Navigating Institutional Change:
The Accord, Rogernomics, and the politics of adjustment in Australia and New Zealand

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Abstract

This paper uses a transactions approach to examine the ability of governments to develop and sustain negotiated solutions to major economic challenges. Where actors are embedded in long-term, repeated interaction, have long time horizons, and invest in monitoring and enforcement technologies, effective political exchange is more likely. In good transactions environments, policy bargains will be more easily renegotiated and therefore more flexible and durable. To examine the expectations I look to the puzzle posed by events in Australia and New Zealand, 1983-1996. Facing similar macroeconomic crises and with historically similar wage bargaining institutions and levels of union density both elect Labor governments which then make opposite choices: a negotiated solution emerged in Australia but not in New Zealand. Relying on the secondary literature and interviews with key actors, I find support for the transactions approach. Findings here point to ways in which to broaden the study of so-called “social pacts.”
The last thirty years has generated a series of economic challenges that provoked a major rethinking of economic management in the OECD (Garrett and Lange 1996:70; Scharpf 1991; Scharpf and Schmidt 2000). The oil shocks of the 1970s undermined the prevailing Keynesian model of economic management. Faced with both high unemployment and high inflation, governments reevaluated how they approached these major policy areas as well as the institutions in place to govern them. The subsequent opening of goods and financial markets to the international economy limited the policy tools available to governments (Clark 2003).

In confronting these crises, governments followed one of two broad paths. On the first path, governments acted unilaterally, deregulating markets and relying on the blunt signals of unemployment and prices to engineer the proper reallocation of labor and capital at the cost of high unemployment and severe economic downturns. Formulating these policies clearly involved negotiation and debate but all took place within the political apparatus of legislatures and cabinets. On the second path, governments pursued formal, public agreements with peak associations of labor and (possibly) capital to bring wage demands, working conditions, government spending, and labor market regulation in line with the demands of international markets. In striking these bargains, unions offered real wage restraint and/or assented to reforms in labor market institutions creating more flexibility and reducing costs to governments and employers. In exchange, governments offered policy inducements to unions like tax reform or altered social spending. Interestingly, the negotiated path was not just chosen in countries where “corporatist” institutions were already in place. Successful negotiated transitions also occurred in places like Ireland, the Netherlands, Italy, and Australia where unions are fragmented and electoral institutions seemed unfavorable to negotiated policy implementation. They were attempted unsuccessfully in New Zealand and the UK. The current climate of economic upheaval underscores the importance of understanding how
governments and economic actors can come to agreements undergirding good economic performance.

In this paper I seek to understand the conditions enabling or retarding the emergence of credible, effective, and publicly announced policy “contracts” between governments and major economic actors. I take a transaction-based approach (Dixit 1996; Spiller and Tommasi 2003) and outline the parameters expected to govern union-government political exchange. The transactions approach requires us to consider how a particular political bargain might be self-enforcing, concentrating our attention on the fundamental role of information and the observability of players’ actions. By providing a framework for analyzing political exchange this paper makes possible more general discussions of “policy concertation” and “social pacts.”

Using the transactions approach generates several empirical expectations. The emergence of an agreement is a function not just of the interests of the parties and their incentives to negotiate but also the number of effective actors, their time horizons, the extent to which they are embedded in long-term, repeated interaction, and the ability of players to effectively observe and monitor one another’s behavior. Where conditions are auspicious, renegotiation and adaptation to changing circumstances are more readily achieved.

Empirically evaluating these hypotheses requires detailed case knowledge. I therefore turn to the puzzle of Australia and New Zealand. Facing similar macroeconomic crises and with historically similar wage bargaining institutions and levels of union density both elect Labor governments in 1983-84 after long spells of conservative party rule. Unions in both countries expressed a willingness to collaborate with government but the two governments made opposite choices: New Zealand embarked on a period of radical deregulation known as Rogernomics—named for treasury minister Roger Douglas—while the Australian Labor Party (ALP) and Council
of Trade Unions (ACTU) signed a formal Accord, trading union wage restraint for union-preferred social policies and an enhanced role for the ACTU in wage bargaining and policy making. Evidence drawn from secondary sources and original interviews with key participants is largely in line with our hypotheses. The ALP and Australian unions were organizationally bound together in ways not seen in New Zealand. Unions could block policy in the ALP caucus while union leaders regularly moved into important positions in the ALP; this did not occur in New Zealand. Possibly as a result of these links with the ALP, union leaders in Australia had aggressive long-term goals and hence longer time horizons than their counterparts in New Zealand. Key institutions in Australia—the arbitration commission chief among them—facilitated monitoring and enforcement.

The transactions approach provides a framework within which to derive testable hypotheses while the case studies address shortcomings in existing explanations of negotiated economic policy making and push the literature beyond the EU. The case material provides a way to explore some of the implications of a more general theory of political exchange while the theoretical framework links the findings from the Antipodean cases to broader literatures on social pacts, electoral policy cycles, and transaction cost politics. The interviews offer insight into the motivations and decision processes of key actors not found elsewhere. The documentation, at the micro level, of the importance of elections in generating agreements is novel, as is the focus on and documentation of actors’ time horizons.

The paper is organized into four sections. The next section outlines the theoretical framework. Section 2 introduces the cases. Section 3 analyzes the cases using historical material and original interview data. The final section concludes.

1. Negotiated transitions and political exchange

Authors studying social pacts have spent considerable effort discussing and evaluating negotiated policy implementation (Avdagic, Rhodes, and Visser 2005; Baccaro and Lim 2007;
Culpepper 2008; Hamann and Kelly 2007; Hassel 2003; Regini 1995). They and others studying comparative economic policy (Gourevitch 1985; Scharpf 1991) have long focused on the role of a crisis in inducing institutional reform. But there is less agreement on the factors determining whether negotiated agreements emerge and are successful.

