# The Accord: An Assessment

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"Oh wad some POW'R the giftie gie us,
To see ourselves as others see us!" (Robert Burns)

## Abstract

*The Accord has been a feature of the Labor Government's economic and industrial relations management since 1983. It has had both its critics and supporters. The paper assesses the Accord on a number of economic and non-economic criteria.*

## 1. Introduction

In the first six months of 1990, Australia has been graced by the presence of the Professor of Industrial Relations from Cambridge University, the Professor of Industrial Relations from the London School of Economics and a senior Fellow in economics from Oxford University, all of whom have been here to study the Accord from one perspective or another. There is little doubt that, in international terms, the Accord has attracted a great deal of attention and a degree of critical acclaim, as my quotation from Robert Burns is designed to indicate. There is also little doubt that, in the eyes of the principal begetters of the policy, it is a major success.

Given this international acclaim, and the general satisfaction of the "parents" with their "offspring", it may seem somewhat surprising that some practitioners and academic commentators in Australia are still debating the question of whether or not the Accord is a "success". This paper attempts to

* *Public Sector Union.* The opinions presented in this paper are those of the author alone. They do not necessarily represent those held by the Public Sector Union. *I acknowledge comments on an earlier draft of this paper by several colleagues in the Public Sector Union, the ACTU and the Department of Industrial Relations.*

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provide a set of guidelines for an objective and critical assessment of the Accord. These guidelines are drawn from the extensive post war literature on prices and incomes policies; the criteria and the appropriate methodology for assessing any incomes policy are well specified within the corpus of economics, and it is only by applying these recognised criteria that we can hope to assess the success or otherwise of a particular prices and incomes policy.

The paper is organised as follows. The first section outlines what criteria should be used to assess the Accord on its own terms. I draw from the Accord its principal objectives and assess its performance against these objectives.

The second position looks at the established literature on prices and incomes policies prior to the commencement of the Australian experiment. This literature provides a set of criteria for assessing the Accord. Such an assessment is "internal" to the discipline of economics. This assessment is particularly important because it helps us see the prices and incomes Accord as one example of a long tradition of similar policy interventions. This Australian example is particularly important because, in many ways, it has produced results which turn the conventional wisdom on the efficacy of prices and incomes policies on its head.

Following this, there is a section on the aspects of the prices and incomes Accord which have only evolved "through time". This section looks at initiatives under the broad umbrella of the Accord document which were only tangentially dealt with in the original Accord blueprint. The next section deals with areas of concern or "problems" which various commentators have raised with the Accord framework.

The final section attempts to draw some tentative conclusions and provide an overall assessment of the prices and incomes Accord.

## 2. Has the Accord Achieved What It Set Out to Achieve?

On the first two pages of the original Accord document (ACTU 1983) we can find the simplest and most direct statement of the prime objective of the prices and incomes Accord. The principal or prime objective of the Accord is the achievement of "full employment" without imparting an inflationary bias to the economy, while pursuing sustained economic growth:

> ... Both organisations have seen fit to try to develop a mutually agreed policy on prices and incomes in Australia for implementation by a Labor Government. Such a policy offers by far the best prospect of enabling Australia to experience prolonged higher

> rates of economic and employment growth, and accompanying growth in living standards, without incurring the circumscribing penalty of higher inflation, by providing for resolution of conflicting income claims at lower levels of inflation than would otherwise be the case. With inflation control being achieved in this way, budgetary and monetary policies may be responsibly set to promote economic and employment growth, thus enabling unemployment to be reduced and living standards to rise. (Accord, 1983, p. 2)

The next six pages of the Accord discuss the nature of prices and incomes policies and what is entitled "elements of policies for prices and incomes".

Under these headings a number of "agreed policy details" are set out covering areas such as, "prices", "wages and working conditions", "non wage incomes", and "taxation of Government expenditure".

The balance of the Accord document running to a further eight pages is devoted to "supportive policies" and a brief one paragraph discussion of the "mechanics of implementation".

Although many would argue that the prices and incomes Accord has become a "mechanism" for resolving a range of economic and industrial issues, rather than the slavish application of the ideas contained in the original sixteen page blueprint, the original conception is still important if we wish to assess the Accord in any consistent manner. In order to pass the test of internal consistency, it is necessary to demonstrate that the Accord has facilitated the promotion of full employment at lower rates of inflation than would otherwise have been the case, while allowing economic growth to be sustained.

