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AUSTRALIA DECONSTRUCTED

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In 1986, the ACTU together with the Trade Development Council, sent a fact finding Mission to a number of European countries for the purpose of observing those countries to obtain ideas which may be relevant for Australian economic policy. The report of that Mission was titled *Australia Reconstructed* (*AR*), and was published in July 1987. The report made various suggestions for government and union initiatives in programs aimed at reconstructing the Australian economy. These suggestions were heavily influenced by the European experience of corporatism, and explicitly proposed a Swedish-type corporatist framework, with centralised wage fixing and an agreement between the government and unions linking productivity and employment in exchange for wage indexation.

It is the contention of this paper that the report of that Mission was fundamentally flawed, and that the corporatist experiment has not been successful for the Australian economy, for two main reasons. The first is that the implications were based on a system which had ceased to be effective in its home country, due to the internationalisation of capital and the spread of finance. The second was the inappropriateness of the European (Swedish) model for Australian conditions. The main reason for this was that the domestic union and corporate sectors were not amenable to the application of the Swedish model. The fundamental problem facing the Australian economy in the 1980s and 1990s was structural, based on the inadequacy of the industrial base. The declining world importance of raw materials, which had been the traditional base

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* This paper draws heavily on Halevi and Kriesler (1995).

of Australian growth, meant that there was a need for other sectors to emerge. Partly as a result of policy, particularly deregulation, the emerging sectors, finance and recreation, were heavily service oriented, and undermined the potential basis of corporatism, which required a dominant union movement.[1] The result of this was that an inappropriate model which had outlived its usefulness was implemented. Although it is beyond the scope of this paper to examine the consequences, they can be seen in the worsening current account deficits from the mid 1980s, and the higher trend unemployment from the late 1980s [2].

European Corporatism

From the 1970s, a concept of corporatism emerged in Europe which was based on an industrial relations footing, institutionalising the central role of strong and centralised union in their respective societies. It built upon the autonomy of labour organisations vis-à-vis the state, and is summarised as follows:

> The common characteristic in the successful approaches is that both overall and specific policy making is underpinned by formal and informal co-operation between Government, unions and business. (*AR*: xii, emphasis in original)

The most important example of this type of corporatism was the Swedish system, which was based on the particular role of the metalworkers, connected with a profit squeeze notion of economic progress. The metalworkers would set the pace of wage demands, while the central union would ensure the spreading of those gains to the rest of the workforce. Sustained by appropriate policies by the state - such as retraining programs and taxation policies - the weaker sectors would be induced to react to the profit squeeze by means of technological restructuring.

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1 For an overview of recent developments in the Australian economy see Kriesler (1997).

2 See Halevi and Kriesler (1995).

The Swedish case can hardly be called a model, if by model we mean something that can be reproduced regardless of its historical specificity. It took nearly twenty years to materialise in the form of the famous Rehn plan in 1951. It began to unravel in the mid-1970s, precisely when sociologists and economists in the Anglo-American world started to consider it as a viable alternative model.

Austria and Germany are perhaps closer to corporatism, not so much because of the unions' strategic decisions, but because of the historical conditions which marked the evolution of class relations. In Austria, during the inter-war period, corporatist orientations came from conservative Catholic forces who allied themselves with the fascist Heimwehr. This process was crowned by the corporatist constitution passed under the government of Chancellor Dolfuss in 1934. The stabilisation of the Dolfuss regime was predicated upon the destruction of the social democratic movement, as shown by the military repression of the Vienna pro-democratic uprising in 1934. After the war, Austria underwent a long phase of occupation which lasted till 1955. In this period the Soviet Union pushed for the nationalisation of the heavy industries, while the British, thanks to the far-sighted vision of Bevin, pushed for a strong institutionalisation of the reborn social democratic unions. This was done with the objective of limiting the power of the conservative - mainly Catholic - forces who did not shed their traditional corporatist orientations. Hence, if, after 1955, the Austrian labour movement found itself endowed with a greater sphere of institutional influence, it was due to the limits imposed upon the traditional conservative forces of the country.

