainly on

pay research, were the adoption of the HY survey as the index of movement for interim percentalised adjustments and the abandonment of a uniform tradesman's rate in favour of separate rates. Emphasis was nevertheless placed on the necessity for pay research to check the effects of such interim adjustments.

116. The recommendations were very largely adopted and put into effect except that the RR survey was retained as the index of movement for a numerically large part of the services, and the PRU has not yet been established. Perhaps it was of importance, too, that the changeover to the new system took longer than had been anticipated—because of the desire to get a reasonable degree of agreement—and was therefore still in a state of flux when it had to cope with unprecedented economic circumstances.

117. The wage explosion which took place in 1970 not only increased private-sector rates dramatically, it distorted them. The State sector overreacted, making adjustments based on distortions and then again on the private-sector correction of those distortions. The pressures forced departures from the regular adjustment system, and generated abnormal increases for trades supervisory groups followed by compensating increases for clerical, executive, and other groups. A system based on meticulous statutory criteria and intended to operate through conciliation and arbitration was scarcely well enough established to command acceptance and respect under economic circumstances which magnified every anomaly; in the face of a national mood which rejected arbitration in favour of direct bargaining; and with one essential part—pay research—still on the drawing board.

118. The Stabilisation of Remuneration Act and regulations have provided an opportunity to examine what happened in this period of exceptional strain and to correct whatever faults it may have disclosed in the system.

Chapter 3. ALLEGATIONS OF STATE PAY LEADERSHIP

1. The evidence suggesting that State servants' remuneration exceeds that of their private-sector counterparts is of two types: evidence that average pay has risen faster in the State than in the private sector, and evidence that for specific occupations State rates are higher than outside rates. In the present chapter we deal with these possibilities in that order, then with the related problem of fringe benefits.

COMPARING SECTOR INCREASES

2. A faster growth of average pay in the State than the private sector cannot, of itself, prove that State servants (either generally, or in broad categories) are ahead of their outside counterparts. Such a divergent trend could instead mean that State servants were behind, and have been catching up. However, the existence of this alternative explanation is not sufficient ground for declining to investigate allegations of such a divergence, for two reasons. First, its magnitude would affect the presumptions to be drawn from it: for example, a divergence in average pay of 2 percent in 2 years might well be consistent with the "catching up" hypothesis, but that would seem much less plausible if the divergence were 20 percent in the same period. Second, one must examine the reasons for such a divergent trend, lest they may cause it to continue indefinitely. In such a case, while State servants might initially be catching up, beyond some point they would move ever-increasingly ahead.

3. The analysis of divergent trends in average State and private pay may thus throw light not only on whether the State has been leading but also on alleged inflationary tendencies. How then are such averages to be measured and compared, so that any divergence may be detected? The Employers' Federation submitted four sets of calculations for this purpose, based respectively on national income statistics, per capita payroll movements, nominal wage rate indices, and sectoral data from the Department of Labour's half-yearly employment surveys. Of these, the last-mentioned seemed to us clearly the most satisfactory measure, and the expert working group (referred to in chapter 1, para. 18) concurred, confining its studies to HYS data.

4. We shall not pause here to explain the technical problems confronting those using HYS data to compare State and private pay movements. They are described at some length in appendix 3, as are the ways we tackled them and the results of our analysis. Here it is enough to summarise that appendix:

- While different approaches produce slightly different results, these variations are trivial compared with the divergence, shown in all the approaches, between average State and private-sector earnings since February 1969.
- The approach which we adopted shows the following divergence, expressed as the percentage increase in the average earnings of a male State servant since February 1969 minus the corresponding increase in earnings of his private-sector counterpart, at each survey date:

Table 6

DIVERGENCE IN SECTOR AVERAGES

Survey	(1) Private Sector Average	(2) State Payable Average	(3) Private Sector Index	(4) State Payable Index	(4)–(3) Percentage Diver- gence	(4)÷(3) Diver- gence Factor
February 1969..	45.464	50.626	1000	1000	0	1.0
October 1969 ..	46.823	53.194	1030	1051	2.1	1.0202
April 1970 ..	49.089	58.010	1080	1146	6.6	1.0612
October 1970 ..	53.347	64.749	1173	1279	10.6	1.0900
April 1971 ..	58.462	73.659	1286	1455	16.9	1.1315
October 1971 ..	61.597	75.104	1355	1483	12.8	1.0949
April 1972 ..	64.893	80.791	1427	1596	16.9	1.1180

(These figures are based on certain assumptions which are described in appendix 3.)

- The main factors producing this divergence have been on the one hand certain margins increases paid in addition to HYS or RRS adjustments, and on the other, certain residual factors.

CAUSES OF DIVERGENCE

5. How is such a divergence to be explained? It is important at the outset to appreciate the form which an explanation will take—or, perhaps more importantly, will not take. Factors affecting pay rates are compounding, not additive. An increase of 5 percent, then a further increase of 2 percent, produces an overall increase not of 7 but of 7.1 percent ($1.05 \times 1.02 = 1.071$). One should therefore

not expect to isolate a set of influences the effects of which, by April 1972, add up to 16.9 percent, the observed divergence at that date. Rather, one should look for a set of influences which, multiplied together, produce a factor of 1.1180, since that is the "divergence factor" by which the observed private-sector increase of 42.735 percent must be multiplied to produce the observed State increase of 59.58 percent ($1.42735 \times 1.1180 = 1.5958$).

6. Following the analysis described in appendix 3, we have identified such a set of influences, and set them out in the following table. The meaning of the column headings will be explained in the paragraphs following.

Table 7

ANALYSIS OF DIVERGENCE FACTORS

Period	HYS Diff.	RRS Diff.	Catch-up Margins	Other Margins	Residual	Cumula- tive Product
February 69–October 1969 ..	1.0030	1.0	1.0155	1.0	1.0016	1.0202
October 69–April 1970 ..	1.0015	0.9979	1.0	1.0014	1.0394	1.0612
April 70–October 1970 ..	1.0002	1.0115	1.0049	1.0291	0.9816	1.0899
October 70–April 1971 ..	1.0001	0.9903	1.0	1.0	1.0481	1.1315
April 71–October 1971 ..	1.0	1.0	1.0	1.0	0.9677	1.0949
October 71–April 1972 ..	1.0	1.0	1.0	1.0	1.0211	1.1180
Products	1.0049	0.9996	1.0205	1.0305	1.0584	1.1180

(These figures are based on certain assumptions which are described in appendix 3.)

In this table, each entry is a factor: if greater than 1.0, it is increasing the divergence in favour of the State, and if less than 1.0, reducing it. It will be noted that the cumulative product in the final column is identical (save for rounding errors) with the final column of the previous table.

7. The column headed "HYS diff." accounts for the State lead attributable to HYS adjustments. These raised average State pay by 43.4 percent between February 1969 and April 1972, whereas the private sector average rose by only 42.7 percent. This small discrepancy was caused partly by the transition from RRS to HYS adjustments, and partly by rounding upwards the observed private sector increase when adjusting State salaries (see appendix 3).

8. The column headed "RRS diff." accounts for the divergence which resulted from adjusting the pay of large numbers of State servants in accordance with RRS instead of HYS movements. It was suggested to us that tradesmen and process-workers were among

the "fast risers" in the private sector. The increases enjoyed by the former were transmitted directly to those State servants whose pay follows movements in the average trade rate. Since other State servants followed the average movement outside, as revealed by the HY survey, it was claimed that the State average must have increased faster than the private-sector average. Our analysis suggests that this was not a reason for the divergence. The growth in the average trade rate was very little higher than that in HYS adjustments; the effect of this difference on the State average is submerged by the greater size and higher average pay of the HYS segment. It may also have been masked by a decrease in the proportion of State employees in the RRS segments; we did not allow for such a decline in our calculations, assuming constant proportions except for a known transfer of locomotive staff from HYS to RRS adjustments. There remains a possibility, suggested by the Monetary and Economic Council, that the HYS segment may have been placed in a position of pay leadership by receiving adjustments in line, not with their outside occupational counterparts, but with the private-sector average on which the fast-rising groups have had an effect. This possibility is explored in appendix 5.

Margins Increases

9. Of the margins increases, the first (effective in June 1969) represented an attempt, at the introduction of the new system, to correct for the effect of flat-rate (rather than percental) increases at supervisory levels since the previous review of margins 2 years earlier. It is a reasonable presumption that, in consequence of those flat-rate increases, State supervisory staff had tended to fall behind their outside counterparts during that period, and that the initial compensation for this should be disregarded when calculating the divergence between the sectors. Moreover, the CSSO maintained in a supplementary submission that the correction in 1969 had been conservatively estimated, on the understanding that approximately 1 percent more would be added during the 1970 adjustment of margins arising from the HSAC review if this proved practicable, and that this addition did in fact form part of the 1970 margins adjustment. It could moreover be maintained that, at the very highest levels, the salaries fixed in the light of the 1970 HSAC review, less an allowance for interim adjustments in 1969-70, would give a fairer starting point than would calculations based on 1967 figures. Accordingly, we have distinguished between these "catching-up" increases and other margins adjustments. If the former are disregarded, the divergence at April 1972 would be reduced from 16.9 percent to 13.7 percent.

10. The remaining margins increases include further adjustments (February 1970) at supervisory levels for trades-related occupations, the "clerical bulge" (July 1970) to maintain internal relativity between clerical and trades-related supervisors, and the new clerical scale (April 1970) negotiated in conjunction with the HSAC margins review. It is not our responsibility to decide whether or not these increases were justified; we are however obliged to point out that they were not preceded by corresponding private-sector movements, hence they are in part responsible for the divergence in average movements.

11. The other main cause of the divergence is "residual" factors, i.e., those not accounted for by general State increases in rates or in margins. Three possible sources of these have been suggested to us: backdating; specific reviews; and composition changes.

Backdating

12. The Employers' Federation maintained that backdating of State pay increases was inherently inflationary, in that it had the effect of progressively increasing any initial State lead in pay. While the sudden injections of large sums of purchasing power into the economy might have inflationary consequences, we are satisfied that backdating will not of itself change the proportionate relationship between State and private-sector averages. Whether backdating is justifiable is another matter, to be discussed in the next chapter.

Specific Reviews

13. Specific reviews of occupational salary scales are certainly a possible cause of a more rapid rise in the State than in the private-sector average. The point is not, as some have thought, that such occupational groups may in a given survey period receive general adjustments on top of the increases specifically approved; it was made clear to us that care is taken to prevent this. Rather, the likelihood is that the groups most likely to be specifically reviewed are those for which an above-average increase can be justified. For them the employee organisations can make a strong case, which the employing authorities (conscious of the need to recruit and retain staff) will be likely to accept. But if most groups obtain the survey increases, and some obtain more, but few, if any, get less, the State average is bound to increase more rapidly than that of private-sector earnings.

14. We find the logic of this argument impeccable, and have no doubt that specific reviews have in some degree contributed to the observed divergence. The question is, to what degree; and such

evidence as we have been able to gather leads us to believe that the effects of specific reviews have been less than might be supposed. For example, the Employers' Federation in their final submissions suggested that the revised scales (effective from June 1969) for shorthand typists, typists, and machinists would have had a significant effect on the State average. Certainly the group affected was larger than most occupational classes, constituting for example about 4.6 percent of the employees in the Public Service and Police taken together and at the higher levels of the shorthand typist and typist classes the increase was a sizeable one. Their pay rose by 19 percent in the year from April 1969 to April 1970, but relatively few shorthand typists and typists occupy these senior positions, and the increase for the remainder was not as large; by taking weighted averages we find that the earnings of State shorthand typists and typists rose during that year by 11.8 percent whilst the HYS increases were less than 8.5 percent. The new scales had the effect of increasing average pay in the HYS segment of the Public Service by 0.2 percent; on the State sector as a whole, their impact would be even less. Thus the most obvious, and potentially significant, specific review in the February-October 1969 survey period turns out to have a barely measurable influence.

15. Not merely can we find no evidence that specific occupational reviews have had any major effect on the divergence in sector averages; it appears that a significant divergence can occur in the absence of such reviews. The period October 1971 - April 1972 was covered by the stabilisation provisions. Comparatively few State occupational groups would have received new pay scales (except through general adjustments). Yet average State pay increased in this period by a factor of about 2.1 percent, over that generated by general adjustments.

Composition Changes

16. We are driven to the conclusion that major causes of the substantial divergence as yet unexplained between State and private-sector average earnings must include changes in the composition or grading of the State work-force, i.e., in the number of employees at different points on the wage and salary scales, as distinct from changes in the scales themselves. Several kinds of composition changes are possible, and we shall consider some which have been suggested by witnesses or which have occurred to us, though in the limited time available to us we have been unable to quantify their possible effects.

17. First, it was suggested by the Employers' Federation that promotions may be a source of variation between the sector averages.

Evidence was submitted purporting to show that part of the increase in the private-sector average, from one HY survey to another, stems not from increases in pay rates but from the promotion of a proportion of employees from lower- to higher-paid posts. The whole of the increase in the private-sector average is then applied to State pay rates, in addition to which some State servants receive promotions. The State average must thus rise faster.

18. We do not find this a compelling argument. The table submitted by the Employers' Federation in support of it was subject to some cogent criticism, and it appears to us that the basic assumptions underlying the argument may be ill-founded. What the HY survey measures is not the rate at which the earnings of designated individuals are increasing, but any change in the average level of earnings. The difference can be illustrated by comparing the sector to a fountain. Many of the individual drops of water are moving upwards, but as long as the pressure and the aperture of the jet remain constant, so will the height of the jet. In other words, promotions will not affect the average in either sector, so long as the ratio of jobs at different levels, and the rates of pay for those jobs, are not thereby altered.

19. Clearly, if an individual is promoted to a better-paid post, and his previous position is abolished or for some other reason left unfilled, average earnings will rise, in the absence of any other changes. However, the larger the employing organisation (and each sector can for this purpose be regarded as a very large organisation indeed) the more likely it is that there will be offsetting changes. A situation in which such changes are not entirely offsetting can better be thought of in terms of regrading than of individual promotions. In a dynamic economy, cumulative changes of this type may well be occurring: for example, some duties of a relatively routine character may well be mechanised or automated, resulting in a decrease in lower-paid but some increase in more skilled employment, with a consequent upward impetus to the relevant sector average.

20. We do not doubt that, over time, changes of this type have been occurring in the State sector. For example, in the Public Service from 1966 to 1971, while total staff increased by 8.3 percent, and total permanent staff by 13.2 percent those with professional qualifications increased by 21 percent, and those with technical qualifications in draughting, engineering, and science by 28.1 percent. Graduate recruitment has sharply increased. In the same period, the number of wage-workers decreased by 10 percent. Such composition changes undoubtedly imparted an upward trend to average earnings in the State sector.

21. They do not necessarily justify the observed divergence in sector averages since February 1969, however, for three reasons. First, it is not to be supposed that the State sector alone experienced such changes. The Employers' Federation maintained for example that "there is a professionalism developing in all large organisations in both sectors". Perhaps the resulting upward trend in the private-sector average is less marked than in the State sector, since there are still many small private employers in New Zealand whose staffing is less affected by such developments. It is only to the extent that such differential changes may exist that a more rapid increase can be justified in the State average. Second, the magnitude of the observed divergence seems excessive as a reflection of such differential changes. From very rough calculations which we have made, we should not have been surprised at an increase in the State average of 2 or 3 percent from such causes in a 5-year period. Third, composition changes reflecting this trend towards a more highly qualified staff could be expected to produce gradual rather than abrupt changes; yet the residual factors exhibit marked fluctuations.

Table 8

RESIDUAL FACTORS, BY SURVEY PERIOD

Period	Residual Factor
February 69 – October 1969..	1.0016
October 69 – April 1970 ..	1.0394
April 70 – October 1970 ..	0.9816
October 70 – April 1971 ..	1.0481
April 71 – October 1971 ..	0.9677
October 71 – April 1972 ..	1.0211

22. Before probing these fluctuations, a final point needs to be made about regrading effects. Hitherto we have been discussing an upgrading of positions in the State sector which can be justified on grounds of external relativity, in view of the improvement in the average quality of staff employed. There remains the possibility that, from time to time, positions may be regraded without that justification. Such changes would have the effect of a disguised pay increase. To the extent that the regrading of positions is effected with an eye rather to internal than to external relativities (and we have no evidence on this point) some contribution to the divergence in average earnings may have resulted.

23. The most obvious feature of the residual factors is a marked seasonal variation: they increase the divergence of the State from the private-sector average between October and April, and reduce it between April and October. Perhaps the annual cycle of recruitment (and of retirement, to the extent that this is more frequent in one

than the other half of the year) exerts an influence; and perhaps seasonal employment on public works projects does too. Had we an extra few weeks to complete this report, we could have investigated these possibilities. What is more important, however, is that the seasonal variations do not balance: the gains from the summer roundabouts are not wholly lost on the winter swings. Indeed, their net effect over 3 years has been to increase the State average, relative to that of the private sector, by a factor of nearly 1.06; put differently, had there been no such effect, the State gain during that period would have been only 8 percent (instead of almost 17 percent) greater than that of the private sector.

CONCLUSIONS ABOUT DIVERGENCE

24. From this analysis we draw three main conclusions. First, average earnings in the State sector have increased so much more rapidly than those in the private sector since February 1969 that we cannot regard as plausible the proposition that all State servants have merely been catching up. Rather, the presumption has been established that some of them must in this period have moved ahead of their outside counterparts, though we would not suggest that our adjusted figure of 13.7 percent divergence provides a realistic measure of that advantage, especially as so much of it is attributable to composition changes of various kinds (though some of these may possibly reflect disguised pay increases through regradings not warranted by external relativities).