Existing arguments do not fit well with the Australian and New Zealand cases. Several authors have convincingly argued that European integration explains the re-emergence of social pacts in some countries (Hancke and Rhodes 2005; Rhodes 2001) but clearly Maastricht cannot explain events in Australia and New Zealand. Regini (1995) claims that negotiated pacts are a way for governments to deflect blame for unpopular policies. But the Australian Accord induced an expansion of several welfare programs including the introduction of a major supplemental retirement program whereas New Zealand instituted a whole raft of highly unpopular policies without attempting to find a “social partner” to share the blame. Lucio Baccaro and co-authors argue that negotiated pacts are most likely when governments are in the minority or caretakers and the union movement is dominated by non-Communists (Baccaro and Lim 2007; Baccaro and Simoni 2008), but the ALP and ACTU formalized the Accord specifically to win the 1983 elections and the pivotal union leader supporting it was a former Trotskyist organizer. Hamann and Kelly (2007) similarly posit “electoral pressures” facing “weak” governments as key to understanding these pacts in Europe. Culpepper (2008) takes a more constructivist stance and discusses pacts as a way for major social actors to develop “common knowledge” during the process of institutional change. Others in the European tradition have similarly emphasized the role of employers in sustaining bargains. This also fails in our cases since employers were largely absent in Australia.

I argue that viewing pacts as a form of political transaction will enable us to derive testable propositions that we can then take to the Australia/New Zealand comparison and beyond. The
transactions approach to public policy builds on the long tradition exploring how transaction costs and the structure of exchange affect firm boundaries, ownership structure, employment contracts, etc. When applied to politics, this approach has at its core three major assumptions: 1) political transactions generally involve exchanges of “goods” (votes, policy proposals, bureaucratic decisions, etc.) that are separated in time; 2) the goods exchanged in a political setting are sufficiently complex that complete contracts are impossible to write; and 3) no third party exists to enforce any sort of agreement.

The theoretical linchpin of the transactions approach is the notion that transacting parties are embedded in some form of repeated game. Mutually beneficial exchanges not an equilibrium in a one shot interaction become possible once the situation is iterated (Fudenberg and Maskin 1986; Taylor 1987). These inter-temporal exchanges are sustained using some form of trigger strategy in which parties revert to a non-cooperative action should the other side fail to live up to the bargain. Several conclusions follow directly, based on well-known properties of repeated games: “[P]olitical cooperation leading to effective public policies is more likely if (1) the number of key political actors is small; (2) those actors have strong intertemporal linkages; (3) policy and political moves are widely observable; (4) good enforcement technologies...are available; (5) the key political exchanges take place in arenas where properties 1-4 tend to be satisfied; and (6) the short-run payoffs for non-cooperation are not too high.” (Spiller and Tommasi 2003:291) Spiller and Tommasi go on to argue that where the conditions for political exchange are present, policy will be more flexible as parties can more readily renegotiate any agreements to adapt to changing circumstances.

The transactions approach highlights the critical importance of information in at least two ways. The first involves the sustainability of a trigger strategy. For a trigger strategy to work, the
moves of all players must be universally observable. Second, the exact nature of the “trigger” that would induce reversion to a punishment phase must be common knowledge among all players. Additionally, Spiller and Tommasi’s point (6) emphasizes that players with long time horizons are necessary to sustain cooperative outcomes. One important way this emerges is when players are bound together in long-term relationships via career paths and organizational linkages, implicating point (2).

What might the transaction look like in the context of economic adjustment? While the specifics will surely vary across cases and time, I argue that, fundamentally, the exchange is one of policy from government in return for concessions from unions. Clearly both sides must have an incentive to negotiate. For the unions, deteriorating economic conditions and the prospect that government might choose to act without union input is reason to enter into negotiations. For government, I argue that electoral concerns provide the fundamental rationale. These concerns could take a number of forms but hinge on voters’ uncertainty about the government’s intentions and ability to manage the economy. A highly visible public agreement with major economic actors may signal to voters a government capable of managing relations with powerful market actors. The visibility of the agreement is necessary to generate a focal point for the trigger strategies that sustain the agreement in equilibrium. The trigger strategy will necessarily be multilateral. Unions will need to determine whether the government is delivering on its side of the bargain as well as monitor one another’s compliance.

Viewing pacts as political exchange leads to several empirical expectations. First, for an agreement to be self-enforcing the players must be sufficiently patient. But this patience is asymmetric; it is more important that unions have long time horizons since they are the ones being asked for concessions in exchange for a stream of future benefits. Embedding union leaders and
policy makers in long-term interactions is correspondingly more likely to yield a cooperative outcome. The sustainability of a pact will depend on the ability to monitor compliance at low cost. In good transaction environments agreements can be renegotiated as conditions change.

2. Australia and New Zealand

Examining the hypotheses about time horizons, union-politician relationships, and pact implementation is nearly impossible in a large quantitative study. Instead I turn to a detailed comparison of Australia and New Zealand. The discussion ranges over the 1970-1996 period but centers on events in 1982-1990.

These two cases provide an outstanding opportunity to examine why a particular country took the “pluralist” or the negotiated path. Australia and New Zealand are historically, culturally, and demographically about as similar as any two countries in the world. Both had majoritarian electoral institutions though the early 1990s. Both faced quite similar economic and political crises in the early 1980s. They held elections within a year of one another, with the Labor winning in both. The newly elected governments made opposite choices, however. The New Zealand government embarked on a radical neoliberal restructuring program using interest rate policy to control inflation and unemployment to discipline wage demands. A bargain with the unions was never seriously considered until just before the 1990 electoral defeat of the NZLP. In Australia, the ALP and the ACTU signed a formal Accord, centralizing wage bargaining and imposing wage restraint in exchange for education, health, retirement, and industry policies benefiting unions. The Accord was renegotiated eight separate times and served to implement both a centralized incomes policy and the subsequent transition away from centralized wage setting. For 13 years the Accord functioned as the primary statement of domestic economic policy for the ALP governments.

In examining these cases I rely on interviews with key participants in the Accord process, primary documents, and the secondary literature. I conducted a total of 21 interviews between
September and December 2006 with individuals identified as pivotal either in the literature or by other interview subjects. With the passage of time there is the risk that respondents' memories are inaccurate but permits them to reflect on outcomes and minimizes incentives to misrepresent their motives. I cannot completely discount the possibility that interviewees' responses are self-serving in some way. But this risk is traded off against the fact the reform periods were highly controversial in both countries; many participants have been reticent to speak frankly on these topics until recently for fear of jeopardizing other political goals.

