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ON THE DRY SIDE THE ACCORD J M Hyde

The Accord between the Labor Party and the trade union movement has produced little so far but it is about to be tested.

The government boasted to trade union leaders at the ACTU Conference that: "In comparison with [the] overseas record, the gains achieved by Australian wage and salary earners under the Accord's wages policy are impressive". A pamphlet distributed to union bosses showed that Australian real wages rose at a time when they fell quite sharply in many OECD countries. In contrast, before other audiences, Ministers have many times boasted that it was the Accord which prevented continuation of the wages blowout of the late seventies and early eighties.

Australian inflation is twice that of our trading partners, domestic and foreign account deficits are unsustainable, our currency has collapsed and is still falling against major currencies except the US dollar. Unemployment has fallen, but only to about 8 per cent. Our Treasurer has acknowledged our descent toward the standards and achievements of Banana Republics. It is not a pretty picture but the evidence which blames or credits the Accord with any of this is very weak. For all that can be said to date, the Accord is irrelevant.

Incomes policies recognise the trade off between the cost of employment and the number of jobs. Their purpose is to enable a government to reduce inflation and unemployment at the same time - to provide one alternative to reducing inflation with restrictive fiscal and monetary policy and to increasing employment with unanticipated inflation which reduces real earnings.

Incomes policies usually buy short run union cooperation by offering the union managements privileges, including consultation, closed shops, preference clauses in awards, immunity from prosecution, illusary tax cuts, deals on future industry 'development', and kudos, a tradable commodity in union elections. These privileges may be used in the long run against the unemployed. Except over the short term, incomes policies have an unrelieved record of failure established in many countries. Nevertheless we have the Accord and we have the Arbitration Commission. We must do the best we can with them.

The National Farmers Federation (NFF) submission to the Arbitration Commission in the National Wage Case, prepared by Mr. Geoff Carmody an ex-treasury officer now with the consultants, ACIL Australia, argues that the Accord has produced no break with history. Three years of it have seen the Government relying on monetary policy to control inflation and slow down the collapse of the dollar. Australian interest rates are relatively high and choking investment. Any circumstance could be worse, but it seems the Accord has not delivered much to the Government.

So far, I do not believe that the unions, the stronger party to the Accord, have been asked to deliver anything substantial. Now they should be asked to deliver substantial real wage cuts.

The cuts will not only test the Accord but Australians' willingness to accept leadership in a crisis. I am reasonably confident, particularly since Mr. Keating's Banana Republic announcement, that Messrs Keating, Walsh and Button and possibly Mr Hawke will try to encourage us to face facts. I am less confident of Messrs Crean and Kelty, but with their test imminent why prejudge them.

The recent record is this: After the excesses of the immediately preceding years, real wages have risen little since 1983. Real unit labour costs have fallen significantly, and this has enabled employment to increase and unemployment to fall to eight percent. However that modest restraint did not require a new found union co-operation. Because Australians had not experienced worse unemployment since real wages were increased by **deflation** in the early thirties, it was inevitable that part of the excess real wage rise would be reversed or absorbed by productivity gains. Other excessive wage rises since the thirties, always have been at least partially offset.

Although treasury's measures of real labour costs have returned to early 1970s levels other countries have done better so that the price of our widgets overseas has fallen. Unemployment will remain higher now than in 1970 until labour costs reverse the wage hikes of 1973-74 and 1981-82 and reflect our less satisfactory terms of trade.

In the thirties reversal was especially difficult because with generally falling prices, wage earners needed to not just reduce real wages but substantially reduce nominal wages to give the unemployed a break. In many countries nominal wages have recently fallen. High inflation, which does not have much else to recommend it, will let us reduce real wages by the more politic expedient of forgoing nominal rises.

The government set itself the goals of reducing unemployment and inflation and the ACTU accepted those goals with the first Accord. Yet, the government's submission to the Commission is calling for 'a year of consolidation' in which unemployment will not rise above 8% at best. Whatever the ACTU is in practice prepared to accept, surely the government will not settle for 8% unemployment and twice the inflation of our trading partners.

Australians have been consuming more than they have been producing, the margin is the excess of imports over exports. Our balance of trade has to improve. The NFF points out that whatever corrective action is taken Australians must produce more that will not be available for distribution than has been their recent habit. Gross National Expenditure has exceeded Gross National Product. Now there paths must cross with growth of GNE at least two percentage points below that of GDP leaving a surplus to increase exports to balance foreign account.

There is no pool of productivity to distribute. Past productivity gains have already been distributed to people who were once unemployed. A productivity award will cause unemployment to be higher than it could have been.

The governments whole macro strategy depends now, as it always has, on union co-operation to produce wage restraint. Mr Keating was right to draw the unions' attention to Banana Republics. We are about to see whether the special relationship between the government and the unions can deliver something worth while.