Economic Notes

A Wages and Incomes Policy

by Bill Mountford

At the close of 1981 two areas stood clearly at the top of the agenda of economic policy problems. These were wages and the manufacturing industry.

The Metal Trades Agreement, which was ratified the week before Christmas, gave the green light for a whole host of wage increases which had been, or were, in the process of being negotiated at that time. The immediate questions being raised were: would the transport workers seek another increase setting off a new round, or would the Commission and the Australian Council of Trade Unions (ACTU) succeed in re-establishing a centralised system at the end of this one?

In the longer term there were continuing negotiations between the ACTU and the government over the inquiry into our industrial relations system generally. The changes in the Department of Industrial Relations added further emphasis to the importance attached to this policy area at the moment.

In the area of manufacturing industry policy the stalemate between the government, the manufacturers and the farmers continued. The Industries Assistance Commission (IAC) continued to call for reductions in protection, supported by spurious organisations like the Car Owners Association, while the manufacturers became more and more critical of what they saw as the neglect by the Fraser government of their interests. The decision on the future of protection for the vehicle industry provided a fitting climax to this debate at the end of the year. The result was predictably a continuation of the stalemate.

In noting that these two policy areas stand at the top of the economic agenda at present, some may justifiably retort: "When weren't they at the top?" Certainly, since 1974 these issues have never been far from the top and it's interesting to reflect that little progress has been made. The problems and the options have not changed all that much.

The Fraser government is in some disarray in both areas. Their years of fudging and "ad hocery" in practice, combined with free market ideology at home, and "humanitarian" statesmanship abroad, are catching up with them. They lack direction and decisiveness. That's not to say that they're in all that much trouble, certainly not as much as they should be. This is largely because the Labor Party, and the left in particular, are not in much better shape. They haven't formulated, let alone tried to project, a clear and realistic set of policies in these areas. Only when the left can do this will it be in a position of influence in the labor movement.

Why is it so important you might ask? And what's the realistic alternative? An historical perspective will help to answer these questions and see them in relationship to each other and the rest of the economy.

The origins of the present policies, and institutions which are central to them, namely the IAC and the Conciliation and Arbitration Commission, go back to Federation at the turn of the century. The recession of the 1890s destroyed the rationale of the export-oriented
development which had dominated during the preceding forty years. An alliance between the ALP and the manufacturers legislated the basis of a new course of development in the new federal parliament. This legislation consisted of two related Acts, the Tariff Excise Act of 1904 and the Conciliation and Arbitration Act of 1905.

Together they were called "the new protection". Their aim was to promote industrialisation, stable economic growth, and increasing employment. They involved a classic class compromise, in that the Tariff Excise Act protected local manufacturers in return for which the Conciliation and Arbitration act protected the wages and conditions of the workers.

At the outset, the application of the Acts was very limited. However, as they set the framework for the subsequent pattern of economic development, their application and influence gradually expanded. Relatively soon they came to stand for jobs and wages, particularly in the labor movement.

They have periodically come under attack, usually for fostering inefficiency, and assisting inflation, but both have become very deeply embedded in the society and continue to enjoy widespread support.

One good reason for the support has been that, despite the criticisms, the pattern of development seems to have served the country fairly well. Problems began to emerge in the 1970s but nothing was done about these, and the mining boom seemed to obviate the necessity to do anything anyway. In reality, changes in the international and Australian economies began to gradually erode the foundations on which the whole pattern of development, and particularly the framework for it, were built.

It wasn't until 1974 when the international recession hit Australia that the full effects of this process were felt. When they were, the subsequent collapse was that much more dramatic. The area most severely affected has been that of manufacturing industry.

Some sections have called for amputation: in other words, an end to protection and the erection of a new framework for a different pattern of development. Others, including the manufacturers of course, have called for more splints — stronger buttressing against the continuing erosion.

That's largely where the debate lies today which is not particularly useful. Everyone agrees (well, virtually everyone) that our manufacturing industry is inefficient by world standards and uncompetitive. What they don't agree on is the possibility and desirability of them being anything else. One of the arguments involved in this is that protection has been responsible for this state of affairs in the first place: it has fostered an industry which is fragmented, dependent and insular in outlook, inefficient and uncompetitive.

Meanwhile, on the wages front, debate has raged about the effects of wage increases on inflation, and with this the competitiveness and profitability of industries, and ultimately the level of employment. Here, too, there is widespread agreement that our industrial relations system is far from adequate. It is agreed that it is unnecessarily complex and cumbersome and has promoted fragmentation and dislocation. The numerous amendments to the Conciliation and Arbitration Act have only made matters worse. There is also little optimism that any of the current inquiries or agreements will really be able to overcome the basic problems.