A number of academic papers have directed themselves to this style of assessment of the Accord. Prominent in this group are Lewis and Spiers (Lewis and Spiers, 1989) and Chapman (Chapman, 1988). Dealing with the empirical evidence on employment, the evidence is overwhelming that the Accord has been able to achieve high and sustained levels of employment growth. As Chapman (1988) observes, in comparing Australian and OEDC macroeconomic outcomes between 1977 and 1986:

> ... the data reveals, among other things, that Australia experienced relatively rapid growth in employment and GDP post 1982, relative to both the six year period prior to the Accord and to an (unweighted) average of nine OEDC countries. (Chapman, 1988)

Similarly, Lewis and Spiers (1989) demonstrate that there has been a marked and discernible effect of the Accord on real wage and real unit labour cost growth:

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> For the twelve years up to 1983 there was a very pronounced upward trend in real wages whereas during the Accord real wages have fluctuated around a constant level. The effect on real unit labor costs is even more pronounced, with a fall to a level not seen for two decades. (Lewis and Spiers, 1989)

Drawing these trends together Lewis and Spiers are unequivocal in their conclusion:

> The evidence regarding the success of the Accord would appear to be overwhelming. On the wages and employment front the Accord has brought about significant falls in real wages, and with regard to industrial relations since the introduction of the Accord, Australia has had one of the longest periods of industry peace in over twenty years." (Lewis and Spiers, 1989)

It is important to stress that the Chapman and Lewis and Spiers assessments are based entirely on empirical evidence. They eschew value judgements. They rely instead on data designed to compare Australia's economic performance, on the wages, inflation and employment fronts, with its own past history and to the results achieved over the period 1982/83 to 1988 in comparable economies such as those of the OEDC countries.

On this first assessment of the Accord, it would appear clear that the Accord can boast a success "in its own terms".

## 3. The Australian Experience of Prices and Incomes Policies and the Conventional Economic Wisdom

The established professional economic literature on prices and incomes policies, prior to 1982 (which we may take as the starting date for the Accord process), may be found in two sets of readings. In Australia the authoritative text was the book of readings edited by Professor Keith Hancock under the title, Incomes Policy in Australia (Hancock, 1981). The authoritative text outside Australia was again a book of readings entitled Incomes Policy, Inflation and Relative Pay (Fallick and Elliott, 1981) which dealt with incomes policies in the United Kingdom, Continental Europe and the USA.

The student of economics and the professional practitioner, wishing to acquaint him or herself with what the economics profession had to say about incomes policy, would have turned to these two texts for a review of the issues and a statement of the "state of the art".

It is not possible to condense the conclusions of twenty four individual analytical essays into a few simple statements. However, the general direction of the conclusions drawn in each of the books of readings can be carefully drawn out. There is a marked degree of similarity in the general trend of the analytical conclusions in the two volumes. For the Australian case, Hancock's introductory essay argues that there is no conclusive answer to the question of whether or not incomes policies can succeed. Indeed, Hancock argues that such an approach is often misleading and that much depends upon the administrative and institutional environment on which an incomes policy is imposed. However, he acknowledges that, within the discipline of economics, incomes policies have tended to be viewed sceptically or pessimistically:

> There is a view that a society which commits itself to an incomes policy rides on the back of a tiger. Any short term advantage that may be gained is at the risk of an eventual "explosion". To avoid the explosion may require policies of demand-management which are more draconian than would have been needed if the authorities had throughout confined themselves to the control of demand.
>
> This pessimistic view of incomes policy can only be vindicated or refuted by reference to the evidence of experience. (Hancock, 1981)

Hancock was at pains to indicate that the relevant economic analysis clearly provided for some role for an "incomes policy" as part of the macroeconomic armoury. However, because the success or failure of such a policy was heavily dependant upon the existence or creation of the relevant institutions, he was inclined towards a pessimistic conclusion for Australia:

> ... On the one hand, I see opportunities for incomes policies as implicit in the relevant economic analysis but ... on the other hand, I have serious doubts about the capacity of institutions to sustain them. (Hancock, 1981)

