The economic policy of the federal government has become increasingly conservative. Potentially progressive aspects of the Accord have been sacrificed on the altar of conservative economic orthodoxy. This article identifies the principal components of current policy, points to their limited effectiveness and adverse social consequences, and outlines a more progressive alternative.

The four main components of current policy are identified as (i) wage restraint, (ii) financial deregulation, (iii) reliance on the J-curve effect on the balance of payments, and (iv) increasingly restrictionist macroeconomic policies. The progressive alternative includes (i) a more broadly-based incomes policy, (ii) financial deregulation, (iii) interventionist industry policy and planned trade, and (iv) a more expansionary program of expenditure on the social wage.

Current negotiations over a new two-tiered wages system to replace the Accord Mark II have clearly revealed the government's commitment to enforcing wage restraint. As such, it has accepted — as have some sections of the union movement — the validity of the argument that wage restraint is the key to economic recovery. The extent to which the two-tier system would actually lead to further real wage reductions is not immediately obvious — some groups of workers in powerful unions would presumably do better than they have done under the Accord Mark II — but there is no doubt that the implementation of the system by the government and the arbitration system would be motivated by the objectives of achieving a reduction in overall wage costs to employers.

Whatever its demerits from a working class perspective, this strategy also suffers from the problem that the underlying theory is unsound. Lowered wage rates lower the level of domestic demand for goods and services and thereby undermines one condition for economic growth. True, wage cuts may also enable Australian firms to compete more successfully against importers and to reduce their competitive disadvantages in international markets. But whether these gains in terms of international competitiveness outweigh the effects of a more depressed home market is not self-evident. Moreover, the devaluation of our currency by over thirty-five percent in the last two years should have given the necessary competitive advantage to exporters. A couple more percentage points off the rate of wage increases is hardly likely to succeed where that massive devaluation has failed. Or is the objective to press on with such drastic measures that our wage rates are
reduced to the level of Hong Kong, the Philippines, or Indonesia? It is a long road to travel in pursuit of international competitiveness.

The experience under the Accord has been of significant wage-restraint. There is revealed in the statistics on the redistribution of income from labour to capital: the share of wages and salaries in the national income fell by five percent between 1982-83 and 1985-86, and the gross operating surplus has risen accordingly. Profits have been at record levels. However, investment has been low: only thirty-two percent of available investment funds were used by the business sector in the first half of the last financial year, compared with forty-six percent in 1982-83. It is the failure by business to invest in expanded productive capacity which is the basic problem, not insufficient wage restraint.

Deregulation of financial markets has been justified by Bob Hawke as having "improved the ability of the financial sector to allocate funds to the most productive uses". This sits oddly with the evidence just cited of a declining share of investable funds being used in Australia. What we have observed is a major rechanneling of funds into speculative areas, and into mergers and takeovers which involve financial gains without adding to productive capacity. What we have also observed are major increases in Australian investment abroad: this has risen in value from $1.5 billion to $7 billion per annum over the last four years. Moreover, there is no evidence that deregulation of financial institutions has led to lowered interest rates through the effects of increased competition.

In a similar vein, deregulating the value of the $A in the foreign exchange markets was originally justified on the grounds that it would lead to a balance of payments equilibrium and reduce the incidence of speculation against the $A. The reverse has occurred. The volatility of our exchange rate has been associated with greater balance of payments problems, and the incidence of speculation on foreign exchange markets has reached unprecedented levels. Even conservative estimates acknowledge that more than nine-tenths of transactions on the Australian market are purely speculative: even those transactions which do involve exchanges for the conduct of international trade are often timed so as to take advantage of expected market fluctuations. In these circumstances, deregulation adds to the volatility of economic conditions and undermines the capacity of the government to manage the overall economic system.