2.1 Background

From the 1930s to the 1980s both Australia and New Zealand pursued economic policies amounting to import substitution: high tariffs on manufactured imports, import licensing requirements, foreign exchange controls, fixed exchange rates, and export incentives for agricultural and mineral commodities. Government social policy operated through a combination of trade policy protecting manufacturing employment and wage setting institutions enabling sheltered sector workers to consistently drive the evolution of real wages. “This growth model worked as long as the export sectors generated enough foreign currency to fund imports,…pay interest on foreign debt, and repatriate profits for direct investors.” (Schwartz, 2000:83) Both countries terms of trade began a secular decline in the 1960s, setting the stage for an economic reckoning that finally occurred in the early 1980s.

Since 1990, developments in the Antipodes have paralleled OECD trends: increased openness to the world economy; increases in service sector employment and declines in manufacturing; decreases in union membership and militance; moderation in welfare spending; and increased inequality. Figure 1 depicts some of these trends. The figure also highlights several differences. First, during the Accord period of centralized wage bargaining (the grey shaded
regions), New Zealand's unemployment rate climbed dramatically whereas it decreased in Australia up until the 1990 global recession. Second, New Zealand had much more volatile and generally higher inflation. Third, economic growth has been better in Australia than in New Zealand. Fourth, the growth in inequality has been much slower in Australia than in New Zealand. [Figure 1 here]

2.1.1 Unions, wage bargaining, and policy in the Antipodes

For most of the 20th Century, wage bargaining in both countries was organized through a system of arbitration tribunals. Government-granted representational monopolies allowed many small craft unions to carve out occupational niches; general/industrial unions are few. Wages and working conditions are set using a combination of binding arbitration through special industrial relations tribunals, supplementary negotiation, and bargaining outside the arbitration system. In arbitration, employers and unions present cases before the tribunal which then hands down a formal statement of wages, etc. called an “award.” Relative wages in both economies ossified into a rigid set of “wage relativities” in which the tribunal took a major wage award as a benchmark and then adjusted the others proportionally based on a predefined set of industrial classifications. The strongest unions, often the metal workers, would spearhead a bargaining round. The gains won in that case were then used to justify awards across the economy. Wage “flow-ons” became all but automatic flowing rapidly from the sheltered industrial sector through the rest of the economy. One Australian contact remarked that “if the metal workers got a raise on Friday, I'd get one on Tuesday, as a professor!” (Gregory 2006)

With the first oil shocks, the arbitration system demonstrated an alarming tendency to generate “wage break outs.” Taking advantage of high commodity prices in the 1972-3 period, strong unions began negotiating outside the arbitration system. Seeking to maintain historical wage relativities, other unions would file competing wage cases, passing wage increases through the
entire economy and stimulating yet another series of demands from the stronger unions. In New Zealand this provoked inflation rates above 10% for 1974-84. The National Party government under Muldoon tried a series of unilateral policies to control inflation and stimulate growth, but was unsuccessful. Finally, Muldoon ordered a general freeze on all prices and incomes in 1982. The freeze lasted nearly two years. In Australia the Labor government under Whitlam (the first since 1949) was confronting the oil shocks and wage pressures just as it was implementing a large increase in public spending. The government rejected calls from the Treasury to reduce spending and increase taxes and instead called for wage restraint on the part of the ACTU. Whitlam proposed a partial wage indexation scheme that would have demanded real wage reductions from higher-wage workers but offered unions no other inducements for their restraint. Bob Hawke—then President of the ACTU and future Prime Minister responsible for the Accord—declared in 1974 that “we will not indulge in a trade-off in wages for some conjectural reduction in inflation...our people will not be sacrificial lambs to the system's alter.” (Singleton 1990:33) Ultimately, the Whitlam government was unable to secure union cooperation leading to Whitlam's sacking in 1975. Fraser, Whitlam's conservative successor followed a “fight inflation first” policy in which it attempted to use the Commission to force wage restraint via partial indexation. This policy proved unsuccessful as strong unions made demands directly on employers. By 1981, any pretext of wage indexation was jettisoned and another wage break out ensued; the metal workers secured an 18-month agreement providing for a 17% wage increase, a reduction in work hours, and several supplementary allowances (Deery and Plowman 1991). The agreement flowed on to the rest of the economy immediately. The Fraser government responded by imposing a 12-month wage freeze for all federal workers and asking the Commission to impose the same on the private sector.

2.1.2 Crisis and the contracting moment
In 1983-84 both Australia and New Zealand were in states of full-fledged crisis, under wage/price restrictions which clearly could not be continued indefinitely. Emergence from the freeze was a political problem. Policy makers in both countries were keen to avoid the wage-inflation spiral that had ensued in the wage break outs of the 1972-4 and 1981-2. Double-digit inflation and wage break outs were but one of a host of problems facing both governments. Unemployment was at historically high levels and expected to grow. GDP growth was negative in Australia and near zero in New Zealand. New Zealand faced an even more precarious situation than Australia, with extremely high debt load and deteriorating credit with international lenders (Evans et al. 1996). Table 1 provides a summary of the situation in both countries at the time of the wage freezes.

There were political crises ensuing as well. In Australia, the Fraser government proposed legislation limiting union industrial activity. At the same time, there was upheaval in the ALP; Hawke replaced Hayden as opposition leader. Elections were called but there was still no plan to lift the wage freeze. In New Zealand, the political crisis was even more profound (Evans et al. 1996; Wailes, Ramia, and Lansbury 2003). Muldoon called snap elections for 1984. By this time, Muldoon's management of the economy was widely viewed as disastrous. The NZLP had become, in the words of one union strategist, “an anti-Muldoon coalition” (Harris 2006). A former Treasury economist quipped that “Muldoon went so far that [Labour] was the only game in town.” (Wilkinson 2006) The expected change in government led to an attack on the New Zealand dollar, provoking a foreign exchange crisis and prompting the Reserve Bank to halt currency conversion the day after the election (Evans et al. 1996).