Related problems?

What is interesting, even curious, is that, despite the historical nexus, there has been little, if any, serious attempt to see these two areas, and the problems in them, as in any way related.

This has been as true of the marxist political economists as of any others. When this relationship is explored even superficially it becomes clear that the structural weaknesses alleged to have been produced in the manufacturing industry by protection are mirrored in the trade union movement as a result of its protection. Like the manufacturers, the trade union movement is
fragmented, dependent, reactive in outlook, and inefficient. If the problems the unions face are to be effectively met, they will have to change, just as much as the manufacturers.

Only in this context can the full significance of the problems in these two areas, including their relationship to each other and the rest of the economy, be appreciated. And only on this basis can an adequate policy response be formulated.

Firstly, the policies must provide realistic solutions to the major economic problems confronting people. Secondly, they should, at the same time, set the framework for a viable pattern of economic development in the future. Thirdly, they should be based on a clear understanding of the political and industrial balance of forces. Finally, they should seek to overcome the weaknesses in the labor movement and strengthen its position in society generally. Now what does this actually mean in policy terms?

Undoubtedly, the major economic problem facing our society, and the labor movement in particular, is the continued presence of unemployment and inflation. The reason for the coincidence of these two phenomena lies in the changed structure of the economy which has accompanied growth and the changed political and industrial relations climate associated with growth.

As a result, the dominant sectors of the economy no longer operate according to the dictates of a competitive market. Distribution is largely subject to political administration or prices administered by monopolies. The result is that competing demands, particularly over income, tend to be met by increasing prices or spending. In this way the conflicting demands in society tend to be mediated by an inflationary spiral, one that becomes worse as the demands become more irreconcilable.

Traditional economic policies have proved ineffective, and in their place two alternative approaches have been advocated. The corporate sector sees the reduction of inflation as a prerequisite to reducing unemployment, and believe that the major cause of it is the artificial suppression of the market forces. They claim that the culprits are the trade unions and the federal government. Their solution involves easing restraints by restricting government intervention into the economy and undermining the power of the trade unions. The management of the economy would then be limited largely to the regulation of market forces, primarily through the control of the money supply.

The labor movement, on the other hand, has argued that unemployment is the major issue. Unfortunately, this has led some sections of the movement to virtually ignore the presence of inflation, or at least some of its causes. They have argued for an increase in government spending and wages to create more demand. Others have called for moderate increases in government spending to be combined with an extension of government intervention into the economy. The major thrust of this intervention would be in the form of a prices and incomes policy. This is the only way, they argue, that a government can reduce unemployment without fuelling the inflationary spiral.

The market or ....

In other words, in order to decide between competing demands, what the people in developed capitalist societies like our own are being presented with is a clear choice between an extension in the operation of the private market mechanism and the operation of political/administrative mechanisms. Naturally, the Fraser government has chosen the former, hence its cutbacks in government services, deregulation, and attacks on the trade union movement. Bill Hayden, and indeed most of the federal Labor parliamentary spokespersons in the area, have indicated that they favour the latter. However, they have also indicated that in the absence of this they too would be forced to adopt some policies similar to the Fraser government, and certainly wouldn’t be able to embark on a substantial job-creation program.

The sensitivity of wage movements to variations in the rate of economic growth has
been demonstrated even in the highly centralised and restrictive wage indexation period. Brief increases in the rate of growth in early 1978 and late 1980 were followed by wage movements breaking out of indexation. In 1978 this was in the form of the beginning of the work-value round of wage increases, and in early 1981 in the form of industry-claims which ultimately led to the abandonment of indexation. Both periods were also characterised by a significant jump in the number of over-award increases won in the metal industry.

This tends to confirm the objective necessity for one or other approach. In the absence of some agreement with the trade unions a Labor government could find that any increase in government spending could end up merely setting off an inflationary boom followed by a collapse of confidence and a slump. Such a course of events would be completely self-defeating in terms of increasing employment and the future of the government itself.

The left, particularly in the trade unions, remains the major stumbling block to the introduction of an incomes policy by a Labor government. The left has always rejected any restraint on workers pursuing wage increases, and believes that such policies are inevitably one-sided in their application. But the left has not been able to come up with any realistic alternative. More recently, sections of the left have realised that some form of incomes policy is not only inevitable, but even desirable.

