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Publication details:

Working Paper No. 57
SPRC Discussion Paper
0733410693 (ISBN)
1447-8978 (ISSN)

Publication Date:

1995

DOI:

<https://doi.org/10.26190/unsworks/187>

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SOCIAL POLICY RESEARCH CENTRE

Discussion Papers

No. 57

May 1995

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by

Peter Kriesler and Joseph Halevi



THE UNIVERSITY OF
NEW SOUTH WALES

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Peter Saunders
Editor

Corporatism in Australia

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ISSN 1037 2741
ISBN 0 7334 1069 3

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Abstract

The paper looks at the development of corporatism, first in terms of its European antecedents, then in terms of its adoption in Australia in the 1980s. The historical development of European corporatism is outlined from its formulation within Catholic social thought. Two variants of corporatism are identified. The first, which was closely associated with fascism, aimed at institutionalisation of industrial relations within government departments as a way of controlling labour organisations. This can be contrasted with the second form of corporatism, essentially a post-war European (especially Swedish) phenomenon, which brings labour organisations into the decision process.

After examining recent developments in European corporatism, the relevance to Australia is examined. Corporatism was explicitly taken up by the Australian trade union movement in the 1980s as a result of the breakdown of post-war economic consensus following economic instability in the late 1970s and early 1980s. The Labor Party, which became the government in 1983, had stressed consensus as the basis of its policy making and in this environment corporatism was perceived as a desirable program. It was manifest in the various Accord agreements between the labour movement and the government, which determined the basis of industrial relations via agreements on work practices and wage outcomes. In the light of these agreements, Australia's economic performance from 1983 is evaluated in terms of the success of corporatist strategies. It is argued that these strategies did not succeed in generating the structural changes necessary for the domestic economy to maintain its international competitiveness, mainly due to the failure of any investment policy.

1 Introduction

This paper will deal with the question of corporatism¹ in Australia. At the outset it should be noted that economists tend to pay very little attention to the conceptual meaning of the term which has a much wider dimension than a purely economic one and originates from a complex historical process. This is particularly true for the issue of corporatism as it is meant today. Hence the second section will deal with the evolution of the notion of corporatism. Since corporatism is a wholly European phenomenon, the section will be concerned with experiences emanating from European countries. The evaluation of the corporatist project will be conducted by identifying two forms of corporatism. The first pertains to the inter-war period, while the second refers mostly to the system of industrial relations in place in the Scandinavian countries as well as in Germany and Austria. Its existence dates basically from the end of the Second World War.

As far as Australia is concerned, reference to Europe is essential. Indeed, Australia has had - and still has - a number of institutional arrangements bearing a strong resemblance to the inter-war conceptions of European corporatism. More importantly, however, post-war corporatism has become an explicit reference point in the Australian trade union movement during the 1980s. The manner in which corporatism has been incorporated into the Australian economy is examined in Section 3, while Section 4 attempts to evaluate the implications of corporatism for the Australian economy.

2 Two Corporatisms

Up to the early 1970s, anyone with a minimal political culture would have associated the term corporatism with fascism, and would have agreed that the elements of corporatism present in the post-war period in Europe represented a form of continuity with the fascist regimes of the inter-war years. Not surprisingly, therefore, a regular stream of studies on corporatism flowed from Italy and France, and from the small, but

¹ For a discussion of the meaning and history of corporatism see Halevi (1987).

intellectually powerful, German critical thought. Gradually, during the 1970s, a different conception of corporatism emerged. This was related to a notion of industrial relations based on strong and centralised unions having an institutionalised role in their respective societies.

The first of the two variants of corporatism (henceforth, M1 and M2 corporatism) also gave unions an institutionalised role. However, this institutional role was based on the physical elimination of the pre-existing, autonomously structured, socialist and communist labour organisations. In the M1 framework, industrial relations are governed, principally, by the Ministry of Labour. The unions become, therefore, instruments of mediation and of implementation of the directives springing from the ministry. The juridical and technical forms of M1 corporatism are characterised by a system of arbitration tribunals which, on one hand, absorb the bulk of the energy of the functionaries of the official unions, and on the other, put the unions in a subordinate position. This is so, because the bodies envisaged by corporatism M1 are staffed by lawyers and 'experts' of all sorts, i.e. by social figures belonging to the classes for whom corporatism is a political instrument necessary to anchor the position of the working class at the bottom of the social hierarchy.

Fascism did not invent corporatism, nor did it devise its juridical form. In Europe, corporatist ideas are found first and foremost in Catholic social thought. In countries where Catholicism strongly influenced, directly and indirectly, the formation of political parties corporatism became a central component of a political and economic discourse in opposing the socialist movement² (Germany, Bavaria in particular, Austria, Italy are all examples of this). In Europe, M1 corporatism signified the elimination of the organisations produced by the history of the working class itself. In Latin America, especially in Argentina and in Brazil, it had a more ambivalent role. Corporatist forces in Latin America took from Italian fascism the notion that labour unions should be subordinated to the Ministry of Labour. At the same time, Latin America corporatism represented the

2 In Australia the Catholic church has, historically, played a significant political role. Since the second world war, it has been associated with anti-communist movements in the Labor party. Hence, there are important connections, in Australia with M1 corporatism.

institutionalisation of the populist strands emerging from within the labour movement. Thus, as shown by Brazil's political history, corporatist institutions were used by labour leaders to expand their influence while the conservative forces used the same institutions to tighten the controls over labour organisations.

The above situation may be contrasted with M2 corporatism, which is essentially a post-war European phenomenon and remains confined to a relatively small number of countries. It builds upon, rather than rejecting, the autonomy of labour organisations vis-à-vis the state. But the term corporatism does not appropriately convey the character of class relations in the countries described as ruled by the M2 system.

The most important example of M2 corporatism is the Swedish system, which was based on the particular role of the metalworkers connected with a profit squeeze notion of economic progress. The metalworkers would set the pace of wage demands, while the central union would ensure the spreading of those gains to the rest of the workforce. Sustained by appropriate policies by the state - such as retraining programs and taxation policies - the weaker sectors would be induced to react to the profit squeeze by means of technological restructuring. The Swedish case can hardly be called a model, if by model we mean something that can be reproduced regardless of its historical specificity. It took nearly twenty years to materialise in the form of the famous Rehn plan in 1951. It began to unravel in the mid-1970s³, precisely when sociologists and economists in the Anglo-American world started to consider it as a viable alternative model.

