analysis of the Swedish case, success in labour-led reform probably depends on the movement's ability to gain the support of some section of capital, so as to secure sufficient overall support and divide potential opposition. The Australian case illustrates that unions can win industrial capital's support for industry policy, even where the economic-liberal orthodoxy is strong.

In sum, COSATU's socio-economic commitments make an industry policy initiative a high priority. Industry policy in the South African situation is a feasible political project especially given the industrial unionism that COSATU embodies. But the feasibility of industry policy depends on the reliable political backing of the unions' political affiliates, on COSATU committing major resources and energy into developing its own institutional capacity, and on it continuing to negotiate wide-ranging industrial reconstruction with manufacturing employers. ✰

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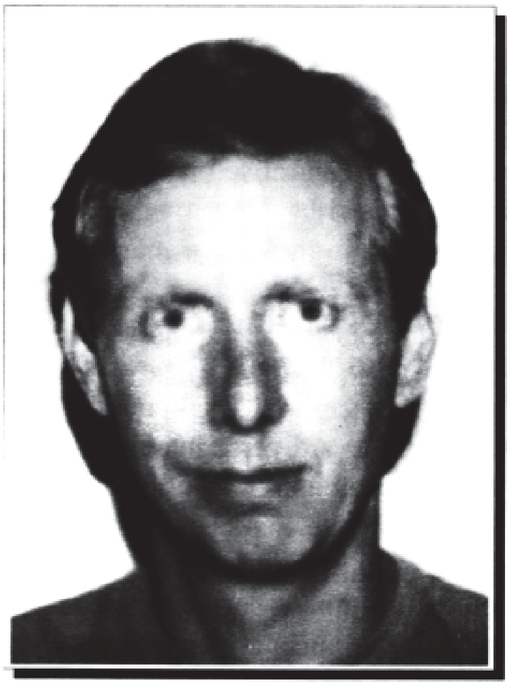
Government and unions in accord

Lessons for South Africa from the Australian experience

*By FRANK STILWELL**



Frank Stilwell

The relationship between a democratically elected South African government and the trade unions is an issue of major economic, social and political significance. Is it appropriate and feasible to establish a 'social contract' as an instrument for economic management and political cohesion? Should unions agree to wage restraint in exchange for government commitments to improve the 'social wage'** and the living conditions of the most economically disadvantaged?

What can be learned from experience elsewhere? The ill-fated social contract in

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** Social wage: necessities funded by the state, such as health care, old age care, education and public housing which make life better in general for workers.

the UK in the 1970s between the Labour Government and the Trades Union Congress (TUC) is the most obvious negative example. On the other side of the globe there is a more recent case which has proved more durable and effective, albeit not free of contradictions. This is the on-going Accord between the Australian Labor Government and the Australian Council of Trade Unions (ACTU) which has been a key element of economic policy since 1983. This article reviews that experience and draws some general lessons. The most obvious concerns are:

whether sustained co-operation within a social contract is possible;

whether it can make an effective contribution to improved industrial relations, economic performance, socio-economic redistribution;

whether it can be flexibly adapted to changing political-economic conditions;

whether it is compatible with other aspects of effective economic policy;

whether it impedes or enhances democracy and rank-and-file participation in the union movement.

Each of these concerns has obvious relevance in the South African context.

The Australian experience

The Accord between the Australian Labor Government and the trade unions represented by ACTU has lasted for more than a decade. Both sides have accepted the arguments for wage restraint while recognising the need for compromises in order to maintain the existence of the Accord, a key element in the claim of the government to be able to achieve social consensus and industrial harmony. The Accord has had the qualified support of most elements in the bureaucracy, including the Federal Treasury which could normally be expected to oppose, on ideological grounds, the violation of free-market principles associated with such a regulatory element of economic policy. Regulation of labour combined with deregulation of capital, while lacking symmetry, seems to be regarded as a pragmatic means of bringing about wage restraint and reducing inflation.

The durability of the Accord needs to be understood in terms of some distinctive Australian economic conditions. The key institution for the implementation of wages policy is the Industrial Relations Commission (IRC), previously the Australian Conciliation and Arbitration Commission (ACAC)[FOOTNOTE The IRC determines the awards for different occupational groups, covering working conditions and wage relativities. It holds regular 'wage cases' to hear arguments from employers, unions and governments about whether general wage increases should be given to the workforce.]. This has legal standing in its capacity to determine wage levels and differentials, contrasting with the collective bargaining processes which prevail, for example, in the USA and the UK. Although formally independent of government, the IRC has generally implemented the broad direction of wages policy advocated by the government. As part of a general neo-corporatist approach to economic management, wages policy, even a programme of sustained wage restraint, has been carried out without the head-on confrontations usually associated with such a manifestly class matter. To understand the processes involved requires a more careful examination of the history of the Accord.