Public opinion polls continue to confirm that people are not satisfied with the current policies of the government or the trade unions on the economy and unemployment. Even the industry-by-industry wage negotiations are not seen by people as doing anything but keeping their heads above water, and even then only for a limited period. They know that inflation will continue, and may even increase slightly as a result of wage increases. I believe most would welcome a policy which promised security in real income and the possibility of controlling, or even reducing, inflation. If this were combined with a commitment to embark on a significant job-creation program, it would provide an attractive alternative capable of achieving majority support.

### Incomes policy

I believe an incomes policy should form part of the framework for a new pattern of development. Such a policy would have a restraining effect on some sectors of the workforce but, over a longer term, it is unlikely to have any significant effect on the real level of wages in the country. If it is to be viable it will have to protect real living standards. If it doesn't, it will be rejected by workers anyway, as the British social contract was.

Such a policy, if it is backed by working class mobilisation and intervention, could maintain people's real living standards, particularly those of the lower paid, while assisting to reduce inflation. This could be achieved by adjusting the wage movements for changes in health insurance arrangements, or the introduction of tax indexation, for example. In return for agreeing to this the trade unions could seek assurances on the reactivisation of the Prices Justification Tribunal and the introduction of a wealth tax. Finally, they could demand a commitment to a job-creation program of specific magnitude.

Unemployment, and even excessive inflation, won't be solved by a job-creation program on the part of the government alone. Nor would it necessarily be accepted even if it could. This brings us to industry policy — another problem area. More rapid economic growth and full employment will require some adjustment in the structure of Australia's industries, in particular its manufacturing industries.

As I said earlier, we are a long way from coming to grips with this. The debate has been bogged down between those who advocate the dismantling of protection and the freer operation of the market, and those who advocate the maintenance and even strengthening of the current protective measures.

The marxist political economists are not in
any better position. Some are opposed to dismantling protection because it would destroy a significant proportion of Australian industries and leave us at the mercy of the multinationals, while others point out that protection is primarily paid for by workers and doesn’t protect jobs anyway.

None of these positions offers any real alternative. Change is inevitable and the real choices are about what these changes should be and how they are to take place. This doesn’t mean just opening the economy to the dictates of the market with all its consequences nor does it mean ignoring them. What it does mean is setting realistic and consistent objectives for the country and establishing criteria for policies on the basis of these.

A small economy

The dominant reality in this regard is the fact that we are a relatively small and open economy. The investment already planned and underway in the resource sector will make us even more open. Our standard of living has been built on this and any change will therefore affect it. Given this, we should also seek to maintain as balanced an economy as possible. This means retaining some harmony between the different sectors of the economy — not allowing one sector to choke off another. At the same time, the range of manufacturing industries we currently have will probably have to be reduced and greater specialisation encouraged. This could be accompanied by policies designed to deepen our manufacturing base, for example, through developing the heavy engineering industries associated with the resource sector.

Another objective of industry policy should be to increase the amount of research and development undertaken here, especially by the corporate sector. There are undoubtedly many more objectives that people can think of. However, the point is to identify a few which are critical to the shape of our economy and can be realistically built into policies. There is not really all that much scope anyway and what there is will take a long time to achieve. What is more important is the process of change. That is, or at least should be, our key concern in both formulating an alternative industry policy and an alternative wages policy. The left is still too preoccupied with the specific content of these policies, although there is some improvement in this regard. The aim of the policies in both areas should be to expand the areas of decision-making in the economy which are open to political/industrial intervention.

In terms of industry policy, for example, a federal Labor government should be responsible for setting the parameters of change. These may and, in my view, should involve a reduction in the general level of tariff assistance and its replacement with types of assistance designed to foster industries with desired characteristics, or these characteristics in existing industries. But what is even more important is that the specific changes should be agreed to and monitored by tripartite bodies at different levels through the economy. Moreover, in return for this assistance, companies should have a statutory obligation to inform their workers of any changes in the production process — such as a new piece of equipment — or the level of employment and staffing, at least twelve months prior to their implementation.

An incomes policy, too, should be negotiated on a tripartite basis — nationally in the first instance. Its content should be as specific as possible — and initially limited. If possible, it should include commitments on the adjustment of social security payments as well as wages and salaries. In return for this restraint, the unions should have improved rights over industrial health and safety.

This may seem defensive but, in fact, it is a viable interventionist alternative. The point of it is that we are at an important turning point in Australia’s development, one which has many similarities with that which existed at the turn of the century. If the left is going to have any influence over the course that will be taken in the future, it needs to formulate and articulate a coherent and realistic framework. This requires a very different and more sophisticated approach to those which we have been used to in the past.