25. Second, the speed with which a system of general adjustments has led (admittedly, in a most unusual period) to this divergence reinforces our view that no system can be satisfactory which relies primarily on such adjustments. The 1968 Royal Commission recommended, reluctantly, a system based "on general adjustments checked and (where necessary) modified by pay research"; had prompt action been taken to establish a pay research unit to make such checks, under the provisions of the 1969 Act, the divergence would undoubtedly have been less.

26. Third, should machinery for making interim adjustments prove still to be needed even though pay research develops (a possibility which will be discussed later), and should HYS data continue to be used for this purpose, we consider that the adjustment to be applied to relevant State pay rates should be, not the whole of the private-sector movement since the previous survey, but some lesser amount, taking account of, e.g., the surveyed movement which has already occurred in the State sector during the same period. This problem will be further discussed in a later chapter.

COMPARING OCCUPATIONS

27. A considerable amount of evidence was submitted to us, especially by the Employers' Federation, purporting to show that State rates for certain specific occupations were ahead of comparable private-sector rates. We shall deal fairly briefly with this material. It cannot, of its nature, provide conclusive answers, such as pay research based on detailed job comparisons could do. On the other hand it may carry (like the data on divergent sector averages) some presumptive weight, and cannot therefore be disregarded.

28. We shall, however, disregard some of it, for the following reasons. The State has for a decade bound itself by legislation to pay women employees at the same rate as men in the same occupation and grade; in the private sector, this is not yet the case. Accordingly, it is as yet too early to align State shorthand typists and typists with their outside counterparts. We have no doubt that, on average, they are currently ahead. Nor can we draw conclusions from the evidence relating to outside pay rates for nurses, since they are too few to provide an appropriate yardstick for nurses in public hospitals. There are perhaps enough scientists and veterinarians in outside employment to provide some basis for comparison; but those are groups importantly affected by international market influences. We well recall the evidence submitted to the 1968 Royal Commission on how difficult it then was to recruit and retain scientists and veterinarians, hence can understand how it may have happened that State rates (for certain types of staff) have run ahead of those in the private sector in New Zealand, under the provisions of s. 6 (5) (c) of the 1969 Act.

Tradesmen

29. The first group which we shall consider (one on which we received a great deal of evidence, in proportion to its numbers) is tradesmen. The fullest information was provided by the Department of Labour, in a supplementary submission. We find it ironic that so much controversy should surround one of the few groups for which relatively plentiful information is available (through RR surveys) about private-sector rates. The main problem arises, as was explained in the previous chapter, from the addition to State base rates of special margins for indentured tradesmen and those with 5 years' experience, even though the base rate is derived from a survey of the pay of outside tradesmen many of whom are indentured, have other trade qualifications, or have 5 years' experience. This problem has grown in consequence of the recent emphasis (noted in the previous chapter) on trade qualifications in the private sector, and of differential award rates in recognition of such qualifications. Failure to revise pay-fixing

procedures for State tradesmen in the light of these developments has resulted (as the Department of Labour put it) "in the State adding a non-comparable margin to a non-comparable base rate. . . . It would be pure chance if the indentured State rate was in any way comparable with the rates paid for trades qualification in the private sector". For most trades, and most levels of skill, the evidence points conclusively to State tradesmen being ahead, though some of those with advanced trade certificates will be behind their outside counterparts with equivalent qualifications. How this situation should be rectified is discussed in a later chapter, as is the related problem of survey allowances.

30. Special problems arise in relation to dockyard tradesmen, for two reasons. First, through industrial action they succeeded in 1970 in exempting themselves from the change, effective in the rest of the State Services, to specific pay rates for certain trades. The amount which collectively they would receive under these specific rates is pooled, and divided equally among them. Second they obtained at the same time an increase in their "dockyard allowance" from 17.71 cents per day to 7.7 cents per hour. Part of this increase was in substitution for the survey allowances then introduced for certain classes of State tradesmen elsewhere. The payment of all dockyard tradesmen at the same rate might seem, on its own, to jeopardise the recruitment and retention of employees in the higher-paid trades, which was one of the reasons behind the 1968 Royal Commission's recommendation that the uniform State tradesmen's rate be abandoned. However, over three-quarters of the dockyard tradesmen are fitters and electricians, whose rates elsewhere in the State Services are among the highest paid to tradesmen. The effect of the dockyard rate, on its own, would thus be to reduce only slightly the pay of fitters and electricians so as to subsidise that of relatively small numbers of other tradesmen, such as carpenters and painters. This might not in practice prove unworkable, though the precedent is unfortunate, conflicting with the principle of external comparability. But the increased dockyard allowance apart from amply compensating for the slight reduction imposed by the uniform rate on fitters and electricians, represents an even more serious departure from external comparability. This, on top of the artificial margins for indenture already mentioned, caused the Employers' Federation to complain that "the resulting dockyard wage structure is considerably higher than Auckland ruling rates Dockyard rates create pressure on the whole wage structure in the engineering and boatbuilding industries in Auckland and foster discontent". Although the RRS sample is designed to produce reliable averages for each trade at the national but not

necessarily at the district level, the size of the dockyard allowance is such that we are satisfied that the dockyard trades rate is ahead of ruling rates for tradesmen in Auckland.

31. The pay of printing tradesmen is fixed by special surveys, not the RR surveys used for other trades, and there was much less criticism of State procedures in this area. Indeed, it was confined to the night shift allowances payable to State printing tradesmen, which are allegedly in excess of those received by their private-sector counterparts. The principle of external comparability is accepted; the problems arise in applying it when there are different outside rates which might be used—a relatively low one for those regularly working night shifts for newspapers, and higher ones for those occasionally required for night work by commercial printers—since the frequency of night work by State printing tradesmen falls between these extremes and other conditions under which night work is done may also differ. The evidence that the current night shift allowance is excessive was not conclusive, but we see danger in continuing to calculate in on a “time and a quarter” formula unless it is clear—and it was not made clear to us—that external comparisons are in this case irrelevant. Even more alarming, of course, would be the abandonment of external in favour of internal relativities in fixing the basic pay of State printing tradesmen. If relativities are creating problems in the Government Printing Office, the first step should be to check by pay research the rates being received by the printing (non-trades) staff, which may be too high in consequence of successive HYS adjustments.

RRS Groups

32. Many occupational classes have their pay fixed not by direct comparison with outside rates but in relation to the average trade rate or the skilled labourers' rate, these being based on outside comparisons (through the RR survey). In many cases this may be justifiable, when there is no outside counterpart and no more appropriate point of relativity inside the State Services, though even then it must be remembered that such relationships are merely conventional and should from time to time be checked for changes in job content and for their continuing appropriateness for purposes of recruitment and retention. Where there are no outside comparisons there could be no evidence for us to consider except for that relating to movements in State pay as a whole. However, it was suggested to us that there are groups whose pay is thus fixed by internal relativities but for whom external comparisons are in fact available: for example, drivers of heavy transport vehicles in the manual (non-trades) occupational class, and New Zealand Railways

Road Services drivers whether engaged in passenger transport or route cartage. The Employers' Federation produced evidence to show that the payable earnings of State drivers in each of these categories were ahead of those of their outside counterparts, as measured in the Federation's own ruling rates surveys in the four main centres or as prescribed in award rates which are said to be ruling rates also (as in the case of the New Zealand Passenger Transport Drivers Award and the Oil Industry Drivers Award). These figures were not effectively challenged; and though we doubt their adequacy to establish precisely what State drivers' pay should be, they do establish to our satisfaction the conclusion that external comparisons are available which should replace the internal relativities hitherto used. A similar point was made about storemen, and about engineering technicians. There may be other groups too whose pay is currently adjusted by movements in RRS averages, for whom external comparisons could and should be found.

33. There may also be groups for whom, in the absence of external comparisons, a better point of internal relativity could be found than the average trade rate or the skilled labourers' rate. For example, we felt that there was a good deal of force in the Railway Tradesmen's Association's complaint that the margin between an indentured painter and a paint sprayer (whose skills, acquired on the job, are limited compared with those of a tradesman) had been first eroded and then reversed, the sprayer being linked to movements in the skilled labourers' rate instead of to the level of a tradesman painter's pay. This evidence was intended to show the undesirability of external comparisons; but to us it shows instead the danger of selecting an inappropriate internal relativity, and suggests that there may be other groups too who have benefited unduly by their linkage, lacking external comparisons, to an RRS average.

HYS Groups

34. The remaining groups alleged to have secured a lead over their outside counterparts are in the HYS segment. Among them are administrators, clerks, computer programmers, draughtsmen, engineers, quantity surveyors, and science technicians. In the case of administrators, no evidence was submitted on comparable private-sector rates, but the Employers' Federation indicated their clear impression that those rates had not been rising as fast as those of State administrators since the last HSAC review in 1970. In the case of draughtsmen, quantity surveyors, and science technicians, the evidence was mainly that elicited from employers in response to the Employers' Federation's request at the outset of our inquiry,

and does not purport to provide sample-survey data. Such data were submitted for private-sector clerks, computer programmers, and engineers, mainly based on Employers' Federation surveys though in one instance on a survey conducted by the New Zealand Institution of Engineers. However, such material could not be based on detailed job comparisons, which are of more importance in this than in the RRS area; one can assume some comparability in the work performed by indentured fitters, or by bus or coach drivers, but who can say how the job of one individual compares with that of another, knowing only that they are both described as clerks, or civil engineers? Accordingly, these comparisons were based on movements over time, showing private-sector rates to have risen more slowly than initially similar State rates. But such a divergence might merely mean that State servants were catching up with their private counterparts, a possibility much less implausible for a single occupational group than for the State sector as a whole.

35. The only evidence based on detailed job comparisons was that derived from the pay research investigations which we ourselves commissioned (see chapter 1, para. 17). These are acknowledged to be imperfect, being based on Wellington and not nationwide samples. Their main purpose was to give us an indication of the feasibility of such comparisons, not to disclose levels. However, while their findings are not claimed to have the precision which the PRU will achieve, they are at least as useful as any other evidence available to us about comparative pay levels. The study of quantity surveyors (conducted by the Government Statistician) was the only one to cover not merely levels but also recent trends in pay, and confirmed the more rapid increase in State earnings to which the rest of the evidence points. It showed State servants to have overtaken their private Wellington counterparts at cadet and junior levels, but still to be behind at intermediate and senior levels, though the gap has narrowed. The study of current earnings of computer programmers (conducted by W. D. Scott and Co.) shows State servants to be well ahead of their private Wellington counterparts, though at the systems-analyst level the divergence is much narrower than at the programmer level, and in the former case there are so few comparisons that the difference is not statistically significant. Unfortunately the third study (of tourist officers, by the Department of Labour) also produced few comparisons, since it was discovered that employees in the private sector are mainly concerned with overseas travel whereas most of those in the Government Tourist Bureau deal with travel within New Zealand. The pay levels for State tourist officers dealing with overseas travel are broadly in line with those for Wellington employees of comparable age in the

private sector, though the report notes that this “certainly does not portray the situation in respect of travel booking clerks generally”.

36. Taking the broad area of occupational groups linked to the HY survey, we feel that at most no more could be extracted from the evidence than presumptions—perhaps indeed no more than general impressions—not specific and conclusive findings. The Employers’ Federation readily admitted that their evidence did not have, and could not be expected to have, the status of pay research data, but pointed out that it was no fault of theirs that pay research in the State Services had been so long delayed; in its absence, conclusions would have to be drawn from such evidence as was available. The State employing authorities and employee organisations were not prepared to concede that any reliable conclusions could be drawn from that evidence, thus that in the absence of pay research the only possible verdict on charges of State pay leadership (except in the case of women employees, who benefited from equal pay) was “not proven”. However, Mr J. V. T. Baker (who was called as an expert witness by the CSSO) conceded that some of the evidence on occupational comparisons presented by the Employers’ Federation had made out a case for a pay research investigation. We take this to mean that such evidence is sufficient to show that for some occupations State rates may well be ahead, though not to prove that they are in fact ahead; and we agree that this at least has been established. But we think it possible to go a little further.

Conclusions from Occupational Increases

37. The occupational evidence submitted by the Employers’ Federation (and also by some other witnesses, such as the New Zealand Dairy Board), together with the pay research investigation on quantity surveyors, provided unequivocal confirmation of our finding that, at least in the HYS segment of the State Services, pay has been increasing a good deal faster during the past 3 years than in the private sector. The Employers’ Federation’s own surveys of ruling rates in the four main centres show the following percentage increases from October 1969 to February 1972:

Clerks—	Increase, percent
Grade 1	31
Grade 2	36.5
Grade 3	34.1
Computer programmers	26.9
Shorthand typists	36.3
Copy typists	39.0
Compositors	23
H.T. drivers	39.7
Labourers	35.3
Storemen	37.3

38. These increases in pay rates tend to be lower than the HYS increase in private-sector earnings, estimated from October 1969 – April 1972 at 38.6 percent. This may in part be because they do not include many industrial categories, some of which were probably rising faster; for example, the mean rate for private sector tradesmen we estimate to have increased by about 41.8 percent in the same period. (The figures for composers and computer programmers provide a salutary reminder that rates for some occupations can differ widely from the average trend; no doubt some markedly above-average groups could be discovered in the industrial segment of the private sector.) But, to the extent that the composition of the private-sector workforce improved in quality during this period, as we have supposed that of the State sector to have done, average earnings will necessarily have risen faster than occupational rates.

39. In comparison, we estimate pay rates (not average earnings) in the HYS segment of the State subsector to have risen between October 1969 and April 1972 by at least 43 percent. This is a very conservative estimate, since in calculating it we have deflated the increase in average earnings not only by the “catching-up” portion of the 1970 margins adjustment, but also by the whole of the residual factor; some of that residual increase is undoubtedly attributable to new pay scales for specific occupational groups, and part of the remainder may well have been due to disguised pay increases resulting from regradings not warranted by external relativities.

40. Accordingly, we find the conclusion inescapable that pay rates (and even more markedly, average earnings) in the HYS segment of the State sector have been rising with appreciably greater rapidity than their private-sector counterparts since 1969. Is it more reasonable to assume that significant numbers of State servants must have moved ahead, or that they must have been well behind in 1969? The latter possibility is by no means incredible, but no evidence was submitted to us in support of it, and although our pay research investigation of quantity surveyors pointed in that direction, that of computer programmers indicated that some State servants are by now well ahead. We conclude therefore that whether broad categories of State servants are currently being paid more than is warranted by external relativity can only be known with certainty through pay research, that such research should accordingly be given high priority, and that the balance of probabilities suggests that many State servants must be ahead of their private-sector counterparts.

FRINGE BENEFITS

41. Before concluding this discussion of alleged State pay leadership, one further area of controversy remains to be traversed. We have in the preceding discussion been comparing pay rates or earnings. The 1962 Royal Commission, its successor in 1968, and the 1969 Act (s. 6 (5) (a)) have made it clear that what should be compared is effective remuneration, taking into account not merely pay but also fringe benefits.

42. Lip-service is generally paid to this principle, but there is a wide divergence of view as to what it might entail. In their final submissions, Federated Farmers declared that "it has become clear from the submissions of the SSCC and the CSSO and from statements made by representatives of these parties at this hearing that both view external comparability as meaning equality of wages or salary". This may be an exaggeration; but it is fair to say that the State employing authorities and employee organisations do seem to assume that if fringe benefits in both State and private employment are taken into a comparison, they would not justify more than a small difference (one way or the other) in pay rates. We are aware that the HSAC has endeavoured to evaluate fringe benefits when aligning the salaries of permanent heads with private-sector positions; and that in some other specific reviews (e.g., employees in cheese factories) attempts have been made to allow for differences in conditions of service. Nevertheless, it is significant that, since 1958, the net advantages of State employment have been assumed to be 0.4 cents an hour (i.e., 16 cents per week or a little over \$8 per year) for the purpose of fixing State tradesmen's rates.

43. Outside the State Services, on the other hand, the feeling is widespread that the State servant enjoys significant benefits apart from his pay. The New Zealand Dairy Board, for example, listed more favourable superannuation provisions than are available to most private employees, greater security of employment, better provisions for sick leave, annual leave, long-service leave, and retirement leave, better promotion prospects within the State's largely unified career service, financial assistance to State servants on transfer to another part of the country, and purchasing and loan privileges available through membership of the Public Service Investment Society.

44. Objection could obviously be made to the inclusion of certain of these items. For example, the Public Service Investment Society is an independent organisation, providing benefits to its members which any other group could achieve if they organised as an investment group (common, we understand, in the United States) or for co-operative retailing. Most of them, however, can properly be

regarded as conditions of State employment. Our witnesses did not suggest, and nor do we, that they are in any way improper. Indeed, over the years the State has performed a beneficial pioneering role in giving attention "to improving conditions of work, to expanding job satisfaction and enrichment, and to providing safeguards against problems arising from feared redundancy and from the prospect of retirement when inflation has eroded [employees'] savings"—objectives recently listed by the Monetary and Economic Council as having been unduly neglected in the economy at large. However, such benefits should be properly evaluated when comparing effective remuneration.

45. We recognise that such evaluations are in practice not as easy as they may seem in theory, for at least three reasons. First, while some of the benefits, notably the greater security of State employment, are not difficult to grasp intuitively, they are very difficult to quantify; and unless quantified they cannot be brought into the calculations of effective remuneration. Second, the subjective value of those benefits may vary a good deal from one person to another, depending for instance on the importance which they attach to future financial security; thus many State servants opt out of the superannuation scheme, despite its manifest advantages. Third, the calculations will be materially affected according to whether one quantifies such benefits in terms of their cost to the employer or their advantages to the employee; for example, the current cost to the Government of its superannuation scheme is negligible, but the value of the scheme is by no means negligible to those State servants who belong to it.

