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THE ACCORD: AN ECONOMIC AND SOCIAL SUCCESS STORY

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INTRODUCTION

For the last eight years Australia has operated an Incomes Policy - the Accord. Senator Peter Cook, Australian Industrial Relations Minister, gave a Centre for Economic Performance-sponsored public lecture on the Accord in June 1991. In view of the considerable worldwide interest in the Accord, Senator Cook's lecture is reprinted as a Centre for Economic Performance Occasional Paper to reach a wider audience.

David Metcalf

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THE ACCORD:

AN ECONOMIC AND SOCIAL SUCCESS STORY

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Peter Cook*

Denis Healey once said that adopting an incomes policy was like jumping out of a second-storey window: nobody in his right mind would do it unless the stairs were on fire. He was speaking of his experiences in the 1970s, when the stairs in Britain were well and truly alight.

The stairs were aflame in Australia in 1983, when the Hawke Government won office. The Australian economy had been deteriorating since the late 1970s. By 1983, it was in recession: negative growth; double digit unemployment; double digit inflation. A wages break-out in 1981-82 had been followed by a wages freeze engineered by the previous Government. Any lifting of the freeze created the prospect of catch-up and accelerated wage pressure by unions with industrial muscle.

The primary reason why these acute economic difficulties were tackled so successfully lies in the Accord between the Australian Labor Party (ALP) and the Australian Council of Trade Unions (ACTU). This, as it turned out, was more than the prices and incomes policy that was promised when it was first discussed. It was in effect a living standards policy.

Both wings of the Australian labour movement appreciated the reactions which such incomes policies have often had on the Left. We appreciated on the one hand

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the wide acceptance of incomes policies in Continental Europe and, on the other, the negative experiences in (for example) Britain and Holland. In Australia, as elsewhere, incomes policies have been opposed as just another form of wage restraint. They have been criticised as a ploy to limit the influence and independence of unions or to protect the economic and social status quo.

Even so, there are times when it seems There is No Alternative (if I can use a well-known British slogan). For some reason this reminds me of P.T. Barnum, who once said that to keep a lamb in a lion's cage required a large reserve supply of lambs. Arthur Okun, the American economist, commented that, in the same way, societies might need a large reserve supply of incomes policies.

It seemed obvious in the Australia of 1983 that drastic conditions called for drastic remedies. Despite the traditional reservations, the Australian labour movement chose the Accord as the key to recovery in both the short and longer term. In the event, it has been proved right.

The Accord has set the foundation and built the structure for the most extensive recovery and reform program seen in Australia since World War II. With its help and under its auspices, the ALP has won the past four national elections.

Two factors have been critical in the success of the Accord. One has been the unions' commitment throughout the process not to push wage claims outside agreed Accord quantums. The other has been the adaptability of the process, allowing (for instance) wage increases to be bought out by tax cuts to deal with inflation.

The unions have kept their "no extra claims" commitment, virtually every six months, for eight years. Though the system has often been strained, and the Accord has had to evolve to accommodate the strain, the commitment has been consistently honoured.

The wage/tax trade-off began with Accord Mark II in 1985-86, when economic conditions meant that wage indexation was no longer sustainable. The Mark II agreement included a package deal which involved a two percent discount on the agreed wage rise to be compensated for by tax cuts and award-based superannuation entitlement. The trade-off has been repeated three times in the Accord process. It has been crucially important to the Government's success against inflation.

The foundations for the long-term success of the Accord process can be seen in the wide-ranging nature of Mark I. The ALP and the ACTU agreed that the basic principles governing wage fixation would be that wage justice would be protected and that wage movements would help employment growth and reduce inflation. There would be no wage claims outside agreed Accord targets except in "special and extraordinary circumstances".

In order to improve the industrial relations system for the benefit of all the community, a number of legislative and administrative reforms to the system were agreed.

The pricing authority would be given legislative criteria by which it would assess whether or not price increases sought by certain corporations and public authorities were valid. Since the Australian Government has limited direct constitutional power over non-wage incomes, various indirect measures were agreed to ensure that non-wage incomes would not move out of line with those of ordinary workers.