Austria and Germany are perhaps closer to a corporatist setup, not so much because of the unions' strategic decisions, but because of the historical conditions which marked the evolution of class relations. In Austria, during the inter-war period, corporatist orientations came from conservative Catholic forces who allied themselves with the fascist Heimwehr. This process was crowned by the corporatist constitution passed under the government of Chancellor Dolfuss in 1934. The

3 For reasons discussed below.

stabilisation of the Dolfuss regime was predicated upon the destruction of the social democratic movement, as shown by the military repression of the Vienna pro-democratic uprising in 1934. After the war, Austria underwent a long phase of occupation which lasted till 1955. In this period the Soviet Union pushed for the nationalisation of the heavy industries, while the British, thanks to the farsighted vision of Bevin, pushed for a strong institutionalisation of the reborn social democratic unions. This was done with the objective of limiting the power of the conservative - mainly Catholic - forces who did not shed their traditional corporatist orientations. Hence, if, after 1955, the Austrian labour movement found itself endowed with a greater sphere of institutional influence, it was due to the limits imposed upon the traditional conservative forces of the country.

In Germany, by contrast, the unions found themselves, right from 1949, under the pressure of the old corporatist forces now under the umbrella of the Christian Democratic Party, CDU, and of its Bavarian ally the Christian Socialist Union, CSU. As against the wide ranging reform proposals advanced by the labour movement in 1949, the CDU proceeded to shape the new Bonn republic on the principles of traditional corporatism adapted to a parliamentary regime. The two main aspects of this strategy, were the links between the core firms and the state (Reich, 1990) and the notion of a social market economy. The latter is nothing but a prescription for a tightly hierarchically structured society where the fruits of growth are supposed to be filtered from the top down. The hegemony of the CDU-CSU in shaping the institutions and the priorities of post-war Germany, compelled the labour movement to accept the surrounding economic environment as expressed by the notion of social partnership developed by the German Trade Unions or DGB in the early 1960s.

The common characteristics of the Swedish, Austrian and German experiences in labour relations lie in the sectoral basis of trade unions, relatively centralised wage systems, and the existence of a significant cooperative sector, with its own banks and credit institutions, attached to the social democratic parties. These three elements form the foundations of the politics of class compromise in those countries. Sociologists and economists became attracted by these experiences because, as the post-war boom ended, they appeared to show a greater degree of social equity and economic rationality than the purer forms of capitalism of North America and Britain. Economists have usually taken the first two of the

above three elements as hallmarks of the post-war corporatist model M2, forgetting that - as Eduard Bernstein clearly realised at the beginning of the 20th century - the creation and expansion of the cooperative movement was to act as a prime mover in the transformation of labour's politics from class confrontation to social participation.

There are some crucial problems in transforming M2 corporatism into a normative model. The main limitations lie in that M2 experiences are all strictly determined by the nature of class and social relations prevailing during the formative years of each of the corporatist M2 experience. In matters related to the political economy of the state in the post-war period, as well as to the institutional behaviour relatively to the appearance of economic crises, the historical specificity of each of these cases overwhelms the imputed normative value which, at any one time, can be ascribed to any of the above mentioned experiences.

In Sweden, the labour movement gained the upper hand in 1932 and produced its Rehn model only after many years of social democratic government. This model governed Sweden's political economy for three decades, even the conservative government of the 1976-1982 period was not interested in undoing the institutional structure which sustained it. It is, therefore, understandable why its modification in the 1980s did not entail the outright abandonment of the goal of full employment. To undo it much more systemic forces had to be in operation. Those systemic trends gathered momentum during the 1980s. The core of the Swedish system is represented by the alliance between the large firms and the respective unions, which are structured by industrial sectors. Within the alliance the metal-workers played the crucial dynamic role. They set the pace for wage negotiations and imposed the criteria for achieving international competitiveness. The alliance worked as long as the international expansion of Swedish capitalism did not conflict with the creation of jobs at home. During the 1970s, however, some basic changes took place. Firstly, the share of industrial employment over total employment declined very sharply, more than in the other industrialised countries of Western Europe, with the exception of Britain.

In Germany, on the other hand, it was not business who had to mediate with the position of the labour movement, but the other way around. Like the Social Democratic Party, SPD at Bad Godesberg in 1959, the trade

union confederation DGB accepted, in spite of the strong reluctance of the IG Metall, the framework laid down by the CDU leadership. The idea of social partnership was an attempt to mediate with the idea of a social market economy emanating from the traditional corporatism of the CDU. The objective was really to link up wage bargaining and macroeconomic employment policies. In this respect, the German trade unions had a strikingly different impact on society when compared to their Swedish colleagues. Indeed, unlike the Swedes, they never succeeded in linking together those two elements. By the end of the 1960s, the unions put much faith in Karl Schiller's brand of Keynesianism. Schiller's technocratic Keynesianism contrasted with any autonomous wage push by the union movement, even if the latter was the result of the profit explosion following the recovery from the 1966 recession (Hennings, 1982). The unions viewed Keynesianism as a way to shift the pattern of capitalist accumulation in Germany from investment goods and exports to more domestic oriented activities. Instead, Schiller's approach was to combine Keynesianism with an export oriented effort obtained by means of greater concentration, which, in the eyes of the SPD technocracy, would bring about greater efficiency. Thus in the wake of wage increases, the SPD government did not recoil from enforcing tight fiscal policies leading to very un-Keynesian results: an export surplus combined with a fiscal surplus.

In the 1968-1973 period - the phase in which conditions were, politically and economically, most favourable to the labour movement in Germany's post-war history - the unions failed to bridge the gap between the strategies related to wages and working conditions and those related to employment oriented macroeconomic policies. This failure is not so much due to 'errors' on the part of the DGB, but to the fact that in order to establish that link effectively the whole nature of the German corporatist - CDU inspired - relations had to be challenged. The virtual impossibility of breaking out of a purely industrial relations framework has been confirmed and, indeed, strengthened during the 1970s and the 1980s. In these two decades Germany's unions had to accept the supremacy of the Bundesbank and its prerogatives, although they periodically aired Keynesian alternatives. The most important of these was the so-called **Keynes plus** plan launched in 1981. The **plus** element of the plan consisted in tying employment policy to a comprehensive reformulation of the manpower policy of firms. This plan was never to be heard of again.

