

AUSTRALIA RECONSTRUCTED: A EUROPEAN VIEW

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INTRODUCTION

Viewed from the other side of the world the ACTU/TDC Mission to Western Europe and the results of its enquiries reported in *Australia Reconstructed* provides further evidence of the growing maturity and responsibility of Australian Trade Unions. Is an alternative to the confrontational style so much a hallmark of the British and once of the Australian system of industrial relations genuinely emerging? The recent record is impressive. In Australia nominal earnings continue to grow at below the OECD average resulting in yet a further year of real wage reductions. The Accord has proved a very successful vehicle for securing the reductions in the real incomes of wage earners warranted by Australia's deteriorating trading position but it is tempting to predict that this cannot last, that the dam must burst. The document reviewed here recognises that if the Accord is to be sustained and to provide a more permanent solution to Australia's problems it must develop into something more than a mere vehicle for wage restraint. The model for this development remains the corporatist wage bargaining arrangements in evidence in Austria and most particularly Sweden, and this document spells out in detail just what they entail for Australia and its institutions.

THE ISSUES ON CONTEXT

The context of the continuing Australian debate is the two quite distinct paths that countries have followed to overcome the inflation of the late 1970s and early 1980s. In the UK, Belgium, Spain, Holland, Italy and now France wage moderation has or is being secured by the threat of unemployment. In Sweden, Austria and Norway wage moderation has been the product of cooperation between government, industry and organised labour. In each of these last three countries, the corporatist countries, the unemployment rate never exceeded 4 per cent during the 1980s while in those countries pursuing the alternative strategy it has rarely been below 10 per cent since 1983.¹

Recent work has provided support for the idea that the functioning of the labour market is related to the degree of corporatism as reflected in the index compiled by Bruno and Sachs.² Thus Bean, Layard and Nickell report that "wages in the more corporatist economies display

a greater response in both the long and (especially) the short run".³ Yet they also note that "corporatist economies may possess labour markets that function more efficiently in the face of shocks, but it does not imply that their unemployment experience has necessarily been less unpleasant",⁴ for this latter is also a function of the response of governments, in their demand management and tax policies, to the shocks that have hit the economy.

At one time it could also be claimed that the corporatist economies did rather better than most other economies on almost all other economic indicators but this is no longer true. In the terms of the 'Swedish Diamond', a diamond configuration which identifies the four 'problems' at each of the points, (the problems are the Unemployment rate, the Inflation rate, the Current Account of the Balance of Payments and the Budget Deficit, these latter two expressed as a percentage of GDP), the UK, for example, has recently been doing well. In the UK unemployment is falling, inflation is steady at below 5 per cent, the budget is in balance and the current account while in deficit is still less than half that of Australia's, a far smaller economy.

The most recent picture for the UK, Sweden and Australia only is reported in Table 1 below. Table 1 seems to suggest that on the basis of the most recent evidence corporatism is no longer the only recipe for success. If however we focus on perhaps the most successful European economy of the nineteen eighties, Sweden, and contrast this with the UK what appears undeniable is that the path chosen by the UK has been far more painful than that chosen by Sweden. It is not surprising therefore that Australia's trade union economists should have found themselves, along with representatives of many countries, beating a path to the Swedish door to try to discover the secrets of their success.

	Unemployment Rate (November)	Consumer Prices Annual Percentage Change	Earnings Annual Percentage Change	Current Account (balance \$bn latest 12 months)	GDP Annual Growth Rate Q.3
Australia	8.0	8.3(Aug.)	5.8(Q2)	- 8.7(Nov.)	5.2
Sweden	1.7	5.4(Nov.)	6.4(Sept.)	+ 0.5(Oct.)	3.6
U.K.	9.5	4.1(Nov.)	8.0(Oct.)	- 4.1(Nov.)	5.3

Source: OECD

SWEDISH CORPORATISM

Sweden's approach to the problem of non-inflationary growth is particularly interesting. Confronted with a highly oligopolistic industrial structure in which wages are determined by collective bargaining rather than the unimpeded play of market forces, the Swedish system

nonetheless attempts to replicate the uniform wage rate of competitive theory through solidaristic wage policy. A uniform industry rate of pay based on the principles of equal pay for work of equal value is enforced regardless of firms' ability to pay. The more efficient find such a rate less than they might have experienced under decentralised plant and company bargaining; the least efficient are confronted by a crisis rate which drives them out of business. If this were the sum total of Sweden's labour market policies the results would be disastrous but then active labour market policies step in to assist with the redeployment of labour from the contracting to the expanding industries. This at least is the theory, articulated way back in the 1950s, by economists from the Swedish LO.

The practice has been somewhat different. On top of the nationally bargained rates some firms have conceded supplementary wage settlements. Wage Drift has been a feature of the Swedish system with the result that price inflation has generally been greater than anticipated and the scope for employment creation in more successful firms has been eroded. In consequence labour market policy has had to be both more active and on a larger scale than was originally envisaged. Furthermore the Swedish system necessarily entailed a much narrower range of pay differentials than operated in many other countries and on occasions this impeded both the smooth transfer of labour from one activity to another and the production of certain skills.