46. We shall return later to these problems, in an attempt to suggest how they may be resolved. Our present concern is to emphasise the dangers of allowing their complexity to sap the will to overcome them. It is, above all, the unresolved margin between pay and effective remuneration which we believe to be primarily responsible for the "confused relativities spiral", as the Chairman of the Monetary and Economic Council has called it. However assiduously the State employing authorities may adhere to the policy of external comparability, State and private wage rates must continue to spiral if the State constantly aligns its pay scales to those prevailing outside, whilst private employers with equal regularity try to maintain a margin over them; and they are likely to do so to the extent that they believe such margins necessary to equalise effective remuneration. Accordingly, failure to come to grips with the fringe benefit problem and thereby to clarify these confused relativities will ensure that even if other faults are rectified State pay fixing will still have inflationary effects and that allegations of State pay leadership will persist.

Chapter 4. PROPOSED CHANGES IN STATE PAY FIXING

PAY RESEARCH

1. We have earlier drawn attention to the stress placed by the 1962 and 1968 Royal Commissions on the urgent need for a pay research unit to measure more accurately external pay relativities, and to the reluctance with which the 1968 Royal Commission accepted, in the light of the then apparent lack of realisation of the urgency of that need, that in the meantime the emphasis would have to be shifted to general adjustments, checked and modified by such pay research as could be conducted. We have also noted that even at this date the hoped-for pay research unit is not yet operating, though general agreement on rules for a "New Zealand State Services Pay Research Unit" has recently been arrived at between the employing authorities and the employee organisations.

2. The climate of opinion surrounding the need for a pay research unit has changed markedly since 1968. In this present inquiry there was virtual unanimity among the witnesses favouring the immediate establishment and rapid development of one, some witnesses even considering that the absence of proper pay research was "the root cause of the problems now facing both the employing authorities and State servants generally". Such differences as emerged from the evidence concerned only the location of the unit, the constitution of the Pay Research Council which is to decide which investigations the unit is to undertake, the availability outside the State Services of the unit's survey reports, and the nature and scope of pay research and its prospective impact on State pay-fixing procedures in the short and longer view.

Location of the PRU

3. Both the 1962 and 1968 Royal Commissions, for the reasons which they gave, believed that the unit should be located within the Department of Statistics. Practically all the witnesses from the private sector who dealt with this issue in the present inquiry favoured its establishment outside the State Services. None challenged that over the years successive Government Statisticians have built up an admirable reputation for independence and integrity: the objection to its location within the Department was summarised by the General Manager of the New Zealand Dairy Board by saying that what was involved was not merely the fact of independence but the requirement that the unit should appear to

be independent. We are not convinced that if the unit is placed within the Department there will be any want of public confidence in the integrity and independence of its findings. Moreover, we think that there are four compelling reasons why it is best that it be located there: the ready availability of the immense accumulation of data collected by the Department in the course of its general activities relating to a great variety of economic, financial, and wage matters; the superior ability of the State Services, and the Department of Statistics in particular, to provide adequately trained and experienced technical staff; the fact that in any event the Government will have to meet the expenses of the unit and will, directly or indirectly, be responsible for ensuring its efficient operation; and the fact that staff drawn from the State Services will have the advantages of knowledge and experience of State occupational classification procedures and job measurements which others would find difficult to acquire.

The Constitution of the Pay Research Council

4. The agreed rules for the Pay Research Council provide for a chairman (the Government Statistician) and 10 members, 5 appointed by the SSCC and 5 by the CSSO. The Employers' Federation however asks that, wherever the Unit be located, the Federation should be represented on the Council for the reasons that the Unit will need to call on employers to supply information regularly and fully concerning their pay scales for the purposes of fixing the scales of their State competitors for labour; and that to secure the full co-operation of employers they must be made confident that the PRU will not be used to investigate only those occupational classes which are thought to be behind their counterparts, or those which are exerting the greatest pressure. Moreover, the inclusion of such a representative would provide the private sector with someone in a "watchdog" role in relation to the Unit's activities generally. We consider that the Federation has a good case for inclusion and favour one of the employer members being a representative of the Federation.

5. On the other hand, we do not favour the suggestion made by the Monetary and Economic Council in its recent report *Economic Trends and Policies* (No. 23) that representatives of the Federation of Labour and the contemplated Industrial Commission should also be included. It is based on a view of the functions and scope of the PRU which we do not accept. We return to this point shortly, noting meantime that the considerations justifying the inclusion of the Employers' Federation do not apply to the Federation of Labour.

Availability of PRU reports

6. The rules provide as one of the objects of the Unit the publication, at the discretion of the Government Statistician and with the agreement of the employer and employee parties, of the results of completed surveys, subject to the secrecy provisions of the Statistics Act 1955 and the interests of organisations supplying data. A proviso is attached that no results are to be published prior to the completion of salary negotiations based on such results. That the Government Statistician should have a discretion is appropriate and the restriction imposed by the proviso may be wise, though the Monetary and Economic Council considers it unnecessary. But the virtual power of veto given the employer and employee organisations could well be too limiting. The Monetary and Economic Council in its before-mentioned report No. 23 contemplates the Unit assisting in private-sector wage fixing as well as State. Moreover, the Council would evidently favour the reports being available freely to the proposed Industrial Commission. Finally, it seems inevitable that they must also be supplied to the State wage-fixing tribunals when relevant to a case; and if submitted as evidence in the usual way, they would become available to the Press and the public.

7. To what extent and in what form the Unit's reports should be disseminated beyond the negotiating parties seems to us primarily a matter for the Pay Research Council to decide, bearing in mind that the Unit's primary purpose is to assist in the State pay-fixing process. If negotiating parties need to have information relating to named employers this must be treated in strict confidence. But that confidence and the PRU's primary function may not be prejudiced by releasing to other institutions—for instance, the proposed Industrial Commission—more generalised information which could serve as a basis for valuable statistics. No doubt the Pay Research Council will in due course give consideration to this.

The Nature and Scope of Pay Research

8. We have said that the primary and all-important task of the PRU should be to facilitate the matching of State wages with those in the private sector. Devising suitable samples; making detailed job comparisons; evaluating those comparisons (for the jobs will seldom be identical); collecting data on pay; collecting and quantifying data on fringe benefits and conditions of service; producing reports containing, and helping towards the interpretation of, the data collected—these duties will, we believe, absorb all the Unit's resources and energies, at least in its first few years. Because we think it so important that the Unit should not be deflected from this task, we do not favour, certainly at this moment,

giving the Unit a wider role. The Monetary and Economic Council, as we have said, contemplates the Unit assisting private-sector wage fixing as well as State and sees it as working in co-operation with and assisting the proposed Industrial Commission. This to our mind would take the Unit well beyond what we contemplate and would thrust it into areas and disputes which would militate against its effectiveness as an instrument for measuring comparability between State and private-sector wages. All that is needed to prevent a wasteful overlap between the PRU and the proposed Industrial Commission research staff is some machinery for liaison, and the supply of PRU statistics to the Industrial Commission.

9. Those of our witnesses who had been most deeply involved in negotiations toward the establishment of a PRU regarded close job similarity as fundamental to the comparisons which it is to make. The Chairman of the Monetary and Economic Council, on the other hand, thought that it might serve a wider purpose, comparing for example the remuneration of similar "types of labour" (defined for instance in terms of similar qualifications) even though not in the same occupation. The work of the PRU might well lead in due course to the development of more sophisticated techniques of job evaluation which could improve horizontal relativities, as the Government Statistician has suggested. Bearing in mind the large number of State servants who have no private-sector counterparts, we would welcome this eventual outcome. In the meantime, matching of jobs inside and outside the State Services, with all that this entails, is indeed the basis of the PRU function.

The Pay Research Programme

10. The PRU is in the process of being established in the Department of Statistics. We have been assured that staff adequate both in calibre and numbers will be made available, and it is expected that the Unit will be able to conduct a survey of the clerical occupational class—by far the largest in the State Service—as at April 1973.

11. Before that survey certain preliminary decisions will need to be made, including

- (a) delineation of the respective responsibilities of the PRU and the Council. The agreed rules go some distance towards this, but as the purpose of any pay research exercise is to enable State pay scales to be set it is essential that the investigation should cover State benchmark positions which will provide an adequate framework for the application of the s. 6 criteria;

- (b) adoption of guidelines for job evaluation. Although the selection of comparable jobs will be the responsibility of the PRU it is essential that the bases of comparison should be understood by the parties represented on the Council, and have their confidence. We think that the pay research investigations which we commissioned (see chapter 3, para. 35) may be helpful to the parties in getting a better understanding of the difficulties and complexities involved. Copies of the resulting reports have been supplied to them;
- (c) an agreement on the State occupations whose pay will be affected, through linkages, by the survey results. We shall have more to say on this subject in a later paragraph;
- (d) the settling of principles to govern the evaluation of fringe benefits. We suggest that this should be undertaken as an entirely separate exercise;
- (e) selection by the PRU of an appropriate sample of private-sector establishments to be surveyed;
- (f) The training of PRU staff in job evaluation techniques.

12. Some of this preliminary work will not have to be repeated and some will be less onerous in subsequent surveys. Moreover no other occupational class will approach the size of the clerical class on which the PRU is to cut its teeth. It can be anticipated therefore that the pace of pay research will quicken. The Department of Statistics considers that given adequate staff resources it may be possible (and would be desirable) to conduct surveys every 2 years for each broad occupational cluster which can be surveyed. Some grouping of occupational classes will clearly be necessary for this purpose, though more specific studies of single occupations may well be undertaken from time to time.

13. It is important to form a clear idea of what the pay-research programme is likely to be in order to decide whether interim adjustments will be needed. We shall proceed on the assumption that a 2-year cycle will be achieved for the most important occupational clusters for which external comparisons are available, and a 3-year cycle for the remaining clusters, and that specific studies narrower in scope will not be of a predetermined frequency but will be fitted into the programme as circumstances may permit.

14. There will still remain many State occupations for which adequate external comparisons are not available, and some of these are large and important. Teachers, nurses, police, and armed services make up a considerable proportion of the State Services, and there are many Railways and Post Office employees in a like position. At present their pay is fixed, in the main, by general adjustments and by maintaining intra-service relativities. But as we saw in the

previous chapter, general adjustments cannot be relied on to fix appropriate occupational rates without adequate and regular checks, and we must emphasise that intra-service relativities need, just as much as external relativities, to be based on expert job comparison and evaluation. As we have mentioned, the PRU can be expected in time to develop sophisticated job-evaluation techniques which can be used for this purpose; we doubt that the potential importance of this has yet been sufficiently appreciated by State employing authorities or employee associations. But in the meantime such comparisons as are now possible, together with trends in staff recruitment and retention, must be relied on. The pay of every State occupation, whether or not it has an outside counterpart, should be subject to regular specific reviews at fairly frequent intervals.

GENERAL ADJUSTMENTS

Abolition of Interim Adjustments not Possible

15. The progress recently made by the SSCC and the CSSO in reaching broad agreement on the setting up of the PRU, and expectations that it will soon be operative, have led to hopes in some quarters that complete reliance can be placed on pay research. It has been suggested that general adjustments may no longer be necessary.

16. Unfortunately we cannot agree that this is so, and with pay research still only on the drawing board it would be foolish to proceed as though it were in full operation. But even if it were, we have seen that specific reviews are likely to be made on the basis of pay research no more frequently than at 2-yearly intervals and less frequently in some cases. Clearly there will need to be interim adjustments to span the 2-year or 3-year gaps, even if the pace of wage increases is moderated to what was experienced before 1969–70.

A New Adjustment System?

17. A great deal of attention was devoted to a number of proposals to replace the HY and/or RR surveys with some other index of change in wage rates. After examining these possible alternatives we shall consider what modifications might be made in the existing surveys to remedy their defects.

Adjustment to Wage Levels

18. The Employers' Federation proposed that the HY survey "should be replaced by an annual wage-rate survey of benchmark jobs in two areas—clerical and related groups and trades and related

groups". This, it was claimed, would eliminate the objectionable practice of following *movements* in outside rates, and would instead align the State with outside *levels* of pay. The Treasury's approach was similar, as were the final submissions by the SSCC.

19. Whether annual "benchmark" surveys would achieve this depends on their scope. If only a few positions in a restricted range of occupations were surveyed, and the pay of most State servants fixed according to their relativity to these benchmark jobs, it would still in effect be based on movements, just as is the pay of the numerous groups presently linked to the average trade rate and the skilled labourers' rate. Such a system would for most State servants be one of adjustment to occupational movements, with which we deal in the next section.

20. If on the other hand an annual pay research investigation covering many positions in a wide range of occupations is envisaged, then the system could appropriately be described as aligning State with outside pay levels. It would clearly entail a formidable amount of detailed job-comparison; and for this reason some witnesses (the Government Statistician among others) doubted its feasibility. We are not prepared to say that the PRU could not, in due course, mount such an operation every year. We question however whether its scarce staff resources would be best employed in doing so. If, as we expect, surveying each main occupational cluster every second or third year, with a few narrower investigations besides, will fully stretch those resources, then introducing annual reviews for some groups must mean reducing the frequency of pay research for others.

21. Nor do we believe that annual reviews are necessary, provided that a reasonably reliable indicator for interim adjustments is available, and that the appropriateness of the rates so adjusted is checked (where possible, by pay research) with reasonable frequency. We attach less importance to eliminating, for some groups, interim adjustments based on movement than to ensuring that no group shall continue to benefit or suffer from them for too long. One danger in focusing attention on benchmark positions, or on occupations which lend themselves to pay research, is that other positions and occupations are likely to be overlooked, hence to benefit or suffer indefinitely either from successive "interim" adjustments or from traditional relativities to surveyed occupations.

22. Paradoxically this might happen, we think, from attempting to review every occupation annually, as the Treasury has suggested. If reviews are too frequent they will tend to be perfunctory, except where pay research is possible, hence they would serve rather to perpetuate than to scrutinise traditional relativities. Moreover, for

many occupations (including some large ones, such as teachers) it would to say the least be difficult to assemble each year, and draw meaningful conclusions from, the data on staff recruitment and retention needed to check relativities, since it is not the short-term fluctuations but the continuing trends which are important.

23. Accordingly we conclude that an attempt to review the pay scales for each occupation individually each year is unnecessary where pay research makes it possible, and unprofitable where it does not; and that energies would be better directed to ensuring that each occupation's pay scale is thoroughly scrutinised at no longer than 3-yearly intervals.

Adjustment to Occupational Movements

24. There was considerable support for a proposal which at first sight might appear to be closely related to that made by the Federation. It was that the HY survey should be replaced by some form of occupational survey. The Chairman of the Monetary and Economic Council considered that if pay research investigations were frequent and detailed, "interim tuning should be based on an average index of wage movement, appropriately weighted by occupation . . .". Incidentally he thought it "unlikely that pay research will be good enough to warrant interim tuning as coarse as the present procedure".

25. The occupational survey proposal differs from the Federation's proposal in that it is an index of *movement*; it does not require such close job comparison; and by reweighting occupational movements an average could be obtained which would be relevant to the State sector. An additional advantage claimed for this approach was that instead of having one average movement, broad State occupational groups could be moved in line with comparable broad groups in the private sector. Only a small random sample would be necessary, and the data could be processed electronically thus making the results available more quickly and reducing back-dating problems. This approach was in general supported by a group from the DPA Course at Victoria University, the New Zealand Dairy Board, and, with reference to scientists and other professional groups, by the New Zealand Association of Scientists.

26. Similar suggestions were considered by the 1968 Royal Commission which was "convinced that it is not practicable at present to establish a new index of movement by pay research methods, using a number of key occupations" (p. 111, para. 48). In coming to this conclusion it was no doubt influenced, not only by the disappointing failure to establish a PRU, but by the then Government Statistician's expressed "doubt whether, with the resources

likely to be available, it will ever be possible to devise a survey which will be more appropriate for this special purpose than are the half-yearly surveys" (p. 114, para. 63).

27. The Chairman of the Monetary and Economic Council did not consider it within his province to estimate the extra resources required for his proposal but suggested that we should seek advice both on this question and on the probable benefits which he considered would extend well beyond the primary purpose of adjusting State pay.

28. The present Government Statistician drew attention to the fact that while there has been a movement "towards fine occupational categorisation" in the State services, there was no corresponding categorisation in the private sector; there was a considerable problem of recognising likes on both sides of the fence. The necessary harmonisation of categories on either side of the fence he considered would be achieved "only when the pay research cycle has at least once substantially covered the whole ambit of the employee field with which it is concerned". In another context, but apt to this one, he stated "that early reliable statistical comparison of rewards of broad categories of State employees on the one hand and private-sector employees on the other is not practicable". After making certain suggestions for the improvement of the HY survey, and because *inter alia* "of the impracticability—in the absence of a national index of prevailing wage/salary levels—of adjusting all State pay rates on an occupational survey basis" he said "I believe that the half-yearly survey pay adjustment system must be retained for a considerable time". He said also "I do not regard as either desirable or practicable the abolition of virtually whole-service pay scale adjustments in favour of a markedly expanded range of occupational class adjustments by either pay research or other specific adjustment procedures".

29. We do not reject the reasoning which we take to lie behind the proposal that broad occupational groups in the State Services should move in concert with comparable groups in the private sector, and we recognise that the broad-brush HYS adjustment does not necessarily achieve this because, for instance, it may be unduly influenced by movements in private-sector groups which have no relevance to State groups. Indeed, we are sympathetic to the conception of interim adjustments being applied with a series of "medium" brushes, more accurately reflecting relevant private-sector movements.

