WAGES POLICY AND THE ACCORD

Frank Stilwell[1]

Wages policy is central to the contemporary debate on economic policy in Australia. The dominant view is simple enough - wage increases cause inflation and erode international competitiveness. The solution - wage cuts as the universal panacea for economic problems. From this perspective, debate about the Accord is reducible to the question: has it brought about lower real wages than would have otherwise occured? Max Walsh (1990) says no: Ross Gittins (1990) says yes. Academic economists seek an answer by applying statistical techniques which purport to simulate the impact of the Accord on wages. (Chapman & Gruen 1989; Sheen 1990). However, the whole "debate" rests on a particular conventional wisdom - that, among the various sources of income (wages, profits, interest, professional fees, speculative gains), wages are particularly important and need to be subject to recurrent restraint. The issue of "how low do you go?" is seldom explictly addressed, but more wage restaint is always necessary.

This simple view has been augmented in recent years by a second concern - the potential role of wages policy in raising productivity in industry. This is central to the agenda of award restructuring - making wage increases conditional on demonstrable increases in labour productivity. From this perspective, debate about the Accord centres on the question: to what extent is it a useful tool for focusing the attention of unions and employers on increasing the efficiency of Australian

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industry? Therein lies a potential contradiction: the general wage cuts advocated by employers and conservative economists may not be compatible with the need for wage rises as an incentive for raising productivity. The Industrial Relations Commission managed this contradiction in the late 1980's by setting general wage increases at a level insufficient to maintain real wage levels, after allowing for inflation in prices, while providing opportunities for particular groups of workers to catch up through productivity-linked wage increases. However, its 1991 decision not to implement the latest version of the Accord, a decision taken in the context of a deepening recession, has thrown the issue of wages policy wide open.

It is time to take stock of wages policy and the Accord.

Importance of Wages and Wages Policy

Wages and wages policy are important for reasons rather more varied than is implied by the foregoing reasoning about macroeconomic management and productivity. Wages are important for **workers and their families** because they are the principal determinant of their standard of living (in conjunction with prices, taxes and the social wage). This reminds us that wages policy is not simply a technical macroeconomic issue, but also one with major personal and social ramifications for the majority of the community whose material well-being depends on wage levels. A policy of reduction in real wages is a class issue.

Wages are also important to **businesses**, albeit it in two distinct ways which involve a fundamental contradiction. They are both a cost of production and a source of effective demand for the goods and services produced. It is this dual role of wages that is the key to understanding some of the recurrent dilemmas. Any firm would typically like to cut its employees' wages, while other firms increased their workers' wages to ensure a demand for the firm's products! The contradiction is partially avoided if the firm's products are sold overseas, since falling wages levels in Australia do not then constrain sales. But it reasserts itself if other countries are also pursuing policies of wage restraint: the contradiction is globalised.

Wages are also important to **government**. Wages of public sector workers are a major component in the budget. More generally, wages policy, together with fiscal policy, monetary policy, trade and industry policy and exchange rate policy, is an element in macroeconomic management. The effectiveness of that macroeconomic management has evidently become the key test of a government's continued fitness to hold office.

Wages policy has been particularly central to the programme of the Hawke government. It is a key element in **the Accord**, which has been one of the foundations of the government's economic strategy over the last eight years. This is not to say that the Accord is reducible to a wages policy. Indeed, the original form of the Accord involved a very wide ranging set of economic and social reforms, including control of prices and non-wage incomes, taxation, government expenditure on the social wage, policy towards industry development and a host of other ancillary areas such as occupational health and safety, health, education and immigration. However, it is the wages policy element which has come to dominate the Accord as other elements of that original agreement have been effectively subordinated to the dictates of tight fiscal policy, deflationary monetary policy and financial deregulation. (Stilwell 1986, Collins 1987, Burgess 1988).

Within this framework the form of wages policy has changed substantially. The original commitment to full **wage indexation** gave way to **wage discounting**, (or "partial indexation" as it had been known in the 1970's when the previous wage indexation system was in the process of being dismantled). **Wage-tax deals** have become common, partly shifting the burden of restraint to government expenditures and those who depend upon them. There has also been increasing focus on tying wages, not to the cost of living, but to improvements in efficiency and productivity through agreements to **award restructuring**. These important changes in wages policy can be analysed as responses to competing sectional interests and changing economic conditions. Their effects also need to be carefully analysed, including consideration of their macroeconomic impacts, their distributional effects and their relationship to other elements of government economic policy.

Sectional Interests

Trade unions and employers have predictably conflicting stances on the appropriate form of wages policy; and the positions of the media, economics profession, government and Industrial Relations Commission need to be interpreted in the light of this fundamental antagonism.

