

# The Wages of Sin

**Question:** When was the last round of collective wage bargaining in Australia and what was its outcome?

**Answer:** At the peak of the 'resources boom' in 1981-82 when the metal workers' union won a \$39 pay rise and a 38-hour week which flowed on to the rest of the workforce.

The outcome was a wage 'breakout' which made local industry uncompetitive just as the downturn in the world economy was about to produce the worst recession in Australia - and the sharpest rise in unemployment - for 50 years.

After nearly a decade of wage freezes and centrally-controlled and delivered Accord pay systems, ACTU secretary Bill Kelty has pulled a major surprise in allowing individual unions to mount pay claims directly against employers and telling the Industrial Relations Commission to get nicked. The move, announced only a day after the August Budget, surprised the government, employers, and even the ACTU's own bureaucrats who had been immersed in the leg work for the expected national wage case in the commission.

It was this wage case which was supposed to rubber stamp the Accord Mark VI deal struck between the ACTU and the federal government shortly before the March election which provided for:

- an across-the-board pay rise, in November or December, to reflect the September quarter rise in the Consumer Price Index - at the time expected to be around 1.5%;
- another \$12 six months later;
- another phased 3% employer-funded superannuation round;
- tax cuts from 1 January.

But, at the ACTU executive meeting during the week of the Budget, Kelty

made much of a series of events which has come to be known as "Commission bastardry" - recent instances where the IRC had handed down "inconsistent" decisions not to the ACTU's liking. Coolly, Kelty told the executive that it could not be confident that the IRC would rubber-stamp the Accord Mark VI deal in full. For instance, it might now apply a common starting date for the two-stage wage rises - which would mean that unions would have to wait in the queue.

Kelty's assessment of IRC politics dovetails with the political cycle of the trade union movement. The resources boom round of collective bargaining followed half a decade of tightly controlled 'partial' or 'plateau' wage indexation in the 1970s which tightly limited the scope for direct action.

Then, like now, many union officials were eager to demonstrate their worth to the rank and file by trying to land one or two on the boss's nose. The ACTU leadership itself reflects this mood shift - with the rough and gruff Martin Ferguson taking over from the smooth and technocratic Simon Crean as ACTU president.

The opportunity, soberly outlined by Kelty, to implement the Accord Mark VI "in the field" appealed to leftwing union leaders such as the Metal Workers' George Campbell and the Public Sector Union's Peter Robson. For Kelty, the new strategy also exploited the opportunity gradually to reduce the centralisation of the wage system, partly through the vague Accord Mark VI provision for unions to

make additional industry or enterprise-based wage claims.

Labour market reform will remain one of the major political battlegrounds in Australia through at least the first half of the 1990s. Despite the mid-1980s New Right challenge in disputes such as Mudginberri, Robe River and Dollar Sweets, the ACTU remains in control of a reform agenda for a Western European (rather than North American) form of labour market regulation.

This hinges around a minimum award wage safety net, award-based career structures, increased training, reduced union demarcation, union amalgamations and increased wage "flexibility" through an over-award pay tier. It is this over-award pay flexibility - ostensibly related to productivity and profitability, but more realistically linked to union "muscle" - which Kelty is now introducing. By definition, such over-award flexibility remains outside the IRC's jurisdiction which, on Kelty's plan, will be relegated in the 1990s to regulating the minimum social safety net rather than the total wage package.

If the 1981-82 episode underlines the danger in unleashing collective bargaining at the peak of the economic cycle, Kelty has picked the best stage of the cycle to retain control over the new bargaining ground and the early "transition" to a less centralised wage system. As well as delivering ACTU-style labour market reform, Kelty knows he has to keep Paul Keating's macro-economic strategy from running completely off the rails. And this means that the ACTU has to hold the wage round within the Accord Mark VI agreement to 7% annual growth.

The means of doing this is the high interest rate-induced recession implemented by the Reserve Bank (where Kelty is a board member). Despite the recession, the building and road transport industries have quickly conceded the Accord Mark VI deal plus



*Bill Kelty*

more, partly because they are naturally sheltered from import competition.

But in most other industries, the unions will find the going much harder as the recession spreads throughout the economy over the rest of 1990. The public sector unions will get Accord Mark VI as federal Labor already has endorsed it - but they will have trouble getting much more.

