THE ACCORD: BACKGROUND CHANGES AND AGGREGATE OUTCOMES

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Over the last several decades the role of incomes policy has been a critical issue in an understanding of Australian workplace and macroeconomic relationships. A significant institutional reform was the Prices and Incomes Accord, which began with the election of the Labor government in 1983, and ended with the change of government in 1996. What follows is a discussion of the circumstances that led to the adoption of the Accord, and an analysis of some of its consequences for strikes and wages. Several themes are explored. One is that the success of incomes policies depends on economic, political and industrial relations factors. A second is that the origin and maintenance of the Accord depended on the Labor government's commitment to wage restraint, which had its intellectual underpinnings in corporatism. The Accord changed over thirteen years, and the industrial system became more directed to enterprise bargaining. While this might imply that it became increasingly difficult to have low strike and wage outcomes, the changes in industrial and economic relationships seem to be permanent. Conjectures are offered to explain this outcome.

In Australia there is considerable agreement that the industrial relations environment has a significant potential impact on productivity, employment and inflation. Over the last several decades the role of incomes policy has been a critical issue in our understanding of these relationships, and there is little doubt that Professor J. E. Isaac has made a major, perhaps *the* major, research contribution in this area. His work has illustrated convincingly the important interactions between industrial and economic factors in incomes policy, and what follows is an endorsement of his approach, and reflects, albeit indirectly, his influence (see Isaac, 1973).

The Australian incomes policy, the Accord, began in mid-1983 after the election of the Labor government, and ended with the election of a Coalition government on 2 March 1996. It is thus an opportune time to reconsider its background, nature and effects.

What follows is a discussion of political, industrial and economic circumstances related to the Accord before, during and after its institution in 1983. The focus is on industrial disputation and on matters of broad macroeconomics—the control of wage inflation and real unit labour costs.

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An important motivation for the paper is to put the Accord in an historical context. A theme is that the nature and process of arrangements of this type of incomes policy are contingent on the contemporary economic, political and industrial relations circumstances of their institution. The discussion suggests that there will not be an incomes policy like this again, which gives the Accord's outcomes and consequences perspective.

An overall economic assessment of the Accord is not offered, and cannot be made without a comprehensive examination of its consequences for many areas of policy. For example, there is little doubt that the Accord influenced tax and social security policy, and thus government expenditure. A broad judgment of the incomes policy would have to consider these issues and others, such as the consequences for income distribution.

Further, some commentators have suggested that the Accord inhibited the growth of labour productivity in its early years by moving the pay system strongly towards centralisation, and concomitantly away from enterprise-based bargaining. However, others see the Accord as an institution that allowed a relatively smooth transition to a greater emphasis for wages being placed on productivity and enterprise-based identification. This debate is not addressed directly in what follows. Nor is there any consideration of the often-made criticism that the Accord promoted to the policy stage non-elected people, the union movement, which can be seen to be undemocratic. However, it should not be surprising that a political party founded on unionism would do this in the context of an incomes policy. Nevertheless, the ethical and broader philosophical political questions are not addressed.

Rather, the goals are quite modest, with the discussion being focused on the following issues. In section 1 an explanation of the origins of the Accord is offered. Two points are made, with the first emphasising the political context for a new Labor government in 1983, given the likely public perception of the economic competence of the previous (1972–75) Labor government. But there is a more theoretical basis to understanding the background to the Accord which is explained.

According to the conceptual framework examined, it is apparently the case that the Australian industrial and economic circumstances of the early 1980s satisfied many of the preconditions relevant to the successful institution of this type of policy. If this is correct, the changes to the institutional context of the Accord from 1983 to 1996 might be expected to have been associated with a diminution of industrial disputation, and structural decreases in both real labour costs and wage inflation.

The Accord changed significantly in its thirteen years, and section 2 describes the nature of these variations. It seems clear that over time the arrangement became much less of a centralised income determination process, with the industrial system becoming more directed to firm-based concerns for the settlement of wages and conditions. This presumably meant that the formal mechanisms of the incomes policy (national wage cases, for example) decreased in importance, which might imply that it became increasingly difficult for the Accord to continue to influence strike and wage outcomes.

The empirical bases for the above conjectures are examined in section 3, through analysis of the available strike, real wage and wage inflation research for different stages of the Accord. There are two major results.

The first message is that it is fairly clear that the Accord was associated with structural decreases in strike, real wage costs and wage inflation outcomes, although the evidence is stronger for the first two variables than it is for wage inflation. Second, and perhaps surprisingly given the movement away from more formal and centralised institutional processes, there is fairly strong evidence from the three models used that supports the proposition that over time the Accord's apparent influence on these variables did not change. This is of some significance, implying as it does that the institutional variations in the arrangement were not important enough to undermine the Accord's influence on industrial and wage outcomes; some conjectures are offered as to why this happened.

1 CONCEPTUAL ISSUES

The background to the Accord

The first Accord was drawn up between the Australian Council of Trade Unions and the then Labor Opposition at the end of 1982. An important part of its inception was political, and helped provide a framework for policy designed to illustrate the consistency of goals of the Australian Labor Party and the peak union council. It is also true that the mechanism was seen by both parties to be a necessary part of economic policy, with the inflation and unemployment experiences of the preceding fifteen years or so being grounds for a different approach.

