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BOMA5 THE WAGE CASE John Hyde

Although the rate at which we are accumulating foreign debt has subsided, each month announces another balance of payments deficit and hence increased foreign indebtedness. Most recent official figures estimate net debt (gross debt minus foreign investments) at $70,222 million (over $15,000 per Australian family) must now be serviced. This can only be done if exports exceed imports but a given volume of exports now buys a smaller volume of imports than it did (our terms of trade are less advantageous). These are unpleasent facts of life. In the end there can be no running away from them. The

The last National Wage Case decision tried to ignore them. The Arbitration Commission which does everything in the name of 'industrial relations reality' is out of touch with economic realities which are beyond their control. One reality of their decision is that Australia gets even further into debt. Clearly the the Commission does not care how bad the eventual crunch is, so long as the unions are not offended now.

Minimum wages do not in the long run raise living standards; these are inevitably determined by National Income and population. The sad consequence of high wage minimums is to kill off some jobs now and/or to increase foreign borrowings which will burden not only the next year but the next generation. The Commission's decision was irresponsible and unfair.

The Government admits that the current account deficit---the rate at which Australia is accumulating foreign debt---may increase in absolute terms in 1986-87 and as a proportion of GDP will not fall significantly. That is it admits the economic 'recovery' will continue to see Australians accumulating debt at almost the same rate. The future is being sacrificed to maintain living standards in the short run. In the long run high living cannot be supported by debt.

Obviously we have entered upon a treadmill and to get off we must compete better or live poorer. The Government, the ACTU and the employers all now admit that this is so.

Every employer's submission to the National Wage Case sought to address the runaway foreign account by reducing earnings. One, the Australian Federation of Employers, submitted that the foreign debt problem should be tackled also by improving productivity at a faster rate. For its trouble it was branded 'New Right'---a meaningless insult---and kept from later meetings between the Government, employers and unions. Similar arguments had been put to earlier hearings by the National Farmers Federation.

The Commonwealth submission to the National Wage case before last said, 'The course of wages will continue to have a crucial bearing on the prospects for continued growth. In this context the wage determination system has a major role in preserving the gains to competitiveness resulting from the depreciation and in minimising the inflationary effects of depreciation.'

Because the terms of trade are for practical purposes beyond our control and living poorer should be regarded as necesary crisis management only, productivity must be improved. Nevertheless in the short run the Commonwealth is right: wages are crucial.

The National Farmers Federation employed Geoff Carmody to prepare their wage case submission. He has recently left treasury to join ACIL Australia. It is a fair bet the NFF submission, more than any other, represents a significant strand of official thinking.

NFF argue: "...one way or another, in the period ahead, on average, real wages per employed person must be held at least 5 per cent - possibly substantially more - below average labour productivity growth to finance the required growth in net exports needed to halt the process of external debt accumulation relative to GDP." The methodology employed by them is indisputable. It rests on the inexorable logic of the government's own national accounts.

It does not matter what method is used to calculate the required wage discount it comes out at at least 5%. Five percent to overcome the external account problem, or five percent to eliminate the gap between Australian inflation and the average of our trading partners.

External debt has risen from 6% of GDP in 1979-8Ø to 3Ø% now. EPAC estimate that it will level off at 4Ø% by 1989-9Ø but that forecast requires the trade balance to improve by about 4% of GDP to a sustainable 1% trade surplus. EPAC assumes no further depreciation will increase foreign debt service costs and no further decline in our terms of trade after this year. Given that our fixed capital investment has been inadequate for some time, that our inflation is so far above our trading partners as to erode the competitive advantage of the devaluation by 199Ø, EPAC's hope defies economic gravity.

To win and hold a trade surplus Australians must improve their competitiveness in a sustainable way. To do that unit costs must fall faster here than in other countries. But our wages are forecast to rise by 6.25% this year whereas our trading partners' average wage rise is expected to be only 4.5%---a competitive disadvantage of 1.75%. To just maintain, but not improve the present competitive position, that deficiency could be offset if our productivity were to improve 1.75% more than theirs. But, while OECD productivity is forecast to gain at least 1.75% ours is expected to improve by only Ø.5%---a further disadvantage equivalent to a 1.5% wage rise. On top of that our terms of trade are expected to slip by a further 8% this year---equivalent to a 1.6% wage rise.

To hold the competitive gains of the devaluation our wages should not rise more than 1.4%. Yet this financial year award wages have risen by 4% already and the Government has asked for and the Commission will probably award a further $10 first tier plus a maximum 3% second tier (at least another 5.0% over all) second wage round.

The IR Club are arch-conservatives preoccupied with Industrial Relations reality---in practice with what the unions will accept. They do not admit the great national risks inherent in their approach or that they are a serious threat to Australia's financial security.