Urgently-needed improvements in the social wage would be achieved through more government expenditure on essential services and the social infrastructure. Personal income tax scales would be restructured to ease the tax burden on lower-income earners. These scales would be reviewed regularly to prevent bracket creep. New measures against the tax avoidance industry would be implemented, including the use of retrospectivity against avoidance schemes which were flourishing at the time.

In other words, Accord Mark I was not just focussed in a classic way on wages, incomes and prices. It also concentrated on improving living standards. It recognised that many factors affect living standards other than simply higher nominal wages. The unions were willing to give the "no extra claims" commitment and to allow the balance between wages and profits to be shifted in return for a package of wage rises, tax cuts and improvements in the social wage.

The process has also proved to be very adaptable. It has evolved to deal with massive swings in Australia's terms of trade, associated changes in the exchange rate and very strong economic growth and recession. Moreover, it has grown into being the engine room for labour market reform.

An important early stage in the Accord process was that the new Government set up a wide-ranging inquiry into the capacity of the industrial relations system to cope with the international and domestic economic change taking place. As a result, legislative reform has (among other things) made the conciliation and arbitration mechanism more effective and more influential in this changing environment. For the first time in at least 50 years, a serious effort has been mounted to rationalise and make less incoherent the complex and tortuous constitutional relationship on industrial relations between the Australian Government and the States.

Industry policy has also been a significant factor in the Accord process. The Australian Government has invested in a number of industry and sector strategies under Accord auspices. They include the Steel Industry Plan, the Motor Vehicle Industry Plan, the Heavy Engineering Plan, the Textile, Clothing and Footwear Plan. They include specific programs to boost investment and standards in education, training, science and technology. One of these is the Training Guarantee Program in which businesses with payrolls of more than $200,000 a year are required to spend one percent each year on approved training schemes. This will rise to 1.5 percent next year.

The Accord process has successfully engineered a shift in factor shares in Australia. Profit share has fallen in the early 1980s from levels which has already been depressed throughout the 1970s. The implications for sustained recovery and growth were not promising. Under the Accord, organised labour has been prepared to allow the profit share to rise in return for real investment which - so long as management is equally farsighted - will deliver sustained economic and employment growth.

In economic terms, the Accord has managed a huge turnaround. Aggregate wages have consistently come in on or under target, providing a novel predictability to labour costs of business and industry.

Before 1983, Australia was No.16 among the 24 OECD economies in terms of economic growth. Since 1983, we have moved up the list to be 4th. Before 1983, employment growth had averaged less than one percent a year. Since then it has averaged 2.6 percent. Around 1.5 million new jobs have been created in Australia since 1983, in a labour force of just over eight million. About 90 percent of them have been in the private sector.

The rate of inflation was 11.5 percent in 1983 when the ALP Government took office. It had averaged 10 percent for each of the preceding five years. The rate is now 4.9 percent, compared to the OECD average of 6.6. percent. Real unit labour costs had fallen nearly 15 percent by March 1989.

Taking wage increases, tax cuts and the increased workforce participation rate into account, real household disposable income per capita has risen by 7.6 percent since 1983.

These are among the more salient of the economic achievements of the Accord. Another has been its impact on both the incidence and nature of industrial disputes. Australia's record before the Accord was exactly what could be expected when naked market pressure confronted a strong union movement. The rate of disputation now is 60 percent below what it was before 1983. This was sustained through the period when the wage freeze was lifted. It has been sustained through the high growth period of the mid-1980s. One would have expected more disputes to occur in conditions in which wages were bid up, labour was in short supply and the bargaining position of the unions was at its most potent. In fact, disputes did not rise. Real and money wage restraint were maintained right through the boom days, and disputation actually fell. This had never happened before in Australia's economic history. It is one of the real Accord successes.

Significantly, the reasons given for industrial disputes also changed remarkably during the Accord period. In the past, more than 50 percent of disputes were about wages and conditions. Less than 20 percent were about managerial policy. The figures changed around completely. This is not to say that management became the problem. What it means is that the focus of industrial activity was not on wages but on such issues as re-organising work, making it more flexible, making it safer, making it more interesting.