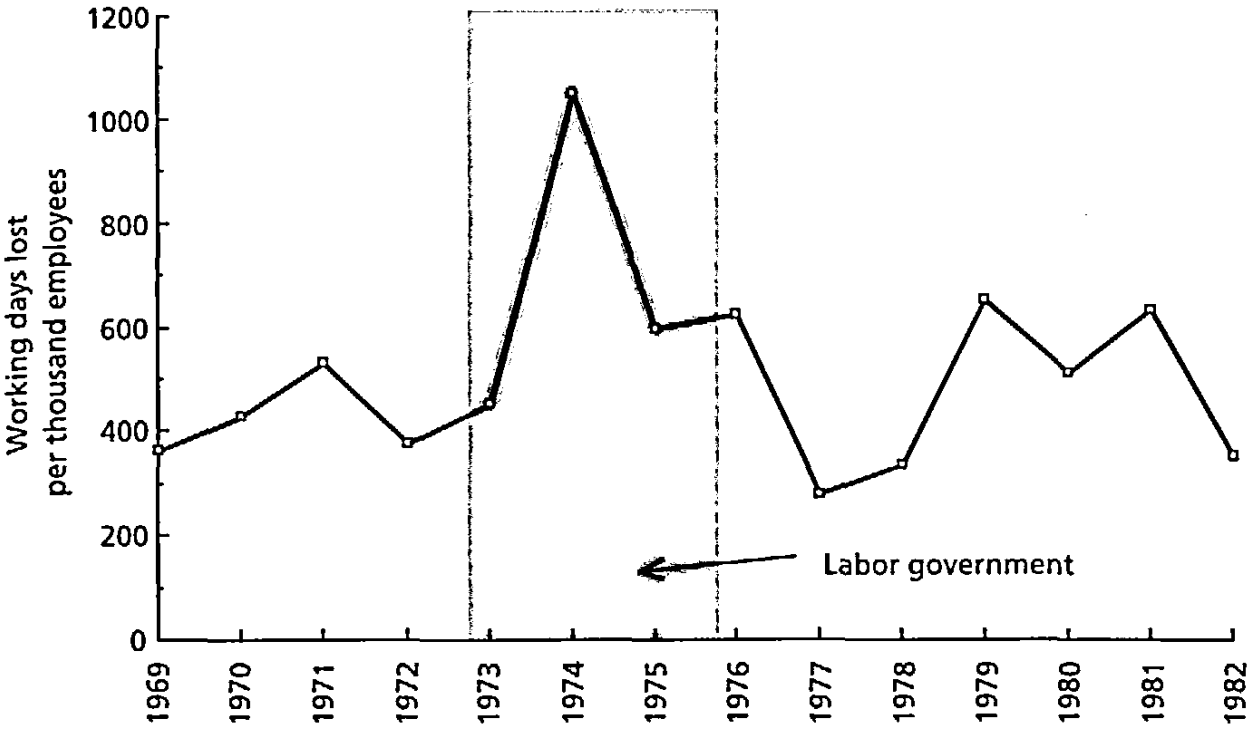
Two issues are related to understanding the basis for the formulation of the Accord. The first is essentially political, and concerns the perceived need of the incoming Labor government to look different, in industrial and economic policy, from the previous Labor government of 1972–75. It is arguably the case that the 1970s Labor government was not considered generally to be a competent manager. The likely perception of industrial and economic mismanagement from the previous Labor government is suggested by two pieces of economic data, now shown in figures 1 and 2.

Figure 1 illustrates that the industrial disputation experience of the previous Labor government was exceptionally poor. Strike activity (as measured by working days lost per thousand employees per annum) averaged 701 in the period 1973–75, but only 429 for the rest of 1970–82. From figure 2, the annual increase in wage inflation was 18.4 per cent in 1973–75 (reaching a peak of about 30 per cent per annum in 1974–75), compared to an average of 9.4 per cent per cent per annum for the rest of the period 1970–82.

It would be very simple-minded to suggest that the adverse strike and wage inflation outcomes of 1973–75 were caused by the then Labor government. After all, the strikes experience was very likely to have been influenced importantly by the high level of price inflation at the time.[1] Further, the Australian

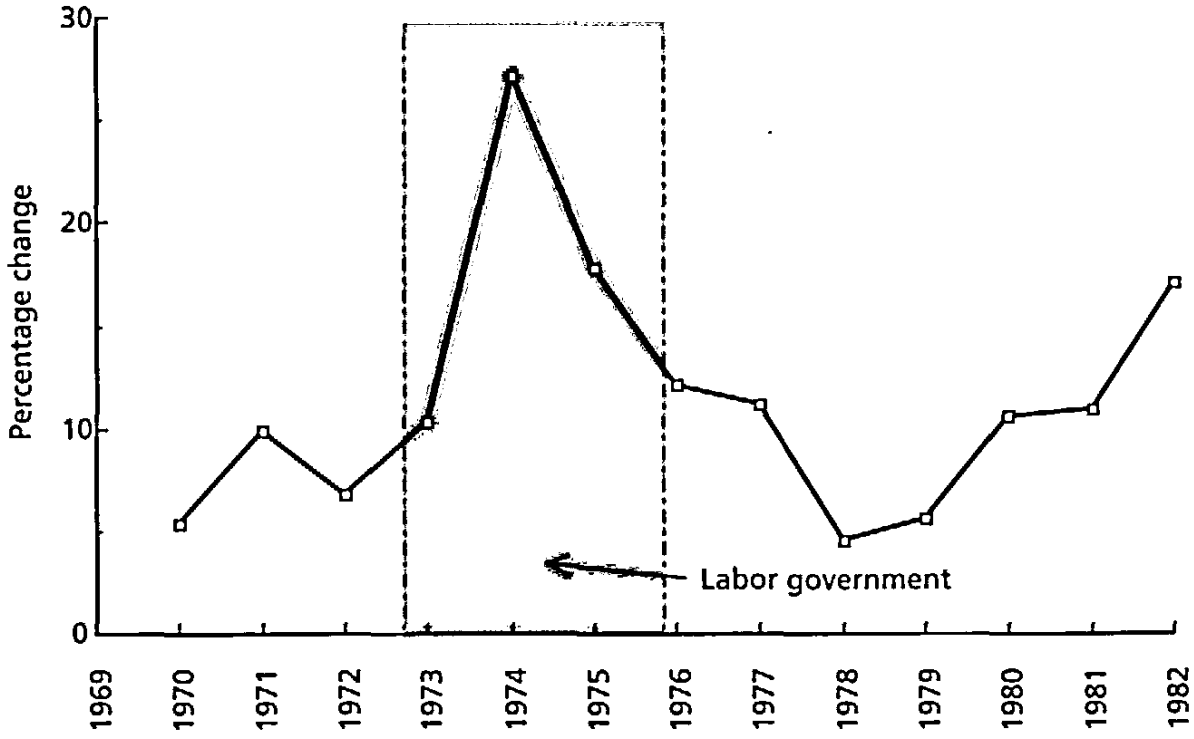
1. Beggs and Chapman (1987a) and Morris and Wilson (1997) both confirm that price inflation is a very significant determinant of strikes.

