The COALITION in CHAOS

The coalition is entering the election campaign in a shambles. After the health policy debacle, their latest gaffe is the much-revised industrial relations policy. But the election will still be desperately close. If the Coalition won, would the policy actually work? Tony Aspromourgos reads between the lines...

Wage fixation and industrial relations were a crucial item on the agenda of the revitalised right of the 1980s. The controversy concerning the Coalition’s industrial relations policy during the current election campaign suggests that the debate is now coming to a head.

Anyone familiar with the production-oriented economics of the classical economists, Marx, and the modern inheritors of these intellectual traditions would not find this surprising. Any rational attempt by the capitalist classes to shift the balance of economic power further in their own favour must attempt to alter the balance of forces governing wages, working conditions and work practices (or the distributional impact of the public sector).

This new right agenda has washed over into the policy positions of the federal Coalition. As a result, the Coalition’s industrial relations policy (CIRP) is a quite vigorous expression of the new ‘economic liberalism’. If the conservatives gain power in the coming federal election will they attempt to implement this policy? It would not be unprecedented for ‘idealistic’ conservative policies to evaporate in power as the stronger and more comfortable realities of big white cars and black leather chairs take hold. Furthermore, without the support of the employer organisations the policy is unimplementable. And as CIRP begins to look some prospect for implementation, they are becoming extremely cool about at least this version of ‘labour market deregulation’. But it perhaps has never been more likely that the conservatives will actually practise what they are preaching.

What follows analyses the economic dimensions of CIRP in its three key aspects - wages policy and national economic performance, capacity to pay, voluntary agreements - and finally, considers the prospect of implementation.

To the extent that the Industrial Relations Commission will maintain a jurisdiction over wages policy under CIRP, the IRC will be required to determine wages and conditions in the light of capacity to pay and the requirements of national economic performance; in particular, employment, inflation and international competitiveness. (It apparently does not occur to the conservatives that there
might be a contradiction between these two principles: e.g. that improved national economic performance might require a wages policy which sends enterprises with an incapacity to pay to the wall.)

There is nothing inappropriate as such about gearing wages policy to national economic performance. Such a policy regime can be constructed in a manner which serves the interests of working people in general. The Accord, in fact, has been just such an institution. And whatever its failings, and dangers for the labour movement (most notably, co-option into regressive national policies), the Accord has served to bring the labour movement into national economic policy making, with two valuable aspects - wages policy has been synchronised with overall policy and economic performance; wages policy has been ‘solidaristic’ (geared to the interests of workers as a whole). This was and remains progressive.

But it would be a grave error to believe that CIRP, by emphasising national economic performance in wages policy, points to a convergence towards a similar ‘Lib-Lab’ wages policy. The differences relate both to the procedures by which wages policy is determined and the content of wages policy - and the former are no less important than the latter.

With regard to procedure, it is evident that the conservatives have no desire to see the labour movement play a role in national economic policy as an organised autonomous actor representing its own constituents (though, of course, practical reality may force a conservative government to accept something like this and negotiate). The intent of CIRP in this respect is that wages and conditions - and hence labour itself - are to be a mere instrument of economic policy; nothing more than an object of national economic policy, rather than a subject of policy, as under the Accord, however imperfectly.

This difference should not be underestimated. The entry of the ACTU into national economic policy making under the Accord, and the associated meshing of a solidaristic wages policy and national economic policy are the bases of a new maturity and legitimacy for the labour movement. CIRP will attempt to roll back the legitimacy of that role by making labour an instrument of conservative politico-economic objectives, while denying it the right to be an autonomous, collective actor, for itself, in national life.

How wages policy might contribute to improved economic performance does not only depend upon one’s economic (and political) objective. It also depends upon one’s theoretical understanding of the causal relations between key economic variables in a mixed capitalist economy, including wages and conditions, income distribution, investment (public and private), fiscal stance, interest rates, exchange rates, employment and so on.

Even with the same policy objectives different understandings of these causal relations will lead to different conclusions concerning appropriate policies, including wages policy. One could be forgiven for believing that the conservative understanding of how mixed capitalism works leads them to the happily self-serving conclusion that unemployment (and any number of other macro-economic problems) are always a prima facie case for real wage reductions, a view presumably based upon some thoroughly discredited axioms of traditional economic theory.

This is not the place to examine these theoretical issues. Suffice it to say that the fallacious idea that real wage reductions in general will lead to increased employment is based upon the refutable notion that reduced real wages in general improve the profitability of employing labour. The appropriate theoretical manner in which to examine the wage/employment nexus is by examining the relations between real wages, income distribution, effective demand and employment. This examination, it should be added, does not give the engagingly simple answers of the old conventional economic fables.

So the CIRP proposal to gear wages policy to national
economic performance may be read as a euphemism for little more than real wage cuts. It should be added, however, that a repudiation of the notion that unemployment is always due to excessive real wage rates does not mean that real wage reductions are never desirable. The real wage discounting, at the macro-economic level, in response to the 1985-86 external crisis, was broadly appropriate from the point of view of national economic management and the interests of workers in general.