The Accord package has brought about sweeping change in social policy. Budget surpluses used to fund wage/tax trade-offs have helped increase disposable household income from 1983 levels. Government investment has been increased in education and public housing. A universal health care system (Medicare) has been set up. Retirement incomes (and support for our national savings effort) have been boosted through industrial award-based superannuation. Before 1983, only 40 percent of the workforce has access to superannuation, mainly white collar workers. This is now 70 percent, or more than 4.5 million workers. A family assistance package has been funded. The basic aged pension has been raised to more than 25 percent of average weekly earnings and is now indexed twice a year so that pensioners can be compensated more quickly for price rises.

Once upon a time, Australian unions would have considered the idea that the social wage should be valid component of income as eccentric and probably none of their business or responsibility. The Accord - giving equal status to wages and social justice - has met the needs of both the political and industrial wings of the Australian labour movement. In this sense, whatever happens in the future, it has changed the nature of Left politics in Australia.

The legislative and attitudinal change brought about under the Accord have fundamentally changed the industrial relations environment in Australia. This has led (among other things) to a transformation in the way work is organised. It has led to wages and conditions being related to changes designed to improve productivity and industrial efficiency.

The wage fixation system itself is being used under the Accord to encourage microeconomic reform. Wage movements have hinged, not only on whether or not they are equitable but also on whether or not they enhance productivity in the workplace. In addition, each industrial award is being examined, simplified and modernised. The idea is to force management and workers to rethink the way work is done and to work out how it can be improved. Let me give you an example. The Metals Industry Award has not been overhauled since World War II. In this time, the list of separate task-based job classifications in the industry has grown to more than 300. Under the Accord's award restructuring program, this has been cut to 14 skill levels.

The task-based classification structure helped entrench a Taylorist system of production. A machinist sewing handkerchiefs, for instance, would be eligible for the same rate of pay as one sewing on high-quality fashion garment. Focus on skills-based wages enables different wage rates for those with higher skills, thus increasing the incentive for workers to acquire higher skills and making work more interesting. Apart from the obvious advantage for the worker, it emphasises product quality and adds value to the product.

The Accord process has focused on the need to reform and modernise the structure of Australian unions, which tend to be craft-based and which are often small. Britons should recognise this structure: they bequeathed it to us. I hope it is working better in Britain than it is in Australia. Employers in Australia can find themselves bargaining their employees' wages and conditions with anything up to 20 unions. Single bargaining units are the exception rather than the rule for major employers, even now.

ACTU policy is to amalgamate unions into larger, better-resourced, industry-based organisations which will provide more rational operation and better services for their members.

This policy suits the workplace reform agenda of the Australian Government. My own view of what is desirable is a situation in which we have a small number of industry-based unions with an enterprise branch structure.

Under Accord auspices, the Government is giving a hand to the process in two ways. One is legislative reform designed to encourage a reduction in the number of unions and to orient unions towards sectors or industries, rather than crafts or occupations. The Government is also helping the process through financial assistance for unions facing the considerable cost of mounting amalgamation ballots of members.

The incomes policy concept has been criticised as an example of corporatism or as a sell-out of the principles of organised labour. The current Australian experience contradicts this. A crucial consequence of all the economic, industrial and social progress that the Accord has achieved has been what could be called the empowerment of the union movement. This is on of the reasons the conservatives hate the Accord so much, despite its contribution to economic efficiency. For more than eight years, the union movement has been pivotal in designing, developing and carrying out a range of economic and social policies which, taken together, have established a broad program of social justice.

The Accord has been described as a "bargained relationship" between the political and industrial wings of the labour movement. A relationship such as this is only possible and can only survive if its goals satisfy both wings. This is the scope and strength of the Accord in Australia. This is why it has retained its vitality over the past eight years.

This makes the Accord more important than ever during the current period of change in the Australian industrial system. This system has been highly centralised, with the Australian Industrial Relations Commission (or AIRC) at the heart of it. The AIRC has a number of key functions. It is conciliator or arbitrator in disputes. It makes industrial awards. In national wage decisions, it sets general wage rates. In the latest of these, it has refused to accept crucial elements of Accord Mark VI (the current agreement). Mark VI is a particularly significant stage in the Accord process because it decentralises wage bargaining to the workplace level and insists on wage increases being contingent on achieved productivity.