30. It would be possible to identify the private-sector counterparts of broad State groups, and to measure wage movement within those areas and by reweighting devise averages more relevant to

the State sector as a whole or to broad segments of it. But it would be a task of considerable magnitude, and we consider that the difficulties of the essential part of it—the matching of occupations within and without the State sector—are not fully appreciated.

31. Accordingly, we do not accept the proposal at the present time because we are certain that pay research is the first priority and we must oppose the diversion of resources from the PRU. Moreover, we see any occupation-based index of movement as growing naturally out of pay-researched specific reviews and not the reverse. And finally, for the reasons we shall set out later, we do not regard the HY survey, modified as it can be, and properly checked by pay research, as being so coarse and inefficient as to make the adoption of some other form of interim adjustment imperative.

National Wage Index

32. The Government Statistician strongly recommended that a national prevailing wage and salary index should be developed by the Department of Statistics in co-operation with all the parties concerned as quickly as possible. We mention this proposal here as it seems to be related in concept to those just discussed. However, it is clear that the Government Statistician did not contemplate that such a national wage index could soon be used to adjust State pay. He emphasised the magnitude of the task of developing such an index and stated that “its use for broad category pay adjustments is something which cannot be carried into effect in under a year and probably not in under two”. Even this seems somewhat optimistic in view of his later observation that “the development of the index would proceed hand in hand with the advance of pay research which as it specifically established broad occupational matchings in the service on the one hand and in industry on the other, would aid the work of item (wage/salary payment) specification as far as the regimen of the index would be concerned”. For these reasons we do not regard the suggested national wage index as being a present alternative to the HY survey. However, it would clearly provide, in time, information of value for pay fixing, private as well as State, and its development should be favourably considered.

Consumers Price Index

33. The Chairman of the Monetary and Economic Council referred to the view expressed in some quarters “that a simple COL adjustment, such as has been used for all sectors of the labour force over the past year, could be an appropriate substitute for interim

adjustments related to outside pay movements”, and added “I would agree with this view only if pay research investigations were sure to be very regular and thorough”. He also pointed out that if most private-sector rates were rising by at least the CPI movement “the use of such an adjustor for State employees may well be less inflationary than the present system; but it is likely also to be less equitable”.

34. He might well have added that if most private-sector rates were lagging behind the CPI movement—as has happened before and could happen again—State rates could obtain an advantage.

35. We are satisfied that the HY survey provides a better basis for the interim adjustment of State pay than would the CPI, except that the former does seem to be subject to some fluctuations as between the April-October and the October-April half years. For this reason the CPI may provide a better basis for mid-year adjustments between annual HYS adjustments, and we discuss this possibility in a later paragraph.

MODIFICATION OF HYS SYSTEM

36. In the preceding sections we have maintained that the likely growth of pay research does not justify the abandonment of interim adjustments, and that while occupationally related (“medium-brush”) measures of movement may evolve from pay research, in the meantime there seems no better basis for broad-brush annual adjustments than the HY survey. Does the experience of the past 3 years suggest the desirability of modifying the HYS system?

Limitation to 3 Years

37. The first and most important modification, suggested earlier in this chapter, is that no occupation should continue to receive “interim” adjustments (whether based on HYS or RRS movements) for longer than a specified period. Three years seems an appropriate limit. State employing authorities should arrange for each occupational pay scale to be individually reviewed within each 3-year period. Should they fail to do so, the employee association could of course submit a case to the relevant tribunal for a new scale; and it would doubtless do so, if further interim adjustments could no longer be received by that occupational class. In either event, a specific review would occur.

Size of Adjustments

38. In chapter 3 the analysis of the divergence since February 1969 between State and private-sector average earnings shows

the existing system to have been unduly advantageous to State employees, for at least two main reasons. First, they have received increases in pay *rates* corresponding to the private-sector increase in average *earnings*. Part of this increase in earnings will represent an upgrading in the composition of the private-sector workforce, not in pay rates, hence State rates would have risen excessively even if the only source of their increase had been HYS adjustments.

39. But, second, this was not their only source. Many State pay scales rose even more rapidly, in consequence of margins adjustments received *in addition to*, and of specific reviews *in excess of*, HYS increases, whereas few failed to rise as fast. In effect, the average increase in earnings for the private sector became virtually the minimum increase in rates for the State sector.

40. Finally, there may have been some disguised pay increases in the State sector which took the form of the regrading of positions on to higher pay rates, as distinct from raising those rates. An increase in State relative to private-sector average earnings may be legitimate, but only so far as it fairly represents the extent to which the State has been improving the quality of its workforce faster than has the private sector (or that the community is, on balance, attaching a higher value to occupations exclusively or predominantly in the State sector). The analysis in chapter 3 suggests that the amount of the divergence between State and private-sector earnings not obviously attributable to increases in State rates appears too great to be plausibly accounted for by a genuine differential upgrading of quality.

41. If the HY survey is to remain the basis for interim adjustments, as we think it should, some means must be found to prevent it from continuing to confer unjustifiable advantages on State employees. One possible solution would be to deduct from each surveyed private-sector percentage increase any percentage increase which has occurred in the State payable average during the same period, to determine the HYS adjustment. The objection to this is that it must permanently prevent any change in the relationship between the sector averages, and as we showed in the last paragraph, there are some circumstances in which the State may justifiably move ahead; and if it is at present unjustifiably ahead, it would be prevented from dropping back.

42. We propose instead therefore that a standard proportion be deducted from each surveyed private-sector increase when determining the HYS adjustment. Ideally, this deduction would be calculated to equal the amount by which the increase in average

ordinary-time earnings exceeds the increase in ruling rates in the private sector (to offset the upgrading of the private-sector workforce), plus any increases in State pay rates during the survey period. Unfortunately there is as yet no way of discovering these quantities; and by the time pay research has produced adequate ruling-rate statistics for the whole private sector, those could better be used to determine medium-brush adjustments for grouped occupations (e.g., executive, clerical, professional, technical, trades, and manual non-trades) than to deflate HYS figures.

43. However, bearing in mind that general adjustments are themselves a crude mechanism for keeping State occupational rates broadly in line with those outside, we see no serious disadvantage in estimating fairly roughly the size of the deduction, the safeguard being the specific review of each occupational scale at no greater than 3-yearly intervals. From the analysis in appendix 3 it can be shown that residual factors caused the State payable average to increase about one-fifth more than it would have done had State payable earnings followed the HYS movement since February 1969. However, a small part of this divergence probably reflects a more rapid upgrading of the State than of the private-sector workforce. Nevertheless, we suggest that as long as HYS adjustments continue to be made, the private-sector percentage increase be reduced by one-sixth when determining the increase in State pay rates, trusting that the resulting adjustments will err, if at all, on the side of caution.

44. It must be stressed that in making this calculation we have assumed that there will be no widespread State increases in addition to those resulting from the HY and RR surveys, like the margins increases of 1969-70. Some change in margins is unavoidable following an HSAC review of higher salaries, but provided that this is confined to the higher levels of the State Services it will have an impact on the State average no greater than that of other specific reviews. Adjustment of margins at lower levels should as far as possible flow from pay research at those levels, not from a rippling down from the top.

45. Care should also be taken to prevent regrading from becoming an auxiliary engine for increasing the speed of State pay increases. In this connection we trust that the Post Office and Railways will now be able to follow the Public Service in abandoning general regradings, and that all State employing authorities will adopt a cautious approach towards any regradings affecting a substantial number of positions in any occupational class.

Frequency of Adjustments

46. Several witnesses urged that State servants should receive pay adjustments no more frequently than once a year, instead of each 6 months. If employees in the private sector are prevented from negotiating new pay rates more often than that, the suggestion has obvious merit. However, two considerations impede its immediate acceptance. First, so long as private employees are entitled to COL adjustments at more frequent intervals under the stabilisation measures, the case for annual State adjustments is weakened. Second, how frequent they should be depends in part on what decisions are made about backdating. Later in this chapter we make proposals designed to eliminate this practice; but the feasibility of doing so depends in part on how fast pay is increasing in the private sector, and in part on how frequently State pay is brought into line. In our view, part of the cost to be paid for ending backdating may well be a willingness to make 6-monthly adjustments (based on HYS surveys or possibly on CPI movements) if outside earnings are increasing at more than a predetermined rate. We return to this topic later.

Improved Standardisation

47. We have already mentioned (chapter 2, para. 114) that the prospective increase in private-sector earnings resulting from the move to pay women employees at the same rates as men should not be passed to the State Services (where equal pay already exists) via HYS adjustments. To prevent this, observed rather than assumed ratios of female to male earnings must be used when standardising HYS data. Suggestions have also been made, by the SSCC and the Government Statistician, that more accurate standardisation for part-time workers, and some standardisation for juveniles, be considered.

48. These detailed changes are desirable and, in the case of improved standardisation for women workers, imperative. The problem is how they may best be achieved. There are limits to the amount of further information that employers can be expected to supply on HYS returns, and it may well be possible to obtain it in other ways, e.g., by sample surveys, or from PRU data. Decisions on these points should be made on the advice of the Department of Labour and the Government Statistician, in the light of changing circumstances.

MODIFICATION OF RRS SYSTEM

49. The RR survey is primarily a specific survey of rates paid to tradesmen and labourers in the building, engineering, and motor engineering industries for the purpose of fixing the State rates for

several categories of tradesmen and for skilled labourers. It is used also as an index of movement for related occupations but we discuss first its performance as a specific survey. It was claimed that there were faults both in the survey and the way it was applied, and a number of proposals were made for changes.

50. We noted in chapter 3, para. 29, that "the evidence points conclusively to State tradesmen being ahead" of their outside counterparts with equivalent qualifications. Tables produced by the Department of Labour showed that, as at April 1971, only 15.2 percent of the outside tradesmen surveyed received wages *above* the State *indentured tradesmen's rates*, while percentages ranging from 45.7 to 69.0 received wages *below* the State *Grade 1 tradesman's rate* which is the lowest State rate for a tradesman.

51. The CSSO put forward a number of justifications for this situation. They may or may not be valid. But it is clear that their validity cannot be determined, and the State lead cannot be justified, on the present basis of adding a margin for certain qualifications (e.g., 6.25 cents for indenture) to an average rate derived from a survey of tradesmen the majority of whom may, for all we know, be as well or better qualified.

Relating Survey to Qualifications

52. The Department of Labour proposed that instead of surveying tradesmen with varying qualifications it should survey those with a particular qualification specified in the relevant award. The surveyed rate would then be the benchmark for the corresponding qualification in the State Service, and those with higher or lesser qualifications would have their rates fixed by vertical relativity to the benchmark. This approach was supported in general by the SSCC, Treasury, and the Employers' Federation.

53. There are, however, some difficulties. The Department of Labour is presumably satisfied that it can survey, for instance, "carpenters who have served an apprenticeship or have 5 years experience", but the fact that a tradesman is being paid at or above the rate for this qualification is not conclusive evidence that he possesses it despite the Employers' Federation's claim that the qualification "is easily deduced from the rate being paid". We think that more stringent inquiry will be needed to establish in fact what each man's qualifications are.

54. A further problem is posed by the fact that the State Services, and particularly the Railways, place a higher value on indenture than on 5 years' experience, while awards do not. Whether private employers do so, and by how much, can be shown only by a survey

which differentiates between the two qualifications and we doubt whether this is possible. The problem is not insoluble. If the State wishes to retain its differentiation it can do so by paying those with indenture something above, and those qualified by experience something below, the survey figure. What cannot be permitted is to have the indenture margin operating only above the survey figure as at present.

55. If the proposal to survey on the basis of qualification is adopted, as we think it should be, the ideal of comparing "like with like", desired by the Government Statistician, will still not have been achieved. There will be no assurance "that the tradesmen surveyed in the private sector perform essentially like work to that performed by tradesmen in the State Services or . . . carry essentially like responsibility . . .". We have reservations as to whether this would be possible even if the survey were conducted by the PRU. Tradesmen tend to do different work and to carry different responsibilities from job to job and time to time, but also tend to demand and receive the pay rate to which their qualifications entitle them, so that the rate actually paid may be based more on qualification than on job content.

56. But this lack of precision in job comparability does leave open the possibility that the proper rate for a State tradesman may not be the exact surveyed rate for an outside tradesman of like qualification. There may be factors such as the CSSO put forward which would justify some margin or indeed there might be justification for the margin being in favour of private-sector tradesmen in some cases. We must leave to conciliation and to the State Services Tribunal the evaluation of any such factors in the light of the criteria in the 1969 Act.

Broadening Scope of Survey

57. There may be other respects, too, in which the present survey may require some change. The State Services Tribunal (see chapter 2, para. 61) commented that because of its limitations the RR survey may not be entirely fair to labourers and recommended that its basis should be reviewed. Suggestions were also made that the rates paid to tradesmen under certain "house agreements" and to maintenance tradesmen were wrongly excluded. We would naturally agree that the coverage of the survey should be such that it fairly reflects the rates paid to workers who are fairly comparable with State employees. Such matters should and no doubt will be the subject of negotiation when the basis of the survey is changed.

Transfer to PRU

58. The Government Statistician suggested that when the PRU has become firmly established it might, if the Departments and parties concerned were in agreement, take over the conduct of the RR survey. This will no doubt be considered by the parties. We see it as a natural development in due course, but certainly not as a matter of any urgency.

Uniform or Separate Rates for Tradesmen

59. The Railway Tradesmen's Association urged that "to help to restore stability to the Railway Trade Division, tradesmen be paid an acceptable basic common core rate supplemented by appropriate allowances for additional criteria based upon sound premise".

60. During the period which we have been reviewing there was indeed a considerable degree of instability stemming from the very large pay increases obtained first by one trade, then by another. The confusion in the private sector was reflected in the State sector and was naturally felt most keenly in the Railways where internal relativities have long been regarded as almost sacrosanct.

61. We hope that this experience will not be repeated, at least not on the same scale, and that other modifications of the system will avoid some of the upsetting effects. But in any case we cannot endorse a return to a system which theoretically required some tradesmen to be paid more and others to be paid less than their counterparts in industry, thus creating recruitment problems to cure which devices were used which resulted in an overall advantage in State rates.

62. Indeed the present separation of trade rates may not have gone far enough. The Department of Labour commented that "the practice of combining the ruling rate average of fitters or fitter/turners, boilermakers, and welders should be discouraged. The composite average maintains internal relativity in the Public Service but has no external relativity as the composite average and subsequent wage rates have little relationship to actual wage rates for each trade in the private sector". We do not know whether the further separation suggested is practicable. Neither the SSCC nor the CSSO commented on it, but no doubt it will receive consideration.

National Rates

63. By adopting a national rate for tradesmen and labourers—and for some other categories such as typists—the State may be exerting pay leadership in districts where pay rates are below average. The Monetary and Economic Council's Report No. 22

referred to this as "possibly the largest single source of inflationary distortion caused by State Service pay procedures". The Chairman of the Council acknowledged that the problem was a difficult one for which he had no practicable solution to offer. Nor had anybody else.

64. The SSCC remains reluctant to introduce regional rates because this would create new difficulties. It pointed out also that there had been a trend towards national award rates. While this is true it is also apparent from the Department of Labour's evidence that there are still marked differences in *ruling* rates from one district to another. Thus the problem may not be abating. On the other hand it would seem that State competition in the low-rate areas has not had such great inflationary effects as was feared.

65. We do not consider that the evidence justifies any departure from the 1968 recommendations in this regard, though we do recognise the difficulties which national rates create. We understand that consideration is being given to this subject in Australia and suggest that this be borne in mind and the outcome watched.

Survey (or Travelling Time) Allowance

66. Payment by the State to employees throughout New Zealand in certain trades, and to labourers, to compensate for *ex gratia* travelling time paid within the private sector in a few districts only should be discontinued. It certainly exacerbates the disadvantages of a national rate and as we mention elsewhere it is transmitted by formal or informal linkages to private-sector rates.

67. Any compensating payment to State employees should be restricted to those who are in the same districts and who have reasonably comparable conditions to those who receive the *ex gratia* travelling time payments.

Necessity for Discount

68. In para. 43 we have recommended that the private-sector increase as disclosed by the HY survey be reduced by one-sixth when determining the increase in State pay rates. If the RR survey is specifically related to the qualifications of tradesmen we see no reason for applying a similar discount to the increases which it discloses. Even if the category surveyed includes both indentured tradesmen and those qualified by experience there will be little scope for residual factors such as composition changes. If the survey can be restricted to indentured and certificated tradesmen there will be even less scope. But if it continues to include tradesmen with different qualifications and arrives at an average over-all rate, then there will be considerable scope for composition changes. Either the

average must be appropriately weighted if possible, or some discount will need to be applied in determining the average trade rate and the increases to related groups.

Frequency of Adjustment

69. Ruling rates surveys are now carried out in April and October of each year, to coincide with HY surveys. There were several occasions in recent years when more frequent surveys were found necessary because of rapid changes in the private sector; and the October 1971 RR survey was not made because of the stabilisation provisions.

70. Because a large proportion of the State rates are adjusted by the RR survey it is proper that it should be made at the same time as the HY survey. In para. 46 we discussed the proposition that State servants should receive adjustments no more frequently than once a year.

71. If RRS increases were applied only once a year, temporary divergences in the rates paid to different trades would be avoided. We saw in chapter 2 that award rates for the different trades rose at different times in the year, and that attempts to keep the State rates continuously in line led to some unfortunate results.

72. Although it may be hoped that wage rates will not move so violently in future as they have in recent years, the State system must be able to cope with such occurrences. Moreover, it would be unrealistic to expect that State carpenters for instance would be prepared to wait 10 or 11 months to receive an increase which would be immediately available to them outside.