The subaltern position of West German trade unionism - institutionalised during the roll back period of the 1950s - led, especially since 1974, to a redefinition of the social basis of the labour movement itself. In other words, Germany's unions, might have been relatively successful in preventing a widening of the wage dispersion but, they had to submit themselves to the deliberate formation of a reserve army of the unemployed, something unthinkable in the Swedish context. The *de facto* acceptance of unemployment produced, in the process, a redefinition of the social basis of the labour movement. The creation of mass unemployment hit, principally, the immigrant workers who, early in the 1970s, emerged as a particularly militant segment of the working class. During the rest of the decade, however, due to unemployment and to the ensuing policies by Bonn's authorities, many immigrants left the country, in total more than 600 thousand of them. In practice the labour movement, although reluctantly, acquiesced to the new situation by concentrating mostly on the defence of German workers. This was nothing but an expression of impotence relatively to the employment issue. In the 1980s, with the **Keynes plus** plan silenced, unions showed the cooperative attitude in relation to industrial restructuring (Katzenstein, 1989), by subordinating themselves to the export oriented priorities of Germany's monetary authorities and business in general. In the end, labour virtually abandoned any idea of reflationary policies and agreed to subject employment prospects to the growth of exports (*Die Zeit*, 1985, Nos 28 and 49). The role of unions, sustained by corporatist arrangements, was seen by the DGB leadership as contributing to the retraining policies necessary to keep up German competitiveness.

The second line of defence adopted by German unions did not lead to significant gains on the unemployment front, but yielded some important results in relation to the composition of employment. During the 1980s, unemployment peaked at 8 per cent in 1985, then easing to 6.2 per cent in 1990. In the second half of the decade, the 'participation' in retraining policies aimed at expanding Germany's export drive, contributed to safeguarding the position of male industrial workers. The share of industrial employment over total employment declined, by 1990, to 39.8 per cent from a post-war peak of 47.1 per cent attained in 1968. This represents the slowest decline among the European countries. Most of the reduction occurred in the ten years spanning from 1974 to 1983, thereafter the fall in the industrial share was only 1.3 per cent. In this context, the

slow fall in unemployment rates after 1985 benefited chiefly male workers. Unemployment rates for women remained steady at 9-8.8% from 1983 to 1989. Employment prospects for women improved somewhat only after the growth rate of the German economy increased significantly in the 1988-1990 period.

Thus, in the 1980s German unions did go through a marked corporatist transformation in the traditional meaning of the word corporatism. At its face value, corporatism M1 recognises the validity of defending the interests of wage earners not in class terms, but purely in sectional terms. The road travelled by German unions points to a corporatist M1 transformation in the sense that, after the spate of workers' militancy in 1969 and 1972, which involved many immigrants and women, the unions witnessed a systematic restriction in their social sphere of action. Initially, they *de facto* de-linked themselves from immigrant labour, then, during the stagnation of the 1980s, they concentrated on industrial, mostly male, workers. This was not the result of a deliberate strategy. The unions of the Federal Republic of Germany (FRG) did not decide to abandon immigrant workers, nor did they deliberately choose to defend male over women workers. Instead, the sectionalism, hence corporatism, of the unions' sphere of action was the result of the prerogatives imposed on them by the policies of the monetary authorities and which, in their drive for exports, tended to favour the capital and investment goods industries. Of the two forms of corporatism, the inter-war variant - that is the fascist variant - is closer to the status of a model in a legal sense. This is so because the juridical and technical norms regulating M1 corporatism were consistent with the declared objective of eliminating the socialist movement from the body politic and of relegating the working class to a subordinate position. Corporatism was, in this sense, genuine since it institutionalised a tight hierarchy of class relations without establishing any formal wage productivity links or employment objectives. M2 corporatism is hybrid collection of experiences resulting, mostly, from the post-war situation. Just as M1 corporatism was the expression of the political and economic crises of the inter-war period, M2 corporatism was sustained by the determination shown by European governments in the first two decades after 1945 to maintain high growth rates. When this determination began to fade (as predicted by Kalecki in 1943) the parameters of M2 corporatism were also affected, including those of Sweden.

3 The Aussies: nach Europa und zurück

This brings us to the important question of where Australia fits into the picture. Given the importance of the Catholic church in the evolution of corporatism as well as its role in the development of Australia, it would be surprising if there had been no attempt to reproduce corporatism. In particular, the Catholic church has played an important part in both the union movement and in the Labor party. In fact, during the McCarthy years, the vehement anti-communism of the church led to the split in the Labor party which kept the conservatives in power, at the Federal level, until 1972.⁴

Australia's early history had elements of M1 corporatism without fascism. This early form of corporatism was centred on a number of policy imperatives. The most important of these was the general acceptance, from Federation until the early 1980s, of protectionism as a national economic strategy by all players in the economic and political spheres. In addition, until the 1970s, there was general agreement as to the nature of immigration policy.

European corporatism was explicitly taken by the Australian trade union movement as a reference point for reconstructing Australian industrial relations in attempting to develop a full employment economic policy for the 1980s. Before this explicit adoption of M2 corporatism by both the Federal Government and the union movement, the unions maintained centralised control over the wage decision process. In addition, for historical reasons, the process of arbitration of wage decisions was also conducted at a centralised level, with representatives of employers, unions and the Federal Government making their case before a federal court. This court set minimum award wages, which were also suggestive for the majority of workers who received over award payments. As a result, labour relations were - and still are - governed by a system based on the Conciliation and Arbitration Tribunals, the legal configuration of which

4. According to Professor Bruce McFarlane (personal communication) of the University of Newcastle, part of the agenda behind the split was an attempt to change the direction of the Labor party in order to change its ideology into that of an agrarian corporatist culture.

bears a strong resemblance to the corporatist code formulated by the Italian nationalist jurist, and Mussolini's minister of justice, Alfredo Rocco. In these bodies unions are relegated to a subaltern role. The outcome of wage negotiations is decided on a pre-eminently legal basis in which judges and lawyers play a dominant role in what are, in fact, economic decisions.