As in 1981-82, the key will be the metal industry where a slump in new orders and job retrenchments will test both the militancy of the rank and file and

the backbone of the bosses. Manufacturing production slumped by 5.5% in the June quarter as industry slashed its involuntary build-up of stocks.

The bargaining will be the toughest in areas such as clothing and footwear, where production has nose-dived by nearly 20% in the past 12 months.

But clothing trades union secretary Anna Booth figures her members probably would have had to wait in an IRC queue anyway and so might as well start bargaining for it now.

The recession minimises the risk that the wage round will get out of control. Instead, the main danger to the Kelty wage plan lies in the Middle East crisis and the inflationary boost from higher oil prices.

This again provides a parallel with 1981-82 - it was the second oil 'shock' of the 1970s which fuelled the ill-fated resources boom in Australia.

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# Farrow Fallout

**Imagine, if you will, a very big building society based in Parramatta. Things start to go a bit crook. Rumours abound, and there is a run on deposits. A NSW Labor government, anxious to save the building society from collapse, consults independent auditors and the Reserve Bank. Satisfied with assurances that the building society is sound, the government tells depositors not to worry. The run continues. A few months later the building society closes its doors.**

Now, Parramatta is not really a long way from federal Treasurer Paul Keating's seat of Blaxland. What do you think he would do? Would he give the Reserve Bank a prod and come to the aid of the building society, or would he let it go and blame the NSW government?

The people of Geelong, the home of the failed Farrow group of building societies, have not spent much time on such mental exercises; they have been too busy hating the Victorian government - the government that was left holding the can when Farrow fell. Mr Keating sat tight when Farrow closed in July.

Victoria's problems, Keating made clear, were Victoria's problems. Building society regulation was a state matter. The collapse was what pushed John Cain from the premier's post. It wiped from his government the last vestiges of credibility in economic management.

No one is suggesting here that Keating wanted it this way, or that he necessarily should have moved to save Farrow. But there are a few points that should be borne in mind. First, the Farrow group was the first major deposit-taking financial institution to collapse in almost 100 years. Second, Farrow appears to have expanded its deposits beyond the limits previously expected of building societies - in other words, it became a quite speculative body. This all happened within the context of the financial

deregulation that Keating masterminded.

The departure of Cain, and a few months earlier the Victorian Treasurer Rob Jolly and the state's chief bureaucrat Peter Sheehan, would not have chilled Keating's heart. Is it unfair to Keating to muse this way? Maybe. But as the Treasurer would most likely observe in his more expansive moments, who said the world was fair?

Keating's role in the decline, fall and possible resurrection of the Victorian Labor government this year should not be under-estimated. The federal Treasurer's dislike for the Cain government's interventionist style in economics became more and more apparent after Cain won his third successive election in late 1988.

When it comes to economic management, Keating makes it clear to those with whom he deals that generally there is only one way: his. While it was essentially a politically right-wing Labor government, the Cain administration was all about using public money to pump-prime the state's economy - now a horribly leftist notion in the modern ALP.

It pursued a policy of trying to pick winners, extending capital to supposedly worthy companies so as to boost employment and export prospects. Often it worked, although the Victorian Economic Development Corporation, the government's in-

vestment arm, was found to have lost \$11 million in late 1988 and had to be wound up.

The fallout from the Farrow collapse, and the incredible \$2.7 billion loss posted by the State Bank of Victoria, left Cain's replacement, Joan Kirner, with little room to move. She sold the State Bank to the Commonwealth Bank and made her main goal the building of a bridge from Victoria to Canberra (and Blaxland). Junked were all pretences toward pump-priming, including the heavy reliance on debt to fund state government activities.

From late last year, the Cain government was without friends in the federal government.

The factional figures from that state who play senior roles in the Hawke cabinet, such as the Left's Gerry Hand and the Right's Robert Ray, were disillusioned with Cain's growing political erraticism. This compounded Keating's disdain for Victoria - and encouraged him to keep his distance. But with Cain's departure and Kirner's move towards 'rational economics', the circle is broken and a new period begins.

In this nascent era, Keating is expected by the Victorian government to welcome the nation's second-most populous state back in from the cold.