73. On the other hand there is no need to disturb the rates of very large numbers of State servants because plumbers' rates have risen and some adjustment has to be made for the comparatively small number of State plumbers. We suggest that in such circumstances adjustments should be restricted to the trade or trades affected and should be made by allowance until the next annual RR survey. They should not be passed on to the average trade rate or to classes related thereto, or to supervisory grades.

Mid-year Adjustments to CPI

74. If the pace of pay escalation is such that half-yearly adjustments are necessary, then we think that the RR survey should not be used because of the strain on internal relativities which we have mentioned. An alternative measure, the CPI, is available. While this would not be suitable as an index for interim adjustments over a long term we see no reason why it should not be used for the mid-year adjustment between annual RR surveys.

75. In addition to avoiding the disadvantages attaching to the half-yearly RR survey it has some advantages of its own. The labour of conducting a survey is avoided; the results are more quickly available; it fits in with the present stabilisation measures and would probably fit in better with any measures which seek to rationalise the wage-fixing patterns of the private sector.

76. We have no preference whether the RR survey should be made in April or October. Depending on that decision State rates could be adjusted to the CPI movement for the 6 months ending in either September or March.

LINKAGES FROM STATE TO PRIVATE-SECTOR RATES

77. We referred in chapter 2 to the recent trend towards formalising the linkage between private-sector and State rates of pay. We illustrated the trend with a description of what had happened in respect of electricians, with the linkage from State rates to supply authorities and thence to electrical contractors. We concluded that the present stabilisation restrictions on such linkages might be neither permanent nor effective, and that the implications existed whether or not the linkages were formalised or had official sanction.

78. Let us make it clear at the outset that we see nothing objectionable in local authority rates being linked with State rates. They are not included in the private-sector rates on which State rates are determined through the HY and RR surveys. Much the same result would be achieved if local authorities related their rates directly to these surveys. The margins which they establish over or under State rates do not concern this inquiry, and are, after all, matters for negotiation and arbitration. In saying this we are not giving our approval to linkages which apply State rates to local authority employees with like designations without inquiry into the real comparability of jobs.

79. Several unions representing local authority employees invited us to recommend the deletion of the stabilisation regulation prohibiting clauses linking local authority rates to State rates. We can go no further than we have done in the preceding paragraph as we have no knowledge of other factors taken into account in making these regulations.

80. As to linkages of public corporations with State rates, we see no objection so long as their pay rates are not included in the HYS and RRS rates on which State rates are determined. To the extent that there is some co-ordination between their employment

conditions and grading practices and those in the State Services the justification for pay-adjustment linkages is perhaps stronger than in the case of local authorities.

81. The real problem begins when the linkage extends into the private sector and affects rates on which State rates are based. Indeed the implications depend on the influence which the linked private-sector rates have on State rates. For example, electricians' rates have comparatively little effect on the HY survey because they are a very small proportion of the employees surveyed. But they have a much greater effect on the average trade rate in the RR survey, as electricians are a significant proportion both of the tradesmen surveyed and of State tradesmen. Consequently any movement in their rates may significantly influence the rates of the large number of State employees linked to the State average trade rate. And for State electricians in particular, any change in the rates for contractors' electricians, who comprise the universe of electricians covered by the RR survey, is of the greatest possible significance.

82. We examine first the implications as they affect State electricians whose rates are fixed in relation to the RR survey of contractors' electricians. To do so it is convenient to make certain assumptions: that the linkage exists only in respect of electricians; that they constitute one-tenth of the State tradesmen in the eight surveyed trades; that there was original parity of rates; that in one particular half-year, contractors' electricians' rates are increased by 10 percent; and that there are no private-sector increases other than this and those stemming from it, either in that half-year or later. The following pattern would then emerge:

- (a) the RR survey would disclose that the ruling rate for electricians was 10 percent higher than in the previous survey;
- (b) apart from any complications arising from, e.g., the indenture margin or the survey allowance, the State rate would be increased by 10 percent to the new survey rate;
- (c) the linkage would then cause a further increase in contractors' electricians' rates, either by the same amount, or by the same percentage;
- (d) if there was a percentage link, then in theory contractors' electricians' rates must continue to increase by 10 percent each half-year indefinitely;
- (e) if the link passed on the amount and not the percentage of the State increase, then there would be an increase in both rates of a fixed amount but of a reducing percentage each half-year.

83. Stated in these terms it is obvious that the system would quickly break down of its own weight. But if the increases were less dramatic, if they were obscured by other increases in other rates and for other causes, then the process might continue as a built-in wage accelerator for a considerable period.

84. On the assumptions we have made in para. 82 the effect on other State rates adjusted to RRS movement would be less dramatic:

- (a) the initial 10 percent increase in contractors' electricians' rates would raise the State average trade rate by only 1 percent, and this would be passed on to all State employees linked to that rate;
- (b) just as a 10 percent increase in contractors' electricians' rates would tend to occur each half-year in perpetuity so would the 1 percent increase for State trade-rate related employees.

85. If, however, other private-sector tradesmen were also linked to State rates this effect would be enhanced because a greater proportion than one-tenth would pass into the average trade rate. If a link exists, then *any* increase in the private sector must set off a chain reaction which in theory is infinite.

86. The effect on State rates which are adjusted by reference to the HY survey would be less than on those linked to the RR survey because the HY survey is so much broader, and electricians or any other linked class would be a much smaller proportion of the employees surveyed. But there would be *some* effect, and we cannot exclude the possibility that the trend may extend to other and larger occupational groups in the private sector.

87. Linkages with the private sector bring into sharp relief any State-sector departures from the principle of external comparability such as the 6.25 cents indenture margin or the so-called survey allowance. A very large proportion of the electricians surveyed receive the qualification margins provided for in their award, and this is reflected in the survey rate, to which the State adds the further 6.25 cents. The private sector picks this up through the linkage and is thus paid twice for qualifications. Similarly, if there is a linkage between State tradesmen and private-sector tradesmen who receive *ex gratia* travelling allowance the latter will receive it twice—once as the *ex gratia* award payment and again through the award wage rate if this is increased to keep pace with State rates.

88. Indeed, the result would not be very different if the State rate included a margin properly and fairly based on greater

responsibility or more difficult working conditions. If private-sector awards are linked they will incorporate this margin in their own rates.

89. The Department of Labour submitted that the trend towards formal linkages “effectively destroys the basis on which State rates are determined”. It seems that the danger exists irrespective of whether the linkages are formalised or not. Particularly is this true in respect of specific surveys—and the RR survey is for electricians and some other employees a specific survey. The 1968 Royal Commission recommended in this respect that “Where the remuneration of those doing comparable work outside the State Services can be shown to be based on pay rates in the State Services . . . external comparability shall not apply”, and this is provided for in the 1969 Act, s. 6 (5) (b).

90. There may, however, be linkages which are not harmful. If there are many employers employing a particular category of employee it will be likely that a few will lead the way in raising rates. Others will follow, but some may decide to wait to see what happens to State rates, and follow them. This course may save trouble and suit both employer and employees. In this case, the linkage, whether formal or otherwise, would tend to slow down the escalation of wage rates.

91. The main contribution which the State sector can make—and which it certainly should make—towards eliminating the harmful effects of feedback linkages is to avoid a position of State pay leadership, and thereby to reduce incentives in the private sector to adopt such linkages. Some may persist, however, based on attempts to maintain a permanent margin above State rates (i.e., on confused relativities). The stabilisation regulations forbid the formal adoption of linkages and may be able to prevent some informal increases designed to achieve the same result. The industrial legislation which we understand is now under consideration may also deal with this aspect.

92. But if linkages remain and are not based on any proper comparison of the work of State and private-sector workers, then the State system will have to be re-examined. We think it will be found that there will be no large-scale adoption of the practice, and comparatively small groups such as electricians can be excluded from the RR survey. They could instead have their rates fixed by horizontal relativity to other trades.

BACKDATING

The Case for Backdating

93. The evolution of the current practice of backdating interim adjustments, normally to the midpoint between surveys, has been described in chapter 2, paras. 87–97. It was supported by the CSSO and SSCC (though not by the Treasury) on the following grounds. Assuming that State pay for each occupation is, at the outset, in line with that of its outside counterpart, survey adjustments are intended to restore that position after a period (say, a year) during which private-sector rates have been moving ahead. For the whole of that year, State rates have tended to fall progressively behind; therefore, if the survey adjustment is made without backdating, State employees will have been restored to parity, but without any compensation for the period during which they were behind their outside counterparts. This would conflict with a strict interpretation of the external comparability principle, as embodied for instance in s. 24 (7) of the 1969 Act, which requires State employing authorities when issuing pay determinations arising from HY surveys “to ensure that employees in the State services are not at a disadvantage compared with persons employed outside the State services by reason of movements in pay scales outside the State services that have taken place since the date of the last survey”. If, on the other hand, the survey adjustments are backdated for 6 months, then State servants will in effect have been behind for the first half of the year but ahead for the second; and assuming that outside rates have been rising evenly throughout the year, the disadvantage suffered during the first half-year will be balanced by the advantage enjoyed during the second. As the Government Statistician put it, backdating “is not only mandatory in terms of the Statute but is unavoidable in some form if the foundation principle of fair comparability with rates in the private sector is to remain in force”.

Criticism of Backdating

94. This argument was criticised on a number of grounds. The Employers' Federation, for example, observed that backdating was unusual in the private sector, hence that it confers on State servants an advantage not enjoyed by their outside counterparts, whose pay (individually) is not increasing steadily throughout the survey period as the sector average is assumed to do, but normally remains fixed for each 12 months. This is true; but it neglects the point that when a new rate is set for a private employee, it can be expected (in a period of wage escalation) to be ahead of those in the private sector for related occupations, which will leapfrog in their turn when the

time comes for their annual review. State rates, on the other hand, are assumed to be aligned not with the highest and latest rates but with an average. The private employee may thus be said to enjoy in another form a period of leadership such as the State servant gets through backdating.

95. The Employers' Federation and the Treasury also criticised the backdating of survey adjustments (as distinct from specific occupational scales) on the ground that the "disadvantage" which s. 24 (7) of the 1969 Act aims to prevent could only be proved for a given occupational group, in comparison with its outside counterpart. The assumed steady increase in the private-sector average has no necessary relation to pay movements for any specific outside occupation, therefore no State servant can show that fair comparability has been infringed if his HYS adjustments are not backdated. This, too, is true; but it is not clear to us that the burden of proof should be thus placed on the individual or occupational group. It is not in their power to insist on a specific review every few months so that any disadvantage can be revealed; indeed, our reason for recommending the continuation of interim adjustments is that specific reviews cannot in our view be effectively arranged for all occupations at intervals shorter than 2 or 3 years. And while no State employee or occupational group may have enough evidence to prove disadvantage, they must *on average* be falling behind, as was shown in para. 93.

96. A further criticism of backdating, suggested for example by Mr J. N. Laurensen, is that it is based on an overstrict interpretation of the external comparability principle. All that that principle entails is that the remuneration of State servants shall keep *broadly* in line with that outside. We have some sympathy with this view. An Act which results in a Tribunal decision backdating certain adjustments from 15 January (the midpoint) to 27 December, on the ground that private-sector pay increased faster in the first than the second 3-monthly period between surveys, may fairly be said to have made a fetish of "instant relativity" (as Mr Laurensen has called it). However, the extent to which backdating can properly be restricted without State pay becoming *not* broadly in line is necessarily a matter of judgment; and in our view, it would not have kept even broadly in line during the past 3 years had it received private-sector increases by annual adjustments without backdating.

97. Beyond a certain point, then, backdating (in some form, as the Government Statistician said) becomes inescapable. On the other hand, it has serious practical disadvantages. The 1968 Royal Commission mentioned the desirability of minimising the disturbance to the economy resulting from retrospective payments, a point recently

endorsed by the Monetary and Economic Council. It also noted the danger that some groups in the private sector may base their pay claims not on what State servants are currently receiving but on what they may receive after future backdated adjustments. One or two examples were mentioned which give force to this criticism. The Monetary and Economic Council has also pointed out that backdating tends to cause frustration in both sectors: it fosters State employees' suspicions that they are always behind, it induces the private employee to speed up and inflate his demands for pay increases (knowing that his State counterpart is always about to receive an adjustment and a lump-sum in backpay), and it leaves the State employer to recruit at "paid" instead of "payable" rates. But a further practical disadvantage of major dimensions has also been identified by a number of witnesses: backdating makes effective budgeting impossible, not only for the State (which in an inflationary period enjoys offsetting advantages from buoyant tax revenues) but more especially for those local authorities and public corporations which use State pay-fixing methods, and which do not benefit from equivalent increases in revenue.

Proposals

98. For all these reasons we adhere to the preference of the 1968 Royal Commission that some method be found to limit backdating to an unavoidable minimum covering the period between the survey and the payout date. We suggest that this be done by bringing the loss of backdating into fringe benefit calculations: in other words, by treating the propensity of outside employees to obtain pay increases earlier than their State counterparts as a fringe benefit for the private sector, to be taken into account like other fringe benefits whenever a State occupation is specifically reviewed.

99. It would certainly be no more difficult to quantify this benefit to private employees than it would be to bring into the calculations such relatively intangible advantages as the greater security of State employment. However, when doing so, some initial assumption must be made about the probable tempo of private-sector pay increases. For example, if it is reasonable to expect a growth in outside pay of 4 percent per annum (a figure which, while negligible compared with recent increases, would not have seemed low in the 1960s), the private employee can fairly be regarded as enjoying a 2 percent advantage in the absence of backdating in the State sector, and fringe benefit calculations made accordingly.

100. This provisional estimate can be checked from time to time in the light of experience, and if necessary an amended figure used

for future calculations. The greatest danger is that private rates will unexpectedly begin to rise more rapidly than this. Some tolerance is permissible, partly because it would not infringe the "broadly in line" principle, and partly because the State servant is cushioned against downwards adjustments by the conventions about standstill rates, hence can reasonably be expected to take some rough with the smooth. If, as seems likely, State servants at some levels in several occupations are found by pay research to be ahead, those conventions may in future provide much greater benefits than they have done so far. Nevertheless, beyond a certain predetermined point some compensating mechanism would be desirable: and this, in our view, could best take the form of an adjustment to State pay at the end of 6 months, instead of annually. For example, if a rise in outside pay rates of 4 percent annually has been assumed and compensated for, but after 6 months these rates had risen by 3.5 percent, State servants would qualify for an immediate adjustment. This might be based on the COL increase, as we have previously suggested.

FRINGE BENEFITS

101. At the end of chapter 3 we recalled the emphasis that the 1962 and 1968 Royal Commissions had placed on comparing "effective remuneration" and not merely pay. We outlined some of the difficulties which would be met in quantifying and evaluating fringe benefits, stressing that failure to cope with this problem would leave inflationary tendencies in the State pay system.

102. The 1968 Royal Commission contemplated that the PRU would ascertain and quantify the conditions of service, as well as pay, enjoyed by the occupational classes being surveyed, and that this information would be a sufficient basis for the final evaluation of effective remuneration by conciliation between the parties, and if necessary by arbitration.

103. We suspect that this may not suffice to assure private employers and the public that justice is being done. A suspicion may remain that State employees have been judges in their own cause, hence critics will not be inclined to accept the negotiated evaluations as being more soundly based than the much higher estimates which they themselves have made. It is not, in our opinion, sufficient to dismiss the latter as uninformed, one-sided, and unscientific—as they may often be; it is very much in the interests of the State and its servants that there should be the greatest possible degree of acceptance of its procedures.

104. Nor would it be practicable simply to delegate the evaluation of fringe benefits to the PRU even if it had the time—which we doubt—to do it. This might serve well enough in respect of certain straightforward and easily quantifiable benefits such as lunch vouchers, or transport to and from work. But before such conditions as comparative security of tenure, or even superannuation, can be evaluated, some principles of assessment must first be laid down.

105. The Department of Statistics is not unaware of the problem. In its background paper on pay research it stated: "The operations of the New Zealand PRU will be limited to fact-finding and the interpretation of such facts and will in no way impinge on negotiations. There will be a need to decide the extent to which the unit shall attempt to evaluate fringe benefits in monetary terms (some being very difficult to quantify by such means) . . .". Moreover, in carrying out a pilot pay research investigation at our request the Department also found that it was impracticable to compute the value of fringe benefits as a percentage of salaries for a number of reasons, including:

- (a) some, though important, were intangible;
- (b) some were not used by all employees entitled to them;
- (c) some became available to relatively few employees;
- (d) some applied only to certain age or occupational groups or varied with age, length of service, and the like.

106. What is first needed, then, is the definition of principles in the light of which fringe benefits can be quantified. They must cover the points just listed and also those which we raised at the end of chapter 3 (para 45). They might well lay down, in addition, appropriate employee categories to which fairly standard fringe-benefit adjustments might be applied, if (as we suspect) these are neither as wide as the whole State Services, nor as narrow as each occupational class. The result, ideally, would be a set of equations which identify the variables to be taken into account, plus a set of operating instructions by which a pay research investigator can determine the value of each variable for the occupation which he is investigating.

107. We have not the time, even if we had the capacity, to undertake this task. However, it urgently needs to be done. Accordingly, we suggest that the assignment be entrusted to an appropriate organisation which is in a position to complete it before the PRU carries out its first survey. The Applied Mathematics Division of DSIR might be suitable, and we understand that it has had some experience in this field. The Institute for Economic Research, a university department, or a firm of business consultants are other possibilities.

108. The next step as we see it would be for its report to be considered and decisions on it reached by the Pay Research Council. Because the evaluation of private-sector fringe benefits will be in issue just as much as those in the State sector, we think this is a strong additional reason why the Employers' Federation should be represented on this Council.

