The Truth about the Accord

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Journalists, economists, international observers, even businessmen have all paid homage to the Accord between the Hawke Government and the unions, judging it to be an economic saviour. But what is the reality? Des Moore taps this Australian political and economic idol and finds that it rings hollow.

THE prices and incomes Accord between the Labor Government and the unions has been a 'con' in which union leaders have taken the Government and the Australian community for a ride, causing much of Australia's debt problem, delaying needed adjustments to the Australian economy and slowing growth in living standards.

Yet that Accord is presented as the centrepiece of Labor's economic strategy. According to Mr Keating, "Realistic wages in exchange for higher employment was the basis of the relationship with the trade unions back in 1983 and it remains as relevant now as it was then...employment has grown by 17 per cent since 1983 and the unemployment rate has fallen from 10.5 per cent to around seven per cent." In addition, "a measure of the fundamental change that has come over Australian labour markets is the fact that industrial disputes have fallen by 65 per cent since mid-1982."[1]

All this *sounds* impressive and the Government/ACTU story on the Accord has been fairly widely swallowed as 'gospel'. This is particularly so internationally.[2]

Closer to home a surprising number of businessmen have accepted the view that only the Labor Party can keep the unions under control and that a centralized wage determination/dispute settling machinery, often described as the "Industrial Relations Club", is an essential component. Some economists also see an Accord as the only *practical* way of keeping wages growth to reasonable levels, mainly because wages tend to increase quickly once shortages of labour develop, but high levels of unemployment — with consequent economic and political costs — are required before they are slowed sufficiently to revive the demand for labour.[3]

Since the first full flush of enthusiasm in 1983 the nature of the Accord has changed and there is now only a broad agreement between the Government and the ACTU on the appropriate rate of wage increases. Even so, throughout the period of the Accord the Government has changed policies or desisted from changing policies in many key areas in order to accommodate the views of union leaders.

But has the Accord had any significant effect on *union* behaviour? And has its overall influence on Government policies benefited the Australian community?

Wage Restraint Since 1982/83

There has, of course, been a significant reduction in the annual rate of growth of wages, which about halved between 1982-83 and 1987-88 — from 13 per cent to 6.4 per cent — while average *real* wages have fallen in every year since 1982-83 except for 1984-85. After allowing for productivity growth, this has meant a substantial fall in average real unit labour costs, which are now a fraction below levels of the late 1960s/early 1970s, when unemployment averaged around 1.5 per cent. The fall in real unit labour costs has, in turn, been an essential

1. Address to the Asia Society and American/Australian Association, New York, 4 October 1988.

*2. For example, the Secretary General of the OECD, Mr Paye, was quoted in the **Australian Financial Review** of 20 June 1988 as saying that the Accord had been "to some extent a watershed in policy making" which had "contributed to the restoration of Budget balance and also of confidence" and which, as a result, made Australia appear as "a more dynamic, less sclerotic economy."*

3. Reflecting this, economic advice provided in the early stages of the Labor Government (mostly from outside the Public Service) suggested that an Accord with the union movement based mainly on full indexation of wages to prices would allow the Government to adopt expansionist fiscal policies to bring unemployment down without leading to the wages 'break-outs' that had occurred in the past, most notably in 1974 and 1982, and that had led to a subsequent increase in unemployment and slowing in economic growth.

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pre-requisite to the recovery in employment.

But to what extent has the reduction in wages growth/fall in real wages reflected 'restraint' exercised by unions that would not have occurred without the Accord? While no completely definitive answer can be given to this question, a recent analysis by two senior Treasury officials,[4] using the latest Treasury model of the economy, suggested that the Accord made no significant difference to wage increases between end-1983 and end-1986. This corresponds with the commonsense view that, during a period in which unemployment was at a post-World War II high and when the labour market was not 'tight', unions have not generally been in a position to exert their monopoly powers. It is pertinent that unemployment is *still* nearly one per cent higher than in any post-World War II year before 1982-83 and has only come back to the OECD average. Moreover, the sharp jump in unemployment in 1983, following the increase in average wages in the first half of 1982 at an annual rate of nearly 17 per cent, has undoubtedly remained relatively fresh in the minds of union leaders, many of whom were also responsible for the 1982 break-out.[5] Also, the removal of exchange controls on outward capital flows has increased the potential for Australian businesses to invest overseas and led to greater realization by at least some union leaders of the need to be competitive.

In short, having *again* pushed real unit labour costs to unrealistic levels in 1982 and *again* caused a sharp jump in unemployment,[6] union leaders were forced to respond to the pressures of the market place – and to the common sense of the Australian worker.