He is expected to start saying nice things about its economic management in background briefings to Canberra journalists, perhaps even to be more generous in federal funding arrangements. What's in it for the Treasurer? A state government that sees things his way. And an economically-wrecked Victoria will not deliver many seats to the Labor Party - an important consideration for someone who wants to be Prime Minister. Now who could that be?

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# A Convenient Marriage

The manner in which the Labor government bulldozed its proposals for the partial privatisation of the Commonwealth Bank (CBA) past the caucus and an insufficiently sceptical media has clouded proper debate over the capital funding of what has become Australia's largest domestic bank.

The arrangement reached between the federal Labor government and its state counterpart precluded any examination of the financial position of the Commonwealth Bank. The shotgun marriage of the Commonwealth Bank and the State Bank of Victoria (SBV) was instigated by the Reserve Bank to prevent a run on Victoria's largest deposit-taking institution as the extent of the State Bank's losses became clear. These losses by SBV's merchant bank subsidiary are now well known and exceed \$2 billion.

Yet even by the middle of September, more than three weeks after the merger was announced and nearly three months since the Commonwealth Bank ruled off its books for the financial year to June 1990, no details have been published regarding the Commonwealth Bank's results and balance sheets for the year.

Instead, the caucus and the media were fed a series of assertions that the Commonwealth Bank could not fund the \$1.6 billion takeover of SBV without the injection of a matching amount of equity capital. The Treasurer's office spread the word that the CBA would be in breach of Reserve Bank guidelines on capital adequacy without an equity injection and has more recently suggested the CBA's credit rating would be at risk. Without proper data it is hard to know for sure, but both of these assertions are almost certainly not true.

The Reserve Bank guidelines on capital adequacy form the core of the Reserve Bank's supervision of Australia's banking system. 'Capital adequacy' refers to the capital, or a bank's own funds, that a bank must hold to support the assets (loans, credit guarantees, foreign exchange, money market contracts and so on) that a bank holds. A bank must provide capital funds equal to 8% of all assets on its books (whether on or off the balance sheet), adjusted for the risk attached to particular assets. This capital base, combined with other aspects of the Reserve Bank's supervision of banks' ac-

tivities provides a measure of protection to depositors against loss, as the Reserve Bank is not a lender of last resort and does not guarantee bank deposits.

This capital base is divided into two components - 'core' capital, meaning pure equity investments and retained earnings (profits) and 'supplementary' capital which includes 'quasi equity' debt, provisions against doubtful debts and unrealised capital gains on property holdings. Banks are obliged to have at least half of its capital resources, or 4% of assets, in the form 'core' capital. Supplementary capital may not exceed core capital. The CBA's 1989 accounts suggested the bank was heavily weighted towards core capital.

Although no actual 1990 data has been published, a briefing document prepared for the Commonwealth Bank Officers Association (CBOA) included "hypothetical" and "illustrative" data on the CBA's accounts to June 1990. This data, revealed in the *Australian Financial Review* in early September, suggests the Commonwealth Bank's core capital exceeded the 4% minimum by another 2.5%.

Although dependent on the assumptions of those who prepared them, these figures are believed to conform to those used by Treasury and quoted to the Labor caucus. Unfortunately for the Treasurer, analysis suggests the CBA patently does not require anything like \$1.6 billion to fund the takeover of SBV.

Firstly, with a heavy weighting toward core capital, the CBA could raise new supplementary capital without diluting core capital below the 4% minimum. There are a number of avenues open to the CBA, like any bank, to do this. The easiest would have been to issue quasi equity debt capital. This procedure is adopted routinely by all banks, and only in the middle of September the State Bank of NSW announced its plan to raise \$200 million in subordinated debt in the Australian market. The CBA would have

no difficulty raising well over \$1 billion in debt style instruments both on and offshore and has issued similar debt instruments in the past.

In fact, until the proposed private equity issue is completed some time before the middle of next year, the CBA may find it has to raise bridging funding in this fashion. In addition the CBA could have attempted to realise capital gains on its property portfolio. As well, the CBA is well advanced in plans to 'securitise' loans assets.

(This jargon refers to the practice of bundling assets into pools which are then sold to special vehicles which then issue bonds to investors. This financial technology is one of the hottest topics in Australian capital market at present and may prove a most efficient way of 'raising' capital, by removing assets from the balance sheet and removing the need to hold capital against them.)