109. The facts elicited by the PRU and its interpretation of them would then fit into the general evaluation framework already decided on, and the task of negotiating in respect of each specific occupational review should be made very much more straight-forward.

110. Once satisfactory procedures have thus evolved for evaluating fringe benefits, consideration should, in our view, be given to amending s. 6 (6) of the 1969 Act, which specifies that "conditions of employment, other than pay, shall be fixed having regard to external comparability, except when the special features of employment in the State services make this inappropriate". Provided that where conditions of State employment depart from those in the private sector an appropriate adjustment is made to State pay rates, we see no reason to impose a statutory requirement that those conditions be fixed having regard to external comparability. On the contrary, State employing authorities should have the widest possible freedom to prescribe them. As we noted in chapter 3, para. 44, the State has in the past performed a beneficial pioneering role in improving such conditions, and it should not be prevented from doing so in future should an appropriate occasion arise.

ACTION REQUIRED TO CORRECT STATE LEADERSHIP

111. After surveying in chapter 3 the allegations of State pay leadership and the available evidence, we concluded (para. 40) "that the balance of probabilities suggests that many State servants must be ahead of their private-sector counterparts".

112. If this is so, what should be done about it? Should State rates be frozen until the private sector catches up? We are convinced for a number of reasons that this would be neither practicable nor just. In the first place we cannot know with any certainty which State employees are ahead of their private-sector counterparts. Second, nor can we know with any certainty how far they are ahead, hence when the private sector could be deemed to have caught up. Our conclusions in the preceding chapter were perforce based on a comparison not of levels but of movements. We recognise, moreover,

that our calculations of movement in State payable averages, although more thorough than any comparable calculations submitted in evidence to us, are necessarily based on certain assumptions and simplifications which will entail some margin of error. Third, the Stabilisation of Remuneration Regulations specifically provide for the application of the April 1972 HYS and RRS increases to the State Services from 15 October 1971. Last and most importantly, we have good reason to believe that the PRU will, as at April 1973, carry out a review of the very large clerical group, which will provide the proper occasion, the proper grounds, and (with sufficiently extensive linkages) the proper mechanism for any pay-pause which may be needed, especially as there will also be an HSAC review at that time.

113. This is not to say, however, that no corrective action can or should be taken now. In the first place we see no reason why the discount which we have suggested in para. 43 should not be applied to the movement disclosed by the April 1972 HY survey. If, as estimated, this movement (from April 1971) is about 11 percent, then it could be reduced by one-sixth, to say 9.17 percent. State employees have already received 9.10 percent COL adjustment, hence little if any further increase may be justified. Although the April 1972 RR survey will not have been designed on the new basis which we propose, we do not suggest that any discount be applied to the resulting averages. We assume, however, that the survey allowances (travelling time) will be modified as we propose, and the qualification margins reviewed, when the adjustments arising from that survey are calculated.

114. We do not think that the reduction of one-sixth would contravene either the 1969 Act or the stabilisation regulations. The former in s. 24 (7) refers to "making such adjustments in the pay scales in the State services as may be required to ensure that employees in the State services are not at a disadvantage . . .". The latter in reg. 27 (2) (b) refer to "such adjustments in those pay scales as are necessary to reflect the movement in pay scales outside the State services . . .".

115. The question next arises whether the further movement reflected in the October 1972 HY survey should be applied to State rates. We think not. A COL order is to be made covering the CPI movement over the 9 months to 30 September 1972. It would clearly be inappropriate for State servants to receive more than this; but that they should receive it, subject to such deductions for any increases in State rates during that period as would apply in the private sector, is consistent with the case we have already made for deferring any large-scale readjustment till next

April's pay research investigation. It would probably be convenient to apply the COL increase to State pay irrespective of whether related to the HY or RR surveys, and to hold the next RR survey next April.

116. There should, however, be no HYS adjustments next April. On that occasion the survey of clerical pay, together with an RR survey and an HSAC review, should ensure that large numbers of State servants are in reasonable alignment with the private sector, or held on standstill rates. The remainder should at that time have their pay fixed in what appear to be appropriate relativities to these; occupational classes for which such internal relativities are most doubtful will presumably be high on the list for an early specific review, by pay research or otherwise. Thereafter, HYS adjustments should take their proper place as merely interim measures between specific reviews.

CHANGES IN LEGISLATION

117. In the course of the preceding discussion various suggestions have been made, the adoption of which may necessitate legislative changes. Two further proposals for amendment, emerging from our inquiry, remain to be considered.

Powers of Employing Authorities

118. Section 21 of the 1969 Act provides that employing authorities may issue amending determinations, but only in defined circumstances or by agreement with the Service organisation concerned. The SSCC claimed that if an employee organisation refused to agree to an amending determination "good management requires that there be some way to break the impasse and to have the matter referred to arbitration".

119. The SSCC correctly states that "Nowhere is an employing authority given power to submit a case to any Tribunal". The 1968 Royal Commission envisaged that Tribunals should be predominantly appellate and that employing authorities should be primarily responsible for initiating decisions. The normal procedure in the event of deadlocked negotiation would be for the employing authority to issue a determination against which the Service organisation could appeal.

120. The SSCC referred only to the powers given in s. 21 to issue amending determinations, from which it could be inferred that once a determination exists for an occupational class, an "amending determination" is the only way of changing it, hence

that the powers of employing authorities are inescapably constrained by the limitations contained in s. 21. But this may not be so. Section 5 provides that "An employing authority may issue a determination on its own motion or following an application by a service organisation . . .". Section 26 places on employing authorities the responsibility for "reviewing the remuneration . . . of occupational classes or groups under its control to ascertain whether or not there is need to adjust the salary scale . . .". If the position be that employing authorities have been given this responsibility without the power to give effect to it by determination, then that power should be specifically given.

121. But we hesitate to go further, doubting the wisdom of permitting an employing authority to choose whether it will exercise its function or place on the Tribunal the responsibility for initiating a decision.

Pay Adjustment Determinations

122. The 1969 Act in s. 24 (7) requires employing authorities when issuing determinations arising from HY surveys to make "such adjustments in the pay scales in the State services as may be required to ensure that employees in the State services are not at a disadvantage compared with persons employed outside the State services . . .".

123. We doubt whether the words "not at a disadvantage" are well chosen in this context. The aim is to have pay scales which "will be fair to the tax-paying public and to employees", and this is to be achieved by keeping the rewards of employment "broadly in line" with those outside. The HYS adjustment is based on an average change in outside earnings and is applied over a wide range of classes and grades. Some will receive more, and some less, than exact comparability would require. It follows that some will be "at a disadvantage" compared with some outside scale movements.

124. As the Act will require amendment if effect is given to some of our other recommendations, we suggest that the opportunity be taken to re-examine this subsection. A more appropriate wording might be:

making such adjustment in the pay scales in the State services as may fairly reflect movements in pay scales outside the State services and so maintain broad and fair comparability with those scales.

Chapter 5. CONCLUSIONS AND RECOMMENDATIONS

1. We present in this chapter our broad conclusions about the State pay-fixing system. These do not emerge from the detail of our recommendations, confined as they are to the points of that system which call for attention. Those recommendations have emerged in the course of our discussion, and are summarised for convenience at the end of this chapter. But to put them in perspective, a more general appraisal of State pay fixing is needed, supplying answers to the specific questions in our Warrant:

- (a) whether the effect of those systems has been to produce, for broad categories of State servants, rewards not broadly in line with those of comparable employment outside the State Services;
- (b) whether the present procedures for implementing that [the "broadly in line"] principle give rise to inflationary effects.

2. First, we cannot stress too strongly that nothing has emerged in the course of our inquiry to justify a conclusion that State pay-fixing procedures were primarily responsible for the inflation of the past 3 years. It will be clear to anyone who has read this report that it is no purpose of ours to make scapegoats out of the State employing authorities, State employee associations, or State servants generally, nor indeed to exculpate the procedures which are largely based on our own recommendations made in 1968.

3. State pay-fixing procedures undoubtedly contributed to that inflation in two ways. The first and most important of them lies outside the field of our inquiry: to the extent that the inflation was caused by the pay-fixing system in the economy as a whole, State pay fixing as part of that system cannot escape its share of the blame. But to the extent that the State merely followed the private sector up the wage escalator, in accordance with the principle that the rewards of State employment be kept "broadly in line", its role was essentially passive. Our Warrant requires us to accept that principle, from which one of two conclusions must follow. Action to check wage inflation must either be directed primarily to the private sector, or a new pay-fixing system must be invented incorporating both private and State sectors, with a new relationship between them. Our investigations have necessarily been based on the first of those propositions.

4. The other way in which State pay-fixing procedures have had inflationary effects is the one which has been central to our inquiry. To the extent that the State's role has not been passive, but that it has instead been (either generally, or with respect to broad categories of State servants) in a position of pay leadership, corrective action needs to be taken within the State Services, even though their sins may be venial in comparison with those outside. Indeed, the immensely difficult task of constructing satisfactory pay-fixing machinery in the private sector will be somewhat easier if the State's machinery is in proper working order.

5. Has such State leadership in fact occurred? Disregarding those categories such as typists who have the benefit of equal pay, we conclude that the balance of probabilities suggests that many State servants must now be ahead of their private-sector counterparts. The evidence is clear that, for most trades at most levels of skill, in the country as a whole but especially in the dockyard, and also for computer programmers, the State has been in a position of pay leadership. Only pay research can establish whether this leadership extends to broad categories of State servants. We suspect that it may well do so.

6. How has State pay leadership occurred? In the case of tradesmen, because of the special additions (margins, survey, and dockyard) to their survey-based rate. In the case of certain other occupations (e.g., drivers, storemen, engineering technicians) if State leadership has occurred—and the evidence is sketchier—it is because their rates have been based on internal relativities instead of on external comparisons. But the major cause of presumed pay leadership in the State sector has been the succession of HYS and other increases, so far unchecked by pay research, for many occupations.

7. Why has the system of HYS adjustments, which was supposed to keep the pay of many State occupations in line with that outside, instead resulted in State pay leadership? Partly because in the private sector pay in some outside occupations has risen less than the average. Partly because HYS adjustments have been based on movements in private-sector average earnings, which appear to have risen faster than pay rates in that sector. Partly because many State servants have received margins increases in addition to, or new salary scales in excess of, HYS adjustments. And partly, we suspect, because some regradings must have served as disguised pay increases.

8. The effect of this catalogue of faults may have been to suggest that very little is right with the State pay-fixing system. If so, we must promptly dispel that impression. No sooner had the new system

been launched in 1969 than it was exposed to the storms of unprecedented inflation and unaccustomed militancy; and it proved remarkably seaworthy. If a few of its seams have sprung a leak and need caulking, that is neither surprising nor any cause for condemnation. Rather, the impressive fact is that the modifications which we now propose, in the light of the last 3 years' experience, are predominantly of a specific and technical nature (e.g., the reduction by one-sixth of the surveyed movement when making HYS adjustments, and the more accurate alignment of qualification margins for tradesmen with those which have recently emerged in the private sector).

9. The main change in the system, as we envisage that it should operate in future, will result from the establishment of the PRU. But this is not a new conception. It was recommended by the 1962 and 1968 Royal Commissions, and provision was made for it in the 1969 Act. Its imminence, however, permits us now to go further than was then possible, and to recommend that the pay of each occupational class should be specifically reviewed (by pay research or otherwise) at no greater than 3-yearly intervals.

10. We have no doubt that this of itself will effect a considerable improvement in the operation of the system. Together with the other changes which we recommend, it will remove the deficiencies in that system which the last 3 years have exposed. We must sound a note of caution, however, against a too-ready assumption that when those changes have been made, no further problems will occur. There are limits to what can be achieved by modifying machinery or streamlining procedures. How well the system will work must also depend importantly on the personal qualities of those who negotiate and decide, and on the pressures under which they do so.

11. The qualities of those who participate in these processes are for our purposes an independent variable. About the pressures under which they operate, however, something can usefully be said. The 1962 and 1968 Royal Commissions were properly concerned to emphasise that in order to preserve the non-political character of the State Services, to keep State pay disputes out of the arena of political controversy, and to be fair both to State servants and the taxpaying public, decisions on State pay should be based on sound principles, and reached by negotiation—and where necessary arbitration—in the light of those principles. We find little wrong with the 1969 Act as an expression of the principles which should guide State pay fixing; but if anything is wrong with it, the proper course is to amend the Act, not to attempt by direct action to secure decisions which could not be obtained through arbitration under its provisions.

12. There have been several occasions during the past 3 years when State servants have resorted to direct action instead of to arbitration, including some which ended in a negotiated agreement. The substance of the resulting decisions may perhaps have been fair and in accordance with principle; nevertheless, they were reached under pressure, and not through the processes of conciliation and arbitration recommended by the 1962 and 1968 Royal Commissions and prescribed by the Act.

13. We readily admit that there have been extenuating circumstances. The stresses resulting from the wage explosion, so soon after the 1969 changes in State pay fixing, must have seriously affected the negotiators on both sides. Moreover, in the same period the record of the private sector under the same sorts of pressure was not so distinguished as to make the State's performance ignominious by comparison. Above all, the disposition of a Government to insist, in the face of direct action, that a remedy must be sought from the appropriate Tribunal in accordance with the statutory procedure inevitably depends on the willingness of the public to support such a stand, and to endure the resulting inconveniences so long as direct action persists.

14. But if the public may thus be called on to maintain, in the last instance, the principles of State pay fixing, a special responsibility rests on the media of mass communication—especially the Press, with its greater capacity for reporting in depth—to ensure that the public is made aware not merely of the facts of any current dispute, but also of the principles involved and of the remedies which the Act provides. We have studied extensive files of clippings from metropolitan and provincial newspapers dealing with the disputes over State pay which led, during the past 2 years, to direct action, with a view to gauging how much assistance the public has been given to learn the facts, to understand the principles, and to reach a reasoned conclusion. Occasionally, we encountered in our search examples of first-class reporting, and editorials which embodied an informed judgment. Too often, however, we detected an attitude that a remedy should be sought through concessions from both sides, in complete disregard both of the principles laid down in the Act and of the arbitration procedures which it provides.

15. However much may be achieved, therefore, by the improvements which we have suggested in the system of State pay fixing, we must emphasise in conclusion that how it works must ultimately depend on a more widespread awareness of the features and the virtues of that system. We trust that this report has made some contribution to that end.

16. List of recommendations extracted from chapter 4:

- (1) That a Pay Research Unit be immediately established and rapidly developed (para. 2).
- (2) That it be located in the Department of Statistics (para. 3).
- (3) That a representative of the New Zealand Employers' Federation (Inc.) be included in the Pay Research Council, as one of the employer members (para. 4).
- (4) That it be left to the Government Statistician and the Pay Research Council to decide the extent of the dissemination of the Unit's reports beyond the negotiating parties, but that they give consideration to methods of releasing information which could serve as a basis for valuable public statistics (para. 7).
- (5) That since the primary and all-important task of the PRU is the matching of State remuneration with that in the private sector, no duties be imposed on it which would impede its accomplishment of that task (para. 8).
- (6) That each occupational pay scale be specifically reviewed by the appropriate employing authority at no longer than 3-yearly intervals, and that thereafter no occupational class receive any interim pay adjustment more than 3 years after such a review (paras. 23, 37).
- (7) That if the 1969 Act does not give employing authorities power to issue determinations giving effect to specific reviews, then the Act be amended to confer that power (para. 120).
- (8) That unless private-sector rates be subject to more frequent adjustment, State rates be adjusted at annual intervals, except when it can be shown that private rates are increasing appreciably faster than has been allowed for in fringe benefit calculations; that in those circumstances a mid-year adjustment be made to State rates; and that consideration be given to basing that adjustment on movements in the CPI (paras. 46, 74, 100).
- (9) That annual adjustments to pay scales be based for the time being on concurrent HY and RR surveys, modified as we later recommend; but that when the development of pay research permits, consideration be given to their replacement by occupation-based indices of movement; and that for this and other purposes, favourable consideration be given to the development of a national wage index with identified occupational components (paras. 29, 31, 32, 70).

- (10) That no widespread pay adjustments of a general nature be made, other than the interim adjustments already mentioned; and to that end, that adjustments in margins following HSAC reviews be confined to the higher levels of the State Services (para. 44).
- (11) That s. 24 (7) be amended to require employing authorities when issuing determinations arising from HY surveys to make such adjustments in the pay scales in the State Services as may fairly reflect movements in pay scales outside the State Services and so maintain broad and fair comparability with those scales (para. 124).
- (12) That so long as the HY survey is used for pay adjustments, a standard proportion amounting to one-sixth be deducted from each surveyed private-sector increase when determining the size of those adjustments, to allow for the more rapid increase in earnings than in pay rates in the private sector; but that no deduction be made from such increases as are disclosed by the RR survey, provided that it surveys tradesmen in specific relation to their qualifications (paras. 42, 68).
- (13) That, to avoid unjustified increases in State rates when equal-pay rates are applied to women in the private sector, observed rather than assumed ratios of female to male earnings be used when standardising HYS data (para. 48).
- (14) That from time to time and in the light of changing conditions more accurate standardisation formulae for part-time workers and some standardisation for juveniles in the HY survey be devised by the Department of Labour in conjunction with the Government Statistician (para. 48).
- (15) That the RR survey be conducted wholly on the basis of qualification, and that State rates and the margins which they embody be determined therefrom on the criteria laid down in s. 6 of the 1969 Act (paras. 55, 56).
- (16) That if any trade needs a pay adjustment between the annual surveys, except as otherwise provided in these recommendations, that adjustment be restricted to that trade and be made by allowance till the next survey (para. 73).
- (17) That survey (or travelling time) allowances paid to State employees be restricted to those who are in the same district and who have reasonably comparable conditions to those in the private sector who receive *ex gratia* travelling time payments (para. 67).