In this atmosphere of elections were held. In Australia, the ACTU and ALP signed the Accord in which unions offered to return to centralized wage setting through the Commission and
government offered social and tax policies to compensate. The Accord process induced a centralization of bargaining and real wage restraint from 1983-1991 and thereafter managed the process of decentralizing bargaining until the ALP finally lost office in 1996.

In New Zealand the NZLP embarked on a rapid and radical reform plan lead by treasury minister Roger Douglas. “Rogernomics” started with the floating of the currency. Even so, the FoL approached the Minister of Labour in 1984 about a negotiated exit from the wage-price freeze. The offer was rejected (Harris 2006; Harvey 1992). “Treasury advisers rather half-heartedly advised the Government that a brief return to central control of wages was an option. I doubt the idea was taken seriously by the Government. The ministry concluded that deals with the FoL over wage fixing wouldn't work but neither would a return to controls. The stage was set for a rise in unemployment.”(Scott 2005:64) The Lange government turned to interest rate policies to address inflation, including reforming the central bank to make it one of the most independent and hawkish in the world. From there the reforms increased in pace for the next three years, including removing compulsory arbitration for wage bargaining, reforming and shrinking the public sector, privatizing the many state-owned enterprises, and reducing tariffs and export subsidies. Unions (and others) were “blindsided by the timing of devaluation issues…bewildered by the pace and speed of it.”(Conway 2006)

Economic conditions continued to deteriorate in the late 1980s, leading Lange to halt the economic reforms 1988. The Labour government was staring at the prospect of elections while undertaking unpopular spending cuts in an extremely inhospitable economic climate. Under these conditions, the NZLP began floating ideas about some sort of deal with the newly formed NZCTU. An agreement was signed on the eve of Labour’s 1990 electoral defeat.

3. Findings
The Australia-New Zealand puzzle is obviously overdetermined; there is more than one relevant difference between the two cases and therefore no way to defend any monocausal argument. My ambitions are somewhat more modest: the transactions approach leads us to expect that a political exchange between the unions and government is more likely where union leaders and politicians are embedded in long-term relationships; time horizons, especially for union leaders, are long; and parties to the agreement have access to institutions that enable monitoring of compliance. I look to cases with many similarities yet differing in their outcomes to see if we can find empirical evidence for any or all of these expectations. I begin by examining the unions’ and politicians’ incentives for entering into an agreement. I then compare the extent to which union leaders and policy makers were embedded in structured, long-term political relationships. From there I interpret union leaders’ and politicians’ interview responses as reflecting the time horizons. I also entertain other explanations, namely the organizational capacity of union federations and the role of the arbitration system before looking more closely at how the Accord was maintained and renegotiated. I find evidence largely congruent with what a transaction-based approach expects.

3.1 Incentives for union negotiation

Unions were willing to work with government in both cases. The ALP and ACTU had been discussing various ways to address inflation since the sacking of the Whitlam government. The ACTU had even offered to hold discussions with the Fraser government (Singleton 1990). In 1984 the New Zealand Federation of Labour (FoL) offered to negotiate an exit to the wage freeze with the newly elected NZLP government. Even after the rejection of their early overtures some in the New Zealand union movement retained a disposition to work with government. In 1988 the new NZCTU expressed a willingness to work with government and employers in pursing a “third way” to economic restructuring (Harvey 1992).
But there is important diachronic variation in Australia. The metal workers' opposition to wage restraint provisions had torpedoed previous ALP attempts at an incomes policy (Singleton 1990). A negotiated solution relying on wage restraint relies on the participation of those unions best positioned to extract wage increases from their employers. Bill Kelty—ACTU Secretary and union representative most responsible for the Accord—says “It was the industrially strong that led the Accord negotiations, not the industrially weak and not the public sector. People like Carmichael [Federal Secretary of the metal workers] and McDonald [Secretary of the building workers] were key.” What changed between 1973-4 and 1983?

It was not until unemployment really began to bite the strongest unions that the ACTU and ALP were able to cobble together a workable Accord. Whitlam drastically reduced tariffs, exposing manufacturing firms to increased international competition; the wage break outs of the early 1980s only exacerbated the problem (Schwartz 2000). Formerly strong and militant unions faced mounting unemployment and an uncertain future. An industrial relations ministry official says “stronger unions were committed to a more centralized approach...They had seen effects of the Fraser government and unemployment,”(Belchamber 2006). Michael Keating—secretary of the Department of Employment and Industrial Relations during the ALP governments—observes that “The metal workers...were willing to go along with recentralization because they were not really giving up much. They couldn't really get much more along.” Laurie Carmichael, Federal secretary of the pivotal Australian Metal Workers' Union, puts a slightly different spin the reasons for his supporting the Accord, “The things we were pursuing were quite fundamental. The concept of the social wage—you couldn't do that industrially...we'd proven [in the last wage cases] that you could do certain things industrially but there were some things that you needed political strength to do and that you needed to have a government in office. So we went to the membership on the basis of
going in to the Accord in order to gain those things that we could not gain by industrial strength alone."

Divisions remained within the ACTU. Carmichael describes the political factions: “The construction industry, the mining industry, the waterside workers—they opted for pure collective bargaining...They were critical of [those who would negotiate for a social wage]. They condemned it. They expected it to be given politically. They were not prepared to come to an agreement or make a deal or whatever. The union movement was divided...You had a substantial part of the Left that would support the Accord and all the Right was prepared to support the Accord. And you had this other group…an unholy alliance among the Maoists and the male-dominated industrially strong sections of the union movement that reflected the dominance of the mining and construction industry. Now on the other side, those that depended on the social wage like the public servants and teachers, they became allies of mine. Those that had a foot in both fields, the metal workers, had a significant number who could make their way through industrial activity also had a significant number...who could not make their own way...What right have we got to leave our members for dead who can't fight?...We've got the right to pursue social wage activities that they would benefit from...We could formulate a concept that fitted the Accord as it emerged.” After Carmichael and the secretary of the electrical workers' union came out in favor of the Accord at the 1983 ACTU congress, the anti-Accord delegates were, in Carmichael's words, “flattened.”