Whether the combination of these strategies would have provided all the funds required to buy SBV is uncertain in the absence of more detailed information. But it does suggest the CBA's capital needs have been overstated. In fairness to the Treasurer's position, it should be noted that the CBA has received no new capital injection since the government agreed to forego a dividend payment in the mid 80s. In contrast the major private banks were all able to raise significant new equity through rights issues and quasi equity issues offshore in the mid and late 80s.

However, the CBOA data suggests that the CBA's capital needs may be in the region of several hundred million, not \$1.6 billion. If this is the case, and the government believes it can raise \$1.6 billion in a private equity issue (problematic, depending on the price of shares), then the Australian community has foregone the opportunity to retire in excess of \$1 billion in public debt to secure a political king hit on privatisation and fund the ambitions of CBA's managers.

Of course, the electorate has also been deceived about the available political choice of the government funding the CBA's capital needs on budget.

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# Pondering the Abyss

**There can be little doubt that the disparate alliance which forms the UNO government is united on a single issue - the dismantling of the FSLN power base and the destruction of the Nicaraguan revolution.**

With the handover of power on 25 April came the realisation that UNO was totally unprepared to govern. In the five months since, the grand promises of national reconciliation and economic prosperity have degenerated into political and social conflict that has resulted in gun battles in the streets.

The UNO is divided into three discernible camps. The dominant faction is that of Violetta Chamorro and her son-in-law, Antonio Lacayo. The Chamorro group understands that post-election Nicaragua cannot be governed without making political agreements with the Sandinistas. The second faction consists of the political hardliners led by vice-president Virgilio Godoy. Godoy has called for Brigades of National Salvation to confront the organisational power of the FSLN. His agenda is openly reactionary and confrontationalist. The third faction is the COSEP big business association lobby, closely aligned with US business interests and calling for a return to free market economic policies and the abolition of state enterprise. While the Godoyists and COSEP enjoy little power in the Chamorro cabinet, they are extremely vocal and together represent a considerable threat to Chamorro's power base.

While Chamorro keeps Humberto Ortega as head of the army (EPS), Sandino's portrait on the new currency and urges Managua's new mayor Aleman not to cut the gas to the perpetual flame on the tomb of Carlos Fonseca, her intention is clearly to govern a post-revolutionary Nicaragua on terms acceptable to Washington. The great irony of her position is that she may well come to

rely on Humberto Ortega and the EPS to stave off challenges from the far Right. In such an environment the position of the army and the political skill of the FSLN are crucial elements in the maintenance of stability, and the prevention of civil war.

The FSLN had no contingency plan for possible defeat at the polls. This has meant that their tactics, indeed their very behaviour as an opposition party, has been determined by the moment, rather than by an agreed strategy for action. This was particularly visible during both the May and July strikes where the FNT/CNT union axis took the initiative and set the terms for settlement. On both occasions the Frente was slow to act and was caught between a defensive political position and the need to be seen to defend the living standards and jobs of the state workers.

Loss of power has also meant the loss of access to state-controlled media. News bulletins and media coverage of all social and political events now reflect the anti-Sandinista values shared by all of UNO. The years of FSLN power are routinely criticised as unstable and repressive, in contrast to the great promise of the new democratic order. UNO media strategists are deliberately trying to block the FSLN from access to the airways - partly to counter the pro-Frente orientation of two of the three daily newspapers - and partly to pay back the Sandinistas for their dominance over the past decade. The loss of regular access to television (several radio stations are either owned by or sympathetic to the Frente) has meant that the FSLN will have to look towards improved grass-roots communication to maintain support and

extend its electoral base. There is no more war in the mountains and the fight is now essentially a political one that uses propaganda and party organisation.

For many electors in Nicaragua, the economy was the central issue in the February elections. Nearly a decade of war and economic embargo imposed by the Reagan administration left the mixed economy encouraged by the Sandinistas in danger of collapse. Two years ago Nicaraguans' real wage levels had fallen to 6% of those in place at the start of the revolution. 1988 registered an inflation rate of 33,000%, one of the ten highest of any country recorded this century.