- (18) That backdating be limited to the period between the survey and the payout date and that the loss of backdating be brought into fringe benefit calculations (para. 98).
- (19) That in comparing effective remuneration for the purpose of State pay fixing full account be taken of fringe benefits enjoyed by the related State and private occupations (para. 101).
- (20) That the task of defining principles in the light of which fringe benefits can be quantified be entrusted to some organisation outside the PRU such as the Applied Mathematics Division of the Department of Scientific and Industrial Research, the Institute for Economic Research, a university department, or a firm of business consultants (paras. 106, 107).
- (21) That once satisfactory procedures have been evolved for evaluating all fringe benefits, consideration be given to amending s. 6 (6) of the 1969 Act to remove the requirement that conditions of State employment must (with certain exceptions) have regard to external comparability (para. 110).
- (22) That the one-sixth reduction referred to in recommendation (12) be applied to the movement disclosed by the April 1972 HY survey (para. 113).
- (23) That the movement reflected in the October 1972 HY survey be not applied to State rates, but that instead the COL order covering the 9 months' CPI increase to September 1972 be applied, subject to such deductions for increases in State rates during that period as would apply in the private sector (para. 115).
- (24) That the movement reflected in the April 1973 HY survey be not applied to State rates, but that instead State rates generally be aligned in appropriate relativities to those determined by a specific survey of clerical rates, the RR survey and the HSAC review (para. 116).

APPENDICES

Appendix 1

ORGANISATIONS AND PEOPLE WHO MADE SUBMISSIONS

(Most submissions were presented orally at a public sitting and the people who appeared were subject to questioning. Those submissions that were not presented orally are distinguished by an asterisk. The figures in brackets refer to the number of papers presented.)

Chambers of Commerce, Associated	(1)
Clerical and Office Staff Employees' Industrial Association of Workers, New Zealand Federated	(1)
Combined State Service Organisations	(2)
*Crisp, G. A.	(1)
Dairy Board, New Zealand	(1)
*Electrical Supply Authorities Industrial Union of Employers, New Zealand	(1)
Employers' Federation (Inc.), New Zealand	(2)
*Engineers, New Zealand Institution of	(1)
Federated Farmers of New Zealand (Inc.)	(2)
Government Statistician	(2)
*Hospital Employee Organisations (Inc.), Society of	(1)
Hospital Officers' Association (Inc.), New Zealand	(1)
Labour, Department of	(4)
Laurenson, J. N.	(1)
*Maddock, A. C.	(1)
Medical Association of New Zealand	(1)
Monetary and Economic Council, New Zealand	(1)
Nurses' Association (Inc.), The New Zealand	(1)
*Radiographers (Inc.), New Zealand Society of	(1)
Railway Tradesmen's Association, New Zealand	(1)
*Reid, L. W. S.	(1)
*Scientific and Industrial Research, Department of	(1)
Scientists, New Zealand Association of	(1)
State Services Co-ordinating Committee	(3)
Treasury	(2)
University Teachers Association	(1)
*Urquhart, Roe and Partners	(1)
Ursin, N. G.	(1)
Veterinary Services Council	(1)
Victoria University, Diploma of Public Administration Course	(1)
Wall, T. F.	(1)
Wellington, Marlborough, Westland, Nelson, and Taranaki Local Bodies' Officers' Industrial Union of Workers	(1)
Wellington, Nelson, Westland, and Marlborough Local Bodies' Other Labourers and Related Trades Industrial Union of Workers	(1)
*Wight, T. W.	(1)

*Appendix 2*STATE SERVICES REMUNERATION AND CONDITIONS OF
EMPLOYMENT ACT 1969, SECTION 6

6. Criteria in prescribing pay scales—(1) In prescribing pay scales, being salary rates or scales of salary rates or wage rates or scales of wage rates, in accordance with this Act—

(a) The aim shall be to set for each occupational class a pay scale which will enable the State services to recruit and retain an efficient staff, will take account of special responsibilities or conditions applying to employment in the occupational class, and will be fair to the tax paying public and to employees in the State services; and

(b) Effect shall be given to the provisions of this section.

(2) In order that the requirements specified in paragraph (a) of subsection (1) of this section may be satisfied, the rewards of employment in the State services shall be kept broadly in line with those of employment outside the State services.

(3) In order to achieve the purposes specified in the foregoing provisions of this section, in setting a pay scale for any occupational class, regard shall be had to the following criteria:

(a) External comparability, being the current remuneration received by employees in positions outside the State services which are closely comparable with positions in that occupational class, which closely comparable positions are hereafter in this section referred to as benchmark positions:

(b) Vertical relativity, being the adequacy of the margins between benchmark positions and other positions in that occupational class, taking into account differences of responsibility and skill:

(c) Horizontal relativity, being the current remuneration received by those in benchmark positions in other occupations (whether in or outside the State services) which, however dissimilar in job content, have some similar requirements such as education, training, or skill, and having regard to any differences in skill or responsibility between the benchmark positions in that occupational class and in the other occupations:

(d) Recruitment and retention, being the need to attract, and to hold at all levels of that occupational class, enough staff of sufficient competence to ensure efficiency, and the adequacy of the current pay scale for these purposes.

(4) In applying the said criteria, they shall be given weight as follows:

(a) The closer the resemblance between the benchmark positions which are being compared the greater shall be the weight to be given to external comparability in comparison with other relativities:

(b) The more closely pay rates based on vertical relativity are linked to external comparability, the greater shall be the weight

attached to vertical relativity; and in this connection, without limiting the generality of the foregoing provisions of this paragraph,—

- (i) The more accurately a benchmark has been fixed by external comparability, the greater shall be the confidence in margins calculated from it:
- (ii) The greater the number of benchmarks within a class which have been fixed by external comparability, the greater shall be the confidence in a structure of margins based on that framework:
- (iii) The narrower the range between benchmarks the greater shall be the confidence in interpolated margins:
- (iv) Interpolated margins shall command more confidence than extrapolated margins,—
so that a pay rate which for reasons such as those specified in subparagraphs (i) to (iv) of this paragraph, commands a high degree of confidence may outweigh one insecurely based on external comparability:
- (c) Horizontal relativities shall have weight only when no closer comparisons are available; and, in choosing between them, the more likely a comparison is to indicate a realistic market price for the occupation under review, the greater shall be its weight:
- (d) Whenever abnormal ease or difficulty in attracting and holding enough competent staff indicates that rates based on relativities are out of touch with market realities, recruitment and retention shall outweigh the relativity criteria.

(5) In applying the foregoing provisions of this section, the following provisions shall apply:

- (a) Current remuneration means current wage or salary rates, unless it can be shown, taking into account other conditions of service, that effective remuneration differs from wage or salary, and that such a difference can be evaluated:
- (b) Where the current remuneration of those doing comparable work outside the State services can be shown to be based on pay rates in the State services, or where their conditions of employment other than pay differ sufficiently to prevent fair comparison, external comparability shall not apply:
- (c) References to employment outside the State services shall be limited to employment in New Zealand, unless it can be shown that there is an effective demand outside New Zealand for New Zealand staff of the occupation and grade concerned, in which case the pay scale shall be fixed (taking into account overseas salaries together with other relevant factors) at a level which will enable the State services to recruit and retain an efficient staff:
- (d) References to employment outside the State services shall not include self-employed persons:

Provided that, when so many of the counterparts of those in the occupation and grade concerned are self-employed as to prevent the application of external comparability, then the pay

scale shall be fixed (taking into account the incomes of self-employed persons together with other relevant factors) at a level which will enable the State services to recruit and retain an efficient staff:

- (e) References to employment outside the State services shall be limited to employment with good employers, that is to say, those maintaining standards which are generally accepted for the time being as necessary minima; and (apart from general adjustments, based on the widest sampling of the sector outside the State services) comparisons shall where possible be made with employers who are competing in the same labour market as the State services and whose conditions of employment are similar:
 - (f) External comparability shall require, not that State services pay for a benchmark job shall correspond to the mean of the rates for its counterparts outside the State services, but that it shall fall within a reasonable range about that figure, taking into account such other relevant considerations as the quality of performance sought, the record of recruitment and retention in that occupation, and likely changes in future demand:
 - (g) External comparability shall not require the setting of separate district pay scales for occupational classes which have a distribution throughout New Zealand, and State services pay scales (except under awards and industrial agreements) shall be uniform throughout New Zealand:
 - (h) References to abnormal ease or difficulty in recruiting and retaining staff of a given occupation in the State services mean ease or difficulty that is shown to be greater than that of employers outside the State services, or difficulty of such magnitude that it impairs the effectiveness of the State services; and whenever existing relativities are abandoned as inadequate to recruit or retain an efficient staff, the estimated extra cost of getting more staff at increased rates shall be compared with the benefit which the State services expect to derive from their employment.
- (6) Conditions of employment, other than pay, shall be fixed having regard to external comparability, except when the special features of employment in the State services make this inappropriate.

Appendix 3

COMPARING MOVEMENTS IN SECTOR AVERAGES

1. Among the information collected from each employer by the Department of Labour in its surveys each April and October is the number of ordinary-time hours worked by all employees, the number of full-time employees (male and female separately), and the number of part-time employees (male and female separately). From these responses, average ordinary-time earnings can be calculated, on an hourly and weekly basis, for each of several industries and districts and for each of four sectors (State, public corporations, local authorities, and private). In the subsequent analysis we shall be concerned to compare movements in weekly ordinary-time earnings in the State and private sectors only.

2. The pay that State servants are receiving at any survey date is an unsatisfactory measure of their earnings, since increases subsequently awarded may well be backdated. Accordingly, we decided that for our purposes the survey figures should be adjusted to show, instead of what was currently being paid, the amounts payable inclusive of such backdated increases.

3. Although the State employing authorities observe uniform dates from which increases become payable, there is some variation among them in the dates at which the new rates begin to be currently paid. This can complicate the comparisons, if at a given survey date one employing authority has begun to pay according to revised scales whilst another has not yet introduced them. To avoid these complications, the working group decided to measure trends in State pay not over the whole surveyed State sector, but in a subsector in which there was uniformity in payout dates. For this purpose, the subsector found most suitable as a proxy for the whole State sector was that paid by the Pay and Personnel Recording Centre; this covers a substantial portion of the Public Service, also the Police, but not the Post Office nor the Railways, nor the armed forces. (Education and hospital board employees, among them teachers and nurses, are also excluded, but the HY survey does not in any case classify these as State servants, but as in the local authorities' sector.)

4. Trends in average ordinary-time earnings in the private sector may be influenced by changes in the proportion of women and of part-time workers employed, as well as in pay rates. For this reason, before changes in the surveyed private-sector averages can be used as an index of movement by which to adjust State rates, those averages are "standardised" to eliminate the effects of changing proportions of women and part-timers. Whether for our purposes State averages should also be standardised, to ensure that like is being compared with like, was a matter on which witnesses disagreed. However, the arguments against standardising the State averages (that women State servants are on the same pay rates as men, and that the State employs few part-time workers) do not imply that to do so would impair the comparisons, but merely that to do so is unnecessary since it will not affect the trend revealed by the unstandardised figures. Accordingly, we saw no harm in standardising the averages for both sectors, and suggested to the working group (see chapter 1, para. 18) that this be done. (For this purpose, a

different ratio of women's to men's earnings was of course appropriate, based on the observed relationship in the Public Service.) By standardising we are in effect producing averages for full-time male employees in each sector.

5. When presenting evidence on trends in State and private-sector earnings, different witnesses use different time periods. What period is most appropriate is a question of judgment, on which we recognised that we would have to make up our minds after hearing the arguments. To leave ourselves scope, we asked the working group to prepare figures covering a period from not later than October 1968 to as near the present time as practicable.

6. Fair comparison can, moreover, be vitiated if inappropriate starting and finishing points are selected, for the following reason. The trend in the private-sector average, influenced by countless decisions affecting relatively small numbers of workers and spread fairly evenly throughout the year, can reasonably be assumed (except after a GWO or the like) to be a fairly smooth one; in times of rising wages it would thus be graphed as an upward slope, perhaps of varying gradient. The trend in the State sector average, however, is predominantly influenced by periodic adjustments affecting most or all State servants at the same time; it would thus be graphed as a flight of steps, perhaps with varying risers. To compare this with the private-sector trend, one must measure the gradient of the flight of steps, for which purpose equivalent positions on the top and bottom steps are needed (e.g., the midpoint in each step). The situation is further complicated by changes in the State adjustment period, i.e., in the length of the treads. Before 1969 the system was based on annual adjustments, effective in August. From 1969 to 1971 it was based on 6-monthly adjustments, usually effective in January and July. After January 1971, in consequence of the stabilisation policy, it reverted at least temporarily to annual adjustment based on private-sector movement, but with interim cost of living adjustments. This further complicates the comparison. Witnesses differed about which results can be attributed to "the system" and which to perhaps transitory variations in it.

7. We consider that fair comparison of the sector averages can best be achieved by taking as starting and finishing points dates when, according to the logic of the system, State pay should have been in alignment with private-sector pay. February 1969 is such a date; the "payable" figure for that month incorporates the adjustments resulting from the RR survey taken then, which are supposed to have aligned State with private rates. This is, moreover, the last date at which such an alignment can be assumed, before the 1969 changes in the system began to exert their influence. Unfortunately, there is no HYS figure for the private-sector average at that point, but one can be interpolated between the October 1968 and April 1969 surveyed averages.

8. The logic of the system, as amended in 1969, is that the State and private sectors should be in alignment each April and October. April 1971 is the latest date at which a routine comparison can be made, though more speculative ones can be attempted for October 1971 and April 1972. Although the State and private-sector averages are available for October 1971 the usual procedures for adjusting State pay in line

with the HYS private-sector movement were not then applied, owing to the Stabilisation policy, nor was a RR survey conducted at that time, hence one must either treat the July 1971 COL adjustments as a proxy for the increases which would otherwise have occurred in the State sector, or estimate what those increases would have been. For April 1972 the comparison is even more speculative, since the HYS private-sector average must be estimated, as well as the State adjustment derived therefrom. (The April 1972 HYS private-sector average had not become available when this report was written, and the figure for the State sector was provisional.)

9. As will be seen from appendix 4, the expert working group used two different methods for comparing State subsector with private-sector average movements. In paragraph 4 of that appendix, State payable figures are assumed to have moved from 1969 to 1971 as the surveyed (i.e., paid) State earnings moved between 1970 and 1972. In their final submissions, the Employers' Federation showed that this assumption was open to considerable objection. Accordingly, we prefer the technique used by the working group in paragraph 6 of appendix 4, when calculating the State payable figure for April 1970. This is the method of "payable factors", shortly to be described. It should be noted, however, that the working group encountered difficulties in calculating payable factors for October 1971, and instead worked back from an April 1972 figure. In the light of further calculations which we have done, it seems that the errors arising from ignoring possible changes in the composition and grading of the State workforce, even in a 6-month period, exceed those which the working group was concerned to avoid. Moreover, we have extended our analysis so as to make an appropriate modification in one of the payable factors to overcome the difficulties posed by the October 1971 (and other) figures, viz, to allow for tapered increases.

10. The method of payable factors, in its simplest form, is described and applied in the Employers' Federation's final submissions. The logic of their approach can be expressed, in very elementary algebra, as follows. If at a given survey date the State paid average is P, and one wishes to find the payable average Q, one should multiply P by a payable factor which is a weighted average of two items A and B, A being the ratio of payable to paid earnings for those subject to HYS adjustments and B the equivalent ratio for those subject to RRS adjustments, the weights (K) and (1-K) being the proportions of the State workforce adjusted by HY survey and RR survey respectively. Thus:

$$Q = [KA + (1-K) B] P.$$

11. This formula is open to objection on two grounds. First, it should take into account as additional weightings the average earnings (x and y) in each of the segments, thus:

$$\begin{aligned} \text{if } P &= Kx + (1-K)y \\ \text{then } Q &= KAx + (1-K)By. \end{aligned}$$

This is not the same as the previous formula for Q unless $x = y = P$.

12. Second, a more refined analysis will take into account the fact that the RR survey produces not one but two measures of movement

(apart from specific rates for certain trades), viz, the change in the average trade rate and the change in the skilled labourers' rate. We are aware that, in practice, many occupational groups receive adjustments based on differing blends of these two variables, but for the purpose of calculating State payables it is sufficient to think of three segments, following the movements disclosed respectively by the HY survey, the RR survey (trades), and the RR survey (labourers). From evidence submitted by the SSCC, the balance between the HYS segment and those adjusted by the RR survey can be calculated. The proportions of the latter in the trades and labourers segments respectively can be gauged by noting the effects on the overall average of differing changes in the average trade and skilled labourers' rates. For the whole of the surveyed State sector (i.e., the Public Service, Post Office, Railways, and Police, but not armed forces), we discovered that at 1 April 1971, 57.2 percent of employees were in the HYS segment, and that the system behaved as if 19.9 percent moved with the average trade rate and 22.9 with the skilled labourers' rate. We have treated these proportions as being constant throughout the period, except that allowance has been made for the transfer in 1970 of upwards of 1,800 locomotive staff from HYS to RRS adjustments. We decided to use the surveyed State sector in our analyses, instead of the State subsector favoured by the working group, because the latter underestimates the RRS segments; the necessary allowances have been made for differing payout dates (see para. 3 above).