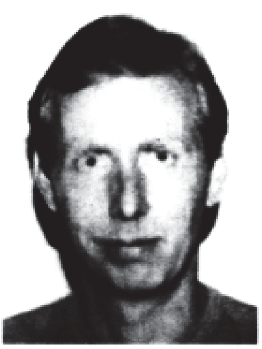
A progressive start: 1983-85

The original Accord was established early in 1983 as a written agreement between ACTU and the Australian Labor Party (ALP), then still in opposition in the federal parliament. Its agreed policy details focused on prices, wages and working conditions, non-wage incomes, taxation and government expenditure. The existence of this Accord was an important element in the electoral appeal of the ALP, promising balanced economic management and harmony in place of strife. Coming to office in March 1983, the Labor Government set out to implement this agreement, centring on the restoration of a system of centralised wage fixation based upon full wage indexation [FOOTNOTE Indexation: Annual wage increases are automatically the same as the increase in the inflation rate.]. It called a National Economic Summit, to which business as well as union representatives were invited, and got general agreement to proceed with its plan. The IRC agreed to implement the indexation arrangements on the condition that the unions gave their formal commitment not to pursue further wage rises. Its first four half-yearly national wage case decisions all embodied full wage indexation.

So the Accord was working. Wage restraint seemed to be effective in reducing inflationary pressures. Economic growth picked up and the government used its growing tax receipts to finance an improved 'social wage', involving spending on health, education, housing, social security and environmental amenities. Critics argued that the public expenditure on these items remained disappointing and that there was little progress in establishing controls over non-wage incomes. Already there were signs that the wide-ranging agreement was being narrowed, not simply to a prices and incomes policy, but to a more narrowly constructed wages policy.

A key turning point in '85

A major change took place in 1985, involving a re-negotiation of the Accord. The Australian dollar fell sharply in value by about 30% in the first half of that year. This raised the price of imported goods and generally had an inflationary effect. Under the terms of the original Accord, this would have meant a corresponding increase in wages. Predictably, employers claimed that this would undermine the international competitive advantage generated by the currency devaluation. After a considerable period of negotiation, the trade unions agreed to a 2% discounting of their wage increase in



that year. In exchange, the Government agreed to initiate tax cuts and to support employees' claims for improved superannuation (pension) schemes. These tax cuts and improved superannuation were intended to match the negative effect of the wage discounting and, indeed, to enhance workers' standards of living by giving them some benefits of productivity increases within the economy.