Nicaraguans knew that the economic situation was more likely to improve under a government with the backing of US capital and Washington. They did not necessarily equate an UNO government with massive unemployment and even more precarious living standards. However, the massive reductions in army personnel (from 90,000 down to 41,000) and the loss of thousands of state workers' jobs has brought unemployment to unprecedented levels. State subsidies for water, electricity, telecommunications and transport have been removed or are under threat. The false rumours - that no one will have to pay taxes any more, that no one will have to pay electricity or water bills, that bank loans taken out under the Sandinistas will not have to be paid back - peddled deliberately before the elections, have become a black joke for those facing ruin and hunger. For some time now, particularly in Managua, there has been a sharp increase in theft and crimes of violence. As the discipline of the revolution is lost and as more people lose the security of employment, the potential for widespread social violence is becoming a new element of political instability.

The combination of job losses, cuts to state subsidies, inflation and attempts by UNO to return to the old Samozista labour code led to the strikes of May and July. Revolutionary unions in the



Frente Nacional de Trabajadores (FNT) have led the fight for job security, wages and the right to strike. The FSLN joined the unions only after the strikes were declared. In May the labour minister declared the state workers' strike illegal. The FNT promptly took the minister to the Supreme Court and won a declaration that the strike was legal. UNO tried to smash the July strike through use of threats, refusal to negotiate, and eventually EPS troops.

Reports that the government had brought some 3,000 Contras to the capital and armed them to oppose the strikers were nominally confirmed when Contras opened fire on the barricades defended by workers and Sandinistas. Six people were killed in the attacks, and over 100 injured or wounded. Reports in the immediate aftermath of the strike suggested that crisis negotiations between Daniel Ortega and Antonio Lacayo had probably narrowly averted civil war. Both sides claimed victory - with workers winning a 43% wage increase and a moratorium on some of the sackings.

While Daniel Ortega's personal popularity is an enormous asset to the FSLN, the Frente is undergoing severe trauma and confusion about the direction of the revolution. The simple reality is that they don't yet know how to act as an effective political opposition within the democratic framework they created as part of the revolutionary process. They have always been either on the offensive or in control. This is the first time in history that a revolutionary movement which came

through armed struggle has peacefully left office after an election.

Lapses in the discipline and unity of the FSLN are an uncomfortable reality. Most Frente commandantes speak openly of the next five and a half years in opposition. Some, like Mauricio Valenzuela (ex Minister for Housing and Construction), are not yet reconciled with the February defeat. Valenzuela declared on 19 July that this would be the first and last anniversary that the Frente would celebrate in opposition. Others speak out about alleged abuses of power, nepotism and incompetence within the FSLN National Directorate, and call for sweeping changes and greater revolutionary accountability.

In June the FSLN Assembly announced the creation of an ethics commission to examine allegations of abuse and to set new standards of integrity. Everyone agrees that the full Congress of the FSLN, scheduled for February 1991, will provide the crucial test of the Frente's strength and unity. There is a real possibility that the movement will fragment as the 'old guard' revolutionaries struggle for control with those factions critical of the present leadership and with advocates of an openly social democratic party philosophy.

While the present leadership steers the FSLN towards renewed links with mass organisations (unions, campesinos, women, young people) and looks to extend its base through a proliferation of non-government organisations, there are other forces already at play. The union movement,

with dynamic leaders like Lucio Jimenez from the CST, have already demonstrated their independence from direct Frente control through general strike action. The unions are also concerned to counter the growth of 'sweetheart' unions, those supported by UNO and actively engaged in strikebreaking. The women's movement has moved to regenerate both the campesino organisational structure and the feminist political groupings. AMLAE (the FSLN women's organisation) has had its reputation tarnished in recent years, primarily for agreeing to subordinate the women's agenda to the immediate needs of the war and economic embargo.

There is a vigorous struggle for leadership of AMLAE between Rosario Murillo (head of the Popular Cultural Council and married to Daniel Ortega), ex-police commissioner Doris Tijerino and commandante guerrillero Monica Baltodano. Depending on the outcome AMLAE will likely change its name and pursue a more independent direction from the FSLN. There seems to be a growing realisation that a number of new and independent fronts are needed if the revolution is to develop and again win popular support. The great challenge for the Frente Sandinista is to stay relevant to the new voices of the revolution and allow their growth to help the FSLN win back the confidence of the Nicaraguan electorate.

**KIM DAVEY** returned to Adelaide in August after a two month visit to Nicaragua.