Figure 1 *Working days lost from industrial disputation (per thousand employees)*



Source: Industrial Disputes, ABS Cat. no. 6330.0

Figure 2 *Change in nominal unit labour costs (per cent per annum)*



Source: OECD, *Economic Outlook*

wage inflation outcomes in the mid-1970s were part of a worldwide stagflation experience. But it is perceptions, not reality, that condition political behaviour. This means that the incoming government in 1983 only needed to believe that the public associated Labor governments with poor economic performance to want a new approach. It is very likely that this influenced the ACTU and the ALP importantly in their formulation of the Accord.

A second motivation for the Accord was the view of the parties that previous Australian approaches to economic management had been too expensive in terms of what they meant for unemployment. The wage inflation outcomes of 1974–75 and 1981–82 (about 30 and 18 per cent per annum respectively) were followed by the adoption of essentially restrictionist macroeconomic stances, in both Australia and other countries. The unemployment rate increased considerably at these times, doubling in 1974–75 and increasing from about 6 to around 11 per cent in 1983.

This orthodox restrictionist reaction to inflation meant relatively slow growth and thus levels of unemployment that were higher than they might otherwise have been. While consumer and investment confidence, and international factors in particular, would have been important contributors to the slowdown in economic growth, the macroeconomic policy stance is likely to have mattered too.

A secondary wages issue, which was less explicit in the Accord than the inflation goal, is that there was seen to be a need to restore the profit share in the short run in order to encourage business investment and thus greater job growth.[2] This implies the case for a reduction in real unit labour costs, which could be addressed in part by restraint in the growth of real wages. Again, this was arguably related in part to perceptions associated with the previous Labor government, given that real unit labour costs increased by 10 per cent over the period 1972–75.

Unemployment, then, is critical to an understanding of the origins of the Accord. That is, the incomes policy was not deemed necessary because the containment of price inflation was the overarching concern. Rather, for the ALP and the ACTU there seemed to be little chance of significant reductions in unemployment if the only inflation instruments were monetary and fiscal policy.[3]

The problem with pre–1983 macroeconomic policy was thus recognised as follows. Restrictionist approaches to inflation work because they decrease labour market pressures and in so doing increase unemployment. In its potential to diminish inflationary pressure through wage restraint, the Accord thus

2. This view is explicit in the communiqué resulting from the 1983 Economic Summit.

3. It is not contentious to read this interpretation into the initial government and ACTU statements concerning the motivation for the Accord, and the issue was made very explicit in Labor government policy statements in the lead-up to the 1996 election (see ALP/ACTU, 1995). Monetary policy is particularly important, with high interest rates working directly to decrease domestic demand and indirectly through keeping the exchange rate higher than it otherwise would be, because this implies relatively high demand for imports at the expense of import-competing domestic production.

promoted the notion that it is possible for government policy to reduce simultaneously both inflation and joblessness.

In summary, two basic links between wage restraint and employment growth were seen at the time of the formulation of the Accord. First, a mechanism that decreases nominal wage growth pressure without recourse to tight fiscal and monetary policy must mean higher employment outcomes at any given level of inflation, simply because the route to achieving more moderate price increases was not through government-induced reductions in the demand for labour. Second, a cut in nominal wage growth in the short run would imply a diminution of real unit labour costs, and thus an increase in the share of gross domestic product going to profits. This was seen to facilitate and encourage increased business investment, and with this to offer a potential for higher economic and thus employment growth.

A question of interest is the conceptual framework that underlay the above.

The conceptual basis for a consensual incomes policy

The early economic rationale for the Accord sits easily with political and economic analyses promoting the notion of 'Public Interest Wage Systems' (for an extended discussion, see Chapman & Gruen, 1990). In this literature (Bruno & Sachs, 1985; Calmfors & Driffill, 1988; Newell & Symons, 1987) it is argued that countries with strong union representation and wide union coverage can deliver favourable or unfavourable inflation and unemployment outcomes, depending on whether co-ordination of wage-setting practices occurs.

A consensual incomes policy is seen to be more desirable the stronger is the union movement, because powerful labour groups have the potential to deliver considerable costs to the economy when pursuing only their own wage interests. Thus, the preconditions of the desirability of these policies are a well-organised, potentially co-ordinated and thus strong union movement; in 1983, with union coverage relatively high and with a peak representative union body, these preconditions existed.

Calmfors and Driffill argue that there is a hump-shaped relationship between the non-accelerating inflation rate of unemployment (NAIRU) and the degree of centralisation of (and consensus about) the wage-setting process. At one extreme, competitive wage setting by many small independent firms and individual workers is seen to result in relatively moderate wage outcomes. However, partial centralisation of wage setting may give the groups market power, which enables them to raise wages and prices without concern for the consequences for other groups, especially the unemployed.