So the Government had to choose between the decision of the AIRC and its own economic policy as agreed in the Accord. We opted for the Accord. The unions had honoured the Accord bargain without question for the preceding eight years. The Government could not - and would not - walk away from it. In any case, the Accord's demonstrated capacity as an economic tool and its galvanising effect on microeconomic reform make it an indispensable arm of economic management. Australia simply cannot afford to delay productivity-based, workplace-level bargaining and other crucial elements of the Government's microeconomic reform program.

Accord Mark VI has concentrated on decentralised wage bargaining because wage movements need to be more responsive to the needs of individual enterprises. It was agreed that they would be over and above a national flat-rate increase which all workers would get but which would be most beneficial to the lower-paid. Award-based superannuation would be extended to phases. Though bargaining is to be decentralised, the unions have agreed that wage outcomes at the workplace level be consistent with the Government's aggregate target. A set of workplace agreements along these lines is being negotiated now, which will run for the next 12 to 18 months.

In the absence of the kind of framework supplied in the past by the AIRC, the Accord partners have agreed on guidelines for these agreements. They set fundamental conditions to ensure that reform will continue, that wage outcomes will be within aggregate targets and that a safety net will continue under disadvantaged and other lower-paid workers.

The guidelines provide for all workplace bargaining to occur through consultative mechanisms set up in the workplace. The process should be able to take advantage of all the expertise available in the workplace and nurture a strong co-operative relationship between workers and management. They should not limit their interests to wages and working conditions: the old orthodox preoccupation. Instead, they should deal with broader and more influential issues such as the enterprise business plan, training, work-related health and safety, job re-design and product quality.

The guidelines stipulate that agreements must be base on achieved increases in productivity and profitability. Bargaining at the workplace level must allow employers, workers and the general community to share in the benefits of these agreements. They should be enterprise-specific, not based on the flow-on of arrangements elsewhere. Unions must maintain their "no extra claims" commitment. The minimum basis for individual workplace agreements must be national standard award conditions on such issues as holidays, working hours and redundancy. The Prices Surveillance Authority (which the Government established as agreed under Accord Mark I) will use the Accord Mark VI framework as a yardstick in the course of its operations. These are some of the more important guidelines which the Government has just now negotiated with the ACTU.

The Government has made it clear that significant departure from the guidelines will carry implications for its capacity to deliver further benefits by way of taxation and the social wage, quite apart from the effect on the scope for future wage increases.

These arrangements should comfortably take us well into the upturn phase of the economy, with the reform program intact and without threat of a wages break-out. They should provide the basis for sustained economic growth.

What of Accord Mark VII? It is early in the process. After preliminary discussions with the ACTU and with the Accord Mark VI guidelines in operation, however, I can say that the basis of a framework is taking shape.

If workplace agreements reached under the Government's guidelines are genuinely productivity-based, the coming economic recovery will be similar to that achieved in the mid-1980s. In other words, Accord Mark VII will stimulate economic growth, achieve real wage gains without accelerating inflation, facilitate industrial efficiency and competitiveness and militate against industrial unrest.

One possibility that has been canvassed for Accord Mark VII is a greater role for employers. As I see it, this approach would complement, rather than supersede, existing arrangements. Employers would need to understand that the process involves duties and responsibilities. It is not just wage restraint. Employers have derived enormous advantage from the shift in factor shares and consistent predictability in labour costs with which the Accord has provided them. They have been handed a great opportunity to restructure awards in their industries and to get rid of bad work practices, demarcation disputes and inflexibility. They should now accept this opportunity to come into the Accord by tangible commitment on such issues as investment, training and skills-development, and superannuation. If they prefer not to accept the challenge, they will not get as much out of the Accord process as they could and should. I have had some discussions about this with employer groups. I hope these discussions will continue later.

Some of the preliminary discussion on Accord Mark VII has touched on the possibility that it could include another wage/tax trade-off later in 1992.

Reform will continue. The Australian Government has committed itself to dismantling the rest of our tariff protection regime by the end of this decade. This will maintain the pressure for change. All sides understand that, unless microeconomic reform continues, removal of the tariff wall will force some Australian companies to face the prospect of going out of business.