The important point to note is that, despite the centralised wage system, the union movement, before the 1970s did not have macroeconomic policy objectives. The high levels of employment in the post war period meant that these were taken for granted so that union activity focused on the question of wages and conditions. This partly explained the lack of any discussion of the need for structural policies, which was reinforced by the fact that, with the important exception of capital goods and some final consumption goods, Australia produced nearly everything which it needed. In terms of the economic debate, it was argued that the main fetter on growth was the need to import financial capital and services.

Thus, the conversion of the Australian unions to corporatism M2 is to be explained by two facts, one concrete and one idealistic. The material one is represented by the breakdown of the economic stability which allowed Australian early corporatism to survive, while the second is related to the explicit import of ideas derived on the basis of the Swedish experience.

The Breakdown of Economic Stability

For almost the whole period of 1949 to the beginning of 1980, Australia had a surplus in its trade account, while a substantial deficit in the income and services account led to a current account deficit for most of that time. Throughout that period, Australia had a net surplus on private sector capital inflows. This was put down to the country's relative youth, which was used to explain the scarcity of capital. The situation changed with the deregulations of the 1980s, which had substantial impacts on the domestic economy. Before then, Australia's economic growth had been based on the primary goods sector, while the manufacturing sector played a secondary role. Despite the substantial inflow of foreign capital, as well as direct investment by multinational companies, the secondary role of the manufacturing sector has not changed. This is because foreign investment in Australia was not dynamic; the domestic market generated levels of

demand below that of the expertise and technical level of those firms. The multinationals' aim was never to use Australia as an export base; production was aimed exclusively at the small domestic market, so there was never any intention to generate economies of scale. Rather than being part of an overall production strategy by these companies, multinational investment in Australia was merely an attempt to exploit quasi-rents resulting from domestic tariffs. Tariffs were unable to engender a local capital goods industry of specialised machine tooling.

During this time, Australia's growth rate, although allowing the maintenance of full employment, was, nevertheless, relatively low. This was due to the maintenance of the importance of the primary goods sector in the structure of the economy. Initially this was related to Australia's ties to the United Kingdom, which was its main importer until the mid-1960s. This role was then taken over by Japan (see Foster and Stewart, 1991: 11). At the same time there was a switch from rural exports as the main category of exports to minerals (Foster and Stewart, 1991: 10). Notwithstanding the fact that the Asian expansion absorbed some of the surpluses, this left exports in a weak position, at ever unstable and deteriorating trend terms of trade (see Gruen, 1986; FitzGerald and Urban, 1989; and Abelson, 1989). That there has been no transition to a more sophisticated manufacturing export base, and no fundamental change from Australia's traditional reliance on raw material and commodities exports is well documented. In addition, there are indications of a long term decline, of at least 20 years, in the terms of trade, which are likely to continue for some time (see Gruen, 1986; FitzGerald and Urban, 1989; and Abelson, 1989).

When the full employment period broke down with the collapse of the Bretton Woods system, and therefore the collapse of the fixed parity system, Australia was in a double bind over the future of exchange rate movements. Whatever the direction of exchange rate changes, there would be net negative effects on the domestic economy. The movement of exchange rates cannot be explained by equilibrium theory, as it is the result of disequilibrium capital flows. Given the peculiar nature of Australia's imports and exports, exchange rate movements are unlikely to lead to improvements in the balance of trade. As most of Australia's exports are primary commodities, they adjust more to changes in world income than to prices, so that they are relatively price inelastic. Imports are mainly

intermediate and final manufacturing goods. Demand for these is income elastic, but will display asymmetry with respect to price elasticity. Due to the limited nature of import competing domestic industries, there is a low supply elasticity of import replacement. As a result, a real exchange rate depreciation would hit the industrial base by causing increased cost of imported capital goods, without bringing forth domestic substitutes. So the likely impact would be inflationary. A revaluation, on the other hand, would have a more ambiguous effect on the industrial base. It would hit the industrial base by increasing imports of consumer manufactured goods, whose demand is relatively price elastic for reductions in price, while at the same time it would reduce the costs of imported inputs. In either case it is likely that the industrial base will be squeezed. This is because the industrial base is too weak to regenerate itself. Instead of becoming stronger during the 1950-1973 period, the structure of the local economy became less adaptable as it still relied heavily on a declining primary sector. So it absorbed passively the negative effects of exchange rate changes. This may be contrasted with Sweden and Finland where active exchange rate policies were used to restructure the economy, e.g. by combining devaluation with retraining programs and investment programs to retrain and re-equip the economy for the new condition, so making the economy more flexible.

Australia was hit by the changes of the seventies on two fronts: firstly the initial increase in the price of raw materials raised the cost of production causing a cost push inflation, as was the case in all other industrialised countries. This took place in an environment characterised by extreme competition in manufacturing products coming from South East Asia and Japanese economic areas, where development was showing much greater scale economies than anywhere else in the world. Secondly, since Australia's position in the world economy was determined by primary products, their increase in price crowded out the manufacturing sector. The main mechanism through which this occurred was through the appreciation of the exchange rate which reduced the ability of the limited manufacturing sector to compete with imports. This influence was especially strong in the late 1970s and early 1980s, leading to deindustrialisation. From a rational perspective increases in raw material prices and in the exchange rate should have helped modernise the economy as capital goods became relatively cheaper. Australia could have built a sophisticated and specialised industrial structure. However, due to these effects, the increase

in raw material prices had the opposite impact via an overvalued exchange rate leading to serious contractions in the manufacturing sector rather than to expansion. This further led to speculative gains in the raw materials sector, and a standard recession in the industrial sectors.

The crisis of the 1970s, just outlined, brought about the collapse of the division of tasks between unions, firms and the government which had dominated Australian economic life since the 1945. According to this implicit arrangement, unions would be concerned with wages and conditions with no involvement in investment decisions, which were deemed to be the exclusive domain of management. Employment, on the other hand, was thought to be a matter for government policies. The conservative governments of the 1950s and 1960s operated well within these parameters.