The Fallick and Elliott volume was less tentative in its conclusions. Although the relevance of incomes policies as derived from macroeconomic analysis in an essentially Keynesian framework was given high prominence, and a degree of analytical clarity which had sometimes previously been lacking, the final thoughts in the volume were not supportive of incomes policies in practice:

> Thus the conclusions of this volume are essentially negative. The studies revealed that incomes policies can reduce the rate of wage inflation in the short run but no more. (Fallick and Elliott, 1981)

Once again, the sensitivity of policies to institutional factors and administrative arrangements was highlighted. Those policies which had been successful (in some of the European countries) were dependant on institutional arrangements which were frequently unavailable in Australian or UK industrial relations settings.

The Hancock and Fallick and Elliott collections of essays provide sufficient range, analytical complexity, variety of experience and depth of analysis to enable one to confidently claim that they represent professional economic opinion on incomes policies at 1981. Their conclusions may be simplified to four basic points:

* incomes policies are a logical and consistent development of applied macroeconomics in a demand management framework;
* the success or failure of an incomes policy is highly dependant upon the institutional and administrative framework within which it is applied;
* even within a favourable institutional and administrative framework, incomes policies generate pressures within the economy which may lead to their demise;
* the best the policy makers can expect from incomes policies is some relatively short term "breathing space" on the rate of growth of nominal wages.

Had the original architects of the prices and incomes Accord in Australia accepted this viewpoint they would have, in all likelihood, never embarked on the Accord adventure. However, the parties in the original Accord document explicitly rejected the "conventional wisdom". It would appear that, on the basis of the assessment in Section 1 above, this rejection of the conventional wisdom was justified. In that respect, the prices and incomes Accord of 1983-1990 has required that the textbooks be rewritten to a significant extent, at least for Australia.

However, the original pessimistic prognosis, and the analysis supporting it, has helped us to highlight those areas of the Accord to which we must look if we are to understand why it has been a success. In particular, it encourages us to focus on the particular institutional and administrative arrangements which have enabled the Accord to survive and prosper, and to carefully analyse the evolution of the Accord, to see how this helped produce its

## 4. The Evolving Accord

It is customary, in 1990, to refer to "Accord Mark 6", acknowledging the evolution of the prices and incomes Accord from its original, relatively limited, form (set out in the ACTU/ALP sixteen page document) to a more comprehensive mechanism for tackling Australia's economic problems and raising "competitiveness".

To a significant extent, this evolution has rendered the objective evaluation of the success or failure of the Accord on economic criteria more difficult. The Accord has become a "catch-all" term and hence difficult to define.

Some of the evolutionary aspects of the Accord can be evaluated using existing criteria on full employment and the rate of growth of money wages. The Structural Efficiency Initiatives, and the Two Tier Wage System are clearly legitimate offspring of the original Accord conception. They are attempts to influence the aggregate money wage outcomes of the bargaining process in Australia's labour markets, at some centralised level. Similarly CPI discounting, the trade-off of money wage increases for improvements in superannuation benefits and changes to income tax scales as part of the National Wage bargain, can all be seen as directly arising from the Accord process.

Each of these "deals" has arisen in the context of the centralised wages system; has been legitimated through the Industrial Relations Commission; and has been presented to the community at large as an **agreed** approach between the ACTU and the Labor Government. Hence, although they may be presented as Accord Mark 3, they are no more than new ways of achieving the old results, namely money wage (or real wage) outcomes.

The evolution was necessitated by a number of factors. At the most basic level, the original Accord between the ALP and the ACTU was only designed to run until October 1985. The renegotiation of the Accord to enable it to continue beyond October 1985 (which was dubbed "Accord Mark 2") was a formal recognition that the essential policy framework was working to the satisfaction of the two partners and that both believed that significant economic advantages were to be had from maintenance of that framework.

Further impetus to renegotiate the Accord came in early 1986, when Australia's terms of trade declined sharply by around 13 per cent. During the period of the original Accord agreement, the terms of trade had been declining, but this relatively gentle downward trend was slight in comparison with the dramatic external shock of early 1986. Since the Australian dollar had been floated in late 1983, and the financial market deregulated, the dramatic drop in the terms of trade led to a significant depreciation in the value of the Australian dollar and a consequential decline in national income in excess of three per cent.