In Germany, by contrast, the unions found themselves, right from 1949, under the pressure of the old corporatist forces now under the umbrella of the Christian Democratic Party, CDU, and of its Bavarian ally the Christian Socialist Union, CSU. As against the wide ranging reform proposals advanced by the labour movement in 1949, the CDU proceeded to shape the new Bonn republic on the principles of traditional corporatism adapted to a parliamentary regime. The two main aspects of this strategy were the links between the core firms and the state (Reich, 1990) and the notion of a "social market economy". The latter is nothing but a prescription for a tightly hierarchically structured society where the fruits of growth are supposed to be filtered from the top down. The hegemony of the CDU-CSU in shaping the institutions and the priorities of post-war Germany, compelled the labour movement to accept the surrounding economic environment, as expressed by the notion of social partnership developed by the German Trade Unions or DGB in the early 1960s.

The common characteristics of the Swedish, Austrian and German experiences in labour relations lie in the sectoral basis of trade unions with relatively centralised wage systems. This is reinforced by the existence of a significant cooperative sector, with its own banks and credit institutions, attached to the social democratic parties. These three elements form the foundations of the politics of class compromise in those countries. Sociologists and economists became attracted by these experiences because, as the post-war boom ended, they appeared to show a greater degree of social equity and economic rationality than the purer forms of capitalism of North America and Britain. Economists have usually taken the first two of the above three elements as hallmarks of the post-war corporatist model, forgetting that - as Eduard Bernstein clearly realised at the beginning of the 20th century - the creation and expansion of the cooperative movement was to act as a prime mover in the transformation of labour's politics from class confrontation to social participation.

There are some crucial problems in transforming these types of corporatism into a normative model. The main limitations lie in that their experiences are all strictly determined by the nature of class and social relations prevailing during the formative years of each of the corporatist experiences. In matters related to the political economy of the state in the post-war period, as well as to the institutional behaviour relatively to the appearance of economic crises, the historical specificity of each of these cases overwhelms the imputed normative value which, at any one time, can be ascribed to any of the above mentioned experiences.

In Sweden, the labour movement gained the upper hand in 1932 and produced its Rehn model only after many years of social democratic government. This model governed Sweden's political economy for three decades; even the Conservative government of the 1976-1982 period was not interested in undoing the institutional structure which sustained it. It is, therefore, understandable why its modification in the 1980s did not entail the outright abandonment of the goal of full employment. For this to be undone required much more systemic forces to be in operation. Those systemic trends gathered momentum during the 1980s. The core of the Swedish system is represented by the alliance between the large firms and the respective unions, which are structured by industrial sectors. Within the alliance the metal-workers played the crucial dynamic role. They set the pace for wage negotiations and imposed the criteria for achieving international competitiveness. The alliance worked as long as the international expansion of Swedish capitalism did not conflict with the creation of jobs at home. During the 1970s, however, some basic changes took place. Firstly, the share of industrial employment over total employment declined very sharply, more than in the other industrialised countries of Western Europe, with the exception of Britain [3].

In Germany, on the other hand, business did not have to mediate with the position of the labour movement; rather, it was the other way around. Like the Social Democratic Party, SPD, at Bad Godesberg in 1959 the trade union confederation DGB accepted, in spite of the strong reluctance of the IG Metall, the framework laid down by the CDU leadership. The idea of social partnership was an attempt to mediate with the idea of a social market economy emanating from the traditional corporatism of the CDU. The objective was really to link up wage bargaining and macroeconomic employment policies. In this respect, the German trade unions had a strikingly different impact on society when compared to their Swedish colleagues. Indeed, unlike the Swedes, they never succeeded in linking together those two elements. By the end of the 1960s, the unions put much faith in Karl Schiller's brand of Keynesianism which combined Keynesianism with an export oriented effort obtained by means of greater concentration. This, in the eyes of the SPD technocracy, would bring about greater efficiency. Thus, in the wake of wage increases, the SPD government did not recoil from enforcing tight fiscal policies leading to very un-Keynesian results: an export surplus combined with a fiscal surplus. This may be contrasted with an autonomous wage push by the union movement, even if it is the

3 See Meidner (1993).

result of the profit explosion following the recovery from the 1966 recession (Hennings, 1982). The unions viewed Keynesianism as a way to shift the pattern of capitalist accumulation in Germany from investment goods and exports to more domestic oriented activities.