3.2 Politicians’ incentives & repeat interaction: electoral concerns and party-union linkages

3.2.1 Australia

Ever since the Whitlam Labor government's inability to address the inflation and unemployment problems, conservative governments had hammered Labor as economically irresponsible. Bill
Kelty states “I took the view that Labor was in power from ’72-’75 but in the end, lost power with no credibility on the economy. Couldn't have handled inflation worse if we'd tried.”

Coming in to 1983, it was clear that, as in the 1980 election, Labor would be on the defensive about its ability to manage the economy and its relationship with the unions. The conservative platform appeared to be more of the direct confrontation with the unions that had characterized the Fraser government. Ralph Willis—shadow treasurer during the Fraser years and industrial relations minister under Hawke—saw the ALP-ACTU connection as a potential strength that should be exploited: “There was no political interest for conservatives to sign an Accord. Kelty approached Fraser government with a deal and Fraser told them to get lost...The Accord was something the Labor Party generated. There was no compulsion on us. It was credibility for us that we can handle inflation. Which was really basic for us and something the [future] opposition couldn't claim.” Bill Mansfield—former head of the telecommunications union and later industrial relations commissioner—summarizes the whole process: “The origin [of the Accord] was really a political and economic issue. Politically it was important for the union movement and the Labor Party for effectively coming out of the wages pause... Being able to produce a consensus, particularly with the union movement, was an important part of a campaign strategy. A political campaign strategy to win an election.”

That electoral concerns drove the ALP’s interest in an Accord is borne out by the Accord’s limited scope. In its several iterations, the Accord only seriously addressed wages, taxes, and social spending (primarily health and retirement). Other reform initiatives of concern to unions were not on the Accord agenda, specifically devaluation and subsequent floating of the currency, drastically reduced tariffs, liberalizing capital markets and restructuring the public service. Willis explains why these other items were not on the Accord agenda: “The exchange rate, tariffs. They had nothing to
do with Accord agenda. They were excluded because unions would disagree and had no electoral benefit.” Michael Keating sums up: “There was dialogue [between the government and ACTU] on a significant but limited number of issues.”

The ALP’s tight organizational links but often combative relationship with the ACTU contributed to the party's electoral credibility problems on the economy. The ALP relied heavily on union contributions for its finances. Unions could (and did) affiliate directly with the ALP, controlling bloc votes in the precincts. Many prominent union leaders have gone on to political careers in ALP. A former assistant secretary for prices and incomes policy describes the relationship (likely with some hyperbole): “The Australian Labor Party is so embedded in the union movement...If a Labor party had introduced a policy of real wage cuts there would have been riots in the streets...The party would have been just ripped apart.” As an example of unions in the ALP exercising veto power, the 1979 ALP Conference debated a proposed referendum to give the government powers to legislate prices and incomes. ALP-affiliated unions were able to block this proposal within the party, making it clear that voluntary union consent would be needed for any ALP-generated incomes policy (Singleton 1990:115-8).

Even so, there were disputes within the ALP on the desirability and likely effectiveness of a wage restraint-policy bargain. One of Kelty’s former assistants adds that “Some in Treasury thought the Accord was flim-flam meant to conceal and ease introduction of other policies, especially the reduction of tariffs.” Bill Hayden, the ALP leader during the entire post-Whitlam opposition period, was reticent to give the ACTU any formal role in policy making. Willis echoes a sentiment expressed by several former ALP and union officials: “Bill Hayden was a barrier. He was [politically] concerned about Hawke.” The Accord wasn't finalized until Hayden was forced out and Hawke took the reigns of the ALP, less than a year before the election.
Hawke's career is stark example of the paths that linked union leadership and ALP parliamentary office. His ascendency proved critical to winning union support for the Accord. He was known and well respected in the union movement for his work as the ACTU advocate and then general secretary. Laurie Carmichael believed that he could do business with the ALP under Hawke because Hawke understood the unions and knew that the government would have to rely on them. Personal relationships mattered as well: “We [Hawke and Carmichael] could talk to each other and talk bluntly, even when disagreed.” The change in leadership put two people—Kelty and Hawke—who had long term relationships and expectations of extended future interaction at the center of bargaining over a political exchange.

3.2.2 New Zealand

In New Zealand the situation was reversed. Muldoon had succeeded in completely discrediting the National party on economic issues. “[Muldoon] was unable to achieve the political arrangements his policies depended on. He was counting on the leadership of the union movement to use their influence to limit wages growth in exchange for tax concessions. The [FoL] leadership was unwilling to cooperate in this and was unable to as the constituent unions would not surrender their autonomy for setting wages to central authorities. Neither were they interested in contributing to the success of Muldoon's strategy even if they could.” (Scott 2005:63) An anti-Muldoon faction then split from National, all but handing the 1984 election to Labour.

As the decade wore on, things began to change. The deteriorating economic conditions of the late 1980s saw voters becoming highly dissatisfied the reform program; by 1990 56% of Kiwis polled found they had “no trust” in the Labour party and 66% believed that government policy had a negative effect on the economy (Vowels and Aimer 1990). Facing dim electoral prospects, the NZLP suddenly found a taste for a deal with the newly formed NZCTU (Harvey 1992). Several
interview subjects referred to this offer as an act of desperation. Even union members seemed unimpressed “Unions and government approached one another to get an Accord-style agreement to keep Labour in power for the 1990 election but the [union] membership was uninterested. Members didn't attend CTU meetings regarding the possible accord.” Though the so-called Growth Agreement was signed, it was only in existence for six weeks. Labour lost the 1990 election in a landslide and the agreement was never implemented.

The NZLP’s eschewing of an early agreement coupled with its later interest in the notion underscores how politicians’ electoral concerns drive their incentives to come to an agreement. In the 1984 election, the NZLP had no need to signal the electorate about their economic credentials comparable to the ALP’s. Once the economic situation and unpopularity of the 1984-88 reforms became apparent, the government’s tune changed.