Trade unions argue that, unless real wage growth is eventually achieved, they cannot be expected to remain a party the Accord. In this context they also emphasise the importance of real wage growth as a means by which the benefits of productivity increases can be shared throughout the economic community. Moreover, they have recurrently emphasised that real wage growth provides a basis for expansion in the domestic demand for Australian-made goods and services. The trade union movement - particularly the ACTU leadership - has become increasingly sophisticated in the way in which it presents this case. It has accepted that a degree of wage moderation may be appropriate as a means of ensuring that there is no resurgence in inflationary pressures which would eventually erode the money wage increases. As such, it claims to have adopted a stance which emphasises the potential for long-run improvements in real wage levels for the working class as a whole, an approach foreshadowed by the original Accord with its reference to the "maintenance of real wages ... over time" (ALP-ACTU 1983). Over how much time has come to be a contentious issue, as the wage restraint has been associated with falling levels of real wages in practice. This has fuelled discontent with the Accord in the trade union movement. To offset the falling levels of real wages, the ACTU leadership has become increasingly willing to accept wage-tax trade-offs and to accept that productivity, in addition to cost-of-living criteria, should be given prominence in wages policy. The latter aspect is also held to contribute to the creation of a more efficient economy. However, the increased "flexibility" involves some considerable sacrifice in the class-solidaristic element of the trade unions' wages strategy.

For **employers** the situation has been apparently more straightforward, although also not without divisions on appropriate strategies. Spokespersons for employers' organisations have consistently emphasised the need for further wage restraint. Initially reluctant to accept a system of centralised wage fixation based on the indexation of wages to prices, they have stressed the necessity for real wage cuts in order to boost profitability and the pool of funds for investment in the expansion and modernisation of Australian industry. Actually, there is no necessary direct link between wage restraint and increased profits, since the economy does not operate like a zero-sum game. However, employers have acted as if this were the case; and the evidence, as we shall see, is clearly of a major redistribution of income shares, albeit not matched by a corresponding growth in productive investment. The key division among employers has been between those favouring centralised wage fixation as a means of keeping a lid on wage increases and those favouring the dismantling of the system in favour of "enterprise bargaining" as a means of acheiving greater wage cuts. (B.C.A. 1989).

These employers' views have been well represented in the **media.** "Wages threat: coming to grips with the new militancy" trumpeted the front page headlines of the *Business Review Weekly* in July 1988. Six months later the same magazine's front page proclaimed in bold lettering: "Wages - why a blow-out looms." Newspaper headlines have included "Slash Wages, Keating Told" (*Sydney Morning Herald* 16.10.90) and "Keep Wages Down or Else, Experts Warn" (*Sydney Morning Herald* 1.12.90) as well as the old standard "Unions Sinking Australia" (*Sun-Herald* 26.8.90). It seems that, according to this perspective, the prospect of wage increases is a recurrent if not continual danger to the health of the Australian economy. Likewise, according to Gittins (1989 a), "tightening wages policy - producing a fall in real wages - is the best way to achieve the short run adjustment needed in response to the balance of payments crisis". Thus "the national interest" is conjured up to give greater legitimacy to an otherwise naked class position. Wage-earners must bear the burden of restraint and the costs of economic adjustment for the good of the Australian economy as a whole.

The bulk of the **economics profession** has taken a similar position in the debate, seeking to provide more general theoretical justification for wage restraint: for an example early in the life of the Accord see Perry (1984). Purist neoclassical economists, for analytical consistency, should argue that wages, like any other price, are best left to be determined by free market forces. However, the dominant view seems to have drawn more pragmatically on three elements of orthodox theory which have apparent relevance in this context. First, the neo-classical theory of the firm can be used to demonstrate that cuts in wage costs will lead to increased employment (conveniently ignoring the aggregation problems associated with using this argument for the economy as a whole). Second, macroeconomic analysis can be used to show that wage restraint may have a moderating influence on the rate of inflation (setting aside other contributory factors such as monopoly pricing and the prices of imported products). Third, international economic analysis can be marshalled to demonstrate that wage cuts will help overcome the problem of a deficit in the current account of the balance of payments (notwithstanding that the largest component is interest and dividend payments associated with capital inflows). This posited balance of payments effect depends upon two mechanisms - the effect of wage cuts in curtailing the demand for imports (ignoring imports purchased with non-wage incomes) and the effect of wage cuts in cutting the costs of exporting and import-substituting industries (ignoring the influence of variables other than price in the determination of international trade flows). These propositions have acquired the status of a conventional wisdom.

The **government** has accepted these arguments for wage restraint while recognising the need for compromises in order to maintain cooperation from the trade union movement. Above all, it has been concerned to maintain the existence of the Accord, a key element in its claim to be a government of concensus and industrial harmony. In this it has had the qualified support of most elements in the **bureaucracy**, even including the federal Treasury which one would normally expect to be opposed on ideological grounds to the violation of free-market principles associated with such a regulatory element in economic policy. Regulation of labour combined with deregulation of capital, while lacking symmetry, seems to be regarded there as a pragmatic means of bringing about wage restraint and reduced inflation - the end justifies the means.

However, the Federal bureaucracy is not as influential in respect of wages policy as in other economic policy areas, largely because of the special role of the **Industrial Relations Commission** - previously the Australian Conciliation and Arbitration Commission. Although formally independent of government, the I.R.C. generally implemented the broad direction of wages policy advocated by the government in the 1980's. This, together with what has previously been described as the sophistication of the trade union movement in accepting the case for wage moderation, made life relatively easy for the government. This is not to deny that wages policy has consumed an enormous proportion of the time and energies of the senior government economic ministers and their staffs. Rather, it is to stress that, as part of a general neo-corporatist approach to economic management, wages policy, even a programme of sustained wage restraint, has been carried out without the head-on confrontations usually associated with such a manifestly class matter. However, the success of the I.R.C. in orchestrating this process came to a jarring halt in 1991 with its decision not to implement the Accord Mark VI. To understand the background to this requires a more careful examination of the history of the Accord.