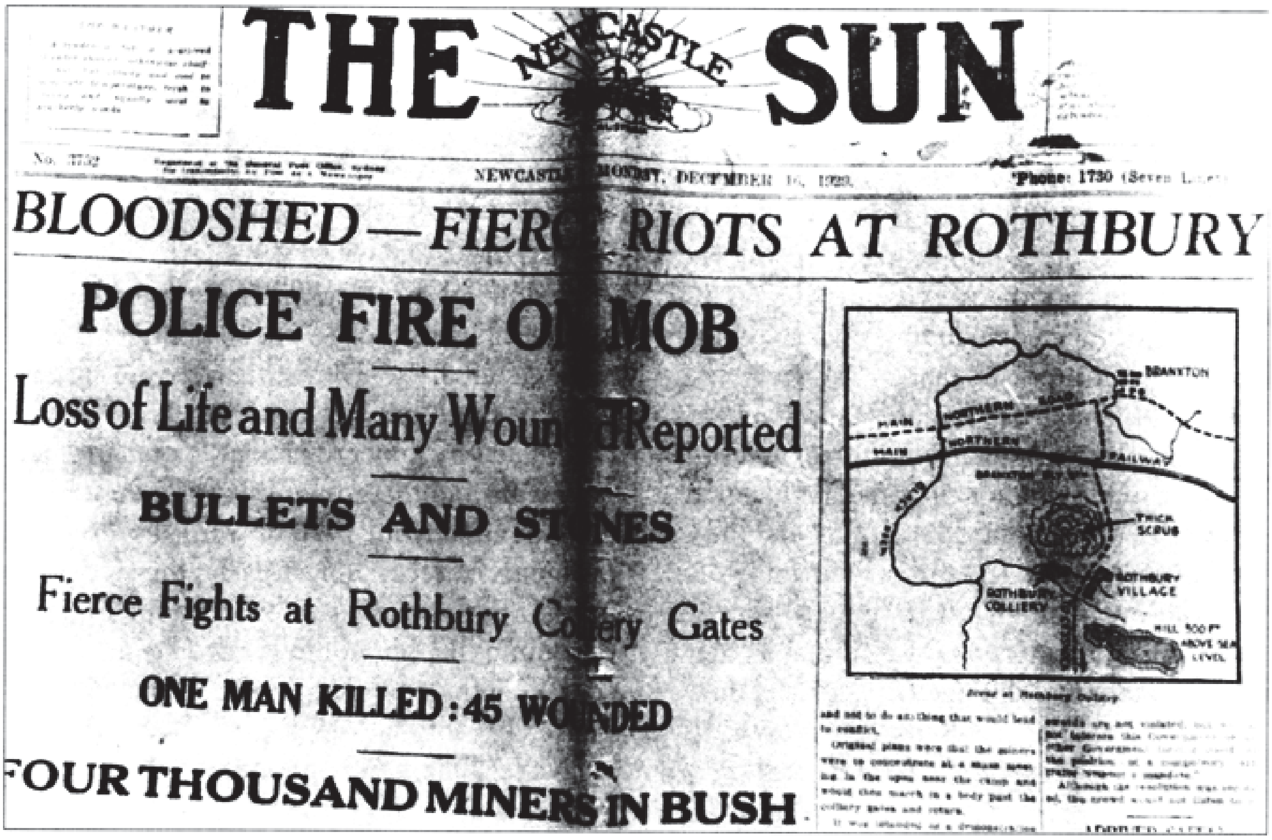
This first renegotiation of the Accord – heralding the Accord Mark II – was highly significant. It broke down the previous commitment of wage indexation and showed how much government was concerned to accommodate pressures from employers.

Towards more 'labour market flexibility'

Further renegotiations of wages policy and the Accord followed. These involved a shift away from the cost-of-living criterion towards an attempt to construct productivity-based criteria for the determination of wages. Both the government and the unions became increasingly concerned about the issue of productivity. Of course, businesses always claim to have this general concern but it is significant that in the Australian case the leaders in creating the conditions for higher productivity were the original Accord partners. 'Modernisation of the economy' was the shared concern of labour and the state. But this meant renegotiation of the Accord, differentiating wage rises according to the capacity of different groups of workers to bargain away restrictive work practices and show productivity increases in their industries. One of the predictable effects was to generate divisions in the workforce according to their capacity to obtain wage increases.

'88: Indexation replaced by the "structural efficiency principle"

By 1988 workers only became eligible for a full pay increase subject to their agreeing to the 'structural efficiency' principle. The structural efficiency of industries was to determine whether workers should get wage



THE NEWCASTLE SUN

NEWCASTLE, MONDAY, DECEMBER 16, 1929.

BLOODSHED—FIERCE RIOTS AT ROTHBURY

POLICE FIRE ON MOB

Loss of Life and Many Wounded Reported

BULLETS AND STONES

Fierce Fights at Rothbury Colliery Gates

ONE MAN KILLED: 45 WOUNDED

FOUR THOUSAND MINERS IN BUSH

The early days: violent labour/capital conflict in Australian mining

rises. Clearly, some segments of the workforce were going to face great difficulties in demonstrating their case for a wage increase under this principle. For those capable of doing so, the potential advantages were considerable. In the Commission's own words, the structural efficiency principle 'should involve matters such as broadening the range of tasks each worker would undertake (multi-skilling), establishing skill-related career paths, fixing proper minimum rates for classifications in awards and appropriate relativities between different categories of workers' (ACAC 1988). The limited focus on removing restrictive work practices thereby gave way to a more positive conception of the process of productivity enhancement in industry. There was little recognition of the contradictions that lay ahead (as documented in Ewer et al, 1991).

Subsequent decisions of the IRC further developed the emphasis on labour market flexibility and productivity-based wage increases through the restructuring of awards governing wages and employment conditions for different groups of workers. Also, there were more wage-tax deals, building on the foundations for this type of agreement previously established by the Accord Mark II. Accords Mark III-VI followed at roughly one-yearly intervals. The bulk of the trade union movement accepted these arrangements, although with evident concern about the adequacy of the safeguards for the lower-paid and the various concessions made to employers. The unwillingness of the airline pilots to work within the guidelines precipitated a confrontation in August 1989 which was a test of strength for unions preferring to operate outside the system, but the pilots' strike failed, the union was decimated and the dominance of the Accord process was maintained.