Unions’ comparatively weak presence in the NZLP helps explain why a deal was so uninteresting to politicians and so difficult to put together later. A former union leader and subsequent aide to a NZLP MP explains “unions were not as tightly integrated into the Labour Party. They couldn't veto policies. Numerous unions were outside the party. Affiliation to the national Labour Party was a joke. Anybody could show up as a delegate. What was much more important was to get onto the party Executive. But you're in the Executive as individual members...Unions were not aware of the presence of anti-union folks in the Labour Party. Anti-Muldoon business went along with Labour as well. Labour didn't think they needed the unions.” (Simpson 2006). Another advisor describes the situation in more detail: “While there were crossovers between the Labour Party and the union movement, many key union leaders were not powerful figures in the Labour Party—although some were. The most influential figure in the union movement, Ken Douglas, belonged to another party altogether. Some of the unionists who
were most influential in the Labour Party were not important figures in the union movement.”
(Scott 2005:63) When a possible agreement was brought before the cabinet there was equivocation and suspicion. “The [NZ]CTU was caught between the pincers of a vacillating government…and a skeptical union movement highly distrustful of the Labour government.” (Harvey 1992:70)

In sum, electoral concerns provided the fundamental incentive for a party to seek a public agreement with unions. These incentives were stronger in Australia than in New Zealand early on, partially due to the stronger linkages between the ALP and ACTU than between the NZLP and FoL. The Accord was a way for the ALP to turn an electoral liability into an asset. Congruent with our hypotheses, the tight-party union links embedded union leaders and ALP politicians into long-term relationships as well as providing a career path for union leaders into politics. As these relationships became stronger with the ascent of Hawke to the head of the ALP, previous barriers to a deal fell and the Accord was born. In New Zealand, union leaders and NZLP officials had no consistent organizational ties; distrust was endemic. This poor transaction environment hampered the emergence of a deal once the NZLP did have the appropriate electoral incentives.

3.3 Players' time horizons

3.3.1 Australia

In Australia, ALP time horizons were governed by election cycles, but, as the Accord proved useful and flexible leaders saw no definite end date for the process. Union leaders, for their part, had very long term goals for the Accord, goals which required the ALP remain in office. Consistent with our hypothesis, the time horizons of the two major players, but especially the union leaders, were sufficiently long to enable intertemporal exchange. Union leaders were willing to concede short term wage restraint in exchange for other longer term benefits.
Consistent with the finding that the Accord served an electoral function for the ALP, political leaders had fairly short initial time horizons, though they did not have a specific end date in mind either. Ralph Willis states “We hoped it would last one period of government and then see how it went. We didn't say we will keep this in place for the next ten years.” Schott has a similar evaluation: “What the Australians thought, on the basis of the UK incomes policy, was that they [wage restraint agreements] were very unstable and they never stayed in place for very long. You could hold it for a couple of years and then you'd lose it...You could only hold it together for about two or three years. This was because you only had wage restraint and nothing else. It was very hard on the unions.” But the Accord proved remarkably durable. The government was seeing benefits from the arrangement as well. Michael Keating says “success bred success and that's important.” This had the effect of lengthening politicians’ time horizons: “At any point in time we [the government] wanted it [the Accord] to last.”

On the ACTU side, it is clear that union leaders had much longer-term goals for the Accord. Kelty viewed the Accord as the vehicle that would transform the Australian economy while improving the plight of workers. He had correspondingly long time horizons: “We needed a long period Labor government. At least nine to ten years expected from the Accord.” Carmichael is even more explicit in his goals. “The main influence in my mind was trying to pursue the possibility of something like a Swedish agreement between the political and industrial sections of the movement.” He viewed the Accord as the first step on a longer path to a stronger welfare state supported by centrally negotiated wage/price bargaining. This ambitious agenda was more than just an individual sentiment; it was ultimately formalized in *Australia Reconstructed* (ACTU/TDC Mission to Western Europe 1987) in which the ACTU explicitly identifies the Accord as the cornerstone of a long-term plan for restructuring the Australian political economy along Swedish lines.
3.3.2 New Zealand

In New Zealand, there appeared to be a profound mismatch between union and partisan goals. In particular, the newly elected NZLP had very short time frames and foresaw an end date. “The Labour government thought they were going to lose in 1987 anyways so they may as well take the tough decisions now and front them later.” (Wilkinson 2006) Union leaders, “because of the nearly three years of the wages freeze, were desperate to want to believe that Labour would save them. In my view herein lies much of the subsequent problem of the trade union movement.” (Douglas 2005:80) Expectations for the incoming NZLP government were quite high, but nobody possessed time horizons sufficiently long to make a large deal possible. Once the path the Lange government was pursuing under Roger Douglas became clear to unions, the union movement fell in to disarray; private sector unions were unsure of how to respond while public sector unions expressed opposition to the government (Harris 2006). Neither the will nor the patience required to make an agreement self enforcing appears to have existed on either side.

3.4 Other explanations: union capacity and arbitration

Scholars examining the Accord/Rogernomics period have identified other important differences in the two cases, specifically differences in the internal coherence of the union movements (Bray and Neilson 1996; Schwartz 2000) and the divergent trajectories of the arbitration systems (Barry and Wailes 2004; Bray and Walsh 1995; Wailes 1999).5 I briefly consider these other explanations and discuss their relationship with the transaction-based framework.

When asked why an Accord-like arrangement never emerged in New Zealand, interview subjects in both countries responded with statements similar to the one given by this former NZCTU official: “There was no Accord in New Zealand because the unions are too weak.” (Goulter 2006) Ken Douglas gives a more specific evaluation: “Our leadership, my leadership if you like,
could not deliver the required union membership support in a coherent and progressive way.” (Douglas 2005:83) Another advisor recalls that “The Federation of Labour did not have the power over the constituent unions that the ACTU had at the time in Australia...Powerful unions here had made it clear to FOL headquarters that the days of [former FoL secretary] Skinner and Muldoon doing deals over wage movements were over for good.” (Scott 2005:63) How might we understand the weakness of the New Zealand labor movement?

From the transactions approach we know that exchanges are harder to maintain the greater the number of players. New Zealand unions were split between the public and private sector federations and each federation faced different bargaining institutions. The two federations could not come to an agreement on how much support to give the NZLP. In Australia, the ACTU had succeeded in absorbing both the public sector federation in 1979 and the white-collar union federation in 1981. By 1983, the ACTU affiliates represented about 82% of unionized workers in Australia (Golden, Wallerstein, and Lange 2002) compared to roughly 2/3 for the FoL. Thus the unions in Australia were more organizationally unified at the “contracting moment.” What’s more, the FoL and public sector union federation merged into the NZCTU in 1987 and subsequently entered into negotiations with the government around some sort of incomes policy. Thus the “number of players” expectation would seem to be borne out.