I want to emphasise that microeconomic reform remains integral to the Accord process. It was clear when the ALP Government took office in 1983 that Australia had urgent need to start the process of structural economic reform. For years, the Australian economy had been based on high protection, a high cost structure and high commodity prices. For years, overall productivity had been low, because of the low productivity of both capital and labour. The world was leaving us behind. The Australian economy had to break the habit of a lifetime: to concentrate on adding value to our resource exports and improving our manufactured products; a higher quality service sector; development of knowledge-based industries; and generally to improve our international competitiveness and export-orientation.

I have pointed out already that the Accord process has been successful because of the way it has evolved into a means of tackling this chronic problem. It has evolved into a fundamentally important tool in the long-term reform process as the various agreements have been negotiated. The wage-fixing system in Australia, for the past few years, had been the major mechanism for bringing about microeconomic reform. Accord Mark VII will continue to use the wage-fixing system in this way. It will continue to arrange that wages and conditions will be determined to a greater degree at the workplace level. It will continue to ensure that disadvantaged workers will be protected when wages and conditions are determined at this level.

I will continue negotiating the details of the next stage in the evolutionary Accord process when I return home. The Accord began as a set of proposals for a specific economic problem in

1982 and 1983. It is now a major assault on the impediments to economic growth and social equity in Australia. The process rests on the belief that economic management should be achieved by consensus policies, supported by social wage and industry policy measures. This is an immeasurably superior alternative to economic and social confrontation.

The Accord experience in Australia demonstrates the possibilities arising from government and unions acting as mature social partners. The Accord process shows that, with the proceeds of industrial and economic efficiency, reform itself can be extended and its benefits spread through the society at large. Most importantly, the process is fuelled by a consistent commitment by both wings of the labour movement to maintain social justice as well as to maximise economic efficiency. The process will be continued in Accord Mark VII.

ANNEX

The Accord between the Australian Labor Party and the Australian Council of Trade Unions

The framework for economic and social policy under the Hawke Government has been the Statement of Accord by the Australian Labor Party (ALP) and the Australian Council of Trade Unions (ACTU) Regarding Economic Policy. The Accord agreement has been adaptable in its ability to respond to macroeconomic developments and to pressure for greater flexibility in the labour market. It has underpinned a major shift in wages policy from highly centralised arrangements in which wage movements were closely linked to prices to a system where the central element is a focus on productivity, flexibility and a degree of `managed' decentralisation.

In addition to wages, the Accord framework has encompassed a broad agenda, including active labour market policies to support the Accord, industry policy to underpin economic restructuring, a more equitable approach to retirement incomes, increased expenditure on public housing, a long term strategy for improving and extending superannuation coverage, the establishment of a national health insurance system funded through a proportional levy on taxable income, maintenance of family income support and the further development of child care, as part of an overall government commitment to ensuring greater equity in the workplace.

The Accord is based on the premise that economic policies need to be comprehensive and equitable, based on co-operation not confrontation.

Each successive Accord agreement has been characterised by:

. agreement between the parties rather than policies being imposed by Government;

. comprehensive coverage of prices, wages, non-wage incomes, taxation and the social wage, and

. concern with the equitable redistribution of income as well as basic economic objectives.

Since the original Accord in February 1983, there has been a series of agreements (Accords Mark II to VI) which have evolved to address the changing economic and industrial circumstances. The evolution of the Accord through its different phases is outlined below.

Accord Mark I

Accord Mark I was aimed at tackling the problems of unemployment and inflation simultaneously while restoring profit shares to business and promoting the social wage. It provided for the maintenance of real wages through full wage indexation, and encompassed a range of supporting policies including: the establishment of a pricing authority (the Prices Surveillance Authority) to assess the validity or otherwise of price rises sought by corporations and public authorities within its jurisdiction; the introduction of Medicare; restructuring of the income tax scale to ease the tax burden on low and middle income earners; and a range of commitments covering industrial relations legislation, industrial development and technological change (industry policy), and occupational health and safety.

Inflation slowed in the early years of the Accord and the profit share rose appreciably. An important influence in reducing wage claims and inflation in this early period was acceptance by the ACTU of the reduction in the consumer price index arising from the introduction of the health scheme (Medicare). However, strong domestic demand and a terms of trade collapse triggered a dramatic increase in imports and a widening of the trade deficit. In the changing economic climate there was a need for a fresh set of operating procedures.