The crisis shattered the post-war consensus. During the first half of the 1970s Australia was governed by a very advanced Labor Government under the leadership of Gough Whitlam. On the social plane it was the Whitlam Government, rather than that of Hawke which represented the first attempt to introduce elements of Scandinavian reformism, through the introduction of universal health care and free tertiary education. Whitlam also attempted to defend the bargaining power of labour by setting up, in a period of mounting economic difficulties, retraining programs. It is safe to say that neither labour nor capital were in a position to respond constructively to the crises. The former was still too fragmented in many craft unions and too locked up in a 'wages and conditions' mentality, to shift its emphasis to social policies. The latter, by contrast, saw in the deliberate creation of a reserve army of the unemployed, the most appropriate response to the crisis. From 1976 to 1983 Australia was ruled by a conservative coalition which, while operating on the basis of traditional protectionist principles, attempted to discipline capital against labour through the use of the corporatist legal framework. The threat of the price justification tribunal was used in order to stiffen managements' resistance to unions' demands. This was coupled with the government threatening to take unions to court in order to deregister them. Thus, the institutional framework of mediation - which legally had many elements in common with M1 corporation - was being turned into an instrument of confrontation.

Labor's ascendancy to power in 1983 was mostly due to the high level of unemployment (10 per cent) which set in from 1980 onward. Hawke stressed the idea of reducing unemployment with a policy based on compromise, in direct contrast to the confrontational policies of Fraser. Its first task was to disentangle labour from capital and to create a climate where - to use a phrase of the then treasurer Paul Keating - those who rule wages rule the country. The Accord constituted, in effect, the basis for both the disentanglement and the implementation of the second task. However, the Accord did not represent a sufficient condition: as such it did not reflect any specific union strategy, thereby appearing as a government directive. Furthermore, its implementation required a consolidation of the multitudes of Australian unions into a smaller number of larger organisations, which became an explicit policy requirement. The only large organisation which could act as a gravitational force was the left wing Metalworkers' Union, always used to concerted forms of action.

In this context, the Communist led metal workers union was coopted into the Accord platform as the crucial force which was supposed to provide the union specific input to the policy framework.

The Import of the Swedish Model

It is important to realise that the introduction of the corporatist policy by the Labor part occurred in two stages. On the political front, Hawke explicitly adopted a conciliatory and consensus approach to economic policy making as a reaction to the confrontationist regime of Fraser. Part of this policy, devised before the election of the Labor Government in 1983, involved an agreement between the Labor Party and the union movement, subsequently called the Accord. The unions, under the leadership of the metal workers union, later, after research into European models, published a document called *Australia Reconstructed* which explicitly proposed a Swedish type corporatism with centralised wage fixing and an agreement with the government linking productivity and employment in exchange for wage indexation.

The underlying idea of the Accord was a commitment to full wage indexation and an alternative to the confrontationist policies of the previous conservative government. The first Accord was aimed at achieving full

employment growth without, at the same time, contributing to inflation, as the following extract from its introduction indicates:

It is extremely significant that the countries which have managed to fare better in this time of economic adversity, particularly by keeping unemployment to relatively low levels, have been notably those countries which have eschewed monetarism and have instead placed substantial importance on developing prices and incomes policies by consultation.

It is with this experience in mind that both organisations [the Australian Labor Party and the Australian Council of Trade Unions] have seen fit to try to develop a mutually agreed policy on prices and incomes in Australia for implementation by a Labor Government. Such a policy offers by far the best prospect of enabling Australia to experience prolonged higher rates of economic and employment growth, and accompanying growth in living standards, without incurring the circumscribing penalty of higher inflation, by providing for resolution of conflicting income claims at lower levels of inflation than would otherwise be the case. With inflation control being achieved in this way, budgetary and monetary policies may be responsibly set to promote economic and employment growth, thus enabling unemployment to be reduced and living standards to rise. (*Statement of Accord by the Australian Labor Party and the Australian Council of Trade Unions Regarding Economic Policy*, 1983, Appendix A in Stilwell, 1986: 160)

In the early years of the Accord, the union movement had no explicit model of what they were trying to achieve, other than a general commitment to wage restraint and full employment, identified in this agreement. This brings us to the second stage of the Accord, which was the result of the unions studying Sweden in 1986. In the early 1980s, the ACTU sent a delegation to Northern Europe and Germany, to study their experiences of corporatism and to prepare a report of the applicability of these experiences to Australia. The unfortunate upshot of this was that the

specific history and social institutions of the Australian economy were ignored in the recommendations. Rather, the report implied that the outcome of the Swedish case was desirable, and assumed that to achieve the same results all that was needed was to implement the same policies thus ignoring both fundamental differences between the countries, and the changes in the world economy which undermined the Swedish and German strategies.

Australia Reconstructed (ACTU/TDC, 1987), the report of the ACTU mission to Scandinavia and Germany, took the Swedish system, which was based on their metalworkers, as well as the German retraining system, as the basis of an attempt to shift the Australian labour movement's outlook away from a purely wages and conditions approach. However, they did this without any realistic idea of the direction in which they were leading. In particular, two major shortcomings of the blind absorption of the Swedish system must be pointed out. The first relates to the character of Australian unionism and to the role of the government, while the second relates to the evaluation of the economic situation in both Sweden and Australia.

The problem which led to the abandonment of the Swedish model as a policy option in the Australian case was the different nature of the structure of unions. In the European example, unions were sectorially based, so that union policies implied sectoral policies. In Australia, by contrast, unions were trade based, and so crossed over many sectors. This meant that there was no logical benefit from union wide retraining programs as these crossed many non-intersecting skill requirements. In Sweden and Germany the capital goods sector was nurtured by capitalists independent of unions, and there are highly specialised technical skills schools. There is no equivalent in Australia, where education tends to be unrelated to skills. In Germany and Sweden the relation between the importance of metal workers and the importance of the capital goods sectors meant that there was an important related role for technical skills. In Australia, highly skilled tradesman replaced the capital goods sector, so skills, and hence retraining, was not attached to individual sectors. This makes the Swedish/German model of retraining inapplicable to Australia.

There was an additional consideration from the macro-side, related to the role of the government. In Sweden the public sector maintained a

significant role in terms of spending, particularly on infra-structure. This did not happen in Australia, where, on the contrary the Federal Government intentionally changed policy to generate a budget surplus in the late 1980s. In order to consider the question of the stance of government policy, it is not sufficient to merely analyse the size of its deficit. As is well known, the size of the government sector deficit is determined not only by its policy stance, but also by the state of the economy. Therefore to consider the underlying policy intention, it is important to discuss the 'structural' deficit, that is, the deficit corrected for cyclical effects⁵. Both the actual and the structural deficits are shown in Table 1.