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The government's principal policy for resolving the balance of payments problem has amounted to waiting for the competitive advantage generated by the devaluation of our currency to manifest itself in higher exports and reduced imports. There is no clear evidence of this happening yet, more than one and a half years since the major falls in the exchange rate in early 1985. It is looking like "Waiting for Godot".

In fact, there are some very clear reasons why the hoped-for J-curve effect has been so unresponsive. International trade is influenced by many factors other than relative prices. Some thirty to forty percent of trade has been estimated to involve intra-corporate transactions. Quotas and other non-tariff restrictions are widely used by other countries, such that Australian exports would have difficulty in expanding market shares even if they were more competitive in price. Bilateral trade agreements are common. In any case, much of Australia's exports are of primary products whose prices are determined on international markets. The success of the devaluation-led recovery strategy depends more on our capacity to export manufactured goods, and the marketing expertise in that sector is often conspicuously lacking.

On the import side, the development of Australian import-replacing industries has been likewise slow to materialise. Some importers have trimmed their profit margins to maintain their shares of our domestic market. In other cases, attempts to expand exports have only led to an increased flow of imports, particularly in the form of capital equipment or other intermediate goods not produced in Australia. The dismantling of major sectors of Australian industry has left the legacy of an imbalanced industrial structure which is seemingly incapable of rapid import-replacement.

The other major problem concerns the "invisibles" component in the balance of payments. This includes items such as interest payments on international debts (two-thirds of which has been generated by the private sector), tourism, shipping costs associated with international trade, and insurance. The negative balance on these invisibles has been approximately three times larger than the trade deficit over the last year. Since many of these "invisibles" are not responsive to devaluation of the currency, there is no general reason to expect a J-curve effect to operate.

Because of the failure of the J-curve to materialise, the government has re-oriented its macroeconomic policy towards a more restrictive approach. On this view, if devaluation won't reduce imports, then incomes have to be cut. That is the clear message in current monetary and fiscal policies. Of course, deflationary policies are an extremely crude way of resolving a balance of payments problem. In circumstances where consumers spend about twenty percent of their income on imported goods, their incomes have to be cut by $5 to shave $1 off the total import bill. The alternative is to adopt policies which divert expenditure away from imports without an overall adverse impact on the level of national income. The government's "buy Australian" appeal comes in this latter category, but the government is clearly reluctant to use more systematic means such as import controls to redirect expenditure to domestically produced goods.

The irony of the situation is that an increasingly restrictionist macroeconomic policy is being adopted at the very time when economic recession threatens. GDP growth has stalled, and the registered unemployment rate has risen again to over eight percent.
Traditional Keynesian prescriptions in these circumstances would involve more expansionary policy measures, including increased budget deficits. However, the constraints which the government imposed on itself by adopting the Trilogy have inhibited this response. True, the taxation leg of the Trilogy was exceeded in the last federal budget, but the commitment to a reduced overall deficit continued the “deficit fetishism” which had become a general feature of fiscal policy in the preceding years. The Keynesian notion of budgetary policy being geared to the manipulation of the level of domestic economic activity has been jettisoned. In its place we observe a policy geared to satisfy the expectations of international speculators. This may be a “realistic” approach in circumstances where financial deregulation has given those speculators unprecedented power to destabilise the economy. But even Keating’s unexpectedly low deficit figure of $3.5 billion did not satisfy the speculators, judging by the response of the foreign exchange markets in practice. Thus, the government is pushed into increasingly conservative fiscal policy in a vain attempt to satisfy the demands of these market participants, even to the extent of causing a recession.

These four policy components add up to a program of conservative economic management. The potentially progressive aspects of the original Accord have been set aside in the process. In certain respects, the current policies can be seen as paving the way towards the more draconian measures advocated by the New Right. One obvious task for the left is an oppositional one, emphasising the inadequacies, inconsistencies and inequities of the current economic policies. But there is also a need to go further in developing an alternative economic strategy, and mobilising for the implementation of at least some aspects of it.

