WAGES POLICY AND THE ACCORD: A COMMENT

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Wages have been a key focus of national economic policy since the 1970s. Concern for wage levels has emerged with renewed strength in recent times on two fronts: first, as a constraint on the international cost competitiveness of Australian industry; and second as the alleged necessary adjunct of monetary policy. Here the contention is that the role of monetary policy in managing domestic demand and inflation cannot 'work' without the 'assistance' of wages policy, and this can be taken to mean real wage reductions.

Associated, we find the argument for deregulation of the wage-fixing system as a key aspect of so-called 'microeconomic reform'. Of course, deregulation of the wages system does not *ipso facto* imply a reduction in wage levels: some wages can be expected to increase, others to fall. But it is quite clear that the case of those who advocate the need for labour market deregulation in support of both cost reductions and monetary policy is contingent upon generalised real wage reductions; not real wage increases. So the case for labour market deregulation as an economic strategy is inextricably attached to the case for real wage cuts, even though it may be presented as a case for flexibility *per se* as an end in itself.

This policy prescription is clearly associated with an ideological conception which attributes to 'free' markets an inherent ability to define and solve economic problems. But it is not just the political and economic right which has supported or condoned the use of wage cuts as a component of national economic strategy. Many on the left of

politics have accepted wage cuts, reluctantly to be sure, as part of a package of economic policies. The ACTU, in its initial and subsequent Accord negotiations, has accepted the argument that wage increases are detrimental to macroeconomic performance, and the share of income going to profits must increase. While couched in different terms from the right wing analysis, and packaged with a broader set of policies oriented to long-run job creation, **there is, nonetheless, an acceptance that wages are a key constraint upon national economic performance**, and this can now be seen to be haunting the ACTU in its current policy proposals for Australia in recession.

In particular, the current ACTU position on policies to fight recession are trapped by these former concessions. Because of the theoretical conception of the role of wages acceded to by the ACTU, it cannot now credibly advocate real wage increases. Instead, it has retreated to what can only be described as limp proposals for state fiscal expansion - proposals which nonetheless fly in the face of all that has been accepted, particularly regarding foreign debt, throughout the history of the Accord, and which are now rationalised in the name of 'changed circumstances'.

It is therefore important for the left to address the question of wages, and not simply as an item in itself, but within the context of the broader determinants of capital accumulation. That is, there is need to see wages and wages policy not just as the distribution of socially-produced income, but in relation to national and international patterns of investment, growth, and industrial change. Frank Stilwell's recent paper in this journal[1] is a timely contribution in this debate. By situating wages policy in the history of the Accord, a number of important points about the role of wages policy in macroeconomic management have been posed. Stilwell's essential proposition is that wages policy has been separated out from the other regulatory and institutional components of the Accord. While these other components have all but disappeared from policy formation, wages policy has been asked to bear a disproportionate responsibility in the pursuit of macroeconomic policy

1 'Wages policy and the Accord', *Journal of Australian Political Economy*, no 28 September 1991.

objectives. Thus wages policy has involved generalised wage reductions as a leading arm of a general programme of austerity. The alternative, Stilwell argues, is an alternative economic strategy of 'reformed' capitalism, based on state regulation of the economy, and a programme of institutional reforms. Stilwell has raised issues which are taken up in this paper.

In the initial Accord, wages policy was tied to industrial policy. The successful implementation of industry policy was to create economic growth and increased national income. The effect would be increased employment and increased wages. Indeed, in a growing economy, all interests could benefit - labour and capital. In this scenario, the question of who benefited more was constructed as petty. In an atmosphere of 'consensus', turning around potential national economic decline was sufficient reward.

Of course, history did not unfold as planned. There were not the hoped-for spoils of economic growth over the past decade, so that the prospect of all interests expanding together was not on the agenda, at least since 1985. In this context, the underlying theoretical conception of the relation between wages and growth, hidden in the optimism of the initial Accord, came to the surface. That is, within the Accord, the centrality of wages as a cost of production, a central determinant of inflation and an impediment on international competitiveness had remained unchallenged on its own terms. This perception of wages had been conceded by supporters of the Accord as part of a trade-off for union participation in growth-oriented policies which made up the Accord.

Whether strict adherence to the Accord would have secured the anticipated growth is a separate question, as is the history of why the broader, interventionist aspects of the Accord disappeared from government policy. But if economic growth did not follow from the Accord, the ACTU's analysis, and the spectrum of opinion associated with it, inevitably lapsed into a conventional, conservative approach to labour and wages which that organisation had already conceded. Within this approach, the first priority was to increase the rate of profit as the

precondition for increased investment, and labour costs had to be subordinated to that objective.