But in any event the degree of wage 'restraint' since 1982-83 leaves a good deal to be desired. While real unit labour costs have fallen sharply, that fall has been from levels that should never have been reached: if someone becomes grossly overweight through over-indulgence he can scarcely count it as a major *advance* to get back to being simply overweight.[7] Moreover, since 1982-83 Australia's *nominal* unit labour costs – a more relevant measure for international competitiveness purposes – have increased 25 per cent faster than those of our four major import sources and there has been little sign of any narrowing of the gap. In fact, the rate of growth of nominal unit labour costs has actually *increased* in every year since 1983-84 except last year when it fell very slightly from 6.9 per cent to 6.0 per cent – still two to three times faster than for our major trading partners. This faster growth in nominal labour costs – and the consequent continued exchange rate uncertainty – has almost certainly been an important factor inhibiting investment, particularly in the export and import-competing sectors.

Declining Industrial Disputes

The level of industrial disputation has also fallen sharply in recent years. However, most of the fall occurred immediately *prior* to the introduction of the Accord[8] and there has been little change in recorded levels of industrial disputation since 1982-83. Mr Keating claims a 65 per cent reduction in industrial disputes since mid-1982: but mid-1982 was well before the Accord started. If mid 1983 is taken as the base point, the reduction in working days lost per thousand employees has been only five per cent. Moreover, there is anecdotal evidence to suggest that non-recorded forms of industrial action – such as go-slows, work-to-rules, and overtime bans – may not have declined as much as recorded disputation since 1981-82.[9] Finally, there are signs that, with the labour market starting to become tight for the first time since before 1982-83, industrial disputes have again recently resumed an upward trend.[10]

It is also necessary to recognize that the decline in industrial disputation since the early 1980s has been part of a world wide trend[11] and, while Australia has experienced a greater-than-average decline in recorded

4. *Simes, R. M. And Horne, P. M., **The Role of Wages in The Australian Macro-Economy**, February 1988, prepared for the 1988 Australia Economic Congress, 28 August-2 September.*

5. *It will be recalled that, at the 1986 ALP Conference, Treasurer Keating suggested that the Assistant National Secretary of the Amalgamated Metal Workers' Union, George Campbell, and others "carry the jobs of 100,000 dead men around their necks in the manufacturing industry with the $39 a week increase in the metal trades agreement in 1981." Mr Campbell is now National Secretary of the union.*

6. *The major previous occasion was in 1974 when, in the second half of that year, average weekly earnings increased at an annual rate of no less than 37 per cent while prices increased at 19 per cent per annum. Unemployment then jumped from 2.1 per cent in May 1974 to 4.8 per cent in February 1975.*

7. *Simply because real unit labour costs are now below levels of the late '60s/early '70s does not necessarily mean that they are at an appropriate level.*

8. *Working days lost per thousand employees fell from 692 in 1981-82 to 297 in 1982-83 and have since averaged 244.*

9. *While the greater centralization of pay deals has reduced disputes over wage levels, other types of dispute at the level of individual firms have almost certainly not been reduced to the same extent.*

10. *The total number of working days lost in June/July 1988 was the highest for any two-month period since November-December 1981.*

11. *See IPA Facts, October-December 1988.*

industrial disputation, it seems likely that the excess supply of labour, as reflected in higher unemployment in most OECD countries, was the major common factor in reducing recorded disputes. Further, while international comparisons of *levels* of industrial disputes need to be made with considerable caution, in terms of days lost Australia still comes in the middle of the field of OECD countries and has higher dispute levels than those that might be regarded as role models. This continued relatively high level of industrial disputation – and the possibility that it will hit particular firms selectively – remains an important factor inhibiting investment in export and import-competing industries.[12]

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In any event, the sustaining of the lower level of disputation in recent years has probably been due more to the growing realisation by employers that resort to the civil courts is the only effective way of dealing with union intransigence and with the demonstrated failure of the present industrial relations machinery to handle disputes where union leaders are determined to protect entrenched positions at almost any cost. This resort to the civil courts has reflected the determination of a small group outside government and the Accord not to readily accept the decisions of the existing industrial institutions.[13]

Their success has been reflected in such well-known disputes as the Wide Combs, Mudginberri, SEQEB, Dollar Sweets, Robe River, and the Sale Cinema Case.[14] These successes now mean that in many industries the mere threat of civil court action is sufficient to bring a dispute to an end. Moreover, it is clear from the ACTU's *Future Strategies for The Trade Union Movement*[15] of May 1987 that union leaders have taken this development very seriously and regard it as a major problem for the union movement.

Rising Employment/Falling Unemployment

On the surface, the 17 per cent increase in employment and the 34 per cent reduction in unemployment since the peak of 10.4 per cent in July 1983 is most impressive. But these percentage changes are taken from the low points reached in 1983 following the 1982 wage 'explosion'.