A second reason has to do with the relationships between the arbitration systems and the organizational capacity of the respective peak associations. The New Zealand arbitration system effectively lost any credibility in enforcing wage restraint in the late 1960s while the Australian system recovered under Whitlam’s wage indexation scheme. As a result, “unions in New Zealand were very schizophrenic. They had the rhetoric of free bargaining but heavy reliance on government patronage.” (Harris 2006) “Union leaders were bureaucrats who were used to working a system of
industrial patronage. They had nothing to do but sit in an office and count the money.” (Simpson 2006) The industrial relations system had freed them from the need to actively organize workers and all but the few strongest did not have to actively bargain. Wage outcomes came from a combination of the industrial strength of a few and government intervention (Barry and Wailes 2004). Thus, when it came time for the NZLP to address pressing problems, the “government believed that the unions had little to offer.” (Harris 2006)

The nature of the Australian arbitration system also affected the capacity of the ACTU (Bray and Walsh 1995; Martin 1975; Schwartz 2000). In the 1950s the ACTU developed responsibility for the basic wage case before the arbitration commission with unions ceded some bargaining responsibility since all had an interest in keeping the basic wage high. Beginning in the 1960s, the ACTU started investing heavily in their research capabilities. In the 1970s, the ACTU began assuming a major role in the total wage case as the arbitration courts attempted to return to full wage indexation. The ACTU’s role in research and bargaining enabled it to use of the arbitration system to keep affiliates more-or-less in line with ACTU policy. “The arbitration court helped preserve the ACTU unions internal unity because it…allowed unions to externalize blame for wage moderation.” (Schwartz 2000:109)

Both interview and secondary evidence points to profound differences in the capacity of the New Zealand and Australian union federations to act effectively and strategically. Some of this difference can be incorporated within the transactions framework. But other aspects are clearly idiosyncratic. The ACTU’s central role in bargaining within the Australian arbitration system clearly enhanced its organizational cohesion and scope for action while likely convincing some unionists of the viability of a central incomes policy.

3.5 Holding the Accord together: monitoring, enforcement, and renegotiation.
We expect that sustainable intertemporal political exchange requires players to monitor one another’s compliance with the agreement. Further, in situations where transactions are easier to achieve, contracts need not be written too rigidly; renegotiation is a distinct possibility. The Accord showed itself to be remarkably durable and flexible. Monitoring and enforcement technologies—the arbitration commission most importantly—played a part in this. Also important was the flexibility and creativity shown by union and political leaders.

3.5.1 Monitoring & enforcement

Monitoring union wage demands was relatively easy. The arbitration system centralized the reporting of all wage settlements and involved the ACTU in major wage cases. When there were claims outside the guidelines the ACTU and the department of employment and industrial relations would make joint presentations before the Commission, asking them to make awards in line with the Accord. The Commission was generally supportive of the Accord process (Schott 2006).

Monitoring the government is more difficult. An added complication is the fact that the Accord was not directly binding on non-unionized workers in the economy, most notably in the professions. The ACTU was sensitive that its members not be the only ones giving up wage increases; doctors, barristers, and others should have their fees tied to the Accord guidelines as well. As a result the The Accord set up a series of government sponsored bi- and tri-partite bodies for the purpose of monitoring wages and prices across the economy: the Economic Planning Advisory Committee and the Australian Council on Prices and Incomes. The latter was directly responsible for monitoring prices and incomes of the professions.

In general, union compliance with the Accord guidelines was quite good, particularly early on (Schott 2006). Nevertheless, there were cases in which certain unions attempted to challenge the Accord guidelines. Probably the most dramatic challenge came with the 1989 pilots strike. The
Australian Federation of Air Pilots—not an ACTU union—had gone outside the arbitration system to secure a 30% pay increase. Consistent with the notion that the Accord relied on a multilateral trigger strategy, Willis states “we could not allow [the pilots] to win. It would have brought down Accord.” In the end, the government went to extreme lengths to break the strike, including importing foreign “scab” pilots and using the air force to fly domestic passenger and freight routes. The ACTU supported the government in its actions.

3.5.2 Safety valves, creative accounting, and renegotiation

Monitoring and punishment alone would be insufficient to keep the Accord going over time, especially if a major union decided that it was no longer in its interests to go along. Interview subjects cited three major ways that these pressures were accommodated. First, Schott and Willis mentioned that the government and ACTU approached the Commission to allow some anomalous wage claims to go through, “You basically had to keep everybody in the tent and at the same time have a few little back doors you could let people sneak out of for good reason, like they weren't getting paid much to begin with.” (Schott 2006) These “safety valves” were built in to the system so some out-of-line wage increases could go through without flowing on to everybody. “There was sufficient discipline within the Commission especially with the anomalies procedure...The building industry was always a difficult area. Anomalies arising in building by and large didn't flow outside.” (Isaac 2006)

Second, negotiators at the highest levels showed extraordinary creativity in generating workable solutions to challenges, particularly in the context of renegotiation. The original (1983) Accord did not promise real wage restraint on the part of the unions; it only conceded a return to centralized wage setting and full indexation, based on the CPI. Some real wage reductions were achieved in the first year due to creative accounting work by the government and ACTU (Schott
Specifically, one of the first social policy initiatives of the new ALP government was the reintroduction of comprehensive medical insurance, effectively removing the healthcare component of the CPI. As a result, wage growth was approximately 1% lower than would have otherwise occurred. (Belchamber 2006; Willis 2006)

In 1984, the powerful building trades union negotiated a supplementary payment package outside the Accord guidelines. Willis credits Kelty with having the idea to repackage this payment as a form of employer-sponsored superannuation. The union agreed, thereby deferring these payments and keeping money wage demands in line with the Accord. “Health care and superannuation made tradeoffs easier. These trades were not inconsistent with general philosophy of the Left in Australia. You establish a beachhead and you let society catch up.” (Kelty 2006) This creative use of superannuation to maintain wage restraint was extended to others in the following year. In 1985 the Hawke government approached the ACTU, asking the unions to renegotiate the Accord and accept less than full indexation in order to accommodate a devaluation in the currency and the corresponding increase in prices of imported goods. The ACTU eventually agreed in exchange for superannuation and tax cuts, both to be phased in over time. “Superannuation came about because some of the more Left wanted to rock the Accord boat. We came across super[annuation] by accident.” (Willis 2006) Several respondents cited the introduction of industry superannuation as one of the most important and enduring achievements of the Accord period.