The history of wages policy under the Accord marks II to VII has had to address wages policy increasingly in a non-growth environment. It has involved attempts to reduce wages as a cost to industry, while maintaining the income of workers. Central here has been the wage-tax trade-off. There are, of course, limits to this strategy, for it requires reductions in state revenue, and therefore expenditure, to appease both labour and capital. It is ultimately an unsustainable way to reconcile the interests of labour and capital. Hence, wages policy becomes an increasingly important issue; and the more important it becomes, the more clearly it **manifests** as a class issue.

In this context, Stilwell raises issues which need close consideration, as much for what is not posed as what is. Stilwell's conceptual focus is on the shares of income going to wages and profits, and the implications for demand, investment and the balance of payments of shifts in the shares. There are two broad issues with which must be addressed: the conception of class, and the relation between class and accumulation. These will be addressed in turn.

The conception of class and class relations

Stilwell tells us that a policy of real wage reductions is a **class** issue (p.28). There can be no doubt about this. The question is, how are these class relations to be understood. For Stilwell's analysis, class appears to be related to income: workers receive wages; capitalists receive profits. This simple divide may seem sufficient for the exercise at hand, but it in fact has significant implications.

An illustration of its limitation can be seen in relation to Stilwell's observations on wage levels and the balance of payments. He contends that an increase in the profit share at the expense of wages may worsen the balance of payments, due to the import of luxury goods by profit recipients (p.42-43). The underlying proposition is that luxury consumption comes out of profits, not wages. This individualised,

factor-income notion of class has problems. As Stilwell himself notes in another context (p.45), the category of wage earners includes high salaried corporate executives - people paid out of surplus value - who are presumably amongst the luxury importers. Conversely, almost 70% of shareholdings in Australia (and thus a large proportion of distributed profits) accrues to life, pension and superannuation funds - which are compulsory working class savings, not a direct source of profligate consumption. There can be no link between this profit source and the importation of luxuries. Hence, an attempt to associate luxury consumption with class defined by income is highly dubious.

But the problem goes beyond such illustrations. The danger of associating classes with the form of income (workers receive wages; capitalists, profits; landowners, rent) is that it creates the impression that these classes are each paid in proportion to their contribution to production. Class as a **relational** process is lost. That is, there is absent any emphasis on the proposition that capitalism is defined by the relation between labour and capital and that this relation involves the appropriation of a surplus from the class of labour. The effect is to pose land labour and capital as **equivalent** components of the wealth-producing process, not as the historical constructs of capitalism. To equate classes with their revenue forms leaves unquestioned the source of each classes incomes: that the income of capital and landed property are derived from wealth produced by the class of labour, and appropriated via the system of capitalist property relations.

In this light, ambivalence as to whether wages should be productivity-linked or inflation-linked can be understood. On the one hand, inflation-linked wage increases cushion the income of workers who are in jobs with inherently low productivity, or small potential for growth in productivity (p.48). This draws on Stilwell's concern for equity. On the other hand, he describes productivity-linked wage increases as "a positive development from the point of view of improved capitalist economic performance" (p.47), and offering "the tantalising promise of helping to improve the supply side of the economy in the long-run" (p.51), and this, Stilwell argues in his general thesis, is the precondition of general wage increases (the positive sum game).

This support for productivity-linked wage increases, albeit advocated in the context of institutional reforms which presumably have some cushioning effect on disadvantaged workers, shows the danger of a distributional notion of class. It concedes that, at the margin, labour should be paid **its** share, just as capital should be paid **its** share. Let us be clear here. Wage increases linked to productivity are calculated with respect to **labour** productivity only, not total productivity. Increased net revenue attributed to the installation of new machines is not the basis of productivity-linked wage increases if the labour tasks remain unchanged. The basis of productivity-linked wage increases is changed labour practices, making workers produce more output within a given working week. (This is Marx's concept of relative surplus value.) The critical factor here is that paying workers for increased productivity is not at all inconsistent with some of the benefits of that increased productivity being appropriated by capital: indeed, this the capitalists' objective in increasing productivity. Hence, advocacy of productivity-linked wage increases leaves totally unchallenged the social system of class relations which involves labour as the producer of value and capital appropriating the surplus value produced by labour[2].

By contrast, an inflation-linked wages policy has as its direct objective sustaining the working class standard of living as a **social** issue. Yet it is not oriented towards the agenda of the profit share or export competitiveness (what Stilwell calls the supply side of the economy), and so is inconsistent with the agenda of 'making capitalism work'. A position on wages which concedes the centrality of industry profitability and national competitiveness leaves the social issue of living standards out of the policy agenda.