The original Accord framework, calling for full indexation and the automatic adjustment of money wages to changes and consumer prices was incapable of accommodating changes of this magnitude while at the same time preserving its prime objectives of sustaining growth, pursuing full employment and moderating inflation.

Accord Mark II must be seen as a crucial evolutionary stage in the Accord process; it ushered in the move from money wage growth moderation to real wage reductions - a step of astronomical proportions.

In line with the evolution of the agreement between the ALP and the ACTU, we may also draw attention to the evolution of the institutional arrangements supporting the Accord. The central role of the National Wage apparatus, as a co-ordinating framework for implementing wage decisions reached between the Labor Government and the ACTU, remained fairly constant throughout. However, the Accord's specific institutional vehicles, such as the Economic Planning and Advisory Committee (EPAC) and the Advisory Committee on Prices and Incomes (ACPI), have diminished in importance over time.

Attempts were made in the early period of the Accord to use these institutional arrangements as the venue for ongoing negotiations within the Accord framework. More importantly, they were seen as a means of bringing the employers' representatives into the Accord process as a necessary "third party". However, it would seem reasonable to conclude that these efforts were not successful. The essence of the Accord process remained a deal, or set of deals, between the ACTU and the Labor Party/Labor Government. In consequence, the most significant bargaining took place outside EPAC and ACPI as the facade of "tri-partitism" crumbled. EPAC and ACPI have diminished in importance and become marginalised.

The Prices Surveillance Authority (PSA), the other Accord specific institutional innovation, failed to secure a significant role almost from its inception. Although the PSA has remained in existence throughout the period of Accord, and has most recently attempted to adopt a more active and interventionist role, it is reasonable to argue that the Accord has been an incomes policy from its inception rather than a prices and incomes policy.

The Accord process led to a revamping of the Australian Manufacturing Council (AMC) and the creation of a number of "industry councils" to encourage and facilitate dialogue, and a measure of economic planning, between employers and trade unions with the Federal Government acting as a facilitating agent. After some initial successes, the AMC mechanism settled down to a relatively low key role, essentially maintaining relevance only in those industry sectors in which the employers' representatives and the trade unions saw mutual benefit in some ongoing planning mechanism.

It is possible to argue that much of the evolution of the Accord has been cosmetic. The central focus has remained an attempt to moderate money wage growth, and since the collapse of the terms of trade in 1986, to ensure an ordered reduction in real wages.

In particular, the Accord-specific institutional apparatus developed in 1983 has not stood the final test of time, a conclusion which may require that the 1980s of Fallick & Elliott, and Hancock be reassessed.

The exception to this general conclusion on the evolution of the Accord must be the development of "award restructuring". Award restructuring represents a significant shift in the focus of the Accord. From being a conventional incomes policy, focused on macroeconomic considerations, and particularly the rate of growth of real and money wages for the economy as a whole, the advent of award restructuring in 1988 provided the Accord with a significant second string. Post award restructuring, the Accord became a vehicle for macroeconomic and **microeconomic** reform.

Throughout 1988, the Government, the ACTU and the Industrial Relations Commission undertook a series of negotiations to develop a framework to encourage wide ranging reviews of pay and award classifications. Although the trade union movement remained a significant contributor to this process, some have argued that the Arbitration Commission sought to take the lead in promoting award restructuring (see for example Chapman and Gruen, 1990).

The focus of award restructuring required that unions give formal commitments to co-operate positively in developing programs to "improve the efficiency of industry and provide workers with access to more varied, fulfilling and better paid jobs". This approach was formalised by the Commission in August 1988 and has provided much of the focus for the Accord process since that date.

Evaluation of the real effects of award restructuring, in terms of productivity growth, reduced staffing levels, elimination of demarcation boundaries within industry and the development of multiskilling, career paths and access to skill enhancing training is still underway. Whether these developments have contributed as significantly to improvements in Australia's overall competitiveness as some would claim is yet to be determined. The jury is still out.

What can be said with some certainty at this stage is that the advent of award restructuring in 1988 gave the Accord renewed vigour and significantly broadened its scope from a relatively conventional tool of macroeconomics, (albeit one difficult to implement), to a multi-faceted macro and microeconomic approach to economic restructuring. In this respect the evolution of the Accord **has** been significant.