The Flexible Accord

Australian wages policy in the period since 1983 has developed through the six phases of the Accord, summarised in the accompanying box and set out more fully as follows.

Mark I.

The original Accord was a written agreement made between the ACTU and the ALP, then still in opposition in federal parliament. The very first section of that document was headed "Why Incomes and Prices Policies are Necessary". Its "agreed policy details" focused on prices, wages and working conditions, non-wage incomes, taxation and government expenditure. The agreement had been the product of a long period of negotiation, taking place in difficult economic circumstances of recurrent inflation, rising unemployment and the Fraser government's wages freeze. Coming to office in 1983 the ALP government set out to implement this agreement. Its first act was to convene the National Economic Summit, partly as a means of securing the cooperation of the managers of capital with this general approach to economic management. The business representatives agreed to the restoration of a system of centralised wage fixation based upon full wage indexation, but with the greatest reluctance. The communique issued at the end of the National Economic Summit indicated their strong preference for a greater degree of wage restraint.

The Arbitration Commission, in setting up its new guidelines, effectively implemented the indexation arrangements on condition that the unions gave their formal commitment not to pursue further wage rises. Its first four national wage case decisions all embodied full wage indexation, involving a 4.3 per cent increase for March-June 1983, a 4.1 per cent increase for September-December 1983, a zero increase for March-June 1984, and a 2.7 per cent increase for September-December 1984. (The zero in March-June 1984 was the result of the so-called "Medicare fiddle", the Commission accepting the government's argument that this benefit should be off-set against the wage increase otherwise due in that period.) So the Accord was working, though already there was signs that the wide-ranging agreement was being narrowed, not simply to a prices and incomes policy, but to a more narrowly constructed wages policy. There was no comparable progress in establishing controls over prices and non-wage incomes: the Prices Surveillance Authority was established but relied on moral suasion rather than legislative controls, while the Prime-Minister's letter to top companies requesting their cooperation in exercising restraint on managerial salaries elicited predictably little positive response (Stilwell 1986: p.39).

Phases of the Accord: a Summary

1983	**The original Accord: a wide ranging programme of economic and social reforms within which prices and incomes policy was to be a key element. The commitment to "maintenence of real wages...over time" implemented by the Arbitration Commission through full wage indexation. Four national wage case decisions embodied full indexation.**
1985	**Mark II: The introduction of wage discounting (partial wage indexation) as a response to the emerging balance of payments crisis. The trade-off of real wage cuts (initially 2%) for tax cuts and improved superannuation.**
1987	**Mark III: The introduction of the two-tier wages system as the death-knell of general wage indexation. Initially $10 per week plus 4%, subject to agreements eliminating restrictive work practices.**
1988	**Mark IV: A different type of two-tier system: introducing the structural efficiency principle as a response to growing concerns about the need for higher productivity. Initially 3% plus $10 per week 6 months later, subject to improvements in structural efficiency - the start of the award restructuring process.**
1989	**Mark V: A further move towards labour market flexibility and productivity-based (rather than cost-of-living based) wages policy. Two wage installments totalling $20-30 per week, plus wage-tax deal.**
1990	**Mark VI: Agreement between unions and government on a further two-stage increase in wages (initially expected to be 1.5% plus $12), improved superanuation and elements of enterprise bargaining.**
1991	**The first wage increase in this latest agreement replaced by a tax cut. Rejection of a general wage increase by the Industrial Relations Commission, in favour of conditional increases. Rejection of proposals for superanuation and enterprise bargaining.**

Mark II.

The arrangements for wages policy were severely tested in 1985, leading to a re-negotiation of the Accord. The Australian dollar plummeted in value by over 30 per cent in the first half of that year. This raised the price of imported goods and generally had an inflationary effect, estimated at adding 2 per cent to the consumer price index for the full year. Under the terms of the original Accord this would have meant a corresponding increase in award wages. Predictably employers claimed that this would undermine the international competitive advantage generated by the devaluation. The 'J-curve', as it came to be known, was then an ascendent faith, rather than a discredited doctrine. On this basis, the currency depreciation was expected to eventually generate an improvement in the balance of payments, unless offset by rising costs of production. The government accepted the argument and, after a considerable period of negotiation, the trade unions agreed to a 2 per cent discounting of their wage increase in that year. In exchange the government agreed to initiate tax cuts and to support employees' claims for improved superannuation schemes. The effect of these tax cuts and improved superannuation was intended to match the effect of the discounting and, indeed, enhance workers' standard of living by giving them some of the benefits of productivity increases within the Australian economy.