Yet it has to be said that overall Sweden has produced a remarkably effective system. It works because it is founded on a remarkable consensus in Swedish society. A consensus about the acceptable range of differences in wealth in society, which manifests itself first in a relatively narrow range of gross pay differentials which, in turn, is further equalised by a steeply progressive income tax system. Such a system would not find much support in many other societies but it is the essential underpinning of the Swedish success story, and the success is considerable. In the early 1970s Sweden's industrial structure looked as vulnerable as that in other parts of Northern Europe and the 'rust belt' of the USA for it was heavily dependent on iron and steel, ship-building and heavy engineering. Through a mixture of fiscal and labour market policies and without resort to premature retirement (indeed in 1986 a remarkable 82 per cent of the working age population, male *and* female, were in the labour force in Sweden) Sweden accomplished the adjustment while unemployment never exceeded 3.5 per cent.

SOLIDARISTIC WAGE POLICY

Solidaristic wage policies produce aggregate real wage flexibility largely at the cost of relative wage inflexibility. They facilitate a reduction in real wages when external shocks to the economy warrant this, as with the sharp deterioration in Sweden's terms of trade during the oil price

hike of the late 1970s and the fall in commodity prices more recently affecting Australia. But they entail a further trade-off, for lower real wages and hence higher employment are bought at the expense of uniform wage increases and a narrowing of differentials between the highest and lowest paid. Thus they diminish the information conveyed by the structure of relative wages and force labour market adjustment on to the other instruments.

The principal advantage of the solidaristic wage policies is that they eliminate the sectional, competitive, wage bargaining that has in the past characterised economies such as Britain, the consequence of which has been a much higher rate of domestic inflation. Yet we should note that the higher rate of domestic inflation need not itself have resulted in a lower level of output and employment, provided it had been perfectly anticipated and the currency of these economies allowed to depreciate. The problems emerge because high inflation rates produce uncertainty and thus they are associated with declining business confidence, falling investment and falling output and employment. It is for those reasons that the countries have sought to combat inflation.

SWEDEN'S CURRENT PROBLEMS

Sweden has not been any more successful in containing inflation in recent years than has the UK as the economic statistics in Table 1 indicated. The inability to contain wage drift has meant that competitiveness has only been achieved by a series of devaluations and other problems have begun to emerge recently. The Swedish consensus with regard to the imperatives of economic and social life is in no small part due to the open nature of the Swedish economy and the fact that, until recently, all but a small minority of employees were in the private sector. The vast majority of the workforce was therefore appraised of the need to compete or perish. But in the 1980s the share of government provided jobs has increased from 21 per cent in 1979 to 37 per cent in 1986. In the public sector the consequences of reduced international competitiveness have a much smaller impact on employee welfare, consequently it plays a smaller role in wage bargaining. The result has been increased tension between public and private sector trade unions in the LO and pressures by employers to abandon national bargaining in favour of company bargaining, thus effectively destroying one of the key elements of the policy.

THE LESSONS FOR AUSTRALIA

So what lessons does this ACTU/TDC report suggest Australia has to learn from the Swedish experience? First that creating the institutions necessary for full blown corporatism, is likely to require a more active

manpower policy than has been pursued in Australia to date. The report identifies four essential features of such a policy, (1) skill formation including skill flexibility, adaptability and capacity for innovation; (2) job placement; (3) the reduction of labour market segmentation and (4) payment of unemployment benefits as a last resort. Yet in Sweden we find that the National Employment Training Board operates in a competitive environment for it competes with other private agencies to sell its services, for training those both in employment and unemployed, to the Ministry of Labour. In contrast we should note all job placements in Sweden are funnelled through the state employment agency. This restriction of private enterprise is defended on the grounds that it reduces the costs of employee and employer search when information about jobs is channelled through a single agency. Yet it is noteworthy that even so, the system accounts for only about 60 per cent of all job placements.

On the issue of labour market segmentation the report is most blinkered. Recognising the substantial inequalities of labour market opportunity that exist between women and men in Australia it fails to acknowledge that they are due in no small part, first to the earlier restrictive practices of Australian trade unions and second and more fundamentally, that they reflect deeply ingrained social attitudes which manifest themselves in the household division of labour and consequent access to the labour market of Australian women. The bare facts of pay inequalities and occupational segregation are reported in *Australia Reconstructed* without recognition that this is due in no small part to the skills and training acquired by women; to the type of jobs sought by women; to the hours they are prepared to work, and to the geographical distance over which they are prepared to search for and travel to work. Disparities between the participation rates of men and women and indeed in the average earnings of the sexes may well persist even after labour market discrimination has been eliminated. Failure to acknowledge the ultimate source of such disparities is a prescription for the wrong policies.