This evolution requires changed methods for evaluating the Accord. As well as the original focus on the implications of the Accord for employment growth, money wage growth and inflation, we must add a set of variables and criteria to pick up microeconomic reform. However, it must be stressed that this expanded evaluation should not unduly distract us from the original and ongoing objectives of the Accord. As Chapman and Gruen have remarked:

> ... The Accord agreement has been considerably transformed since its inception. But it remains a wide ranging agreement between the ALP and the ACTU which attempts to set broad guidelines for changes and money wages, and for other issues of interest to the trade union movement. An attempt has been made (so far successfully) to decentralise the system in a variety of ways, without in the process losing control of the movement of aggregate money wages. As well, there are moves to reduce impediments to productivity growth resulting from both restrictive and craft based work practices. (Chapman and Gruen, 1990)

At this stage it is too early to judge how successful this productivity initiative has been, although the data so far reflect no obvious evidence of any economy-wide efficiency gains.

Even if the initiatives of award restructuring proved slight, the ongoing effectiveness of the Accord in restraining money wage growth remains relatively unchallenged.

## 5. Areas of "Concern"

Since its inception, the Accord has been criticised from a number of perspectives. Of these the most significant, in my opinion, are the following:

- the "big unions/big governments" critique
- the "industry policy" critique
- the "enterprise bargaining" critique

Dealing with these in turn the arguments run as follows:

The "big government/big unions" critique is a version of the general "corporatist" analysis. Head (Head, 1983) has defined corporatism as "a tendency for elites-capital, trade unions and the State - to determine key areas of economic policy through formalised agreements and consultations".

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According to this definition, the Accord is most certainly corporatist. The important question would appear to be whether the "elites" are in any sense representative of their constituencies and, extending even further, whether their constituencies are representative of the interests of the population as a whole. The principal implication of the big government/big unions critique of the Accord is that the elites are not representative of their constituencies and certainly not representative of the interests of the population as a whole.

The "industry policy critique" is more directly related to the macroeconomic and demand management antecedents of incomes policies. As described above, conventional wisdom on incomes policies indicates that they can at best provide a "breathing space" (Fallick and Elliott, 1981).

Moderating the rate of growth of money wages will not, of itself, necessarily solve a nation's economic problems. However, the creation of a breathing space may enable other elements of macro and microeconomic restructuring to take place. These restructurings, usually aimed at improving international competitiveness, come under the general heading of "industry policy".

The industry policy critique of incomes policies becomes particularly relevant when the incomes policy not only restrains the growth of money wages but, as has been the case in Australia, also actively promotes a shift in the distribution of national product from wages (labour) to profits (capital). The sustainability of an incomes policy it is argued, will in these circumstances depend upon whether the fruits of the transfer from wages to profits ultimately return to the wages sector of the economy in the form of increased employment levels and/or rising real wages. There is also a question of how long it will take for this "pay off" to labour for its transfer of resources to capital will take.

Stilwell (Stilwell, 1986) and others have argued that the success of any transfer from wages to capital is dependent upon the creation of an interventionist industry planning mechanism to ensure that capital "does the right thing" with the increase share which accrues to it.

Analysing the various industry plans under the Accord, (the steel industry plan, the motor vehicle industry plan, the heavy engineering plan and the textiles, clothing and footwear plan are the principal case studies) he concludes that under the Accord, there has been an "absence of positive measures to promote industry development" (Stilwell, 1986).

The "enterprise bargaining" critique of the Accord focuses on the problems of a centralised wage setting system. The argument is that a centralised wage system "has inhibited the attainment of on-the-job-training, with concomitant implications for the development of technological change and economic growth" (Chapman, 1988). In this view, what is required is a decentralised wage bargaining system based on the enterprise, which will more

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directly relate wages growth to productivity growth, and thus provide an incentive for increased productivity.

As Chapman and others have pointed out, there is an inherent contradiction in this approach, in that a centralised wage fixation system is likely to facilitate the adoption of an incomes policy. In the analytical framework of Fallick and Elliott (and their contributors) much effort and attention was placed on the fact that the ability to sustain an effective incomes policy was crucially dependant upon the existence of appropriate wage fixation systems which could exert centralised control.