This first re-negotiation of the Accord was highly significant. It broke down the previous commitment to wage indexation and showed how much the government was concerned to accommodate to pressures from employers. Also, this wage-tax trade-off was the start of a process whereby government policy would shift the burden of restraint to recipients of public sector expenditures. Reducing rates of taxation as part of a wage-tax trade-off normally involves a corresponding reduction in government expenditure, especially given this government's commitment to generating an ever-larger budgetary surplus. It was no coincidence, then, that 1985 also marked a switch in policy from expansions in expenditure on the social wage to a more contractionary approach. Cuts in the marginal rates of income tax on high incomes accentuated these pressures for fiscal austerity.

Mark III.

A further re-negotiation of wages policy and the Accord followed. Indeed, shortly after the Accord Mk II had been established, it was already clear that the dramatic fall in Australia's terms of trade was swamping the effects of the 2 per cent wage discounting. There were strong calls for a further re-negotiation of the Accord and a new basis for wages policy. The eventual agreement, generally known as the two-tier wages system, involved a significant departure from the earlier principles of wage fixation. The arrangements established in the national wage case of March 1987 involved a first-tier increase of $10 per week in award wages and salaries, while giving agreement to a further wage increase of up to 4 per cent of existing wages and salaries. The guidelines for achieving this 4 per cent involved the elimination of "restrictive work practices" said to be impeding the efficiency of various industries. Whether the arrangements can properly be described as the Accord Mk III is contentious, since they were established by the Arbitration Commission contrary in certain respects to the proposals put to it by unions and the government. In other words, unlike the Accord Mk II and the original Accord, these arrangements were not the direct product of negotiations between the ACTU leadership and the government, although both parties found the arrangements established by the Arbitration Commission to be broadly satisfactory. So did many employers, recognising that the new arrangements involved a shift away from a cost-of-living criterion towards a productivity-based criterion for the determination of wages. One of the effects was to generate divisions in the workforce, especially between white and blue-collar workers, according to their capacity to obtain second-tier wage increases.

Mark IV.

This last consideration was to be still more prominent as a result of the national wage case decision of the Arbitration Commission in August 1988. This decision also embodied a two-tier system, in that all workers became eligible for a 3 per cent pay increase from September of that year, subject to their agreeing to review the awards under which their wages were determined; then six months later a second-tier increase amounting to $10 per week could be achieved. This was the death-knell of wage indexation and launched the "structural efficiency" principle as the principal determinant of wage fixation. Award restructuring was starting to become the main item on the menu. However, certain supplementary features of the August 1988 national wage case decision are worth noting. The principle of structural efficiency was to apply at the industry level, contrasting with the national productivity emphasis of the original Accord. This focus on the industry level was quite significant, since the scope for productivity increases varies considerably between industry sectors. Moreover, in some cases "restrictive work practices" had already been bargained away by the unions in getting the second-tier wage increases under the Accord Mk III. Clearly, some segments of the work-force were going to face great difficulties in demonstrating their case for a wage increase under this principle. For those that were capable of doing so the potential advantages were considerable. In the Commission's own words the structural efficiency principle was not to be "applied in a negative cost cutting manner, or to formalise exclusively short-term benefits"; rather it should involve matters such as broadening the range of tasks each worker would undertake (multi-skilling), establishing skill-related career paths, fixing proper minimum rates for classifications in awards and appropriate relativities between different categories of workers (ACAC 1988). So the limited focus of Accord Mk III on removing "restrictive work practices" had given way to a more positive conception of the process of productivity enhancement in industry.

In this decision, as in other aspects of the functioning of the wage-fixation system, time delays were to play an important role. Indeed, the Commission itself made clear that it wanted to stagger the introduction of the 3 per cent first-tier increases. Since the $10 second-tier wage rise increases had to have at least a six months lag they were correspondingly slow in arriving. The effect of this was two-fold. The more militant and well organised unions like the metal workers (AMWU) were favoured in getting to the front of the queue, while weaker unions, some of whom had missed out under the second-tier of the Accord Mk III, were further back in the line. Second, there was an effective real wage cut as the money wage increases lagged further behind the consumer price index. Certainly, the second-tier element, being a flat-rate $10 rise, could be seen as imparting a small element of equity into the wage fixation system, since this $10 comprised a higher percentage increase for low wage earners than for high wage earners. But the effect on overall relativities was slight and generally outweighed by the effects of time lags in further eroding real wage levels.

Mark V

The August 1989 decision of the Industrial Relations Commission further developed the emphasis on labour market flexibility, productivity-based wage increases and award re-structuring. Also, there were elements of a wage-tax deal, building on the precedent for this type of agreement previously established by the Accord Mk II. Workers were granted pay rises of between $20 and $30 per week in two instalments as a means of off-setting the increases in the consumer price index, but these were to be linked to the capacity of unions to demonstrate that they had embarked on the award re-structuring and work-practice reform required under the Accord Mark IV. To qualify for the second pay rise they further had to satisfy the Commission that reform "will continue to be implemented effectively" (ACAC 1989). The May 1989 Economic Statement by Treasurer Keating had already established the cut in income tax rates that made this set of arrangements acceptable to the trade union movement. Moreover, the unions made some progress in the establishment of minimum wage rates as a means of safeguarding the economic interest of lower paid workers. But the Commission also acceded to the employers' demands for establishing further restrictive conditions for the granting of continued wage increases, including greater flexibility in working hours and changes to sick leave entitlements.