In the 1968-1973 period - the phase in which conditions were, politically and economically, most favourable to the labour movement in Germany's post-war history - the unions failed to bridge the gap between the strategies related to wages and working conditions and those related to employment oriented macroeconomic polices. This failure is not so much due to 'errors' on the part of the DGB, but to the fact that in order to establish that link effectively the whole nature of the German corporatist - CDU inspired - relations had to be challenged. The virtual impossibility of breaking out of a purely industrial relations framework has been confirmed and, indeed, strengthened during the 1970s and the 1980s. In these two decades Germany's unions had to accept the supremacy of the Bundesbank and its prerogatives, although they periodically aired Keynesian alternatives. The most important of these was the so-called 'Keynes plus' plan launched in 1981. The 'plus' element of the plan consisted in tying employment policy to a comprehensive reformulation of the manpower policy of firms. This plan was never to be heard of again.

The subaltern position of West German trade unionism - institutionalised during the roll back period of the 1950s - led, especially since 1974, to a redefinition of the social basis of the labour movement itself. In other words, Germany's unions might have been relatively successful in preventing a widening of the wage dispersion but they had to submit themselves to the deliberate formation of a reserve army of the unemployed, something unthinkable in the Swedish context. The *de facto* acceptance of unemployment produced, in the process, a redefinition of the social basis of the labour movement. The creation of mass unemployment principally hit the immigrant workers who, early in the 1970s, emerged as a particularly militant segment of the working class. During the rest of the decade, however, due to unemployment and to the ensuing policies by Bonn's authorities, many immigrants left the country, in total more than 600,000. In practice the labour movement acquiesced to the new situation, although reluctantly, by concentrating mostly on the defence of German workers. This was nothing but an expression of impotence relatively to the employment issue. In the 1980s, with the 'Keynes plus' plan silenced, unions showed the cooperative attitude in relation to industrial restructuring (Katzenstein, 1989) by subordinating themselves to the export oriented priorities of Germany's monetary authorities and business in general. In the end, labour virtually abandoned any idea of reflationary policies and agreed to subject employment prospects to the growth of exports (Die Zeit, 1985, Nos 28 and 49). The role of unions, sustained by corporatist arrangements, was seen by the DGB leadership as contributing to the retraining policies necessary to keep up German competitiveness.

The second line of defence adopted by German unions did not lead to significant gains on the employment front, but yielded some important results in relation to the composition of employment. During the 1980s, unemployment peaked at 8 per cent in 1985, then easing to 6.2 per cent in 1990. In the second half of the decade, the 'participation' in retraining policies aimed at expanding Germany's export drive contributed to safeguarding the position of male industrial workers. The share of industrial employment over total employment declined, by 1990, to 39.8 per cent from a post-war peak of 47.1 per cent attained in 1968. This represents the smallest decline among the European countries. Most of the reduction occurred in the ten years spanning 1974 to 1983; thereafter the fall in the industrial share was only 1.3 per cent. In this context, the slow fall in unemployment rates after 1985 benefited chiefly male workers. Unemployment rates for women remained steady at 9-8.8% from 1983 to 1989. Employment prospects for women improved somewhat only after the growth rate of the German economy increased significantly in the 1988-1990 period.

These types of corporatism are a hybrid collection of experiences resulting, mostly, from the post-war situation, which was sustained by the determination shown by European governments in the first two decades after 1945 to maintain high growth rates. When this determination began to fade (as predicted by Kalecki in 1943) the parameters of corporatism were also affected, including those of Sweden.

Australia Reconstructed

In the early years of the Accord, the union movement had no explicit model of what it was trying to achieve, beyond a general commitment to wage restraint and full employment, identified in the agreement. This changed with the second stage of the Accord, which was the result of the unions studying Sweden in 1986. The ACTU sent a delegation to Northern Europe and Germany, to study their experiences of corporatism and to prepare a report of the applicability of these experiences to Australia. The unfortunate upshot of this was that the specific history and social institutions of the Australian economy were ignored in the recommendations; in particular, the different structures of the economy. Whereas the Swedish economy had a well developed, internationally competitive manufacturing sector, the Australian economy still relied on primary goods as the basis of its exports. As a result, the Australian economy was less able to respond to international changes, and had a less flexible structure. In addition, the business sector was not as well organised as that of Sweden, so that it could not as readily participate in the corporatist agreement as an equal partner. The different structure of unions (discussed below) also limited the appropriateness of the recommendations.