Calmfors and Driffill (1988: 19) suggest then that in the context of strong unions, with a consensus as to the desirability of wage restraint, a consensual incomes policy may lead 'large and all-encompassing trade unions to recognise their market power and take into account both the inflationary and unemployment consequences of wage increases.' It is for this reason that the NAIRU under a consensual incomes policy is argued to be lower than that which occurs with strong union organisations that give no weight to outsiders.

Dowrick (1993) takes the point further in the Australian context. He

illustrates from a theoretical perspective that craft (occupation) based unionism will exacerbate the basic macroeconomic difficulties of not having a consensual incomes policy, raised by Calmfors and Driffill. Dowrick's conclusion is that because Australian unions in the early 1980s were organised essentially along occupational lines this is likely to have meant that the potential for poor macroeconomic outcomes was relatively high.[4]

The Calmfors and Driffill model has been subjected to some limited empirical testing. The shortcomings of typical tests are threefold: first, the sample sizes (involving different countries) are necessarily very small; second, a subjective judgment is required concerning the degree of 'corporatism' in each country;[5] and third, other potentially important factors affecting macroeconomic outcomes need to be properly controlled for in these exercises. With these important caveats, the Calmfors and Driffill results nevertheless imply some international empirical consistency with the model.

Conclusion

From all of the above, for the Australian Labor Party in the early 1980s there were three possibilities with respect to broad industrial relations policy. One would have been to have no specific agreement with the Australian Council of Trade Unions and thus to potentially reproduce the very poor strike and wage inflation experience of 1974–75 when the last Labor government was in power. The second option would have been to introduce legislation designed to diminish considerably the potential for individual unions to influence wage outcomes.[6] The third was the Accord.

The first option implies a heavy reliance on monetary and fiscal tools and would thus have been seen as a hindrance to the reduction of unemployment. The second option was not politically feasible for a party of the union movement. Apart from the politics—which were fundamental—it is also very likely that legislative attempts to undermine union power significantly would have been associated with high transitional costs, and an uncertainty of outcomes.

Given these choices, the Accord was seen to be the best choice for a Labor government elected in the early 1980s. The broad point is that another institutional history or political context would have meant quite a different policy environment and response.

The bottom line is that the Accord had a basis that can be understood to be a reaction both to perceptions of Labor governments as poor economic

4. Obviously, the existence of preconditions for consensual incomes policy is a big point. Indeed, this is why the notion of an Accord sits peculiarly in countries such as the United States and, of relevance, why the United States has delivered high rates of employment growth without excessive inflation during the last several decades.

5. This is quite complex. For example, Japan has low union coverage but arguably a corporatist arrangement through the annual co-ordinated national wage-setting mechanisms, the so-called 'Spring offensive' (*Shunto*).

6. Essentially this was the approach adopted in Britain in the 1980s. An intriguing and significant comparative research project would be a comparison of the outcomes of these different approaches.

managers and to previous macroeconomic policy and its implications for unemployment. As well, the essence of the Accord can be seen to be grounded in a conceptual framework that was well suited to the Australian institutional and political reality at that time.

It is important to understand that the Accord changed significantly from 1983 to 1996 and that, at least given the conceptual basis outlined above, this might have been expected to result in different effects of the Accord on strike and wage outcomes as the policy framework varied. Before exploring this issue it is useful to describe briefly the nature of these changes.

2 CHANGES TO THE ACCORD

The evolution of the Accord

In the thirteen years of the Labor government a total of eight different Accords were negotiated, although the last of these, Accord Mark VIII, was only partially introduced given that the planned period of its operation was 1995–99, and was thus contingent on the ALP winning the 1996 election. The other seven Marks of the Accord differed in timing and in substance, and what now follows sets out very briefly the essence of the changes.[7] The aim is to sort out what these presumed changes imply for the delivery of strike and wage outcomes.

As explained above, the essential initial economic goal of the original Accord was to limit nominal wage increases in order to achieve a sustained decrease in inflation. This was believed to be fundamental to employment growth because it provided an anti-inflation instrument to allow more expansionary monetary and fiscal policy. It was believed that this would make it easier for the government to achieve higher rates of economic growth and thus more rapid job creation.

The way in which wage restraint was addressed initially in the first Accord had both formal and informal components. Formally, there was a 'no extra claims' clause, which meant that industrial action by unions on issues of pay was considered illegitimate by the Accord partners. Less formally, but importantly, the first Accord (and others) offered tax decreases and social policy changes to help ensure the delivery of wage restraint.

Accord Mark II built on these foundations, and was underpinned by the need for the government to insulate the potential macroeconomic costs of the significant exchange rate depreciation of 1985; that is, it was motivated essentially by a concern for inflation and what this might then mean for unemployment. Ensuring that the devaluation was real and not just nominal was achieved by the ACTU agreeing to take a real wage cut, in return for which the government delivered income tax reductions and significant changes to superannuation arrangements. Accord Mark II might be seen to be a classic example of an informal tax-based incomes policy.

Accords Mark III–VI, introduced from 1987 to 1990, were the beginnings of the move away from centralisation in wage setting. They involved an increased

7. For a fuller description, see Harcourt (1997).

emphasis being placed on 'structural efficiency', in which many of the awards were simplified and rationalised, and a wage-tier based on productivity at a non-national level was introduced. Implicitly this was the beginning of enterprise-based wage settlement.

Accord Mark VII (1993–95) was the more formal extension of these orientations—which arguably began in force in the early days of Accord VI—in that for the first time since 1983 enterprise-based bargaining was explicitly endorsed and promoted. To accommodate distributional concerns, Accord VII included the payment of a 'safety net' wage adjustment for workers unable to gain access to an enterprise deal. This essentially decentralised model—but with a safety net component and increases to the social wage through Family Assistance income support—was accepted and encouraged further in Accord VIII, negotiated in 1995.