This is not because 'cheapening' labour would push the system towards full employment by making it more profitable to employ labour but, rather, because it would facilitate a permanent real exchange rate reduction. This would assist improved trade performance, in turn necessary, though not sufficient, for the achievement of enduring full employment. Whether the conservative industrial relations regime could bring about such a macro-economic adjustment has been questioned, rightly, by many commentators.

It is evident that CIRP is, in part, informed by at least a vulgar version of conventional economic theory insofar as the policy places considerable faith in the capacity of deregulated markets to generate superior economic outcomes. Hence, in particular, more 'flexible' (decentralised) wages and conditions are supposed to generate superior employment performance-and even (incredibly) superior real wage outcomes via productivity improvement.

Because of this connection with the conventional supply-and-demand economic theory, one central aspect of the CIRP is worth particularly close examination - the notion that wage fixation should be geared to industry or enterprise capacity to pay. This notion has long been bandied about in the public debate by various liberal and conservative spokespeople, especially Mr Howard but, to the best of my knowledge, it has escaped the systematic rebuttal of which it is vulnerable.

From the standpoint of conventional economic theory itself, the idea that differential wage rates can, and should, apply to the same job description in different industries or enterprises is both empirically impracticable and socially undesirable (i.e. economically 'irrational'). (A comparison of the CIRP released in May 1986 and the CIRP released in June 1988 suggests that the ambiguity concerning industry versus enterprise bargaining has been resolved, more or less, in favour of the enterprise model - but much vagueness persists.)

The concept of competition implies that a free mobility of labour will, in fact, ensure that uniform wage rates apply to uniform job descriptions. (At this level at least the classical-marxian tradition of economic theory would take the same view.) An attempt to enforce differential wage rates for whatever reason, including different levels of profitability between industries or enterprises, would lead to inexorable pressure of labour mobility from low wage towards high wage employers.

Of course, involuntary unemployment, segmentation of work, 'search costs' and so on will impede the empirical tendency towards uniform rates of wages. But this does not alter the fact, worthy of considerable emphasis, that pervasive competition - which, one thought, economic liberals greatly favoured - is incompatible with capacity-to-pay wages policy. Even if unemployment or work segmentation makes such a differential wages policy practicable to some significant extent, it would remain an economically 'irrational' policy - again, even from the standpoint of conventional economic theory. This is so because such a wages regime amounts to price discrimination in the utilisation of labour and therefore leads to an unsatisfactory allocation of labour between different economic activities.

For example, different rates of profit on capital between enterprises within a single industry arise primarily from use of different 'vintages' of capital equipment. Enabling low profit, inferior technique of production enterprises (or industries) to pay lower wage rates encourages over-utilisation of labour in those activities. It is, in fact, economically equivalent to protection - which, again, one thought, was one of the deadly sins in the current conservative catechism!

Enterprises which cannot pay the wages paid (and the conditions provided) by other enterprises with better production techniques should go to the wall. That this outcome might be resisted by workers in individual enterprises who (under the proposed CIRP) perhaps will face the understandable temptation to try to save an ailing enterprise by accepting wage cuts or deterioration in conditions, does not obviate the point made here. Organised labour, whatever role it might play in national economic management, takes a dangerous and slippery path when it accepts responsibility for enterprise management failure.

Conservatives or economic liberals might object to the above rebuttal of capacity-to-pay wages policy by proposing that capacity-to-pay differentials would apply - not to uniform job descriptions across enterprises/industries - but rather to different occupations. So understood, the policy presumably would be about providing a mechanism for altering existing occupational relativities in accordance with enterprise/industry profitability - in large part in order to short circuit system-wide wage flows.

But this is implausible also for the simple reason that, in
a modern integrated production system, occupations are rarely peculiar to one or a small number of enterprises/industries. And this is what would be required for this latter, softer version of capacity-to-pay wages policy to have any greater practical implausibility than the aforementioned 'hard' version. It is not clear what adjustment of occupational relativities in accordance with enterprise/industry capacity to pay would mean in an economy in which the same or very similar occupations occur widely throughout the production system.

To the extent that 'voluntary agreements' are intended to provide this mechanism for breaking down system-wide wage flow-ons, the June 1988 version of CIRP places the focus fairly clearly upon enterprise bargaining. This basis for different wage rates between enterprises is practically, even less plausible than industry-based differentials.

Competition itself integrates wage rates between occupations which are near substitutes for each other, across enterprises and industries. The insulation of wage rate changes within an enterprise or industry is therefore practically limited to job descriptions which lack close substitutes across the production system, or in other enterprises and industries.

What determines the formation of occupational relativities in general? They are bounded by some more or less objective factors such as (private) costs of education and training. However, this leaves a considerable degree of freedom for variations in relativities. Within these bounds relativities are best regarded as formed by social norms or conventions which are not technical data (e.g. like technology) in any conventional economic sense.