The continuing problems of unemployment and an adverse balance of payments require a systematic and selective program to develop Australian industries. The necessary policies involve countering the de-industrialisation of Australian industry and promoting employment growth through import-substitution, export expansion and industry modernisation.

These positive structural changes will not come about automatically. Neither can the devaluation of the Australian dollar be relied on to generate them: as we have seen, the devaluation makes imports more expensive and cheapens our exports, but it is all too clear that this has not reversed the balance of payments deficit. Hence the need for selective government intervention to promote import-substitution, export expansion and industry modernisation.

Industry development agreements can be developed as a means of achieving these objectives. Trade protection and bounties could be provided in exchange for commitments on job-creation and modernisation. The problems of outdated and inefficient capital equipment can be thereby addressed. Industry development agreements involving union and workforce participation in the decision-making of firms also open up avenues for improved industrial relations and co-operative planning of the changes in functions, skills and location of employees in the process of industry restructuring.

These sorts of policies can be extended to include incentives for innovation, investment allowances and export market development grants. Increased public investment can stimulate the development of Australian industry, using the Australian Industries Development Corporation as a vehicle for government equity and loan finance. Support for new industries can also be provided through measures such as accelerated depreciation allowances, research and development grants, tax subsidies and infant industry protection. What is involved is not unconditional subsidies to capital but specific arrangements geared to the provision of employment.

Selective import controls can also be used in conjunction with industry policies to encourage import-substitution. This trade regulation involves the application of the principles of national planning to the external as well as the internal economy. Without it Australia is locked into the uneven development and volatile situation which characterises the international economy.
It must be conceded that such controls may raise prices of goods bought by local consumers. This effect needs to be set against the effects on incomes of nor having the controls. In practice, the benefits of having access to an array of imported goods would be sharply eroded by the falling levels of employment and consumer incomes. In current circumstances, import controls are needed to prevent growing balance of payments and unemployment problems while industry policy brings about a planned program of import-substitution.

The original Accord clearly involved a commitment to redress the cuts which the Fraser government made in areas like health, education, housing, social security and welfare. This commitment remains incomplete, and is now being reversed by the current fetish of fiscal restrictionism. It is the more urgent in the face of an imminent recession. A program of expanded government expenditure can simultaneously stimulate domestic production, mobilise unemployd resources, improve socio-economic welfare and redress poverty. It is potentially of particular importance in redressing the “feminisation of poverty” — the stark over-representation of women among those below the poverty line.

There is certainly much scope for expenditure which simultaneously generates employment and satisfies social needs, e.g. in housing, transport and social services. Nothing could be more irrational than to have unemployed people and unfulfilled needs for social facilities and services. Employment in the public sector has a key role in this respect. Expanded government expenditure can do more than generate jobs; it can simultaneously meet specific demands that have emerged from the community, e.g. for retraining schemes, improved education and comprehensive child care facilities.

These proposals for an alternative economic strategy can be further developed to include progressive tax reform; policies for technological change and labour retraining, selective public ownership, industrial democracy and national/regional economic planning. This provides a framework, not simply for the management of the capitalist economy, but for the construction of embryonic socialist institutions, which extend the principle of democracy into the economic sphere.

What would be the main components of a more progressive alternative economic strategy? The following policy proposals are presented as a contribution to the urgently needed debate on that issue. They build on various ideas emerging from the labour movement. What is attempted is to synthesise them into an integrated program of policies which could be implemented to deal with the current economic problems if only we could sweep aside the dominance of more conservative economic orthodoxies.

The proposals are presented in two parts. First, a set of four policies is outlined which directly counters the four policies discussed in the first half of this article, and which is a useful basis for immediate pressure to “change the direction”. Second, a set of further policies is more briefly indicated which could form the basis for building a transitional program to

What is unfortunate about the two-tier wages system is its tendency to narrow the focus of economic policy to wages policy.