Throughout the Accord there were changes to the social wage of various forms that might matter in an interpretation of its consequences for industrial peace and wage restraint. For example, there was a significant expansion in the coverage of occupational superannuation after about 1987, and Accords VII and VIII were associated with increases in household income at the lower levels with safety net adjustments, Family Assistance income support and maternity leave provisions. As explored below, it is possible that these policy changes had an impact on the size of the strike and wages outcomes in the later Accord periods.

It is worth noting that the movement away from a centralised approach was associated also with a low likelihood of there being rapid transmissions of wage increases across different firms. The certified agreements arrangements are enterprise based, implying that in some industries literally thousands of individual pay claims replaced national wage setting as the norm. This landscape change might be part of the explanation for some of the data reported in section 3, with the most complex issue being how much weight can be given to the political, industrial and economic factors that contributed to the change.

Interpreting changes to the Accord

The preceding brief description of changes to the Accord illustrates two things. The first is that the arrangement changed significantly in response to external circumstances. The obvious example is the real wage cut agreed to because of the adverse changes in the terms of trade in 1985. Less obvious is that the move away from centralisation can be interpreted as a forced reaction to increased competitive forces resulting from greater internationalisation of the world's economy, and what this meant for the nature of Australian industrial arrangements.

The second broad point on its history is that there was a clear evolution of the Accord, away from centralised and nationally co-ordinated wage settlement and towards enterprise-based bargaining. This started with the second-tier wage adjustments, promoting the importance and relevance to income settlement of firm-based productivity improvements, and moved on to the explicit endorsement of the value of the enterprise as the appropriate unit for wage bargaining.

The evolution to a 'flexible' market-oriented system was not complete, nor

was it ever likely that it would have been under a Labor government working with the Australian Council of Trade Unions. Accords VII and VIII still embraced a role for wage settlement that had a centralised component motivated by concerns related to income distribution. This took the form of safety net adjustments for those not having access to enterprise agreements, who were presumed to be those on low pay.[8]

There remained in the latter Accords an inherent tension and irresolution concerning the difficulty of having a broadly based inflation instrument at the same time as centralisation and national wage co-ordination were being eschewed. If there is sense in the Calmfors and Driffill model—which is arguably consistent with the conceptual foundation of the original Accord—movement from national co-ordination of wage settlement would seem to eventually and necessarily undermine the Accord's influence.

The dilemma is most obvious in Accord VIII delivered in June 1995, in which the Australian Council of Trade Unions committed the union movement to the Reserve Bank of Australia's price inflation target of 2 to 3 per cent on average in the course of the business cycle.[9] This suggests that the ACTU still had low inflation as a macroeconomic objective, but at the same time Accord VIII promoted further the movement of the industrial system away from the national wage case mechanism, which had been designed to help ensure that low wage inflation was attainable. The demise of centralisation and co-ordination of the wages system necessarily meant that less formal instruments of control, such as persuasion and coercion of key union leaders behind the scenes, were likely to have more importance than previously, although it is arguable that these forms of influence were always a key part of the Accord process.

An empirical implication of these institutional changes, which would seem to follow from the corporatist literature, is that throughout the period of the Accord it became less likely that the arrangement was able to deliver what it planned to originally; among other things, relatively low strike, real labour cost and wage inflation outcomes. If these outcomes did not change throughout 1983–96 there might be cause to question the influence of the processes inherent in a consensual incomes policy.

In summary, the above analysis implies two clear testable hypotheses. First, was the institution of a formal consensual incomes policy in the Australian industrial environment of the early 1980s accompanied by greater industrial peace and both lower wage inflation and real unit labour costs? And second, as the Accord moved away from centralised and co-ordinated formal processes was there a diminution of its influence on these aggregate outcomes? The answers to these questions seem to be 'yes' and 'no' respectively, with the evidence now being explored.

8. Of research interest is the question of whether or not those qualifying for the safety net were generally in low-wage jobs. Data on this issue are scarce.

9. This was a notable goal in that no other country has a peak union body that formally endorsed and supported a central bank's inflation objective.

3 EMPIRICAL EVIDENCE ON THE EFFECTS OF THE ACCORD

Strike activity

There is little doubt that the 'no extra claims' condition was designed to limit industrial action associated with pay levels. Charles, writing in 1986, put the issue in the following general way:

> Because of its attention to interest issues which form the substance of many industrial disputes, and because of its formalisation of the commitment required from unions to make the Accord's objectives at all achievable, the Accord is a critical new element in the industrial relations scene (Charles 1986: 119).

Some part of being a 'critical new element in the industrial relations scene' concerned industrial disputation, particularly given the context of consensus in which the Accord was signed. There has been considerable research on the effect of the Accord on strike activity in the first stage of its operation. Analyses were undertaken early in the period in a series of papers by Beggs and Chapman.

Exploring the period 1969 to 1985, Beggs and Chapman (1987a) controlled for the impact of a host of variables normally associated with working days lost from industrial disputation, such as inflation, profits, inventories, overtime, unemployment and job vacancies. In general the Beggs and Chapman results supported mainstream industrial relations and economic hypotheses concerning the determinants of strikes.

For example, measures of labour demand such as job vacancies and overtime were associated with higher levels of disputation, as were conditions of uncertainty as represented by inflation. 'Political' factors, such as the gaoling of Clarrie O'Shea in 1969, were extremely important in their modelling as well. The bottom line from this econometric work is that disputation over the period 1969–85 was easy to understand in terms of conventional—albeit somewhat ad hoc—strike equation modelling.