The 1990s: towards enterprise bargaining

Further modifications of the Accord have taken place in the 1990s. The dominant feature has been acceptance of the process of enterprise bargaining'. In the words of the

Industrial Relations Minister, 'what we would prefer is...negotiations in the enterprise peculiar and unique to that enterprise which don't have any flow-on, within guidelines laid down by the [Industrial Relations] Commission, but not registered by the Commission'. This more decentralised approach evidently reflects the interests of those demanding more 'labour market flexibility'. It stands in striking contrast to the class-solidarity approach of wage indexation under the original Accord. Instead, in moving towards the advocacy of enterprise agreements, the ACTU and the Government have accommodated some of the employers' demands for a more general application of enterprise bargaining as the usual system of wage fixation. This is the essence of the current Accord Mark VII.

What the last three phrases of the Accord have done is to respond to the strong demands for greater labour market flexibility coming from many employers by a partial accommodation of these demands. The move towards enterprise bargaining sits uncomfortably with the general interests of the labour movement because it sets aside class-solidarity elements of wages policy in favour of a more sectional process. Powerful unions will do better than weak ones, while the capacity of any union to achieve wage increases will be tied directly to the fortunes of particular industries as well as the prevailing macro-economic conditions. Thus, flexibility associated with the labour market deregulation model is bought at a very high price in terms of the broader goals of the labour movement.

Meanwhile, the onset of economic recession in the early 1990s seems to have thrown the Accord strategy off course. Generalised unemployment at over 10% of the workforce for the last three years imposes its own disciplines of wage restraint. Government fiscal policy has been characterised by growing deficits, not to finance an improved social wage, but mainly as a direct consequence of the recession undermining tax revenues and broadening social security expenditures. The role of the Accord is again open for question.

It is time to take stock and to draw some lessons for others engaged in consideration of alternative economic strategies.

Evaluation : the economic outcomes

Australia's macro-economic performance during the period of its social contract has been decidedly uneven, characterised by two years of rapid growth, then four years dominated by concerns about the balance of payments and the growing foreign debt, compounded from 1990 onwards by the problems of recession. Clearly, the Accord has not been a universal panacea for economic ills, nor could it have been. No social contract can carry such a heavy burden.

Nevertheless, it is possible to draw up a general score-card for the Australian economy since the introduction of the Accord, leading to some tentative answers to the questions posed at the start of this article which have more direct relevance to the South African situation.

Falling real wages and labour costs

- The Accord has brought about a reduction in the level of real wages. The index of real unit labour costs has fallen in almost every year since the Labor Government came into office. This was the effect of the steady decline in average real wages and of productivity growth not fully passed on through wages. Evidently a social contract can be very effective in controlling wage costs in both public and private sector enterprises.

Reduced inflation

- Wages restraint has played some role in offsetting inflationary tendencies as a result of these real wage reductions. The inflation rate in Australia has been consistently lower than in the previous decade, although the effective elimination of inflation in the 1990s owes more to the effects of recession. In general, it seems that incomes policy is a potentially effective complement to

Keynesian macro-economic management in dealing with the tendency of 'stagflation' (ie continuing high inflation at times of recession or low growth).

Increased employment

❑ There was a major expansion of the number of people in paid employment in the 1980s, amounting to over 1,5 million jobs in the first seven years after the introduction of the Accord. However, the recession also put an end to that notable gain, with the official rate of unemployment since 1990 persistently over 10% involving around one million people out of work at any one time. Wage restraint and job growth do not necessarily go hand-in-hand.

Reduced industrial disputation

❑ It is not without irony that a Labor Government managed to achieve wage restraint without precipitating a major increase in industrial disputation. Indeed, industrial disputation has fallen sharply. The average annual number of working days lost in disputes per employee since the introduction of the Accord has averaged less than half the level prevailing in the previous six years. This is evidently an area in which a social contract helps to take some of the rougher edges off class conflict.