AR implied that the outcome of the Swedish case was desirable, and assumed that to achieve the same results all that was needed was to implement the same policies, thus ignoring both fundamental differences between the countries, and the changes in the world economy which undermined the Swedish and German strategies. It took the Swedish system, based on their metalworkers, and the German retraining system, as its basis. It attempted to shift the Australian labour movement's outlook away from a purely wages and conditions approach. However, the report did this without any realistic idea of the direction in which they were leading. In particular, two major shortcomings of the blind absorption of the Swedish system must be pointed out. The first relates to the character of Australian unionism and to the role of the government, while the second relates to the evaluation of the economic situation in both Sweden and Australia.

The problem which led to the abandonment of the Swedish model as a policy option in the Australian case was the different nature of the structure of unions. In the European example, unions were sectorially based, so that union policies implied sectoral policies. In Australia, by contrast, unions were trade based, and so crossed over many sectors. This meant that there was no logical benefit from union wide retraining programs as these crossed many non-intersecting skill requirements. In Sweden and Germany the capital goods sector was nurtured by capitalists independent of unions, and there are highly specialised technical skills schools. There is no equivalent in Australia, where education tends to be unrelated to skills. In Germany and Sweden the relation between the importance of metal workers and the importance of the capital goods sectors meant that there was an important related role for technical skills. In Australia, highly skilled tradesman were concerned with repairing imported capital goods, so skills, and hence retraining, was not attached to individual sectors. This makes the Swedish/German model of retraining inapplicable to Australia.

There was an additional consideration from the macro-side, related to the role of the government. In Sweden the public sector maintained a significant role in terms of spending, particularly on infrastructure. This did not happen in Australia, where, on the contrary the Federal Government intentionally changed policy to generate a budget surplus in the late 1980s. In order to consider the question of the stance of government policy, it is not sufficient to merely analyse the size of its deficit. As is well known, the size of the government sector deficit is determined not only by its policy stance, but also by the state of the economy. Therefore to consider the underlying policy intention, it is important to discuss the 'structural' deficit, that is, the deficit corrected for cyclical effects [4]. From 1986/7 to 1991/2 the budgetary position of the three levels of government were that of a structural surplus, indicating contractionary tendencies associated with tight fiscal policy. When the components of public expenditure are examined, this trend is emphasised, particularly with respect to Sweden, and other OECD countries. Of twelve major OECD countries, Australia had the second

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4 Nevile (1997) contains an excellent discussion of the principles behind the derivation of the structural deficit.

lowest ratio of government expenditure to GDP (36.4%), significantly below most other countries, notably Sweden (59.3%), Austria (52.8%) and Germany (46.9%). [Nevile (1997) p. 104]. The area in which Australia performed significantly worse than the others was in income maintenance (7.3%), compared to Austria (20.3%, Germany (16.4%) and Sweden (17.2%). This reinforces the idea that one of the main reasons for the relatively small size of the government sector in Australia is the low level of spending on transfer payments (Saunders 1995:180).

To understand the second aspect of the inapplicability of the Swedish model to Australia, we need to look more closely at what happened in Sweden. In a recently published paper Rudolf Meidner (1993), the father, with Rehn, of the Swedish model, identified the failure of the Swedish experiment in two inter-related phenomena which occurred in the last two decades: the growth of white collar employment and of the financial sector. Unlike Germany, Sweden experienced a very steep decline in the share accruing to industrial employment. The concomitant rise of white collar employment, Meidner argues, brought to the fore other types of unions which were politically neutral and not interested in centralised wage fixing. As a result, 'the homogeneous union movement became fragmented and conflicting interests dehabilitated LO's fight for egalitarian wage structure' (Meidner, 1993: 223).