These decisions were introduced in a period of considerable economic uncertainty. Some segments of the labour market had been particularly tight and employers had been indicating willingness to give wage increases outside the guidelines of the Commission. On the other hand, there were already growing fears of a recession. Presumably in seeking a sort of middle ground, the Commission was trying to create the conditions for more long run productivity in the Australian economy which would give it the capacity to be more internationally competitive. If successful, this would give the government the ability to relax the tight monetary policy which has been contributing to emerging fears of a recession. "Wage decision for hard times" was how one newspaper summed up the situation (*Sydney Morning Herald* 8.8.89). The bulk of the trade union movement accepted these arrangements - albeit with evident concern about the adequacy of the safeguards for the lower-paid and the various concessions made to employers. However, the unwillingness of the airline pilots to work within the guidelines precipitated a particular confrontation in August 1989 which was a key test of strength for unions preferring to operate outside the system, thereby further eroding the effectiveness of the Accord. The pilot's strike failed; the union was decimated, and the dominance of the Accord process was maintained.

Mark VI

Moving into the 1990's, a further modification of the Accord took place. The trade unions had been increasingly concerned about the failure of the Accord in practice to safeguard real wage levels. In 1989 the ACTU had began to argue that wage increases should be linked, not to past rates of price increases as under the original Accord, but to the predicted rates of inflation in the six months ahead. However, despite threats to do so, it did not resile from its commitment to operate within the system which linked wage increases to productivity via award restructuring. The outcome of a long process of negotiation was an agreement to a wage rise of 1.5% during the December 1990 quarter, based on the expected September quarter CPI rise (reduced to 0.7% when the inflation figure came in lower than expected), plus a flat $12 per week six months later. This was to be augmented by a tax cut from January 1991, averaging $7.85 per week. It was agreed that additional over-award payments could be gained through demonstrable productivity increases by workers in individual enterprises, while superannuation schemes were also to be improved by an amount equivalent to a further 3% of wage incomes, to be phased in over two years from May 1991. All in all, the push for a return to full wage indexation had been headed off by a further wage-tax-superannuation deal.

In practice, the extent of the wage-tax trade-off was even greater than had been agreed at the start of 1990. In November 1990, Treasurer Keating announced that an additional tax cut, averaging $2.95 per week, would take the place of the first phase of the wage increase, giving a total tax cut averaging $10.80 per week. The $12 wage increase for all wage and salary earners remained due in May 1991. So, the overall effect was to prevent any general wage increase between March 1990 and May 1991 - an effective 14 month freeze on general pay increases. This put the onus even more strongly on productivity-based agreements as the means through which individual groups of workers could raise their wages. The trend seemed to be towards enterprise bargaining. In the words of the Industrial Relations Minister, "what we would prefer is ... negotiations in the enterprise peculiar and unique to that enterprise which don't have any flow on, within guidelines laid down by the [Industrial Relations] Commission, but not registered by the Commission." (*Sydney Morning Herald* 14.10.90). The class-solidaristic approach of wage indexation under the original Accord was evidently long gone. Instead, in moving towards the advocacy of "enterprise agreements' the ACTU and the government seemed to be accomodating some of the employers' and Federal opposition demands for a more general application of enterprise bargaining as the system of wage fixation.

The Accord Mk VI was heralded by most commentators as a clever agreement. Certainly, it was an astute blend of partial indexation, a two-tiered system, a wage-tax deal, superannuation provisions and productivity-based pay bargaining. As such it built on various elements of previous phases of the Accord, welding them into a sophisticated package. It also partially reconciled the demands of the weaker sections of the workforce for across-the-board wage increases with the demands of stronger unions for opportunities to seek higher wages through direct bargaining with employers.

Then came the bombshell. The Industrial Relations Commission declined to implement the Accord Mk VI, preferring to grant a selective and conditional 2.5% wage increase rather than the general $12 per week. It rejected calls for further improvements to superannuation and asserted that the employers and unions lacked the "maturity" needed for enterprise agreements. The deepening recession was the most obvious justification for this negative decision, coupled with the IRC's own concern to maintain its central place in the wage-fixing system. Effectively, the I.R.C. bowed to the growing clamour from employers and "new right" economists for wage cuts to head off the recession: evidently J.M. Keynes lived in vain! The decision also threatened the continuation of award restructuring and microeconomic reform in industry. The future of the Accord itself was jeapardised. No wonder the government was upset by "the umpire's decision".

Evaluation

How can we assess the achievements and limitations of wages policy under the Accord? Table 1 sets out some relevant information on various economic trends, comparing the seven years after the introduction of the Accord with the preceding six. If nothing else, this illustrates the uneven performance of the economy in terms of indicators which have an apparent link with wages policy. It suggests modest success in the control of inflation, falling unit labour costs and, until the onset of the current recession, quite impressive growth in aggregate employment levels.