Redistribution of income from labour to capital

❑ The share of wages and salaries in the national income has fallen relative to the share of the gross operating surplus (compromising profits, rents and interest payment) since the introduction of the Accord. This amounts to a substantial income shift of about 10% from labour to capital, a clear redistribution between the major classes. Wages policy has been one ingredient in this process. Deregulation of capital and regulation of labour has proved to be a very lopsided mix. In these circumstances, it is not surprising that Australia has become a more unequal society (as documented more fully in Stilwell 1993). The tendency towards regressive income redistributions is an alarming outcome, because the rhetoric of incomes policy often involves the opposite claim.

"The accord has brought about a reduction in the level of real wages. A social contract can be effective in controlling wage costs"

Increased wage inequalities

❑ There have also been important effects on the distribution of income within labour's share. Until 1986, the Accord effectively froze wage relativities because of the system of indexation. Since then the capacity of individual unions to achieve increases has depended partly on their bargaining strengths in regard to restrictive work practices and productivity agreements. The position of the low-paid workers in the work-force has become a matter of crucial significance, threatening the capacity of the system to satisfy the demands of the trade union movement as a whole. Class-solidarity is further undermined.

Disadvantage for women workers

❑ Wages policy under the Accord has done little to redress the long-standing inequalities between male and female workers. Indeed, to the extent that female workers have been disproportionately concentrated in the casual and part-time sector of the work-force, which has been growing most rapidly, the structural basis of their relative disadvantage has been further entrenched. The push towards enterprise bargaining seems likely to further disadvantage many women workers. Evidently, more explicit consideration of policies for redress of gender inequalities is needed.

Deficiency in productive investment

❑ The Accord has been successful in helping to create the conditions for higher levels of profitability. However, the bulk of the higher profits resulting from the redistribution from labour to capital have not been invested in the expansion and modernisation of Australian industry. The share of available funds actually going into productive investment has been very low. In other words, wage restraint has played its role, but the owners and managers of capital has not played their corresponding role. Instead of channelling the increased profit into improving the production process much of it has gone into speculative and luxury consumption activities and overseas capital flows. Capital remains accountable only to itself.

Intractable international economic problems

- Simultaneously, the problems of foreign debt and current account deficits in the balance of payments have grown. This has been largely as a result of corporate borrowing, much of which has been commercially ill-judged, consequent upon financial deregulation. It is these factors, rather than the inadequacies of wages policy under the Accord which have inhibited Australia's international economic performance. Again, the general lesson is that capital has its own international interests and a social contract provides no easy route to harmonising these with national interests.

Increased productivity and changes in the nature of work

- Linking wages policy through productivity, as has been the recent trend under the Accord, has considerable potential for improving capitalist economic performance. It is also attractive to many segments of the workforce if it goes hand-in-hand with up-grading of skills, more varied and interesting work (as noted by Zappala 1988). However, it offers no general guarantees against falling material living standards, which is a setback for workers who had previously appreciated the cushioning effects of the commitment to wage indexation under the original Accord. Moreover, white-collar and service industry workers, in general, face particular problems in demonstrating productivity in quantifiable terms.

"Capital has its own international interests and a social contract provides no easy route to harmonising these with national interests"

The limits of wages policy

How are we to sum up this record? The last decade has been one of the most innovative periods in the history of wages policy in Australia. However, wages policy has been asked to bear an impossibly heavy burden: contributing to macro-economic stabilisation, resolving the balance of payments problem and generating improved productivity as well as its role in the distribution of income.

The original Accord envisaged wages policy as a component in a broader programme of progressive economic and social reform. In practice, wages policy has been integrated into quite a different programme of austerity and regressive distribution. The basic Australian economic problems – outdated capital stock, inadequate productive investment and excessively conservative economic management – remain as acute as ever. The general tendency has been for investment to go into commercial property, and financial speculation rather than into addressing the longstanding deficiencies in the productive base of the economy. Moreover, the imbalance in the current account of the balance of payments, associated primarily with the outflow of interest and dividends, and excessive dependence upon the import of services such as shipping and insurance, is clearly not to be resolved by wages policy.

Indeed, Australian experience confirms that wages policy as an ingredient in macro-economic management, even in conjunction with fiscal, monetary and exchange rate policy, is ill-suited to address the fundamental problems of the external account and overseas debt. These problems need to be confronted by policies towards capital, such as exchange control on international capital flows, changes in the taxation system to inhibit overseas borrowings for speculative and takeover purposes, and a more interventionist industry policy, including the establishment of a national investment fund (drawing on the accumulated superannuation funds) for the modernisation and expansion of Australian industry. Selective trade policies are also warranted, since it is more effective to steer the expenditure of consumers, including wage earners, towards locally made products than to cut their income levels as an indirect means of cutting expenditure on imports. These policies are illustrative of the necessary adjuncts to wages policy in macro-economic management.