Alongside this phenomenon the economic transformation of Sweden was no longer allowing the implementation of a profit squeeze strategy to sustain the egalitarian wage structure. The other side of the coin is that the more efficient firms actually obtain extra profits. As long as production was essentially domestically based and legal controls inhibited the free movement of international capital, profitable firms tended to reinvest the extra profits in the domestic economy. All this started to wane with the transnationalisation of Swedish firms and with the lifting of financial controls [5]. Today, Swedish capital is free from restrictions and can flow out of Sweden in search of better financial returns or for cheaper labour. In Sweden, as well as in the UK, the decline in manufacturing jobs has not been compensated by the rise of services.

When Australian unions were studying the Swedish experience in 1986, they were looking at something which was passing away, because it was not compatible with Swedish capitalists' interests. However, one finds no hint in the Australian report of the dire straits in which the Swedish economy was finding itself.

The attempt to copy Sweden blindly could have been mitigated by a sober comparison with the Australian situation. In terms of the composition of employment, similar trends as in Sweden prevailed. Yet, in Australia's case, the rise in the service sector - mostly banking, finance and tourism - the decline in industry and the formation of a plethora of small technologically primitive business (especially in NSW) did not mean the growth of another form of unionism. Instead, the shrinking of industry meant the exit from unionism altogether. Thus, precisely when, under the leadership of the metalworkers, Australian trade unions were trying to counter the negative influences of the 1970s by means of the Accord and of a Swedish inspired form of centralisation, their social basis was being pulverised. The 1980s represent indeed a decade of sharp decline in union membership and in the social basis of centralised wage fixing: from August 1986 to August 1992, trade union membership fell six percentage points, from representing 46 per cent of full time employees, to representing only 40 per cent; while in June 1996, only 35% of total employees were members of trade unions (ABS, 1993b, 1996) [6].

Structurally, since the early 1970s, Australia has been experiencing a decline in the role of manufacturing and a formidable expansion of finance. Unlike Sweden, the manufacturing sector in Australia has not played a dynamic role as the driving force for the rest of the economy (*à la* Kaldor). Rather, as a passive importer of capital goods, often using already obsolete production lines, growth in that sector tended to follow that of the rest of the economy. The diminishing importance of the manufacturing sector was reinforced by the industrial crisis in the 1979-83 recession, where it began to dwindle, while sectors like finance and

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5 See Meidner (1993).

6 Peetz (1990) argues that structural change changing the composition of employment accounted for over half the decline in union density from 1980 on.

tourism were portrayed as being the saviours of the economy. The Australian Labor Government *de facto* accepted this view, while deriving its economic stability from an agreement with a predominantly industrial union movement, soon to be marginalised.

The above discussion must be placed in the context of the tremendous importance of international forces for Australia's growth. This is reinforced by historical evidence which shows a strong correlation between world economic activity and Australia's growth (see McLean, 1989). It is now accepted that demand factors originating from overseas have provided the main restraints to domestic growth. In particular, the structure of the domestic economy limits its ability to respond to increased aggregate demand without either domestic bottle-necks or balance of trade constraints. These constraints are reinforced by the nature of Australia's exports and imports.

This, coupled with the effects of financial and exchange rate deregulation, in turn reinforced short- and long-run balance of payments problems. The net effect of this is to augment long-run pressures which tend to reduce the size of the industrial sector. To combat these, especially the effects on the balance of payments, the government has attempted to reduce the level of domestic demand. The main instrument for this has been high interest rates, which also serves to maintain a high exchange rate. This has been reinforced by deregulation of both the exchange rate and of financial markets. The cumulative effect of these is to make any long term investment less attractive, and make the market more myopic. This has manifested itself in a decline in private fixed investment expenditure (except in building and construction), and a shift towards the acquisition of financial assets [7]. The deregulation of the exchange rate has led to greater volatility, and this has had serious implications for investment. On top of this, the deregulation of financial markets and the high interest rates have led to a strong bias towards investment in financial assets and to an increase in the number of mergers and takeovers as substitutes for investment in industry.

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7 The evidence for these empirical observations can be found in Stegman (1993).