However, there is considerable difficulty in a more systematic evaluation of the effects of wages policy on national economic performance. Take the link with **balance of payments** difficulties, for example. Wage restraint has been officially justified as necessary to limit the demand for imported goods and services. However, as earlier noted, it also undermines the demand for Australian-produced goods. This latter tendency has been compounded by restrictionist fiscal and monetary policies to the extent of causing the emergence of a recession in the Australian economy in 1990 - 91. Moreover, if wage restraint leads to higher profits and if the propensity to import out of income from profits is higher than out of wages incomes, this policy actually worsens Australia's international trading situation. This would be the case where, for example, the import of luxury consumption items or producers goods increased dramatically as a result of a redistribution of income away from wage earners to the recipients of income from capital. Imports of producers goods could eventually enhance the capacity for exporting and/or import substitution; but the import of luxury consumption items conveys no such long-term benefits. This illustrates that the conceptual and empirical aspects of the link between wage restraint and the balance of payments are very problematic.

Moreover, there is a host of tricky questions involved in analysing the relationship between wage levels and **employment** (column 5 in Table 1). As previously noted, some economists claim a direct link between wage cuts and employment growth, effectively setting aside the Keynesian approach to understanding the economy. This is the Treasury line: the assumption is that real wage cuts cause a microeconomic substitution of relatively cheaper labour for capital in production. If it is true that wage restraint has been a component in the growth of employment then it could actually have played a role in increasing the total wage bill. Gittins (1989 b) has even argued that cuts in real wages actually stimulate the economy, because the consequential growth in employment leads to overall increase in consumer expenditure. Hence his conclusion that, "since a tightening in wages policy ... is expansionary rather than contractionary the other arms of policy need to be tightened even further to compensate". On this reading of the situation, tight monetary policy and continuing fiscal restraint are the appropriate accompanying policies to real wage cuts. It is a classic recipe for conservative economic management ... and for economic recession.

The general analytical problem is that one cannot be sure how the economy would have responded to a different set of wages policies. Australia's macroeconomic performance during the period in question has been decidedly uneven, characterised by two years of rapid growth, then four years dominated by concerns about the balance of payments and the growing foreign debt, compounded from 1990 by the problems of deepening recession. Clearly, wages policy has not been a universal

Table 1: Australian Economic Indicators, 1977-78 to 1989-90

Year	Rate of Inflation (%)	Average Wage Increases (%)	Real Wage Growth (%)	Real GDP Growth (%)	Employment Growth (%)	Unemployment Rate (%)	Real Unit Labour Cost Changes(%)	Avg. Work Days/Employee Lost In Disputes
1977-78	4.9	9.9	0.6	0.9	0.6	6.5	0.9	0.43
1978-79	8.2	7.7	-0.5	5.0	0.8	6.1	-3.2	0.78
1978-80	10.1	9.9	-0.2	1.7	2.3	6.2	-0.8	0.65
1980-81	9.8	13.5	4.1	2.9	2.7	5.9	0.4	0.80
1981-82	10.4	13.7	3.3	2.1	1.2	6.1	1.9	0.36
1982-83	11.5	11.2	-0.3	-1.0	-1.7	8.9	-0.1	0.25
1977-82 AVG	9.8	11.0	1.2	1.9	1.0	6.6	-0.2	0.55
1983-84	7.9	8.5	0.6	5.1	0.9	9.5	-5.0	0.25
1984-85	5.8	6.9	1.1	5.2	3.0	8.5	-2.0	0.23
1985-86	8.4	5.9	-2.5	4.7	4.1	7.9	-0.50	0.24
1986-87	9.3	6.2	-3.0	2.9	2.2	8.3	-0.2	0.22
1987-88	7.3	6.0	-1.3	4.2	3.0	7.8	-1.5	0.27
1988-89	7.4	7.0	-0.4	3.3	4.1	6.6	-4.2	0.19
1989-90	8.1	6.7	-1.3	3.4	3.8	5.8	1.9	0.21
1983-90 AVG.	7.7	6.7	-1.0	4.1	3.0	7.8	-2.4	0.23

Sources: Australian Bureau of Statistics; B. Chapman & F. Gruen, An Analysis of the Australian Incomes Policy: The Prices and Incomes Accord (ANU, October 1989); Treasury, Budget Statements 1990-1 panacea for economic ills, nor could it have been. Nevertheless, it is possible to identify some avenues through which wages policy under the Accord has influenced economic and social conditions in Australia.

Real Wages and Labour Costs

The Accord has bought about a reduction in the level of real wages as shown in Column 3 of Table 1. The increase in the consumer price index since 1982/83 has outstripped the increase in average weekly earnings over the same period (as shown by comparing the first two columns in Table 1). This is the more significant when account is taken of the fact that the statistics on average weekly earnings include payments such as management and executive salaries. These salaries have risen dramatically in recent years and outstripped award wage increases in every year from 1984 to 1990; so the real wage reduction for wage earners, more narrowly defined, has been still more sharp.

Table 1 also shows the effects in the form of data on real unit labour costs (see column 7). This index fell in every year since the Hawke government came into office, up until 1990. This is the effect of the steady decline in average real wages and of productivity growth not fully passed on through wages. Indeed, it is not without its irony that it has been a Labor government which has managed to achieve this outcome without precipitating a major increase in industrial disputation. The average number of working days lost in disputes per employee (column 8) since the introduction of the Accord has averaged less than half the level prevailing in the previous six years.