What is unfortunate about the two-tier wages system is its tendency to narrow the focus of economic policy to wages policy. The problem is that the incomes policy component of the Accord has not been properly implemented. Its narrow concern with wages policy needs broadening to include other incomes such as professional fees, executive salaries and income from capital in the form of interest, rent and dividends. The evidence clearly indicates that the limited incomes policy under the Accord has favoured capital at the expense of labour. A more broadly-based incomes policy can redress this imbalance while retaining the advantages of an orderly wage-fixation system over a deregulated system in which the powerful gain at the expense of the weak.

In the immediate context, what is unfortunate in this respect about the proposed two-tier wage system is its tendency to narrow the focus of economic policy to wages policy — as, it has often been argued, has been the tendency with the Accord since its inception. Moreover, while there is a formal connection with a more broadly-based program of control over prices and non-wage incomes and policies which link wages policy with other aspects of economic policy such as investment, technological change and labour retraining, it is hard to see this being implemented in practice, given the government's record. The task is to re-establish the need for incomes policy to embrace more than wages policy; even within its own frame of reference, the government's call for "restraint with equity" is vacuous without this broader policy focus.

In a similar vein there is a clear case for stricter price controls. The creation of an equitable incomes policy requires such controls as an indirect check on excess profits. The existing operations of the Prices Surveillance Authority are inadequate in this regard and stronger legislative provisions are necessary. In conditions where there is a resurgence of inflationary pressures this is particularly important. It should be stressed that this proposal is not intended to involve a wholesale replacement of the price system by bureaucratic decisions. The principal target is monopoly and collusive...
to international capital movements, much of which involves property speculation and takeovers of firms rather than investment in additional productive capacity. Permission to raise foreign loans can be linked to criteria of local employment generation and local procurement of goods and services. Regulations are needed also to control the extent of profit and dividend repatriation overseas and the extent of overseas corporate debt repayment.

What is ultimately at issue is the social control of the investment process.

What is ultimately at issue is the social control of the investment process. The social power of private property exercised through profit-oriented decision-making processes must become subject to social regulation and control. Otherwise public policy remains at the mercy of capital strikes, transfer pricing and destabilising capital movements. Likewise, an alternative economic strategy must involve a greater emphasis on economic planning rather than simply responding to market conditions. In a sense, economic planning already exists — a system of planning by large corporations designed to reduce the uncertainties of the market. An alternative economic strategy would seek to replace this by planning to serve a broader range of socio-economic and environmental objectives. Initially, this could take the form of indicative planning, but increased public ownership, import controls and regulation of foreign investment would provide the preconditions for more effective overall control of the allocation of resources.

Planning is no general panacea, despite its connotations of rationality and foresight. At the national level there is a potential conflict between economic planning as a technical exercise and as a process involving widespread public participation. Decentralisation offers a partial solution. Because of the size and distinct patterns of development of different regions in Australia, decentralisation on a regional basis is particularly appropriate. The development of a system of integrated regional planning would involve identifying the resources available and policy instruments appropriate for the development needs of each region. Likewise, the extended application of industrial democracy potentially has a major role to play in a transitional program, contributing immediately to productivity while also laying the basis for movement towards a more egalitarian and participatory economic system.

These proposals are wide-ranging, but together they can form the basis for a coherent alternative economic strategy. In effect, they build on the progressive features of the original Accord, but apply the principles of equity and regulation more consistently to all aspects of the economic system. The principal alternative is for government economic policy to slide further into conservative economic management in the futile attempt to satisfy the insatiable demands of speculators and multinational capital.

The main political precondition for this alternative economic strategy is widespread popular support. It needs that support to establish its place on the political agenda. It would need that support to defend the program from the predictable responses of vested interests in the national and international economy. However, given that support, there is the potential for an economic program which replaces reliance on inequitable, volatile and disruptive market processes with democratic control over the economic system. The conflicts and contradictions associated with the Accord and its renegotiation make the consideration of this progressive alternative all the more necessary.

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