In this sense, the "enterprise bargaining" critique is, in effect, a call for the abandonment of the Accord. No matter what advantages may flow from it in terms of wage restraint (or reduced strike activity) the enterprise bargaining approach suggests that such gains are less than could be achieved by a decentralised system. As Chapman (1988) argues:

> The bottom line is that there is no straightforward option available that easily delivers a nirvana of microeconomic dynamic efficiency and favourable macroeconomic outcomes. Given this complexity, the challenge is to find processes that promote movements towards establishment based wage bargaining without threatening the benefits of economy wide income settlement.

Each of these critiques of the Accord is legitimate, but it is partial. Each sets up the Accord in a way which legitimates the critique. Although each one provides a very useful and revealing way of looking at the Accord, they do not yield necessary or sufficient criteria for assessing incomes policies in general, or the Accord in particular, as tools of macroeconomic management.

## 6. Conclusions

Incomes policies are a recognised part of the economic management strategy of successive Labor Governments. Incomes polices are also well defined and logically consistent elements of demand management within a broadly Keynesian approach to economic policy.

Although the logic supporting incomes policy is well grounded in economic theory (see Fallick and Elliott, 1981) such policies are notoriously difficult to implement in practice. Indeed, up until the early 1980s, the "conventional wisdom" within the discipline of economics was such that policies had a limited application because of these institutional difficulties. Only under certain highly restrictive circumstances could we expect incomes policies to operate, and then not for an extended period. The exceptions to this rule were believed to be so institutionally specific as to be largely irrelevant to policy makers in general.

If economists are to make much of a contribution to an assessment of the Prices and Incomes Accord, I argue that their assessment has to be consistent with the general corpus of economic theory. In that sense, the appropriate criteria for assessing the Accord were "in place" before it was conceived. The true test, in terms of economic policy, of the success or otherwise of the Accord, is its ability to moderate money wage claims and assist the pursuit of full employment and sustained economic growth. An incomes policy is deemed to be a success if it promotes these objectives at lower rates of money wage inflation than would have been the case in the absence of the policy.

On the criteria put forward by economists, the Accord has been a success throughout its life. Indeed, given that the Accord has produced real wage reductions by keeping money wage growth below the rate of inflation, it can be said to be a particularly successful example of the general incomes policy approach to macroeconomic management.

In addition to its success in promoting employment and moderation of wage growth, the Accord has clearly helped reduce the number and duration of strikes in Australia (although this was not examined in detail in this paper). This should be seen as a positive side effect of the Accord rather than an objective in its own right.

The principal institution used to legitimate the wage bargaining process of the Accord has been the centralised Industrial Relations Commission. However, the key bargains were merely legitimated by the Commission; the actual bargaining took place and was presented to the Commission, for the most part, as a fait accompli. The exception to this may be the development of award restructuring.

The conventional economic wisdom on the importance of institutions in laying the groundwork for successful incomes policies may require some revision. The ability of the peak trade union council (i.e. the ACTU) to deliver wage restraint at the centre seems to have been the crucial institutional factor in Australia, although it is difficult to subject this opinion to objective assessment.

The evolution of the Accord, particularly the development of a microeconomic focus through award restructuring, appears to add a new dimension to our understanding of his policy instrument. However, it is important to stress that the development of a microeconomic component to the prices and incomes Accord requires a simultaneous development of **additional** evaluation criteria. The Accord is a success in terms of its prime objectives whether or not award restructuring works.

Some of the critiques of the prices and incomes Accord briefly outlined above, are difficult to sustain. Although they are legitimate commentaries on the economic policy of the Labor Government and the development of the Australian economy, they do not yield, strictly speaking, legitimate criteria for the assessment of an incomes policy. They generate interesting debate but they are neither necessary or sufficient for a proof of the success of the Accord.

The current enthusiasm for so called "enterprise bargaining" is particularly interesting in this context. The significant macroeconomic gains arising from the Accord would appear to be logically inconsistent with an enterprise bargaining approach. The success of the Accord has depended to a significant extent on centralisation and aggregate control of money and real wage outcomes. Decentralisation and disaggregated bargaining do not appear to offer a Federal Government the degree of certainty which it requires in this area of macroeconomic policy.

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