Redistribution of income

There has been a substantial redistribution of income between labour and capital under the Accord. If we take the share of wages and salaries in the national income as an index of this, and compare that with the share of the gross operating surplus (comprising profits, rents, and interest payments) we see a substantial shift. The share of wages and salaries in the national income fell from 74.0 per cent to 63.3 per cent in the seven years after the Hawke government came to office, while the share of the gross operating surplus rose from 26.0 per cent to 36.7 per cent over the same period, according to the *Treasury Budget Papers 1989-90.* This is a clear indication of the redistribution of income between the major classes within our society. Wages policy has been one ingredient in this process. The Hawke government has "succeeded" where the Fraser government failed in its oft-stated objective of raising capital's share in the national income.

There have also been important effects on the distribution of income within labour's share. Until 1986, the Accord effectively froze wage relativities because of the system of indexation. Since 1986 this has no longer been the case because the capacity of individual unions to achieve increases under the two-tier wages system and its successors has depended on their bargaining strengths in respect of restrictive work practices, productivity arrangements and award restructuring. The position of the low-paid workers in the workforce has become a matter of crucial significance, threatening the capacity of the wages system to satisfy the demands of the trade union movement as a whole.

The relative position of male and female employees is one aspect of this inequality. Wages policy under the Accord has only done a little to redress the long-standing inequalities between male and female workers. Indeed, to the extent that female workers have been disproportionately concentrated in the casual and part-time sector of the work force, which has been growing most rapidly, the structural basis of their relative disadvantage has been further entrenched (Bolton 1990). Between November 1982, just before the start of the Accord, and August 1989 the overall ratio of female to male average weekly earnings remained stuck around 65%. For full-time female and male employees the ratio of female to male average weekly earnings rose over the same period from 79 per cent to 83 per cent (Rosewarne 1988; Clarke 1990). This may be considered as evidence of some minor improvement but it is a painfully slow redress of long standing wage inequalities. The push towards enterprise bargaining has been criticised from this perspective because of its potential to further disadvantage many women workers (Burgmann 1990).

Macroeconomic Management

Wages policy has played some role in offsetting inflationary tendencies. As shown in Table 1, annual average wage increases have been lower than the inflation rate. Wages policy has been part of a policy package which was also associated with an expansion of the number of people in paid employment in the first seven years after the introduction of the Accord. It has certainly been successful in helping to create the conditions for higher levels of profitability. However, there is abundant evidence that the bulk of the higher profits resulting from the redistribution from labour to capital have not been invested in the expansion and modernisation of Australian industry. Gross fixed capital formation (excluding dwellings and property construction) hovered between 28-33% of the gross operating surplus during the seven years of Hawke government in the 1980's. So the share of available funds actually going into productive investment has been very low. In other words, wage restraint has played its role, but the owners and managers of capital have not played their corresponding role in channelling the fruits of that restraint into production in Australia, rather than speculative and luxury consumption activities and overseas capital flows. Simultaneously, the problems of foreign debt and balance of payments current account deficits have grown largely as a result of corporate borrowings, many of which have been commercially ill-judged, consequent upon financial deregulation. It is these factors, rather than the inadequacies of wage policy as such, which have proved to be the major conundrums in Australia's macro economic experience.

Productivity and Labour Market Flexibility

Linking wages policy to productivity is a positive development from the point of view of improved capitalist economic performance. It is also attractive to many segments of the workforce, if it goes hand-in-hand with up-grading of skills and more varied and interesting work, as is the recurrent promise held out by the proponents of award restructuring. However, it offers no general guarantees against falling material living standards, which is a set-back for workers who had previously appreciated the cushioning effects of the commitment to wage indexation under the original Accord. Moreover, the ability to find further work practices and conditions of employment which can be bargained away through productivity negotiations is severely restricted for many sectors of the workforce. White-collar and service industry workers in general face particular problems in demonstrating productivity in quantifiable terms. The AMWU has been understandably enthusiastic for the most part about the award restructuring process, although not without some dissent within the union (Lloyd 1990). However, there are other unions where there is a much higher degree of apprehension about it. In the textiles, clothing and footwear industries, for example, it seems probable that the labour market segments characterised by female workers are likely to remain in a subordinate position despite the proclaimed advantages of multi-skilling and the establishment of career paths for employees.

The relationship between wages policy and higher productivity is complex anyway. The Treasury has gone so far as to claim that wage restraint inhibited productivity in the 1980's: "the real wage restraint since 1983 has reduced actual labour productivity by around three-quarters of a percentage point per annum" (*Budget Paper, Statement No.2*, p. 2.35). It sees this as being caused by the substitution of cheaper labour for capital and the correspondingly higher level of labour input per unit of output. This undermines, at the aggregate level, the simple "increased wages only through increased productivity" linkage currently in favour in wages policy. It is an argument which rests on the measurement of productivity as labour productivity rather than "total factor productivity" based on labour, land and capital: the latter is a more comprehensive concept, but unfortunately there is no common measure of the diverse inputs. The politically more important point, as noted at the start of this article, is that general cuts in real wages (aimed at resolving inflation and coping with balance of payments problems) and selective wage rises (for increased productivity) is a delicate blend.