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2. The 'post Fordist' initiatives for transforming the labour process may give individual workers more initiative in their individual labouring, but appropriation of surplus value from labour.

Class Relations and Accumulation

In condemning the conservative case for wage cuts, Stilwell's position is unclear. He argues appropriately against seeing wages policy as a universal panacea for economic ills (p.43-44) and against attributing unemployment, inflation and balance of payments problems exclusively to wage costs (p.32). What is more questionable is the fundamental proposition that "there is no necessary direct link between wage restraint and increased profits, since the economy does not operate like a zero sum game" (p.31). While it may be true that both wages and profits can grow together, such a proposition obfuscates the reality that profit growth is always at the expense of wage growth, and vice versa, for any given national income. Their mutual exclusivity is not precluded by the possibility that both may grow concurrently.

The issue here is where do profits come from?. A class analysis would tell us that increased profits are the products of the increased intensity or duration of labour. Even from Stilwell's depiction of the 1980s, it was **clearly** labour and changing work practices (certainly not new investment) which was expanding the size of the pie. So if we say that both labour and capital can benefit together from an expanding pie, it nonetheless remains the case that capital has benefited at the expense of labour. Again, it is apparent in Stilwell's analysis that labour and capital are being treated not as classes in a relation of exploitation, but as equivalent components of the wealth producing process, with equivalent claims on the expanding pie and mutual benefit a possible outcome.

Here we find Stilwell offering the standard social democratic response to class contradictions under capitalism: if capitalism is successfully managed (ie there is permanent economic growth) no class need feel disadvantaged, for all can share in the gains (the positive sum game). But the critical point is that capitalism has not and probably **cannot** be managed so as to achieve permanently increasing national income: it is a system prone to periodic crisis. To my awareness, no advocates of 'alternative economic strategies' have ever argued that their policies will overcome the susceptibility to crisis. Whether they can **reduce** the

extent and duration of slumps is another question. But even if such reduction can be achieved in any particular context, it remains definitionally true that capital appropriates surplus value from labour, and that this is the fundamental relationship which defines capitalism.

It is something of an irony that Stilwell's contribution appears at a time when the Australian economy is in sustained recession and unemployment over 10%, when the mutual-exclusivity of wage gains and profit gains is beyond question. Any proposition that wages and profits can both grow when there is economic growth avoids directly the question of what wages policy should be when there is no (or negative) economic growth. In this context, Stilwell surely cannot avoid stating what a wages policy should or might be; yet all he argues is that:

> Wages policy has a role to play in that scenario (of transforming institutional processes to make them conducive to economic progress), but only as part of a broader programme including prices and incomes policy, economic democracy and social control of investment (p.51).

Nowhere does he argue what that wages policy should be.

A programme for 'managing' and 'reforming' a capitalist economy (p.51) must commit itself, not necessarily to the details of a wages policy, but to state clearly its conception of the effect of wage levels in the accumulation process. Yet Stilwell's analysis cannot move beyond the conception of wages as playing a contradictory role in accumulation, where high wages stimulate demand, but increase costs of production (p.28).

While Stilwell does not proffer a clear positive policy on wages, we might attempt to derive it from his analysis of the history of wages policy over the life of the Accord. In Table 1 (p.44), Stilwell presents the relation between wages and general economic indicators. Evidence that falling real wages under the Accord have been concurrent with rising employment, falling inflation rates and falling unit labour costs might at first appear as vindication of a policy of wage cuts.

In response to the evidence, Stilwell contends (pp. 42, 43) that falling wages do not *a priori* reduce demand for imports, because increased

profits **may** be used to fund imports, and this would be deleterious **if** these imports are luxury consumer goods rather than capital goods. At best, this is a hypothetical proposition. He also argues that there is debate amongst the conservative commentators as to whether falling wages generate increased employment (although he does not actually refute the argument).

He does recognise that unit labour costs have fallen and that wages under the Accord have "played some role in offsetting inflationary tendencies" (p.47). The effect has been to generate a shift of income from wages to profits. This, in Stilwell's analysis, is the critical link in the process where economic policy has fallen down, because these profits have not been invested "productively", but have been "wasted".

This takes on a few meanings in Stilwell's analysis. There has been a "general tendency for investment to go into commercial property, office blocks and tourist development rather than into addressing the long-standing deficiencies in the productive base" (p.49) Related, there has been "the growth of the 'paper entrepreneurs' and 'corporate cowboys', amassing (and sometimes losing) personal fortunes, but making no significant contribution to the creation of wealth of society as a whole" (p.51).