Economic progress comes through the development of institutional processes which are conducive to efficient production and equitable distribution. Wages policy under a social contract has a role to play in that scenario, but only as part of a broader programme including prices and incomes policy, economic democracy, interventionist industry policies and social control of investment. This reasoning leads to the advocacy of an alternate economic strategy (as set out more fully in Stilwell 1986, Ch.9) which presumes the possibility of the state serving the interests of the labour movement, albeit not without contradictions and incessant struggle. This is in contrast to using wages policy, like monetary policy and fiscal policy, mainly as an instrument for satisfying the demands of corporate capital.

General implications

So what are the general lessons for South Africa arising from Australian experience with its distinctive social contract? Referring back to the list of questions posed at the outset the following conclusions seem appropriate:

- A durable social contract is possible and can provide advantages for both trade unions and government. It can be a key ingredient in a government's electoral appeal, as shown by the Australian case where a Labor government has remained in office during a decade in which conservative governments dominated politics in most capitalist nations. For a party like the ANC, strongly committed to improving economic conditions for the mass of the people, the sort of formal relationship with COSATU which a social contract implies makes sense in this context. Continued co-operation is possible with 'give and take' on both sides.
- A social contract can make some contribution to improved economic performance but it is no miracle cure. Certainly, the Australian base indicates it can be very effective in containing industrial disputation. Its potential role in containing inflationary pressures and raising productivity is also significant. However, the distributional effects are much more worrying. Wage restraint, unmatched by comparable regulation of other sources of income is a recipe for growing socio-economic inequality unless

"The Basher Gang" hired by the NSW state government to break the local mining strike in the 1930's

"A social contract can be very effective in containing industrial disputation"

the fruits of that restraint are vigorously channelled into job-creation, infrastructure construction and increased public expenditure on the social wage. This need is evidently more intense in South Africa, given the relatively smaller size of the formal sector of the economy and labour market by comparison with Australia.

- Rigidity in economic policy is not a necessary outcome of a social contract. Certainly, any such deal implies the need for some consistency in seeking to honour the original commitments between government and the labour movement. However, renegotiation in the light of changed circumstances is always possible. In the Australian case there have been six renegotiations within ten years. So inflexibility need not be a problem. However, the price of flexibility can be a reversal in the progressive character of the agreement, increasingly subordinating the interests of the workforce to the dictates of capital. It is not difficult to anticipate these forces of reversal working with a vengeance in the South African context.
- The compatibility of a social contract with other aspects of economic policy is also problematic. Financial deregulation and internationalisation of the economy set in motion processes of restructuring and redistribution which run counter to the stabilisation and progressive redistribution objectives of a social contract. Faced with these conflicts, Australian experience indicates the tendency for the interests of deregulated capital to swamp those of regulated labour. An appropriate "policy mix" becomes a highly disputed concept. Again, it is not difficult to envisage that this tendency would be even stronger in the South African context, with strident demands coming from international capital for government policies of progressive redistribution to be relegated to some receding never-never land.
- The effect of a social contract on internal union democracy and rank-and-file participation in the union movement is likewise problematic. Certainly, there are advantages to the union movement in having formal access to government information and formal participatory status in the formulation of economic policy. However, this formal standing can be bought at a high price in terms of the internal processes of union decision making. Australian experience indicates a strong tendency towards depoliticisation, as 'top-down' procedures supplant previous commitments to 'rank-and-file' involvement in decision making. All too often Accord renegotiation's have been fixed at the highest level between a handful of ACTU leaders and key figures in the government, leaving union conferences merely to ratify the agreements on a 'take-it-or-leave-it' basis. This is disempowering and incompatible with participatory democracy.

The balance between these various considerations is necessarily a matter of judgement. What is at issue is not merely economic management, as proponents of an incomes policy tend to imply. It is also a matter of political process. That is why the last of the above concerns is so crucial – the matter of the relationship between a social contract and democratic processes. Ultimately this is the biggest worry of all in the South African case. Given the enormity of the task of transformation in South Africa, it is not surprising that COSATU stresses the need to maintain effective bases in civil society rather than rely wholly on partnership with an ANC-led government which will be subjected to enormous pressures to pursue the sorts of policies favoured by international capital. ✰

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