What the last three phases of the Accord have done is to respond to the strong demands for greater labour-market "flexibility" coming from many employers and the Liberal opposition by a partial accommodation to those demands. From the labour movement's perspective, the shift away from wage indexation to productivity-based wage determination was an attempt to pull the carpet from under those arguing for labour market deregulation. This is not to say that those arguments have been dissipated as a consequence; indeed, there has been a growing emphasis on them from the Liberal party whose other policies have already been adopted by the Labor government. "Flexibility" has already become the norm within the labour market and the wage determination system. The growing pressures for wage-cuts-for-work deals at the enterprise level take us further down this track. The 1991 Wage Case decision of the Industrial Relations Commission is the major impediment to the move towards enterprise bargaining, a decision which in this respect may ultimately prove to have been in the general interests of the labour movement.

The Limits of Wages Policy

Whether any of this gets to the root of Australia's economic difficulties is another matter. The basic problems - outdated capital stock, inadequate productive investment, excessively conservative economic management by business executives apparently more interested in personal luxury consumption than in economic dynamism - all remain as acute as ever. The general tendency has been for investment to go into commercial property, office blocks and tourist development rather than into addressing the long-standing deficiencies in the productive base. Moreover, the imbalance in the current account of the balance of payments, associated primarily with the outflow of interest and dividends and excessive dependence upon the import of services such as shipping and insurance (as noted in Jones 1989), is clearly not to be resolved by wages policy.

Indeed, wages policy as an ingredient in macroeconomic management, together with fiscal, monetary and exchange rate policy, is ill-suited to address these fundamental problems of the external account and overseas debt. These problems need to be confronted by policies towards capital, such as exchange control on international capital flows, changes to the taxation system to inhibit overseas borrowings for speculative and takeover purposes and a more interventionist industry policy, including the establishment of a national investment fund (drawing on the accumulated superannuation funds) for the modernisation and expansion of Australian industry. Selective trade policies are also warranted, since it is more effective to steer the expenditure of Australian consumers, including wage-earners, towards Australian-made products than to cut their income levels as an indirect means of cutting expenditure on imports.

This reasoning leads to the advocacy of an "alternative economic strategy" (Stilwell 1986: Ch. 9) which presumes the possibility of the state serving the interests of the labour movement, albeit not without contradictions and incessant struggle. By contrast, wages policy under the Accord, like monetary policy and fiscal policy, has been used mainly as an instrument for satisfying the demands of corporate capital. This is evident in the shift from wage indexation to more "flexibility" in wage-fixation. The subordination of the principles of the original Accord to the contrary principles of financial deregulation and so-called "economic rationalism" are a still more obvious general expression of this changing balance in government policy between the interests of labour and capital. Whether this emphasis is inexorable or subject to variation through political organisation for "radical reform" remains an open question.

Finally, it is appropriate to note a particular irony about the relationship between wages policy and the Accord. As earlier noted, there was much more to the original Accord than wages policy: it was a very broad ranging programme of economic and social reform. Moreover, as Castle and Hagan (1987) have observed, "the Accord has given the ACTU a greater involvement in economic policy than at any time in history". This is a considerable achievement. However, the emphasis on wages policy and the corresponding neglect of control of non-wage incomes, of prices, of the social wage and of interventionalist industry policy has meant that the spirit of the original Accord has been abandoned in the process.

Conclusion

Managing a capitalist economy is never easy, especially a national economy with a legacy of problems arising out of its structural imbalance, outdated capital stock and weak institutions for initiating and planning economic development. Reforming it is still harder. The evidence of the last seven years indicates how little has been acheived. This was a period which saw the growth of the "paper entrepreneurs" and "corporate cowboys", amassing (and sometimes losing) personal fortunes, but making no significant contribution to the creation of wealth for society as a whole. By contrast, the income-earning capacity of workers has remained regulated, with the dominant emphasis being on reduction of real wage levels. Deregulation of capital and regulation of labour has proved to be a very lop-sided mix. In these circumstances, it is not surprising that Australia has become a more unequal society (Stilwell 1989a; Connell 1991; Lombard 1991).

What is doubly disappointing is that, as Australia moves into the next decade, with a deepening recession added to the problems of foreign debt and persistent balance of payments deficits, the macroeconomic problems have intensified. The shift of emphasis towards more productivity-based wage determination holds out the tantalising promise of helping to improve the supply side of the economy in the long-run. If nothing else, that is a welcome change from the dominant emphasis on using wages policy to restrict demand. It implies a recognition of the need for institutional reform. Economic progress comes through the development of institutional processes which are conducive to efficient production and equitable distribution. Wages policy has a role to play in that scenario, but only as part of a broader programme including prices and incomes policy, economic democracy and social control of investment. The Hawke government's early tentative steps in that direction have been reversed, as its policies have come more under the influence of the so-called "economic rationalists" (Stilwell 1989b).

The last eight years have been one of the most innovative periods in the history of wages policy in Australia, as Margaret Gardner(1990) has argued. However, wages policy has been asked to bear an impossibly heavy burden: contributing to macroeconomic stabilisation, resolving the balance of payments problem and generating improved productivity as well as its role in the distribution of income. The original Accord envisaged wages policy as a component in a broader programme of progressive economic and social reform: in practice, wages policy has been integrated into a quite different programme of austerity and regressive redistribution.

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