Since this is the critical link in the critique, there is need to spell out this concept of waste, for tourist development, for example, is surely not consumption activity and **is** a contribution to the wealth creation. Indeed, Stilwell himself has recently in this journal impressively challenged the clear differentiation of productive and speculative investment, and the view that the latter necessarily occurs at the expense of the former[3], so the substance of this proposition is difficult to interpret.

But what it all boils down to is not an analysis of the process of accumulation, but a **moral** critique: that "owners and managers of capital **have not played their ... role** in channelling the fruits of [wage]

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3. See F. Stilwell, 'Speculation or productive investment', *Journal of Australian Political Economy* no. 23 1988.

restraint into production in Australia, rather than speculative and luxury consumption activities and overseas capital flows" (p.47, emphasis added). This moral critique is difficult to understand, for capital, quite simply, played its 'class role' of pursuing profits, and why would we be expecting it to have done otherwise? 'Managed capitalism' sets itself an impossible task if it is argued that, with private ownership of capital, it is possible to 'regulate away' 'undesirable' forms of profit making.

Yet even if we accept Stilwell's proposition that profits have been 'wasted', there is nonetheless a critical argument which is being conceded: the acceptance of the link between the level of wages and the invisible surplus, and the need to expand the latter at the expense of the former.

Implicit here is the suggestion that the surplus created by wage cuts **could have been**, but was not, used 'productively', and that, under Stilwell's alternative economic strategy, an object of policy is to ensure that this surplus **would be** used productively, and not 'wasted'. By implication, Stilwell's argument can be interpreted as advocating the use of wage cuts under 'managed' capitalism to secure the increased surplus which will fund increased 'productive' investment.

What sense then do we make of the proposition that "a policy of real wage reduction is a **class** issue" (p.28)?

It is not the case that Stilwell has made an analytical 'error': his analysis can be read as a symptom of the broader limitations of the political and economic basis of social democratic 'alternative economic strategies'. In boom periods, these policies can be seen as sympathetic to labour - when wages increase anyway, even under quite conservative policy regimes. During recession, the social democrats are backed into a corner: their class sympathies are inclined towards the interests of labour, but the short-run policies they advocate must oppose labour, as their primary agenda is to promote accumulation, for which profits are necessary.

Of course, the point that the social democrats want to play up is that profits are a necessary, but not sufficient, condition for increased accumulation. (See, for example, the pamphlets of the AMWU,

Australia Betrayed and of the New Left Party, *Australia Can Work*, which share Stilwell's analysis on this general point.) Reformed capitalism is necessary. **But wage reductions under reformed capitalism are no less a class issue than wage reductions under 'unreformed' capitalism.**

It is not intended here to make a general critique of alternative economic strategies as adumbrated by Stilwell. However, if an alternative economic strategy for managed capitalism is to be posed as a **feasible programme for progressive reform**, a number of hard problems about capitalist accumulation must be solved. In particular, wages may play a contradictory role in capitalist accumulation, but within a reformist economic strategy the existence of such a contradiction cannot be a pretext for not having a clear policy. Of course, there is no expectation that every issue be resolved by blueprint, but maximising income at the disposal of the working class must surely be at the heart of social democratic goals. If the contradiction cannot be solved, the strategy is fatally flawed.

An alternative interpretation of this issue is that, within the contradiction, the cost-of-production aspect of wages will always ultimately win out over the contribution-to-demand aspect of wages: in recession, the logic of capital requires wage cuts. This is not a simple, mechanistic process, for wages are not easy to cut, and the interests of different parts of capital are different with respect to the level of demand for mass consumer commodities.

In essence, the requirement of wage cuts for accumulation derives from accumulation being more dependent on the **rate** of profit than the overall **mass** of profit. Herein is found the capitalist logic of the regenerative function of recession within the process of accumulation. Recessions eradicate less profitable capitals (thereby reducing the **mass** of total profit) as a means to secure renewed conditions for future accumulation at higher **rates** of profit. Wage cuts facilitate that process; inflated demand retards it.

It does not follow that the pursuit of wage increases should be the centre-piece of socialist politics. The agenda is surely much broader.

But wage restraint, traded off against a 'social wage' is not part of that agenda.

What this means is that a **resistance** to wage reductions represents a fundamental challenge to capitalist accumulation. This, and not simply the distributional impact, is what makes wage reductions a class issue. The social democratic agenda of reformed capitalism, in pursuing 'realistic' alternatives, is ignoring this reality.