These norms are certainly subject to change, albeit usually slow. Indeed, an important part of the historic role of the labour movement precisely has been to change these norms governing work and wages in a progressive direction. Even putting aside our scepticism in the previous paragraphs, it is doubtful whether competition or differential profitability can exercise much influence upon these norms. Rather, these norms of social life in general, and work in particular, are the essential human framework within which market forces work themselves out - and without which economic activity would be unintelligible as a human phenomenon, as opposed to a mere profit maximisation problem.

The chief institutional vehicle for achieving the kind of decentralised bargaining implied by the capacity-to-pay doctrine is the proposed introduction of contractually
binding ‘voluntary agreements’ (VAs) between employers and workers or groups of workers. These contracts will lie largely outside the domain of the IRC - except to the extent that terms of employment are not provided for in the VA - with their enforcement a matter of contract law and contempt of court provisions. (There is also provision for private conciliation and arbitration.)

The manner of operation and practical feasibility of this mechanism is essentially a legal question. But a couple of economic aspects are worth mentioning.

To the extent that VAs find any wide application, there is an obvious contradiction between this leg of CIRP and the proposal to gear wages policy to national economic performance. There would, in effect, be a dual industrial relations system - an ‘IRC sector’ and a ‘contract sector’ - and national economic performance would be an irrelevance in the latter (unless one predicts that the participants in the latter sector will be overwhelmed by the conservative version of patriotism).

As the Treasurer rightly has pointed out, with characteristic vigour, laissez-faire wages policy is effectively no wages policy at all (though it apparently has not occurred to him that the same point applies, for example, to industry policy and exchange rate policy). Enterprise/industry bargaining within the framework of a centralised system of ratification may be consistent with a national wages policy geared to national economic performance, but this is certainly not true of the VAs regime.

The public controversy which broke out on February 5 concerning the scepticism of most employer groups towards CIRP, is a symptom of their justifiable uncertainty and fear as to what CIRP in general, and VAs in particular, might mean for them.

There is quite rightly a lack of confidence among employer organisations that a VA sector outside the domain of the IRC is capable of achieving both greater industrial flexibility and superior aggregate wage outcomes. Certainly employer groups overwhelmingly favour enterprise agreements being subject to the centralised system. The possibility of enterprise unions under CIRP is also sending a shiver up some employers’ spines.

These employer sentiments are reinforced by the disquiet of employer groups in NSW at the state government’s industrial relations proposals, which may be regarded as a rehearsal for the federal CIRP. According to the Financial Review (February 7) BHP has also warned the proposed NSW regime will endanger restructuring of the steel industry. The NSW legislation is currently in parliamentary limbo.

The VAs mechanism no doubt will provide opportunities for some sections of the workforce to do better, e.g. where worker militancy is high and the enterprises/industries with which they bargain can easily pass on costs to purchasers. It is just this opportunistic anti-solidaristic possible outcome which would be most regrettable, with the strong gravitating to the contract sector and the weak to the IRC sector. If this scenario proved practicable it would mean the end of a national wages policy.

By a national wages policy I do not mean that union wages policy should conform to government wages policy or government’s view concerning the requirements of national economic performance. Rather, union wages policy should be conceived with a view to the interests of working people as a whole, including the poor and welfare dependent, and not merely the interests of sections of the workforce. This is a genuinely solidaristic wages policy.

Is the conservative blueprint implementable? What will be its likely effect?

The CIRP doctrine concerning wages and national economic performance is an elaborate euphemism for bending labour to the will of conservative objectives and denying the legitimacy of the kind of role organised labour has played in national economic life during the 1980s. In that respect it is quite the opposite of Accord political economy.

Whether this aspect of the policy succeeds depends, as usual, on the balance of political forces or "respective powers of the combatants", to use Marx’s phrase. In any case, this dimension of the policy sits uncomfortably with the desire to shift towards decentralised VAs which would largely remove wages and conditions from macro-economic control.

To the extent that VAs do become a widespread phenomenon - and on the supposition that the strongest and better off sections of the workforce would have most to gain from VAs - any burden of adjustment to national economic performance imposed in the IRC sector will fall disproportionately upon the weakest and least well off sections of the workforce. Again, this is quite the opposite of the 1985-86 adjustment. But the notion that VAs could enable wages and conditions to be determined at enterprise level, by reference to enterprise conditions, does not seem capable of widespread application and, in any case, is not desirable.

As far as one can tell, the most likely prospect is for the emergence of a new dualism in the workforce - there will be ‘ins’ and ‘outs’ - similar in character to the British experience in the 1980s, though not with the same sharp regional dimension. This process will be greatly exacerbated if a policy-induced recession proves necessary in order to assist implementation of CIRP.

It must be remembered that the backdrop to all this will be an Australian economy which continues to walk a knife edge and remains extremely vulnerable to foreign debt as well as foreign ownership of domestic assets. CIRP does not seriously engage this central problem. The industrial relations agenda which matters lies elsewhere. Industrial restructuring (‘micro-economic reform’ to use the common cliche) has far more to gain from the shift away from trade unionism towards industrial unionism, reform of awards and the consequent reduction in demarcations, than from anything offered by the conservative pretence at an industrial relations policy.

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