If we take the increase in employment from the previous peak, or over a longer time-span that avoids arguments about appropriate base periods, we find that all that has really happened under the Accord is to restore the trend rate of growth in employment. In short, the apparently faster-than-normal growth in employment since 1983 is really only what one might have expected to happen when one is moving out of a trough, viz, a recovery from the slower-than-normal growth in 1982 and 1983.[16]

It is also relevant, having regard to the fact that Australia developed a massive external debt problem during the period of the Accord (see below), that the growth in employment in the main export and import-competing sectors has continued to be relatively low. Indeed it was not until 1988 that total employment in these sectors got back above 1982 levels (but was still lower than in 1980 or 1981). This sluggishness in employment in the main external trade sectors, and the

12. At a recent conference of the H R Nicholls Society, for example, a senior executive of BHP indicated that his company had taken a strategic decision not to develop its steel exports potential because it believed that it was not in a position to be a reliable performer.

13. Of course, without the defeat of the Government's attempts to repeal the Liberal Governments 1977 Amendments to the Trade Practices Act, which brought certain oppressive trade union conduct within the purview of the Act, much of this would not have been possible.

14. Those who are interested can examine most of these and other similar cases by referring to papers presented at conferences of the H R Nicholls Society. These show the gross inadequacy of the workings of the present industrial relations arrangements both from an economic viewpoint and from the viewpoint of protecting individual rights and civil liberties of both employers and employees.

15. In that document, the ACTU noted that "It is important to appreciate that these cases (Mudginberri, SEQEB and PGEU) constitute only the tip of the iceberg. Throughout industry, employers are exhibiting an increased willingness to seek legal redress (especially under S45D and the common law) in dispute situations."

The ACTU then urges its members to: "carefully select targets for all forms of industrial action"; "alert members and officials of the nature and extent of potential liabilities"; "develop defensive (and offensive) tactics which can minimize the risk of legal intervention"; "establish 'early warning systems' to try to head off the possibility of legal action"; "be prepared to beat a strategic retreat where that is the prudent course"; "establish and maintain substantial fighting funds"; "recognize that legal action can destroy a union."

16. Employment actually fell by about two per cent between August 1982 and August 1983, the largest such fall in the post World War II period. All employment data quoted in this paper refer to August figures.

sluggishness in investment in these sectors, suggests that the Accord has done nothing to relieve concerns of businesses that investments in sectors which compete directly in the international market place have a substantially greater risk premium attached to them. The following table summarizes the employment picture.

AVERAGE PERCENT GROWTH PER ANNUM		
Year Ended August	Total Employment	Employment in Agriculture, Mining & Manufacturing
1983-88	3.27	1.06
1980-88	1.95	-0.03
1967-88	1.85	0.02

As to reducing unemployment, the United States has been far more successful, bringing unemployment down from a peak of 10.3 per cent in February 1983 to the current 5.3 per cent, a reduction of 48.5 per cent. Moreover, although the 2.3 per cent per annum rate of growth of employment in the US since the trough in 1982 has been lower than from Australia's trough, the US did not experience as severe a reduction in employment as Australia.[17] Also, there appears to have been a more rapid move in the US to expand employment in the export and import-competing sectors. Overall, the US labour market appears to have performed better than Australia's, doubtless partly reflecting the fact that it is more deregulated.

Productivity Growth and Living Standards

In considering whether there has been 'restraint' in wages, productivity is often overlooked. Yet a six per cent increase in wages that is accompanied by, say, a three per cent increase in productivity — resulting in a three per cent increase in unit labour costs — is quite a different kettle of fish from a six per cent increase in wages that is accompanied by little or no increase in productivity. The latter implies a six per cent increase in unit labour costs, undermining our international competitive position and allowing little or no increase in living standards. The former more nearly sustains our competitive position and allows a substantial increase in living standards.

Unfortunately Australia has consistently been in the low-productivity growth group of countries and there is no sign of any pick-up in recent years. Since 1982-83 the growth of labour productivity as measured by the Commonwealth Statistician has averaged only a little over one per cent per annum and since 1984-85 it has not increased at all.[18] On OECD measures Australia seems to have slipped further behind in the international productivity stakes, as the following suggests:

LABOUR PRODUCTIVITY				
	Av. % increase p.a.			
	1960-73	1973-79	1979-86	1986-89 (est.)
Australia	2.9	1.8	1.1	0.7
OECD Average	4.2	1.6	1.4	1.4

Source: OECD, *Economic Outlook*, June 1988.

It is little wonder, then, that living standards during the period of the Accord have increased very little. If we take real household disposable income per head as a proxy for average living standards we find that between 1982-83 and 1987-88 the average annual increase was only about one per cent. But given that 1982-83 was a trough[19] this is the best possible comparison: it compares with an increase of nearly two per cent per annum over the period 1967-68 to 1987-88.

