

WEE ON THE DRY SIDE

What Price the Accord?

John Hyde

The conventional wisdom is that The Accord has been a significant success. Hasn't it delivered wage restraint and hence employment growth? Wouldn't unions have wrecked the economic recovery if they had not been 'accorded' a special, rather undemocratic, role in government? Whatever the long-term consequences of increasing union authority, haven't we enjoyed some short-term benefits?

Since there is no way of knowing what the ACTU would have done if it had not been bought off, perhaps so. Indeed, I had become convinced that The Accord had delivered a measure of wage restraint. Now, two senior Treasury officers, R.M. Simes and P.M. Horne, have thrown doubt on even this.

First, let us look at what The Accord is supposed to have achieved. A recent AIPP paper written by John Brunner, who was until recently chief economist at BHP, looks at twelve indicators of economic performance over the last five years. Mr Brunner describes "Five Years of Not So Hard Labor" in which a soft-hearted government approach has seen the sluggish trend of productivity performance get worse, the current account blow out and foreign debt soar. On the bright side, economic growth has been above the OECD average, the wage/profit share has been restored to its traditional ratio, and unemployment has been reduced to about the OECD average.

There was a bright side because real unit costs----the inflation-adjusted costs of producing each widget etc----were reduced. Since productivity was sluggish, the decline in real unit costs was brought about primarily by falling real wages. That real wages should fall was no part of the ACTU's intention when The Accord was negotiated, but the realisation that they must was forced upon the Government and the ACTU by the collapse of the \$A in 1985. However, the greatest gains in real unit costs had already been made in 1983-84 during the period of the Fraser Government's so-called wages freeze. ("So-called" because it, in fact, froze only the awards; talented and hard working individuals continued to sell their skills to the highest bidder.)

John Brunner, and indeed most people, attribute the fact that there was not a wages break-out after the freeze, to the

moderating effect of The Accord. The Accord gave ACTU officials a voice in government and in return the ACTU gave the Hawke government wage settlements which were more in line with economic reality----ie the ACTU agreed not to exploit its monopoly bargaining position to the hilt. Even those people who were worried that an Accord-driven Australia would be similar to modern Sweden, Britain at the time of Wilson's Social Contract, Singapore or Musolini's Italy, mostly accepted that Accord-corporatism was bringing home the bacon in the short run----if at some cost to democracy.

Mr Des Moore of the IPA is an exception. He questions the belief that The Accord has brought home an ounce of bacon. His address to the Regional Daily Newspapers Annual Conference drew attention to two papers presented to the 1988 Australian Economics Congress. The first by Professor Max Corden, "Australia's Macro Economic Performance"; the second was the before-mentioned Treasury paper "The Role of Wages in the Australian Macro-Economy".

Professor Corden says that The Accord has delivered wage restraint but that it has been "wage restraint at a cost". In Mr Moore's words: "Under The Accord the government implemented more tax cuts, and undertook less expenditure restraint, than it otherwise would have done, because it judged that the ACTU and the Arbitration system was delivering lower wage increases than would have been the case in the absence of such fiscal action. But, while the period has seen a strong recovery in employment and output, offsetting that has been the higher current account deficits and the dangerously high overseas debt that is now constraining living standards".

Professor Corden agrees with John Brunner that The Accord has delivered something worthwhile at a price. If, however, The Accord has had little or nothing to do with the fall in real wages, then Australians have paid the price for nothing.

Using the latest Treasury model of the economy, Simes and Horne argue that the much-touted Accord has indeed had little to do with the level of wages. They imply that given the state of the economy and the labour market, including the high level of unemployment, most, if not all, of the reduction in real wages since 1982-83 would have occurred even if there had been no Accord. Their story is not the received view, but it may, nonetheless, be correct.

Economic models should be treated with caution: they must bring to account too many variables about which too little is known, and even modest errors can be grouped so as to add up to a big error. In hindsight they are often shown to have been wrong. Nevertheless, when the conclusions drawn from them accord with common sense, they can be a useful guide to the real world. Treasuries use them extensively.

In this case, history lends weight to the Treasury model. Social contracts have a dreadful record. The best known failure is the British episode which ended with the winter of discontent and the election of the Thatcher Government.

However, that was not exceptional. All contracts require a mechanism by which the parties can, if necessary, be forced to honour them. Social contracts require an effective mechanism to enforce the compliance of millions of people, who are not directly parties to the contract. In free societies no such mechanisms exist. Therefore, attempts to control prices, including wages, against the fundamentals of the relevant markets, fail.

When the Australian Accord was first mooted, many people, who subsequently changed their minds, said it would have little effect on wages, since the market fundamentals were not being changed by it. Now, they ought not to be surprised that, by explaining declining real wages in terms of economic fundamentals, the Treasury's economic model supports their original common-sense expectation. Nor should they continue to put faith in an Accord which, in other circumstances, might not even give the appearance of working.

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