Accord Mark II

Accord Mark II emerged from discussions between the Government and the ACTU in September 1985, seeking to quarantine the inflationary impact of depreciation of the Australian dollar from wages.

The Accord Mark II agreement was based on a wage-tax-superannuation deal to cope with the fall of the Australian dollar. It provided personal income tax cuts in 1986 and a three percent superannuation round to be paid for by employers in return for union agreement to a one-off two percent discounting of the proposed early 1986 wage indexation rise based on the CPI. Post-tax real wages or disposable incomes were preserved. The agreement stressed the importance of the Government seeking price restraint through the Prices Surveillance Authority, in the context of a buoyant economy and the price effects of depreciation. It recognised the need for industry development policies to focus on import replacement and exports in the capital goods sector.

During 1986 the Accord was forced to confront the new economic realities of the 1980s. Further falls in the Australian economy's terms of trade and a slump in export prices created further problems in the balance of payments and another sequence of falls in the $A. Sharp currency depreciations meant that the objective of international competitiveness had clearly become incompatible with the application of full indexation. At the same time, the industrial viability of further discounting was coming into question.

Accord Mark III

Accord Mark III, implemented in March 1987, marked the end of formal indexation. It also marked something of a turning point for wages policy by facilitating the move to a two-tiered system of wage fixation requiring efficiency offsets in exchange for wage increases through a Restructuring and Efficiency Principle established by the Australian Industrial Relations Commission (AIRC). The new system was designed to facilitate greater efficiency within workplaces.

It became generally accepted that productivity promotion was a vital element in the recovery of Australian living standards and this led involved parties to look for ways of securing the necessary degree of labour market flexibility and flexibility in the wage fixing system, in order to obtain improved productivity, and thus international competitiveness.

Although there were beneficial outcomes under the Restructuring and Efficiency Principle in terms of productivity and consultation, its focus was on short-term cost-cutting measures which tended to limit bargaining to cost neutral outcomes. The measures undertaken under this Principle were an important step, however, in the evolution of the wages system towards establishing a productivity culture.

Accord Mark IV

The Accord Mark IV agreement in 1988 built on the steps already taken under Accord Mark III, opening the way for the implementation of the next phase in generating increased productivity and enabling the establishment of the Structural Efficiency Principle as a central element in the system of wage fixation. Under the wage system established by the AIRC, increases were available to unions which gave a commitment to a fundamental review of their industrial awards with a view to implementing measures to improve efficiency and provide workers with access to more varied, fulfilling and better-paid jobs. The aim was to reform the highly specialised award regulation of the work process to encourage multiskilling and to try to minimise demarcation disputes. This became know as award restructuring.

Accord Mark V

The Accord Mark V agreement in 1989 was intended to secure wage restraint while providing improvements in real disposable income. It was based on a combination of moderate wage increases, substantial cuts in personal income tax and improvements in the social wage (including increases in the Dependent Spouse Rebate, Sole Parent Rebate, Family Allowance and Family Allowance Supplements). It also included agreement on the need to continue with the award restructuring process.

Accord Mark VI

This latest Accord agreement was agreed to in February 1990 and revised in November 1990. It provides support by the Australian Government and the ACTU for continuation of the award restructuring process. It recognises that continual reform of the award system and its application to the enterprise is not achievable overnight and must continue to be the focus of industrial relations.

Accord Mark VI incorporates a wage-tax-superannuation trade-off, a claim for a $12 wage rise to apply from May 1991 and further improvements in employer-funded superannuation. The agreement confirms recognition of the vital role of industry policy in underpinning economic restructuring. It agrees on the need to promote the practical achievement of equal pay through the establishment of an Equal Pay Unit in the Department of Industrial Relations. It recognises the continued importance of the social wage through the maintenance of the families packages and the further developments in the area of child care. (Under the National Child Care Strategy, the Australian Government is committed to providing a total of 108 000 child care places by 1995-96).

The broad-based nature of the Accord is demonstrated by the objectives for industrial relations in the 1990s outlined in Accord Mark VI. These objectives are to: improve industrial relations; increase employment, lower inflation and reduce interest rates; improve living standards; improve productivity and the quality of employment; increase savings for retirement; and rationalise union and award coverage.