The problem with the attempted introduction of corporatism to the Australian economy is that it allowed the focus to move from the fundamental problems with the structure of the economy. Although *AR* paid serious attention to the underlying importance of increasing investment, with many sensible recommendations made, no subsequent policy aimed at achieving this was implemented, except for the hope that an increase in the share of profits would suffice. Unlike the European countries, on which the corporatist experiment was modelled, Australia does not have a strong dynamic business sector, capable of taking advantage of an increase in profit share. For reconstruction of the economy, a more interventionist government policy was needed, to make up for the absence of the third pillar of European corporatism, the entrepreneurial sector. Not only was such policy absent, but its negation, deregulation and an obsession with 'level playing fields', became the catch cry. The disaster that follows is not, after all surprising.

Australia's underlying problem is a structural one, related to the declining significance of the manufacturing sector, which was never well developed. Related to this, the nature of Australia's imports and exports led it to have fundamental weaknesses in the current account. Any policy which was serious about addressing Australia's long term economic problems needed to do something about building up the industrial sector, and especially to encourage manufacturing tradeables. The policies resulting from the adoption of *AR* led to an incomes policy which delivered to the business sector an increase in the share of profits, and to reform of industrial relations. However, this did not lead to any increase in investment in tradeables, an outcome which would have brought about the necessary structural change to permit high rates of long run growth without a balance of payments constraint.

Despite the fact that there was a substantial increase in corporate profitability during the 1980s, real fixed capital expenditure investment did not increase (see Stegman, 1993). As a result, the gains from the Accord were short term, in terms of employment during the 1980s, with no implications for long-term growth, employment or structure.

The fundamental problem with the attempts to implement the suggestions of *AR* is that, instead of being a basis for a program of economic reform, with agreements not only in the labour market but also with both financial and industrial capital, the lack of involvement of capital has reduced its effectiveness. Instead of encouraging investment, it has proved to be a way of reducing real wages in order to provide short term gains in unemployment[8]. With no investment policy, there was no discussion as to required change in the structure of the economy. As a result, the serious deterioration in Australia's current account throughout the late 1980s meant that any gains were quickly reversed.

The essential problem has been the lack of involvement of capital as part of any agreement. This may not have been important, if it had brought a stable economic environment and encouraged investment. However, this has not been the case, due to the victory of financial capital at the expense of industrial capital.

This has been reinforced by 'the level playing field' view, which has led to reduced government involvement on the rationale that it would allow 'market forces' free play. However, all this has done is to reinforce the power and monopoly elements that already exist. Level playing fields only advantage those who already have power. The emphasis on market forces and (so-called) level playing fields are ideological rather than aimed at any real benefit to efficiency. Market forces are the sum total of different balance of powers, they do not themselves guide things but are the outcome of processes which are at the level of decision making. So these forces are the sum total of the relation of the market and the state, and are often the result of previous intervention. In Australia there has been a prevalence of those groups which call for a total hands-off policy, ignoring the implications for the domestic economy, whose manufacturing sector is in urgent need of rebuilding. Australia cannot compete as an equal in such an arena.

8 See Flatau et al. (1991) who argue that the Accord increased the influence of 'outsiders', particularly the unemployed, and, as a result, employment levels were higher than they otherwise would have been.

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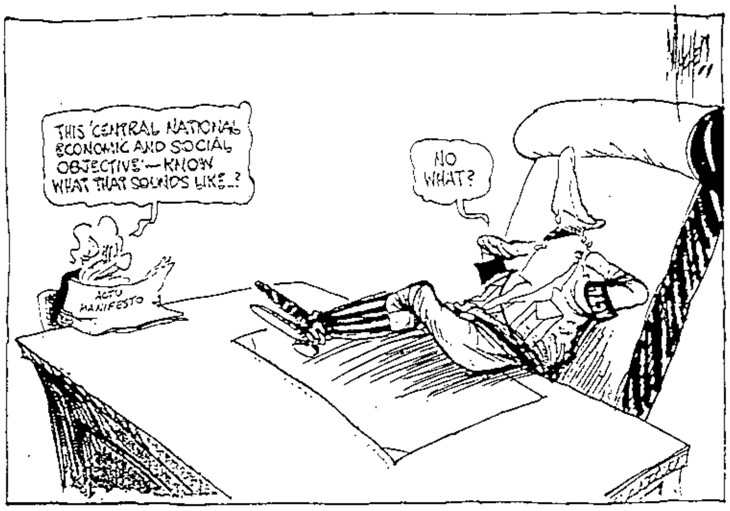

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