To understand the second aspect of the inapplicability of the Swedish model to Australia, we need to look more closely at what happened in Sweden. In a recently published paper Rudolf Meidner (1993), the father, with Rehn, of the Swedish model, identified the failure of the Swedish experiment in two inter-related phenomena which occurred in the last two decades: the growth of white collar employment and of the financial sector.

Unlike Germany, Sweden experienced a very steep decline in the share accruing to industrial employment. The concomitant rise of white collar employment, Meidner argues, brought to the fore other types of unions which were politically neutral and not interested in centralised wage fixing. As a result, 'the homogeneous union movement became fragmented and conflicting interests debilitated Lo's fight for egalitarian wage structure' (Meidner, 1993: 223).

Alongside this phenomenon the economic transformation of Sweden was no longer allowing the implementation of a profit squeeze strategy to sustain the egalitarian wage structure. The other side of the coin is that the more efficient firms actually obtain extra profits. As long as production was essentially domestically based and legal controls inhibited the free

5 Neville (1994) contains an excellent discussion of the principles behind the derivation of the structural deficit, as well as an explanation of how the values for Table 1 were derived.

Table 1: The Structural Deficit Australia: 1973-74 to 1993-94

	Actual Deficit (\$m)	Structural Deficit ^(a) (\$m)
1973-74	1.4	-3.0
1974-75	4.1	-3.1
1975-76	4.2	-1.3
1976-77	3.6	-0.6
1977-78	5.1	0.5
1978-79	5.1	1.6
1979-80	3.8	-0.9
1980-81	3.3	-1.3
1981-82	3.6	-1.0
1982-83	6.1	-0.9
1983-84	7.4	2.9
1984-85	5.7	2.1
1985-86	5.7	1.5
1986-87	4.8	0.4
1987-88	1.3	-1.7
1988-89	-0.7	-2.9
1989-90	1.1	-0.5
1990-91	2.6	-0.4
1991-92	5.6	2.0
1992-93 ^(b)	5.7	1.8
1993-94 ^(c)	6.0	1.8

Notes: a) Rows may not add to total due to rounding.
 b) Based in part on preliminary data.
 c) Based on forward estimates and estimates by the author.

Source : Nevile, 1995.

movement of international capital, profitable firms tended to reinvest the extra profits in the domestic economy. All this started to wane with the transnationalisation of Swedish firms and with the lifting of financial controls. Today, Swedish capital is free from restrictions and can flow out of Sweden in search of better financial returns or for cheaper labour. In Sweden, as well as in the UK, the decline in manufacturing jobs has not been compensated by the rise of services.

When Australian unions were studying the Swedish experience they were looking, in 1986, at something which was passing away, because it was not compatible with Swedish capitalists' interests. However, one finds no hint in the Australian report of the dire straits in which the Swedish economy was finding itself.

The attempt to copy Sweden blindly could have been mitigated by a sober comparison with the Australian situation. In terms of the composition of employment, similar trends as in Sweden prevailed. Yet, in Australia's case, the rise in the service sector - mostly banking, finance and tourism - the decline in industry and the formation of a plethora of small technologically primitive business (especially in NSW) did not mean the growth of another form of unionism. Instead, the shrinking of industry meant the exit from unionism altogether. Thus, precisely when, under the leadership of the metalworkers, Australian trade unions was trying to counter the negative influences of the 1970s by means of the Accord and of a Swedish inspired form of centralisation, their social basis was being pulverised. The 1980s represent indeed a decade of sharp decline in union membership and in the social basis of centralised wage fixing: from August 1986 to August 1992, trade union membership fell six percentage points, from representing 46 per cent of full time employees, to representing only 40 per cent (ABS, 1993b).⁶

Structurally, Australia has been experiencing since the early 1970s a decline in the role of industry and a formidable expansion of finance. Unlike Sweden, industry in Australia has not played a dynamic role as it was a passive importer of capital goods, often using already obsolete

6 Peetz (1990) argues that structural change changing the composition of employment accounted for over half the decline in union density from 1980 on.

production lines. As a result of the industrial crisis in the 1979-83 recession, manufacturing began to be perceived as dwindling and sectors like finance and tourism were portrayed as being the saviours of the economy. The Australian Labor Government *de facto* accepted this view, while deriving its stability from an agreement with a predominantly industrial union movement, soon to be marginalised.

The basic agreement between the Labor Government and the union movement, the Accord, underwent many important changes as a result of the changing economic environment. So far there have been seven different versions of the Accord. The earlier versions of the Accord were mainly restricted to agreements about the level of wage increase. Initially, full wage indexation was agreed upon. However, Accord Mark 2 eroded this, as a result of the major depreciation of the value of the currency in 1985. The inflation rate was discounted for the effects of the depreciation, so that partial indexation resulted. It was the later versions of the Accord, from Mark 3 on, which explicitly incorporated the corporatism M2 considerations derived from the Swedish model. As a result, considerations other than wage setting entered into these later agreements, in particular measures aimed at inducing productivity growth, such as retraining and reskilling, as well as measures aimed at changing the nature of industrial relations, such as reductions in the number of unions, and a shift towards enterprise agreements.

These recent changes to the basis of Accord agreement have had two significant effects on the labour market and on the potential of corporatism. The first of these has been the push to reduce the number of unions. This has been extremely successful, with the number of unions falling from 326 in June 1986 to 188 in June 1993 (ABS, 1993 a,c). Although this has tended to increase the centralisation of wage bargaining decisions, it has not solved the fundamental problem of Australian unionism, that, rather than industry or firm based unions, they are occupationally based so that agreements within an industry still involve many different unions. The other, more recent, policy push has had the opposite effect. This has been the attempt to decentralise the main elements of corporatism by the implementation of enterprise bargaining. In other words, instead of the main agreements affecting labour coming from an agreement at the economy wide level, enterprise bargaining would

break this down so that each enterprise would be required to enter its own agreement, although the agreement must be made through existing unions.

4 Corporatist Policies under Labor

Against this background, we can evaluate the corporatist policies of the Labor Government since 1983, to see whether there has been the necessary change in the underlying structure of the economy to allow the return of full employment. Instead of being concerned with long-term questions of the structure of the Australian economy, the Labor Government has been more concerned with short-run problems relating to maintaining steady macroeconomic performance so as to ensure electoral victory.