The second important lesson to be gleaned from the report reviewed is with regard to profitability and risk sharing. Swedish innovation has led to the creation of a system of Wage-Earner Funds. This compulsory scheme for profit sharing has been proposed to bolster private savings and to provide risk capital. In creating such a fund Sweden has created an institution which emphasises the central role and importance of profits to the private enterprise system. Profit sharing has recently found favour in the UK and has been advocated by those wishing to produce greater wage flexibility. Yet Sweden's scheme is not one for redistributing some of the risk from employers to employees such as is suggested by Weitzman.⁵ In his schema beyond the base wage, employees remuneration is determined by the profitability of their enterprise, and thus it provides a strong incentive to productive performance. In contrast the Swedish system emphasises that workers should not be "paid for low profitability in one firm nor be paid for high profitability

in another''. Behind this statement perhaps lies the belief that profitability has little to do with individual worker performance so that the link need not be emphasised. Profitability it is presumably reasoned, arises from the investment strategy of firms, the efficiency of management and external market conditions. Important though all these considerations may be, such a view of the determinants of profitability overlooks the important contribution of employee behaviour. The UK provides evidence that changed employee behaviour can contribute directly and substantially to profitability if for no other reason than that they drop their resistance to new technology and manning practices. In Australia as in the UK, productivity has in the past been low due to the restrictive practices of trade unions in turn perpetuated by the lack of exposure to the forces of competition. In both countries it is important to emphasise the links between productivity, profitability and overall economic performance. For Australia as for the UK, the link between employee performance and remuneration needs strongly forging, in so far as Wage Earners Funds obscure this link they are *not* to be recommended to Australia.

THE COMPETITIVE ENVIRONMENT

There remain essential differences between Australia and Sweden and Austria which the report glosses over. The spur to contain costs, to productive and efficient behaviour in Sweden and Austria is provided by foreign competition. Both are small open economies. Effectively the prices of a very large proportion of the commodities they produce are given exogenously, are established on world markets. Thus domestic producers are exposed to the discipline of effective, external, competition. It is worth mentioning here that at the other extreme, the size of the domestic market also ensures that USA manufacturers face effective competition. In contrast to Austria and Sweden, Australia is a relatively closed economy; moreover the majority of its exports comprise mineral and farm commodities. This has a number of important consequences. First, product markets in Australia are substantially less competitive than in any of the other countries mentioned, and thus the sanction on inefficient behaviour is smaller. Second, the trade performance and hence the value of its currency is not for the most part determined by the relative efficiency of its labour force. The sector in which labour efficiency matters most, manufacturing and services, accounts for a small part of exports. Third it so happens that those commodities which account for the majority of Australia's exports, minerals and farm commodities, are those subject to the largest price changes on world markets. In consequence there can be very large swings in Australia's foreign earnings and hence in the value of her currency due to factors outwith the control of domestic wage earners. For all these reasons wage earners in Australia may remain unconvinced

that restraint or the lack of it, or efficiency or the lack of it has much to do with their real income.

The relatively closed nature of the Australian economy has resulted in product markets that are highly regulated and protected. This is in no small way due to the trade barriers behind which Australia chose to hide but in turn the erection of such barriers reflects the exercise of past union power. Though tariff barriers are being dismantled slowly much of Australian industry remains monopolised and uncompetitive. Of course such arrangements effectively protect Australian wage earners from the consequences of their own wage bargaining and inefficient behaviour. There is little acknowledgement of this in the report.

CONCLUSIONS

It is tempting to argue that such documents as *Australia Reconstructed* put the cart before the horse. That is to argue that the removal of tariff barriers, and the deregulation of domestic commerce and industry would do more to produce the necessary changes in attitudes and behaviour than would the construction of the institutions advocated here. Indeed running through this document is a fundamental misconception. It argues that "Consensus based economic policy is *defined* largely by the way wages are set, industrial relations conducted and the level of government consultation with unions and business over the setting of macroeconomic policy". However consensus-based economic policies are not *defined* in the manner described above. They are articulated in, or find expression "in the way wages are set, industrial relations conducted and the level of government consultations with unions and business over the setting of macroeconomic policy", but they are defined by the homogeneity of views with regard to the appropriate model of the economy, by the overriding community of interest and the common social goals of the population. The institutional apparatus reflects but does not create this. These are the defining characteristics of corporatist societies and it is their existence that is an essential precondition for the construction of the institutional framework advocated in *Australia Reconstructed*. The real question for Australia is 'does that underlying consensus exist?'

NOTES AND REFERENCES

1. The departure of migrant workers from Austria led to a lower unemployment rate than would otherwise have been the case. Had the number of migrant workers in the early nineteen eighties remained at the level of the early nineteen seventies, this it has been predicted (K. Pichelmann and M. Wagner, 'Labour supply as a signal for real wage adjustment: Australia 1968-83'; C.R. Bean, P.R.G. Layard and S. Nickell (eds), *The Rise in Unemployment*, Basil Blackwell, Oxford 1987), would have added some 3 per cent to the recorded unemployment rate.

2. M. Bruno and J. Sachs, *The Economics of Worldwide Stagflation*, Basil Blackwell, Oxford, 1985.
3. C.R. Bean, P.R.G. Layard and S.J. Nickell, 'The rise in unemployment: a multi-country study', in Bean, Layard and Nickell, *op. cit.*, p. 18.
4. *ibid.*, p. 19.
5. M.L. Weitzman, *The Share Economy: Conquering Stagflation*, Harvard University Press, Boston, Mass., 1984.