However, their work also demonstrated that strike activity fell very significantly after about the second quarter of 1983, when the first Accord was signed. The Beggs and Chapman exercise allowed some understanding of why this happened. About half of the decrease in working days lost from strikes after the beginning of 1983 can be attributed to the fact that some of the variables usually associated with a change in disputation—profits, inventories, inflation and measures of labour demand, for example—were of less importance in 1983–85 than they had previously been. But even controlling for changes in these influences there was still an unexplained fall in disputation of about 50 per cent. That is, around half of the measured decline was not the result of changes in the level of the usual strike determinants.[10] With respect to the unexplained

10. This result implicitly assumes that the economic variables that might matter for strikes—for example, inflation, unemployment and profits—were not influenced by the Accord, which is not credible. If the Accord had the effect of contributing to a decrease in both unemployment and inflation, it would also have indirectly affected industrial disputation. Given the data, it is very likely that the Beggs and Chapman modelling of strike activity underestimates the overall effect of the Accord on strikes.

component, Beggs and Chapman argued that it was 'not unreasonable' to suggest that the changed institutional environment resulting from the Accord explained the rest.

In response to this analysis Moore (1989) pointed to the worldwide decline in disputes, the implication being that the Accord was not responsible for Australian outcomes. Beggs and Chapman (1987b) explored this claim and demonstrated that after controlling for inflation and unemployment in fourteen countries throughout the period 1960 to 1985 there was no statistically significant internationally shared decline in working days lost from strikes observable after 1983. The Australian experience seemed to be unique.

Chapman and Gruen (1990) extended this work using data to 1987, and found, in contrast to the first Beggs and Chapman international analysis, that with the extra years of information there was now statistical evidence of a shared worldwide dispute reduction after the end of 1982. Even so, Chapman and Gruen found that the average for the other countries included was a little less than half that which apparently occurred in Australia, and only one country (Spain) had a greater decrease.[11] So while it was true that strike activity had been falling generally, the Australian experience still seemed to be quantitatively special; this implied to Chapman and Gruen that some part of the Australian experience was unusual and thus potentially related to unique policy or institutional factors.

The bottom line for the strike research for the first part of the Accord is that the incomes policy had a statistically significant effect on industrial disputation, relative to both the Australian past and the experience of other countries. In terms of the Accord's early influence, these are important data.

There has been some very useful research on the determinants of industrial disputation in Australia using data after 1990. It allows conclusions to be drawn on the effect of the Accord after its earlier period, and comes from Morris and Wilson (1994, 1995, 1997).

Morris and Wilson used econometric approaches based on the original Beggs and Chapman modelling. Their work confirms many of the Beggs and Chapman results in terms of the effect of measures of labour demand, inflation and political variables (among others) on strike activity. Their recent use of data extending to 1997 allows important insights concerning the effect of the Accord. They found the following. Extending the period of analysis to cover 1983–96 and beyond, it becomes clear that strike reductions that might be attributed to the Accord are similar to, but a bit lower than, the effects suggested by the Beggs and Chapman, and Chapman and Gruen, exercises (which were conducted with data that ended in 1987 or before). The early research suggested that the presumed Accord effect was of the order of 45–60

11. The Chapman and Gruen conclusion, and the work by Beggs and Chapman (1987a, 1987b), are not unqualified, for two notable reasons. One is that other forms of disputation (e.g. bans) may have increased during the period (Sheen 1990). The other is that the apparent increase in industrial harmony could have been as a consequence of the seemingly greater willingness of employers to resort to legal means to break strikes (Moore 1989).

per cent, but Morris and Wilson (1997) argue that the Accord in its total period 1983–96 decreased industrial disputation by about 35 per cent.

Moreover, their research explicitly tests the proposition that the effect of the Accord changed as it evolved. As suggested in section 2, it might be expected that as the co-ordination process of the incomes policy became less centralised, and as enterprise-based bargaining increasingly became the focus of industrial relationships, that the Accord's influence on strikes would diminish. On the other hand, of course, the Accord could have been associated with a landscape or cultural transformation in Australian industrial relations, which would manifest itself in a structural change in disputation that lasts beyond its early influence.

With a series of (some unreported) tests, Morris and Wilson (1997) came to the conclusion that the extent of the decline in industrial disputation after the beginning of 1983 was the same throughout the entire period. That is, each Mark of the Accord is apparently associated with a decline in strikes that was the same as all the others. In other words, even if the nature of the Accord varied during its thirteen years, this was not reflected in its impact on industrial disputation.

Of some interest is that the last Morris and Wilson study (1997) also tested the proposition that the end of the Accord changed the industrial relations scene in terms of strike outcomes. Their answer is that it did not; the diminution of strike activity in the period after the end of the Accord was statistically identical to the decrease found for the period 1983–96.

One possible conclusion from the above Morris and Wilson result is that the Accord did not really matter, because after it ended there was no reversion to the previous industrial relations scene. Morris and Wilson choose an alternative interpretation. They suggest that the evidence for the Accord being a fundamental break from the past is overwhelming. If this is true, it follows that even after the Accord ended there would be a continuation of such an effect because in the thirteen years of its operation there was a landscape or cultural change in the Australian industrial relations environment. The issue is explored further later.

Wage outcomes

The next question relates to labour costs. Was the apparent increased industrial consensus reflected in Australian post-1983 strike experience associated also with a reduction of Australian real unit labour costs and wage inflation in the early part of the Accord? Given a Calmfors and Driffill-type underpinning to the Accord, sorting this out is fundamental. However, this is quite a complicated exercise, for reasons now explained.

There are many different ways to model nominal and real wage relationships, with the number of views as to which is theoretically and econometrically the most appealing being about the same as there are economists involved in such exercises. That is, addressing the question with the use of a particular approach is open to the criticism that the result is model-specific and thus potentially not generally applicable.

With this issue in mind Chapman et al. (1991) report five (very) different

quarterly Australian wage equations in an attempt to determine if there are similarities in findings across quite a range of conceptual bases and functional forms.[12] The similarity of the time period was one of the few things the five exercises had in common. Dissimilarities included the dependent and explanatory variables and functional forms.