One of the main uses which the government made of the Accord was to legitimise a reduction of real wages, in return for a trade-off for higher growth and employment. However, this did not lead to a strengthening of industry. Despite the fact that there was a substantial increase in corporate profitability during the 1980s, real fixed capital expenditure investment did not increase (see Stegman, 1993). As a result, the gains from the Accord were short term, in terms of employment during the 1980s, with no implications for long-term growth, employment or structure.

The fundamental problem with corporatism is that, instead of being a basis for a program of economic reform, with agreements not only in the labour market but also with both financial and industrial capital, the lack of involvement of capital has reduced its effectiveness. Instead of encouraging investment, the Accord has proved to be a way of reducing real wages in order to provide short term gains in unemployment⁷. With no investment policy, there was no discussion as to required change in the structure of the economy. As a result, the serious deterioration in Australia's current account throughout the late 1980s meant that any gains were quickly reversed.

7 See Flatau et al. (1991) who argue that the Accord increased the influence of 'outsiders', particularly the unemployed, and, as a result, employment levels were higher than they otherwise would have been.

The essential problem has been the lack of involvement of capital as part of the Accord. This may not have been important, if it had brought a stable economic environment and encouraged investment. However, this has not been the case, due to the victory of financial capital at the expense of industrial capital.

This has been reinforced by the level playing fields view, which has led to reduced government involvement on the rationale that it would allow 'market forces' free play. However, all this has done is to reinforce the power and monopoly elements that already exist. Level playing fields only advantage those who already have power. The emphasis on market forces and (so-called) level playing fields are ideological rather than aimed at any real benefit to efficiency. Market forces are the sum total of different balance of powers, they do not themselves guide things but are the outcome of processes which are at the level of decision making. So these forces are the sum total of the relation of the market and the state, and are often the result of previous intervention. This is shown very well by the experience of many of the countries of East Asia (particularly Japan and South Korea) where the development of capitalism has been the result of deliberate interventionism. In no way do their capitalist successes correspond to the blueprint of a free market. In Australia there has been a prevalence of those groups which call for a total hands-off policy, ignoring the implications for the domestic economy. For example, such policies will lead to further worsening of raw materials terms of trade, as strong countries like the USA impose their conditions on Asia, as they are forced, increasingly, to rely on the export of primary goods. Australia cannot compete as an equal in such an arena.

Overall, what we see, then, is the tremendous importance of international forces for Australia's growth. This is reinforced by historical evidence which shows a strong correlation between world economic activity and Australia's growth (see McLean, 1989). It is our contention that demand factors originating from overseas have provided the main restraints to domestic growth. In particular, the structure of the domestic economy limits its ability to respond to increased aggregate demand without either domestic bottle-necks or balance of trade constraints. These constraints are reinforced by the nature of Australia's exports and imports.

This, coupled with the effects of financial and exchange rate deregulation, in turn reinforced short- and long-run balance of payments problems. The net effect of this is to augment long-run pressures which tend to reduce the size of the industrial sector. To combat these, especially the effects on the balance of payments, the government has attempted to reduce the level of domestic demand. The main instrument for this has been high interest rates, which also serves to maintain a high exchange rate. This has been reinforced by deregulation of both the exchange rate and of financial markets. The cumulative effect of these is to make any long term investment less attractive, and make the market more myopic. This has manifested itself in a decline in private fixed investment expenditure (except in building and construction), and a shift towards the acquisition of financial assets.⁸ The deregulation of the exchange rate has led to greater volatility, and this has had serious implications for investment. On top of this, the deregulation of financial markets and the high interest rates have led to a strong bias towards investment in financial assets and to an increase in the number of mergers and takeovers as substitutes for investment in industry.

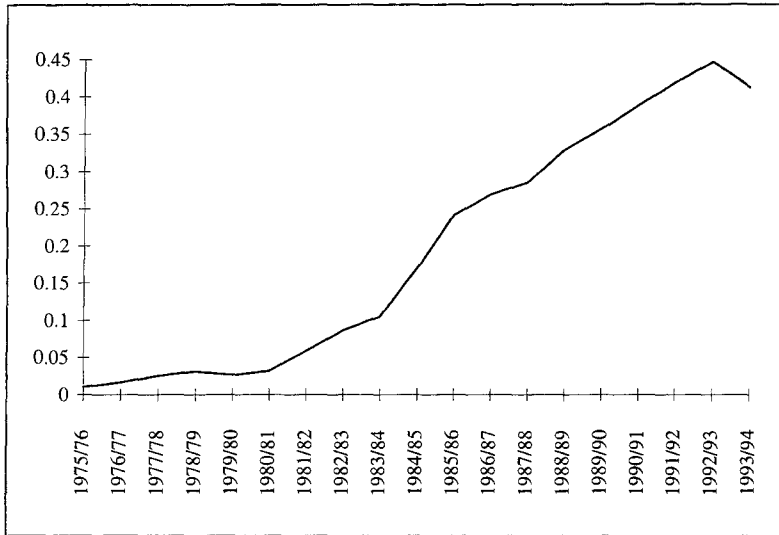
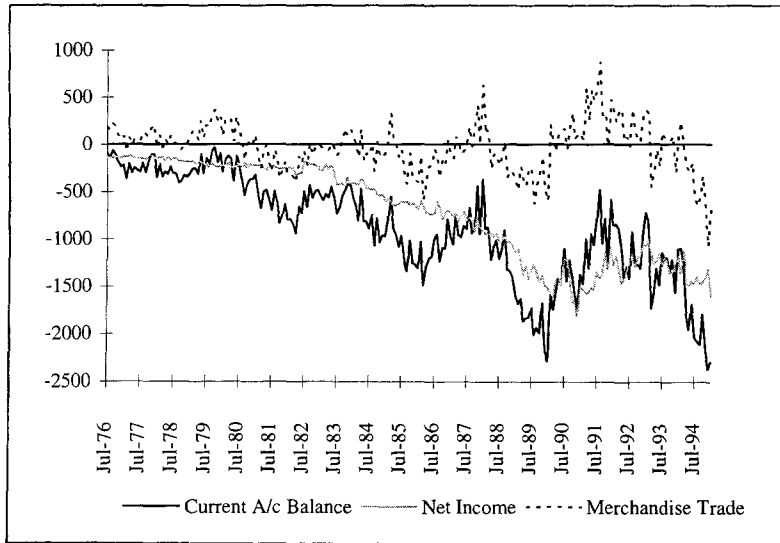
In Australia, deindustrialisation gave power (social and economic) to those sectors, like finance and recreational services, which are relatively free from the industrial base, and which have been motivated by the characteristics of the free markets i.e. short-term interests. In addition, both finance and recreational services have an extremely low proportion of union membership,⁹ so that this structural change contributed to the decline in unionisation of the work force discussed above.