13. Accordingly, the equation for calculating the State payable average becomes

$$Q = .572Ax + .199By + .229Cz$$

where A, B, and C are the ratios of payable to paid earnings at the survey date for those adjusted in line with HYS, average trade, and skilled labourers' movements respectively, and x, y, and z are the average paid earnings in those three segments. The ratios A, B, and C are known (i.e., they can be ascertained from the pay determinations issued by the State employing authorities). The averages x, y, and z are not known, and it is necessary to estimate one of them at the outset. From nominal wage index data (giving rates and weights for a number of relevant occupational groups, both permanent staff and wage workers) we calculated an initial value for z. Values for x and y can then be deduced during the subsequent analysis.

14. We can call this the "three factor" method, to distinguish it from the "two factor" method used by the Employers' Federation. The difference in the results is shown in the following table, as are the differences arising from standardising the State data, and from using the State subsector (SSS) in lieu of the whole State sector (SS). The figures in the table are the percentage by which payable average ordinary-time weekly earnings are calculated to have increased from the base date of February 1969, (a) to April 1971, (b) to October 1971, allowing for the 4.8 percent cost of living increase actually received, and (c) to October 1971, assuming that all State servants had instead received an increase of 5.36 percent corresponding to the HYS private-sector movement from April to October 1971.

Table 9

CALCULATED PERCENTAGE INCREASE IN PAYABLE
EARNINGS SINCE FEBRUARY 1969

		April 1971		October 1971		
				COL	HYS	
SSS	Standardised	{	2 factor	44.3	50.5	51.4
			3 factor	45.5	50.9	51.8
	Unstandardised	{	2 factor	43.3	49.4	50.2
			3 factor	44.4	49.8	50.6
SS	Standardised	{	2 factor	44.4	47.2	48.1
			3 factor	45.5	47.6	48.3
	Unstandardised	{	2 factor	43.2	46.1	46.9
			3 factor	44.3	46.4	47.2

15. The crucial point is that all the variations arising from these different methods are trivial, compared with the divergence between State and private-sector increases in this period. The private-sector average increased from February 1969 to April 1971 by 28.6 percent, and to October 1971 by 35.5 percent. In round figures, average State payable earnings increased 14 to 15 percent more than did average private-sector earnings, the margin of error (depending on how one calculates State payables) being plus or minus $2\frac{1}{2}$ percent. Accordingly, we can proceed without hesitation with an examination of increases in State sector standardised earnings, using the three factor method, confident that those increases are characteristic of State earnings generally.

16. The problem is, how did it happen that State pay, supposedly adjusted to follow private-sector movements, actually increased faster? To analyse this we need the following equations, which set out the relationship between State payables at time 1 and time 2, being the beginning and end of any period to be considered (care being taken to choose dates when, by the logic of the system, State and private earnings should be in line, as explained in paras. 6-8 above):

$$Q_1 = .572A_1x_1 + .199B_1y_1 + .229C_1z_1$$

$$Q_2 = .572A_2x_2 + .199B_2y_2 + .229C_2z_2$$

$$= R\hat{Q}_2$$

$$\hat{Q}_2 = .572HA_1x_1 + .199TB_1y_1 + .229LC_1z_1$$

The equation for Q_1 corresponds to that already stated for the State payable average, but with values appropriate to time 1. These values will normally be known. The first equation for Q_2 is the corresponding expression with values appropriate to time 2; A_2 , B_2 , and C_2 will be known, but x_2 , y_2 , and z_2 are to be calculated. The equation for \hat{Q}_2 identifies the changes in pay in the various segments during the period considered. Thus H is the product of the factors known to have affected rates in the HYS segment, including, of course, any HYS increases but also such other calculable influences as margins increases. (These have been calculated as the proportionate change in a weighted average of clerical/executive/administrative classes, taking these to be a proxy for the segment.) Similarly, T is the product of the factors known to have

affected rates in the trades-related segment (using the other trades classes where necessary as a proxy for the segment), and L the product of factors affecting the labourers-related segment. If the only influences during the period were those incorporated in H, T, and L, then R would be unity; but since they may not be, R serves as a residual factor converting \hat{Q}_2 to the observed value Q_2 . Since we have no reason to suppose that the components of this residual factor affect one segment more than another, the equations have been so designed that R does not alter the ratio between the segment averages.

Table 10

INDICES OF PAYABLE EARNINGS SINCE FEBRUARY 1969

Private Sector Average		State Sector Payable Average	Components of the State Sector		
			HYS	Trades	Labourers
1000	February 1969	1000	1000	1000	1000
	Margins June 1969		1018	1020	
	HY survey October 1969		1052	1054	1033
	Residual factor: 1.00164	1049			
1030	October 1969	1051	1053	1055	1035
	RR survey February 1970			1102	1079
	Trades margins February 1970			1111	
	HY survey April 1970		1106		
	Residual factor: 1.03935	1102			
1080	April 1970	1146	1150	1154	1122
	HSAC, bulge, C.VI		1209		
	RR survey June 1970			1232	1154
	HY survey October 1970		1314		
	RR survey October 1970			1300	1263
	Residual factor: 0.98162	1303			
1173	October 1970	1279	1290	1276	1239
	GWO November 1970		1327	1314	1277
	RR survey February 1971			1367	1301
	HY survey April 1971		1414		
	RR survey April 1971			1383	1334
	Residual factor: 1.04811	1388			
1286	April 1971	1455	1482	1449	1398
	COL 4.8%	1525	1553	1519	1465
	(HY/RR 5.36%)		(1561)	(1527)	(1473)
	Residual factor: 0.96774	(1533)			
1355	October 1971	(1483)	(1511)	(1478)	(1425)
	COL 9.1%	1545	1573	1538	1484
	(HY/RR 11%)		(1592)	(1557)	(1502)
	Residual factor: 1.02106	(1563)			
(1427)	April 1972	(1596)	(1625)	(1590)	(1533)

17. By using these equations, we have identified for each inter-survey period from February 1969 to April 1972 the influence of each identifiable factor, and the size of the remaining residual factor. Converted into index-number form, these results are set out in table 10. For the periods April–October 1971 and October 1971–April 1972 we have inserted not only the COL increases actually payable, but the effects of hypothetical HYS/RRS adjustments. For this purpose we have assumed that the RRS adjustments would have coincided with those from the HY survey; there was no RR survey in October 1971, and the results from that in April 1972 were not available during our investigations. We have also assumed (as did the Employers' Federation) an HYS private-sector increase of 11 percent from April 1971 to April 1972, since the April 1972 private-sector average was not available during our inquiry; this estimate is lower than suggested by the Chairman of the Monetary and Economic Council, and may be conservative. It should be borne in mind that, under existing procedures, State pay will, in due course, be adjusted in the light of the April 1972 HYS and RRS results.

18. There are three possible sources for the divergence in movement between the State and private-sector averages. First, the RRS-related segments may have risen more or less rapidly than if they had received HYS adjustments. Second, in the first three periods there were, in addition to HYS/RRS adjustments, a series of "margins" increases, including under that heading the complex changes effective in the period April–July 1970 and listed in the table as "HSAC, Bulge, C.VI". Third, there are the residual factors. (The GWO increase in November 1970 can be disregarded, as it was in effect an advance subsequently absorbed by the HYS/RRS adjustments.) Our analysis can accordingly be extended, on lines suggested in the CSSO's main submissions, to measure the relative importance of these three sources. For this purpose the periods April–October 1971 and October 1971–April 1972 will be treated as if the HYS system had continued to operate normally, and the assumed figures in the table accordingly used, since the complications arising from the COL adjustments are irrelevant to an understanding of why State pay has risen faster.

19. The following table shows the results of that analysis, identifying the factors (by period and type) which influenced State pay from February 1969 to April 1972.

Table 11

FACTORS INFLUENCING STATE PAYABLE EARNINGS

Period	HYS	RRS Diff.	Margins Increases	Residual	Cumulative Product
February 69–October 1969	1.0330	1.0	1.0155	1.0016	1.0507
October 69–April 1970 ..	1.0500	0.9979	1.0014	1.0394	1.1458
April 70–October 1970 ..	1.0870	1.0115	1.0342	0.9816	1.2790
October 70–April 1971 ..	1.0960	0.9903	1.0	1.0481	1.4549
April 71–October 1971 ..	1.0536	1.0	1.0	0.9677	1.4835
October 71–April 1972 ..	1.0535	1.0	1.0	1.0211	1.5958
Product ..	1.4343	0.9996	1.0516	1.0584	1.5958

20. The table has several interesting features. First, HYS adjustments cumulatively raised average State pay by 43.4 percent in the course of the whole period, whereas the private-sector average increased by only 42.7 percent (as shown in the previous table). This discrepancy, admittedly small, has two causes. In introducing the new HYS system of adjustment the private-sector increase from February to October 1969 was estimated to be 3.28 percent, whereas from our interpolated base point it was only 3 percent. Moreover, in each case the private-sector increase was rounded upwards to give the figure for adjusting State salaries; and in April 1970 this rounding was appreciable, reflecting the increase in private-sector hourly rather than weekly earnings.

21. Second, the table suggests that adjusting the pay of large numbers of State servants in accordance with RRS movements had no effect on the average, over the whole period.

22. Third, a significant cause of the more rapid increase in State than private-sector pay was the series of margins adjustments in 1969-70, especially those payable to clerical employees in April-July 1970. The working group provided some very useful calculations on which we have relied, of their effects on average earnings in the Public Service.

23. Finally, the largest single contribution to the more rapid increase in the State average was made by residual factors. Their possible identity has been discussed in chapter 3.

Appendix 4

STATISTICAL WORKING PARTY REPORT

1. The working party held five meetings between 3 May and 23 May 1972. Representatives from the Employers' Federation, the State Services Commission, the Department of Labour, the Monetary and Economic Council, and the Combined State Service Organisations were present at these meetings.

2. The aim of the working party was to assemble an agreed body of data relevant to two inter-related problems:

- (a) what effects the operation of the 1968 Commission's recommendations, as implemented in the 1969 Act, have had on State pay, and
- (b) whether or not State pay levels have advanced faster than private levels in the recent past.

3. After a good deal of discussion the group agreed to look at the HYS average weekly ordinary-time earnings, to recognise the problem of backdating and allowances which should be made for it, to standardise both private and State averages for part-time and women workers, and that the relevant sectors to be analysed would be private and the State subsector*. Allowances would also be made in looking at the effects of the HYS system for the substantial part of the State subsector who were affected by RRS movements.

4. The effects of the 1968 recommendations were looked at in terms of the performance of the average State subsector earnings between March 1970 and March 1972, assuming that the movement in the private average between April 1969 and April 1971 would have been moved into the State subsector between March 1970 and March 1972.

The private-sector figures are:

April 1969	..	..	45.820	
April 1971	..	..	58.462	+27.6%

The State subsector figures are:

March 1970	..	..	56.991	
March 1972	..	..	77.322	+35.7%

The total movement in the State subsector can be broken down into the following components:

	Percent
(a) Increases due to the "pure" HY survey	27.6
(b) Extra increase of 1.1 percent over the 2.2 percent revealed by the October HY survey negotiated to match starting points, in the changeover from RR survey to HY survey basis	1.1
(c) Extra increase of 0.2 percent from an increase of 5.0 percent being given as a result of the April 1970 HY survey. The weekly increase was 4.8 percent but the hourly increase measured was 5.0 percent	0.2

*The State subsector is the public sector less the Post Office and the Railways Department.

(d) Effect of moving 31.4 percent of the State subsector by the RR survey rather than the HY survey	0.5
(e) Effect on the subsector of the 1970 HSAC adjustment, the C.VI adjustment and the Clerical Bulge (with an adjustment to allow for item (c) above)	3.5
(f) Unexplained Residual	0.9
Items (a) to (f) accumulate to	35.7

5. A longer-term analysis of the same sort as in paragraph 4 was attempted from the following data supplied by the Department of Labour.

State Subsector Standardised			Private Sector (less Government Corps) Standardised		
1967	March	45.973	1967	April	41.41
	September	48.101		October	41.962
1968	March	48.849	1968	April	42.859
	September	49.606		October	44.753
1969	March	51.135	1969	April	45.820
	September	53.749		October	46.823
1970	March	56.991	1970	April	49.089
	September	60.497		October	53.347
1971	March	66.174	1971	April	58.462
	September	71.783		October	61.597
1972	March	77.322			

An analysis of these figures in the similar fashion as that in paragraph 4 left a larger unexplained residual and we did not think it possible to apply the method to the longer period.

6. An analysis in terms of private-sector paid average, which may be taken as the payable for that sector, and State payable average was made between April 1970 and October 1971. These dates were selected to ensure that the State subsector figure was taken in the centre of a pay step to ensure comparability with the private sector.

	Private Paid Average	State Subsector Payable Average
April 1970	49.09	61.664*
October 1971	61.60	81.033
	+25.5%	+31.5%

An analysis of the State increase shows:	Percent
(a) HYS system effects (8.7 percent and 9.6 percent)	19.1
(b) 1970 HSAC, C.VI and Bulge	3.5
(c) Cost of Living Order	4.8
(d) RRS differential effect	0.5
(e) Unexplained residual	1.2
Items (a) to (e) accumulate to 31.5 percent	

*This average excludes the adjustments payable from 15 April 1970.

7. An attempt to extend the analysis of paragraph 6 back in time failed because the party could not agree on the validity of doing so.

G. E. DICKINSON, Convener.
24 May 1972.

Appendix 5

DOUBLE-COUNTING THROUGH AVERAGED MOVEMENTS

1. In its December 1971 report *Inflation and the Labour Market* the Monetary and Economic Council suggested that a State pay-fixing system which provided specific reviews for fast-rising groups while adjusting other groups in line with private-sector average movements involves double-counting, in that those private-sector average movements are themselves influenced by the pay increases of the fast-rising groups. The point was illustrated in the following table, showing how a fast-rising group (X) can produce inflationary "ratchet" effects in such circumstances.

	Private Sector			Public Sector		
	Group X (20%)	Other Groups (80%)	Average	Group X (20%)	Other Groups (80%)	Average
1.	100	100	100	100	100	100
2. Private X rises ..	110	100	102			
3. Specific review ...				110	100	102
4. HY survey 2 percent ..				110	102	103.6
5. Parity sought ..	110	102	103.6			
6. HY survey 1.6 per-cent ..				111.7	103.6	105.2

2. The first four lines of the table follow inevitably from the preliminary assumptions. The fifth, however, requires the additional assumption that all Other Groups in the private sector will seek and obtain parity with the Other Groups in the State sector. The implausibility of this suggested a more elaborate three-group model, in which apart from Group X there is a Group Y in each sector such that private Group Y will obtain parity whenever State Group Y takes the lead, and Other Groups in each sector which move independently of one another. (Occupations with no counterpart in the other sector would be an obvious illustration.)

3. The first two rows of the left-hand side of the previous table, as thus expanded, and allowing for independent pay movements in each group, can be represented in a general form as follows:

PRIVATE SECTOR				
	Group X	Group Y	Other Groups	Average
Weights;	p	q	(1-p-q)	
1.	A	B	C	$pA + qB + (1-p-q)C$
2.	aA	bB	cC	$paA + qbB + (1-p-q)cC$

4. If the initial pay rate for State Group Y is D, then the revised rate for that group after the first HY survey becomes

$$D. \frac{paA + qbB + (1-p-q)cC}{pA + qB + (1-p-q)C}$$

Averaging will thus produce State pay leadership whenever that expression exceeds bB . But if State Group Y is assumed to have been originally in alignment with its private-sector counterpart (i.e., $B = D$) the condition for State pay leadership becomes

$$b < \frac{pA + qB + (1-p-q)cC}{pA + qB + (1-p-q)C}$$

which simplifies to

$$pA(a-b) + (1-p-q)C(c-b) > 0$$

5. The following conclusions follow from the discussion so far:

- Disregarding the possibility that State Group Y was originally out of alignment, averaging must produce State pay leadership if the rates of increase in the private sector for both Group X and Other Groups exceed the rate of increase for private Group Y.
- Conversely, averaging cannot produce State leadership if private Group Y is rising faster than both Group X and Other Groups in the private sector.
- If the rate of increase of private Group Y lies between those of Group X and Other Groups in the private sector, whether averaging will produce State leadership or not will depend not only on where Group Y lies between them, but also on weighting factors representing on the one hand occupational proportions, and on the other, any disparity in initial levels of remuneration. The effect of fast-rising Group X may thus be offset by slow-rising Other Groups.
- The generating of State pay leadership through leadership does not depend on the proportionate distribution of the workforce among Groups X, Y, and Other in the State sector (though those proportions will affect the inflationary impact of such leadership).

6. However, the model as thus elaborated remains a gross oversimplification of reality in that it ignores the existence of backdating. The plausibility of the assumption that private Group Y will seek and obtain parity whenever State pay leadership exists depends importantly, though not entirely, on a prior assumption that the members of private Group Y can see that their State counterparts are ahead. (This assumption may no longer be valid once those members have become aware of the crucial distinction between paid and payable incomes in the State sector.) Whether State *paid* incomes are visibly ahead will depend very largely on how long a time lag there is between each survey and the resulting pay adjustment. Models can be constructed, based on various assumed time lags; indeed, we have constructed one, but forbear from reproducing the resulting formula for State pay leadership since those who would understand it can be presumed capable of developing one for themselves, incorporating whatever time lag they deem appropriate.

7. Our conclusion, however, is that the cushioning effect of the time lag associated with backdating would have inhibited the ratchet effect illustrated in line 5 of the Monetary and Economic Council's original table, so long as one is considering a State lead generated in the fashion which that table assumes. Where State occupations have moved visibly ahead, it has not been because of the double-counting involved in averaging private-sector movements.

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