Having different modellers approach a similar question is methodologically complex, and the results and their interpretation should be approached with caution. One concern is that, if the dependent variables are different, what exactly is being investigated? An answer is the presumption that the Accord was an attempt to influence in a downward direction both real unit labour costs and wage inflation. A second issue relates to theory. Even if the dependent variable is the same, should there not be some assessment of the validity of the underlying structural model and of functional form, since these are a representation of how economic relationships work? This is an important point, but it is not addressed in the Chapman et al. exercise.

The approach adopted does not consider the nature of macroeconomic behavioural relations. The exercise thus reflects the pragmatic notion that there are competing views of how an incomes policy might affect aggregate wage outcomes. There is clearly a case in extensions of work of this form for addressing directly the relative merits of the different theoretical models underpinning the econometric exercises.

The most significant difference between the models concerns the choice of dependent variable. The first approach in an understanding of the effect of the Accord is to consider changes in real wages and thus, by implication, real unit labour costs. As explained previously, it is not hard to read into the first Accord the view that the partners wanted in the short run to increase profits in order that business investment and thus employment growth might be encouraged.

Two different real wage econometric exercises are reported in Chapman et al. (1991), and are from the models of Lewis and Hanlan. The results are as follows.

For both approaches there is a statistically significant reduction in real wages after the institution of the Accord, and the size of the presumed Accord effect was about the same. From the Lewis model the extent of the decline that could possibly be attributed to the Accord was of the order of 10 per cent during the period 1983–89, and from the Hanlan modelling the figure was closer to 9 per cent. From both exercises this suggests that from 1983 to 1990 there was an unexplained and similar downward influence on real wages and thus on real unit labour costs, and it is not unreasonable to attribute this to the introduction of the incomes policy.

A quite different approach in an understanding of the Accord's effect involves wage inflation. This sort of exercise is more easily understood as being consistent with the goals of an incomes policy, and such a motivation is obvious in the formulation of the Accord (as emphasised in section 1). Three wage inflation

12. For a description of the theoretical underpinning of each of the models, see Chapman et al. (1991).

models were tested. The results, while not the same, are qualitatively similar.

First, the Murphy model suggested that the Accord was associated with lowered annual wage inflation of the order of 4 percentage points per year after the second quarter of 1983. However, the effect is not statistically significant when judged on the basis of the usual econometric criterion. Second, the NIF88 model also revealed an insignificantly negative effect. Taken literally the result implies a lowered annual inflation effect of about 3 percentage points. The third exercise involved Mitchell and Watts, and the result with respect to the Accord period is much stronger. They found a statistically significant effect after 1983 which suggested that wage inflation was decreased by around 13.5 percentage points per annum.

In general, then, the results of the wage exercises have some things in common. First, and most obviously, for neither the real wage nor the wage inflation modelling was it found that there was an *increase* in these variables after the beginning of 1983. This must suggest quite strongly that those commentators arguing that the early period of the Accord increased real unit labour costs and wage inflation (Moore, 1989) have got the story wrong.

Second, while there is not a clear consistency of results, it seems to be the case that the period 1983–90 was associated with a diminution of both wage inflation and real unit labour costs that is not explainable by changes in the usual variables. If this is true, it is arguably the case that something historically unusual occurred in the Accord period.

Caution is appropriate, however, because the levels of statistical significance of the so-called Accord effect in the wage inflation exercises is not generally high. But it would be reasonable to suggest that there was an institutional change after 1983 that seemed to play a hand in the delivery of both real unit labour cost and wage inflation decreases.

The plethora of research activity on the wage effects of the Accord came to a halt after 1990. There are two exceptions to this, one of which (from Lewis) has been encouraged by the current paper. As well, Mitchell (1996) updated his earlier work with Watts by extending the analysis to cover 1983–96.

With his real wage model now estimated with seven additional years of data, Lewis found an almost exact confirmation of the earlier results. That is, for the entire Accord period, there is a significant structural decrease in real wages (and thus real unit labour costs). The model suggests that real wages fell by about 10 per cent after the institution of the Accord. Lewis tested the second proposition of the current exercise, that the extent of the diminution of real wages varied with different stages of the Accord. He comes to the same conclusion as Morris and Wilson did with respect to strike activity: over the thirteen years of its experience, the size of the real wage effects that can reasonably be attributed to the Accord did not change. That is, it did not seem to matter for Lewis' real wage behavioural relationships that the formal processes of the Accord varied over time.

He was also able to test the proposition that the ending of the Accord meant a reversion to pre-Accord relationships. While he found that this is apparently the case (that is, there is statistical evidence that when the Accord ended so did its apparent effect on wage restraint), the complex lag structures of the model in

combination with the few post-Accord observations mean that it would be wise not to make too much of this. Time only will tell as to whether there has been a permanent change in real wage outcomes.

In terms of wage inflation, Mitchell's (1996) extension of the estimation to cover the entire Accord period strongly confirmed his original result. That is, there was a large and significant structural decrease in wage inflation beginning in early 1983. As well, Mitchell tested the proposition that the size of a presumed Accord effect changed at different stages of the Accord's life. Again, consistent with the results of Morris and Wilson with respect to strike activity, and Lewis with respect to real wages, Mitchell found that there were no changes in wage inflation relationships during any stage of the Accord. Mitchell has yet to test his model for the post-Accord period.

Summary and interpretation of the evidence of the Accord's effects

The results of the exercises reported above are fairly clear. In terms of industrial disputation, real wages and wage inflation, the evidence is that there was a structural decrease in all three variables that began at about the time the first Accord was signed. The evidence is particularly strong for strike activity in that the early Australian experience seems to have been unusual in an international context, as well as with respect to the past.

The real wage changes seem also to be particularly distinct, given that two quite different models came to the same conclusion. They found that there is a very significant structural decrease in the dependent variable in the Accord period, of 9–10 per cent.