Australia's Debt Problem

Professor Max Corden, possibly Australia's leading economist, recently suggested[20] that the Accord has resulted in "wage restraint attained at a cost", the cost being the emergence of a serious external debt problem.

I have considered the nature and causes of this problem elsewhere.[21] That analysis suggests that the Accord resulted in a much greater expansion of public sector expenditure and borrowing in the three years 1983-84 to 1985-86, and a considerably slower contraction of such expenditure and borrowing in the next three years, than would have been the case if there had been no Accord. The net effect of that has been considerably higher current account deficits and external debt than would otherwise have occurred.[22] Moreover,

17. US employment fell 0.9 per cent in 1982. Over the period 1967-88 US employment growth has averaged 2.08 per annum.
18. ABS Catalogue No. 5222.0, 17 November 1988, GDP per hours worked series.
19. Real household disposable income per capita actually fell by 1.8 per cent in 1982-83.
*20. **Australia's Macroeconomic Policy Experience**, paper presented to the August 1988 Australian Economic Congress.*
*21. **Australia In Hock: The Way Out**, published by the Institute of Public Affairs, May 1988.*
22. The fall in the terms of trade also contributed to the higher current account deficits and external debt. But that fall, the effects of which have been substantially overstated, only brought forward the need to make the necessary changes in policy.

it is not simply a matter of higher deficits and debt: it is the fact that the increase in deficits and debt went largely to sustain the higher levels of consumption that have been built up since the mid-1970s. Most of the increase in employment that has occurred went into sectors that are based on providing goods and services to domestic consumers.

All this means that, while we have greatly increased our external borrowings, there has been no commensurate increase in the productive assets needed to service those borrowings.[23] As a consequence, we now have to pay the price either by constraining the growth in our living standards in order to service this debt – and indeed to try to reduce it – or by increasing our productivity (i.e. working more effectively), or a mixture of both. Moreover, we need to change the industry structure away from the domestic consumer orientation on which most of the employment expansion under the Accord was based. Thus, having been taken down the wrong track by the Accord, both in an overall sense and in terms of direction, we now have to correct that mistake.

Other Economic Reforms

The existence of the Accord, and the misguided attempts by the Government to work within it, have almost certainly inhibited change in other areas. On a range of important policy issues the Government has closely consulted the union movement and, in consequence, adopted policies which have been second or third best or which, in some instances, meant no change at all. In other cases, such as the proposed changes to industrial relations arrangements, the outcome was to bring forward proposals that would have set the economic reform clock back. The most regressive proposals were only withdrawn as a result of strong adverse reaction from the business community.

It is not possible here to detail the changes in economic policies which have been prevented, in substantial part, by opposition of union leaders. They include, however, such areas as taxation (consumption taxes and lower marginal rates of income tax), efficiency of public enterprises (total opposition to privatisation and resistance to exposing enterprises to competition), efficiency of private industries (resistance to faster reductions in protection), and labour market reform (total opposition to reductions in union monopoly powers and strong resistance to greater competition). Other new policies supported by union leaders, such as prices surveillance and additional regulation of businesses, have added to costs. In essence, union influence exerted through the Accord has significantly slowed the rate of structural change in the Australian economy and inhibited business investment, thereby keeping down growth in productivity and living standards.

Conclusion

Contrary to the views put by union leaders, and faithfully mouthed by Government Ministers, the wage 'restraint' (such as it has been), the growth in employment and reduction in unemployment since 1982-83 can be explained as a product of the operation of market forces. The Accord has detracted from economic growth by inhibiting or preventing needed structural adjustments. And, to the extent that government macro-economic policies gave the economy a 'kick-start' in the first three years of the Labor Government, much of the growth was misdirected and, overall, led to a massive debt problem. The Accord must indeed bear a sizable share of the blame for Australia's external debt problem and the consequent constraining effects that it is now having on growth in living standards.

In all of this I leave on one side the implications for the proper democratic processes of government. Yet a strong case can be made that 'non-elected' union leaders have had, and continue to have, an undue influence on the decisions of government. They have been Accorded a privileged position which has allowed them to defend their own narrow, short-term interest at the expense of the Australian community and of their own members.

As Professor Corden said at the August 1988 Economic Congress:

"The biggest constraint on good management of the Australian economy is still the inflexible (or inadequately flexible) labour market."

He went on to note that "some measures to deal with this problem are now under way."[24] Regrettably, none of these measures envisages the abandonment of the Accord or a reduction in the role of the union leaders who have had such a pernicious influence.

23. Although recent revisions for ABS data on business-fixed investment now indicate that the level of such investment in recent years has in fact been about a percentage point of GDP higher than in the 1970s, that still leaves such investment well below the average level of the 1960s (around 12 per cent). Also, the overall level of fixed investment has not increased.
24. Ibid.