One of the main consequences of deregulation of financial and exchange markets has been the massive blow out of Australia's foreign debt, as indicated in Figure 1.

The size of the foreign debt has had major implications for the current account balance. As can be seen from Figure 2, since 1983, the net income

8 The evidence for these empirical observations can be found in Stegman (1993).

9 In August 1992, 28.4 per cent and 21.8 per cent respectively (ABS, 1993b).

Figure 1: Ratio of Net Foreign Debt to GDP**Figure 2: Australia's Current Account (Seasonally Adjusted \$M)**

component has been growing, and has come to dominate the current account, being the main reason for it being in deficit in the early 1990s. Net income has been mainly determined by the repayments of foreign debt.

This has led to a vicious circle, where the deterioration in the balance of payments has led to the government applying contractionary policy to dampen demand. However, the main instrument for this contraction has been the interest rate, which merely accelerates the problem by reducing long term investment, and, at the same time inducing capital inflows to keep the exchange rate artificially high.

The failure of corporatist policies to lead to the desired restructuring of the economy has meant that it has also failed in terms of its major goal, namely employment. Initially, Australia's record on the employment front, from 1983, was extremely good, with respect to other OECD countries. However, as is demonstrated in Figure 3, this position deteriorated significantly at the end of the 1980s, when unemployment peaked at its highest level since the second world war. This deterioration was the result of contractionary government policy specifically aimed at alleviating the current account problems identified above. In other words, corporatism in Australia has had little influence on the underlying structure of the economy, leaving it susceptible to the same international forces that have always played a role.

The one major macroeconomic variable which appears to have performed well in the early 1990s is the rate of inflation. Certainly there was a significant downward trend in Australia's inflation rate for much of the early period of the Labor Government. However, this needs to be put into perspective compared to the inflation rates of her major trading partners. In this respect, Australia's performance only improved relatively, as a result of the recession and the consequent fall in aggregate demand, as is illustrated in Figure 4

Although the relatively low level of inflation is a positive outcome, there are two important considerations which mitigate that result. Firstly the low inflation rate is associated with high social costs in terms of record levels of unemployment. Secondly, there is some debate as to whether the reduction in inflation is, in fact, permanent, or whether it is simply the result of a postponing of wage and price increases until recovery.

Figure 3: Unemployment Rates

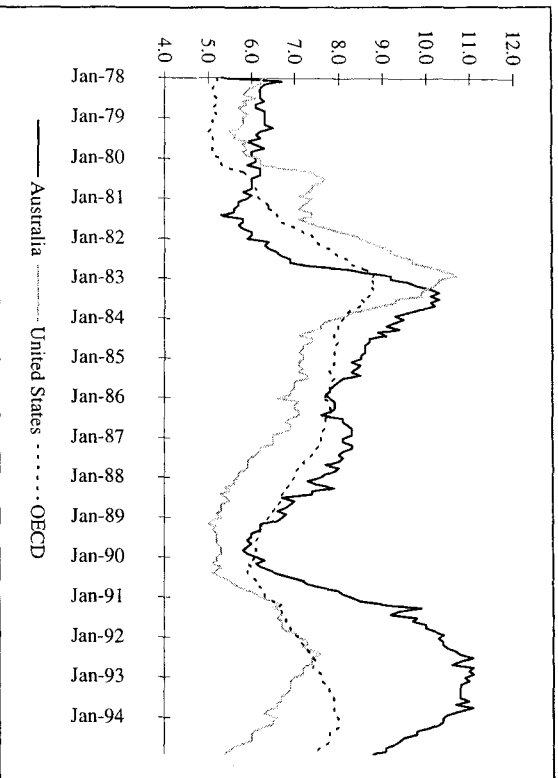
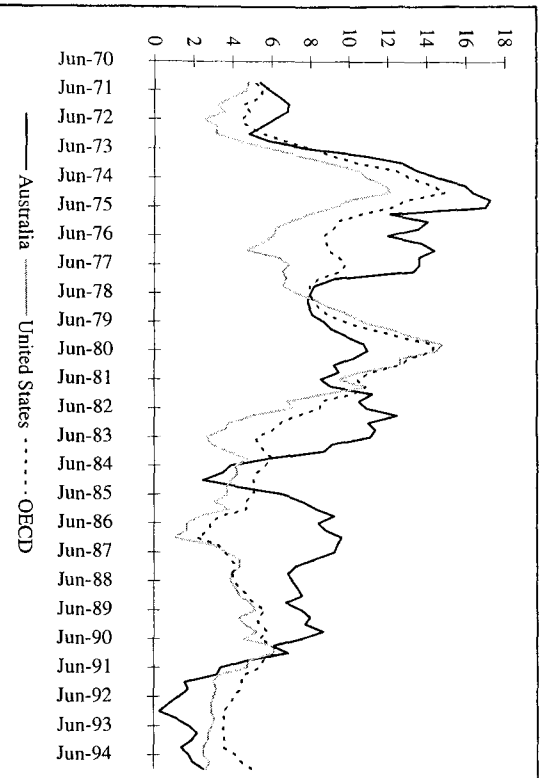


Figure 4: Inflation Rates (Percentage Change in CPI)



5 Conclusion

The above discussion has illustrated that the corporatist experiment has not been successful for the Australian economy. The Swedish model, and the main characteristics of M2 corporatism on which the Australian post-1986 experience was based, was not appropriate for Australian conditions. The extent to which connections can be found to M2 Swedish corporatism and the Australian situation, these relate to the same forces which have undone the structural basis of the full employment polity of Sweden, namely internationalisation of capital and the spread of finance. The fundamental problem facing the Australian economy in the 1980s and 1990s was structural, based on the inadequacy of the industrial base. The declining world importance of raw materials, which had been the traditional base of Australian growth, meant that there was a need for other sectors to emerge. Partly as a result of policy, particularly deregulation, the emerging sectors, finance and recreation, were heavily service orientated, and undermined the basis of corporatism, which required a dominant union movement.¹⁰

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