For wage inflation the story is more ambiguous, in that two of the three models tested did not quite find a statistically significant decrease, but the point estimate in both cases was negative and of the order of 3–4 percentage points a year. The Mitchell and Watts exercise, however, found a highly significant and large diminution in wage inflation beginning in the second quarter of 1983. Overall, then, a fair conclusion would be that the evidence is roughly consistent with the proposition that wage inflation fell with the advent of the Accord.

The second issue, concerning the possibility that Accord effects fell as the incomes policy changed its emphasis away from centralised wage determination, are unambiguous for the models that have addressed the matter. With estimations now covering the entire Accord period the industrial disputation, real wage and wage inflation models of Morris and Wilson, Lewis, and Mitchell respectively all came up with the same story. It is that the extent of decreases in all three variables is the same for all stages of the Accord.

The second set of results have potentially far-reaching implications for an interpretation of the role of process in the delivery of incomes policy goals. That is, even though the emphasis of wage settlement over time moved some distance away from a centralised and co-ordinated institutional setting, this did not seem to matter for the continued delivery of the objectives of the Accord. This could imply one of several possibilities, or perhaps some combination.

A first possibility is that other social policy changes, which could be interpreted as compensation for continuing wage restraint, were being made continually over

the Accord's lifetime. For example, the introduction of Family Assistance in the early 1990s, the continual improvements in the coverage of occupational superannuation (which included the Superannuation Guarantee Levy) and increases in the value of maternity leave in awards in Accord VIII, were potentially important in maintaining both industrial peace and wage restraint.

If this is the explanation, it could be interpreted as evidence for the benefits of a tax-based incomes policy, interpreted very broadly. That is, if wage earners can be rewarded for restraint in pay claims by the provision of non-wage benefits, there might be positive macroeconomic payoff for governments trading in this sort of arena. The tax-based incomes policy literature (see Okun & Perry 1980) does not generally express the issue in terms of overall remuneration, but it would seem to be worth consideration if this interpretation of the Accord is valid.

Second is the possibility that the structural transformation associated with the Accord eventually became the industrial norm. That is, it might be that there was a cultural change in Australian industrial relations related to some extent to the longevity of the Accord. If this is the case, it would be expected that the post-Accord period will look permanently different from the pre-Accord period in terms of the aggregate variables considered; it is instructive that this seems to be the case for industrial disputation, but at this stage the wages relationships are not clear.

Third, the movement away from centralisation and in the context of certified agreements meant that it became quite difficult for industry-based unions to achieve a rapid transmission of wage changes. That is, part of the industrial reforms associated with the Accord gave increased primacy to the enterprise as the bargaining unit that may have limited the potential for significant and rapid wage increases. In a Calmfors and Driffill context, this might suggest that the industrial changes moved the system from co-ordination to some semblance of flexibility, and in doing so there was an avoidance of the so-called 'hump' of adverse macroeconomic outcomes. Like the second possible interpretation, this suggests that the changes are likely to be long-lived.

Finally is the prospect that informal and behind-the-scenes suasion of key union or government leaders was sufficiently influential to make up for the likely apparent decrease in the role of centralised processes. Such an interpretation might seem to sit uneasily with a formal interpretation of the Calmfors and Driffill model, but it can be seen also to be consistent with its essence. That is, the Accord might be seen to have been an institution informed and motivated by the need to involve the union movement in a centralisation of activities, but which were delivered informally in ways consistent with the Calmfors and Driffill model. If this was the case, the formal move away from centralisation would not compromise outcomes if the behind-the-scenes persuasion was still happening.[13]

A related point with respect to delivery is that with the Accord there were increases in non-wage employment and social security benefits that were

13. Those involved in the process in the 1993–96 period, including the author, have suggested that this was the case.

promoted as compensation for wage restraint in a context similar to the workings of a tax-based incomes policy. There is little doubt that this is true, and it implies that the policy approach offered compensation for socially productive union activity. Again, this is not inconsistent with the Calmfors and Driffill approach, but was certainly an informal and unusual representation of how such a model might work in practice.

A loose test of which of the above is more meaningful is not too far away. The first and fourth possibilities both suggest that strike and wage outcomes are likely to revert to pre-Accord relationships as the Coalition government will not be offering non-wage compensations for restraint, and neither will it be doing political deals with union leaders. But if there has been a cultural or industrial landscape change, the effects on strikes and wage outcomes associated with the Accord will outlive the incomes policy. For strikes this seems to be the case, but the data are not in yet for wage relationships.

4 CONCLUSION

This retrospective analysis of the Accord has both traversed some familiar ground and attempted to open up for inspection some more speculative notions. In the first category is the explanation of the background to the Accord, which is that it had a political impetus conditioned by the new Labor government needing to look different in policy terms from the previous Labor term of 1972–75. But there is also a conceptual basis to the Accord, which was arguably well grounded in the notion of corporatism.

The econometric evidence on changes in industrial disputation, real wages and wage inflation after the beginning of 1983 is fairly compelling, and consistent with that predicted by the assumed theoretical basis of the Accord. Specifically, it seems that instituting a consensual incomes policy in the Australian industrial relations environment of the early 1980s was associated with more propitious industrial and labour cost outcomes.

Perhaps of more interest is that the Accord changed significantly throughout the period 1983–96, and this might be expected to have affected its influence on the variables considered. In particular, the Accord moved the system away from a centralised and co-ordinated arrangement to one giving greater emphasis to enterprise concerns. However, this did not appear to have any implications for strike or wage outcomes, which seem to be identical for all stages of the Accord.

It is too early to be sure if the changes in strike and wage outcomes are permanent, although for the former this seems to be the case. In the coming years this will become clear. No matter what is the outcome, it will constitute important information in our understanding of the role and nature of consensual incomes policies.

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