These specific instances point to the third reason—renegotiation of the Accord was not just possible but expected: “We knew the Accord would need to be renegotiated.” (Willis 2006) The nature of the Accord changed significantly over the years. It was variously used to introduce centralized wage setting, rework wage relativities, transition bargaining back to individual unions, and, ultimately, respond to employers' demands for more flexibility and productivity incentives by
introducing enterprise level bargaining. Kelty knew the centralized system was a short-term solution; he had longer-range plans: “If you believe in the internationalization of the Australian economy, a centralized system determined by a protected manufacturing sector does not work. Even to keep a minimum [wage] rates system you had to move progressively to a more devolved system. We wanted to keep an effective national minimum rate and so we had to change the nature of the wages system. It was a fixed wages, fixed exchange rate, high interest rate system. This doesn't work with lower tariffs, increased productivity, and low inflation.” (Kelty 2006) Michael Keating recognized this consciously flexible nature of the Accord process: “Kelty and [PM Paul] Keating definitely had a strategy over time. They wanted to wean unions off the most centralized system by enhancing and redistributing productivity gains.” Through renegotiation the overly rigid wage and policy prescriptions that brought down negotiated pacts in the UK were avoided in Australia.

4. Conclusions

This paper introduced a transaction-based approach for understanding why some countries responded to economic crises with government-directed monetarist-style policies while others negotiated with major peak associations outside government. Viewing negotiated economic transition as a form of political exchange leads us to expect pacts to occur where key actors are embedded in long-term, repeated interaction; where time horizons are long, and where the ability to monitor compliance is present or built. I examine these expectations using detailed historical and interview data from Australia and New Zealand in the 1980-90s, finding evidence that the transaction environment was in fact much better in Australia, consistent with our expectations. In Australia tight party-union linkages made negotiation the best option for both the ACTU and the ALP. These same relationships made negotiation easier and bound key decision makers together in long-term personal relationships and career paths. Union leaders had exceptionally long-term
objectives for the Accord. Monitoring and enforcement technologies in the form of the wage arbitration commission also existed. The Accord's durability was largely a result of its flexibility, both of which resulted from the favorable transaction environment.

The combination of the cases and the theoretical approach has several benefits. The cases push the discussion outside the relatively narrow purview of post-Maastricht EU countries while posing problems for some explanations drawn from that experience. The Australia and new Zealand cases cast doubt on arguments relying on the primacy of employers while underscoring the role of elections. The theoretical approach allows us to productively examine an overdetermined set of cases in a way the makes the Antipodean experience of broader relevance. The findings direct us to an immediate area for future research. In the broader literature on pacts, understanding the operative electoral incentives in multi-party systems seems important. Long time horizons, especially for union leaders, are important for political exchange yet we have minimal understanding of this variation. I conjectured that tight party-union linkages may help, but attention to the careers of union leaders should also be investigated. Union leaders expecting to use their positions as springboards into elected or appointed office may behave differently than the hypothetical perfect agent of her rank-and-file constituency. Though often in unintentional ways, the Accord provided several lucrative career paths for union officials, most notably the management of superannuation funds. How the career concerns of union leaders affect their willingness to commit their unions to certain policy agreements is understudied. Does the structure of the party system or the nature of electoral institutions affect the prospects for the emergence of more “strategic” leadership? Finally, to what extent are efforts to rationalize union or employer representation in an effort to make them more capable bargaining agents effective?
Figure 1. Comparing Australia & New Zealand

Note: Vertical bars and the grey shaded area represent the Accord period in Australia in which wage movements were centrally negotiated.

Source:
Table 1. The political economies of Australia & New Zealand (1982)

<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>New Zealand</th>
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<tbody>
<tr>
<td>Unemployment</td>
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<td>3.5</td>
</tr>
<tr>
<td>Inflation</td>
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<td>16.2</td>
</tr>
<tr>
<td>Δ GDP (%)</td>
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<tr>
<td>Δ GDPpc (%)</td>
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<td>Deficit (%GDP)</td>
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<td>7.45</td>
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</tr>
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<td>Labor disputes</td>
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<td>248.0</td>
</tr>
<tr>
<td>GDPpc ($US, K)</td>
<td>17.5</td>
<td>16.0</td>
</tr>
</tbody>
</table>

Note: union density values for 1980

References


Belchamber, Grant. 2006. Interview with Grant Belchamber. Melbourne.


Harris, Peter. 2006. Interview with Peter Harris. Wellington.


**Endnotes**

1 See Avdagic et al. (2005) for one typology of social pacts.

2 In (citation omitted) I find that social pacts are more likely to be announced close to elections.

3 Many authors have leveraged the Australia-New Zealand comparison to good effect. But Wailes (1999) argues that the Australia/New Zealand comparison can be deceptive when relying on Mill’s method of difference for causal inference. I am not using Mill’s methods to establish causality. Rather I examine a series of theoretical expectations using case evidence. As Wailes notes, “few attempts have been made to use the comparison to test hypotheses nor have explicit attempts been made to generate generalizable and testable hypotheses from the case study.” (1016) I am attempting to fill this gap.

4 New Zealand had not seen unemployment levels that high since the Depression. Wailes, Ramia, and Lansbury (2003) observe that unemployment in New Zealand went from 0.1% in 1973 to 3.5% in 1982 whereas the Australian rate “only” tripled from 2.3% to 7.2%.

5 Schwartz (2000) considers other obvious institutional differences between the countries (federalism, bicameralism) and concludes that institutional differences “only condition the rate of change, not its direction.” (71)