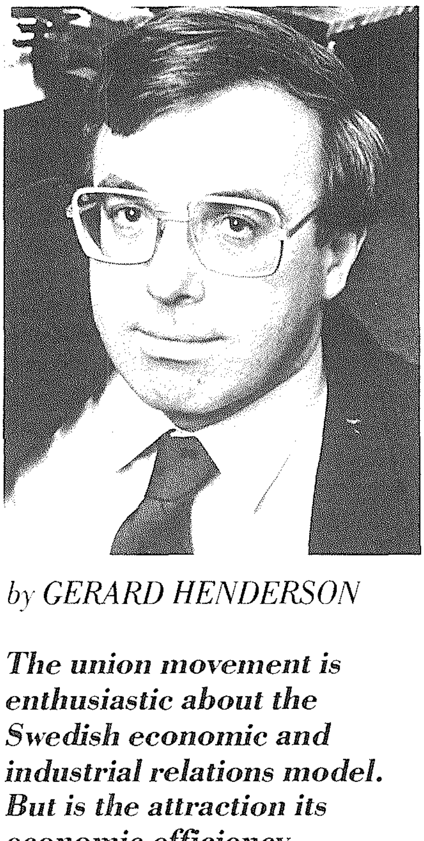
# THE SWEDISH INFATUATION

## ACTU PLAN A PUSH FOR POWER



by GERARD HENDERSON

***The union movement is enthusiastic about the Swedish economic and industrial relations model. But is the attraction its economic efficiency — or its reinforcement of union power?***

*Australia Reconstructed* (the report of the mission to Western Europe by the ACTU and the Trade Development Council) is an ambit claim for even greater trade union power.

No doubt the delegates to the ACTU Biennial Conference in Melbourne in September were pleased with the report which, according to ACTU secretary Bill Kelty, is "about nothing less than the reconstruction of Australia". After all, there is not one recommendation which involves a lessening of union power and most suggest a substantial strengthening of the power of Australian trade union officials.

The proper role of trade unions will dominate much of the political debate in the period leading up to the next Federal Election. Mr Simon Crean and Mr Bill Kelty have called for a "constructive debate" on the recommendations of *Australia Reconstructed*. The report certainly warrants this.

The key proposals of *Australia Reconstructed* are:

- The Federal Government should establish a National Development Fund (NDF) to provide equity capital and "soft" loans for investment. Any business wishing to obtain equity or loans from the NDF must first reach agreement with trade unions on a whole range of issues — including superannuation.
- The National Development Fund should be administered through the Australian Industry Development Corporation (AIDC) — the board of which should contain substantial union representation.
- All superannuation funds should be required to make available up to 20 per cent of their future income to the NDF. If insufficient funds are available through this mechanism, there should be a 1 per cent tax on all imports supplemented by a "surcharge on luxury imports".
- Superannuation funds should not be allowed to have more than 15 per cent of their investments overseas.
- The ACTU's superannuation campaign should continue in its present form.
- Unions should be involved along with government and business in industry development and in the formulation of industry plans.
- The Federal Government should establish a National Employment and Training Fund (NETF) to be "financed by a tax on companies". Enterprises (both public and private) would be able to draw back from the fund 80 per cent of the amount they have contributed to it provided they have reached an agreement with unions. As with the National Development Fund, any such agreement will cover key issues such as superannuation.
- The Government should enact detailed legislation in order to impose industrial democracy on companies —

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including an Act for the Recognition of the Rights of Trade Union Representatives at the Workplace.

- Australia should maintain a centralised wage system and there should be "no reduction in award wages for young people".
- The Federal Government should "remove all the legislative impediments to the amalgamation of unions" and actively pressure small unions to amalgamate with larger unions.
- The Government should also take action to stop the creation of any new unions. The "Australian trade union movement should plan to have some twenty union organisations within two years".

If implemented, the recommendations of *Australia Reconstructed* would place Australian trade union leaders at the very centre of political power. Union bureaucrats would have some input into virtually every business decision. Moreover the Australian economy, which is already subject to excessive regulation, would become even more regulated. This would be the worst possible medicine for our economic ills.

*Australia Reconstructed* correctly identifies "the failure of investment to reach the levels required for sustained economic growth and industry development" as one of our major economic problems. The key proposal of the report is that Australia should follow the corporatist Swedish economic model.

One real weakness of *Australia Reconstructed* is the failure of the ACTU and the Trade Development Council to make a convincing case why Australia should adopt the Swedish economic model.

The economic data indicate that Sweden has been a poor economic performer in recent years. According to Mr Peter McLaughlin of the Business Council of Australia, the "Swedish economy grew by an average of 1.9 per cent per annum in real terms between 1971 and 1984 compared with 2.9 per cent in Australia" over the same period.

Nor has Sweden been a star performer in the crucial areas of export performance and of investment. The April 1987 OECD Report on Sweden indicates that gross fixed investment has tended to actually fall in recent years and now stands at about 19 per cent of Gross Domestic Product (compared with the Australian level of about 24 per cent).

The ACTU/Trade Development Council has claimed it was attracted to Sweden because it found it a country "which had overcome balance of payments constraints in ways which produced low unemployment, low inflation and economic growth which is more equitably distributed."

But it is not as simple as it seems. According to Mr Des Moore, the reduction in Sweden's balance of payments deficit has been brought about by ". . . a combination of an improvement in its terms of trade and a major reduction in government spending and borrowing. In fact, in the context of the almost hysterical reaction to the Liberal Party's election proposals to reduce the size of government by 4 to 5 percentage points of GDP over three years, it is of some interest that over the four years to 1986 Sweden cut the size of government by 3.6 percentage points of GDP. Admittedly, this was from the horrendously high base of 67 per cent of GDP; but it shows that it can be done even by the arch-exponents of big government."

***In its April 1987 report the OECD expressed concern at the fact that over recent years wages in Sweden have been increasing at a faster rate than those of its international competitors.***

The authors of *Australia Reconstructed* would have us believe that Sweden represents some kind of light on the hill in so far as industrial relations is concerned. Not so — according to the OECD. In its April 1987 report the OECD expressed concern at the fact that over recent years wages in Sweden have been increasing at a faster rate than those of its international competitors and classified this as a major concern for the Swedish economy.

In other words, Sweden has a similar wages problem to Australia where nominal wage increases are running at a level almost double that of our major trading partners. Moreover the conscious decision to compress wage levels and to take little note of the capacity of individual firms to pay has hit especially at small businesses trying to establish themselves.

Certainly unemployment is low in Sweden — the official figure is around 3 per cent. But if the various government training programs (and the like) for the unemployed are taken into account the real figure rises to about 8 to 9 per cent — not dissimilar to the Australian unemployment rate.

It is also worth noting that, as Dr John Burton has pointed out, Sweden "has one of the toughest systems relating to unemployment benefit in Western Europe, which creates a strong incentive to work".

Recently inflation in Sweden has dropped to about 4 per cent (around the OECD average). But traditionally Sweden has not been a low inflation country. Between 1961 and 1985 inflation in Sweden averaged 9.1 per cent per year — compared with 9.5 per cent in Australia over the same period.

In spite of the recent cut-backs, Sweden remains one of the highest taxing and biggest spending countries in the Western world, with the top marginal tax rate at around 80 per cent and public sector expenditure at 64 per cent of Gross Domestic Product.

The Swedish taxation system is very harsh on small business. According to *The Economist*: "The tax system is stacked in favour of big business. . . Swedes running small, new companies that they want to expand into big ones are less content. The government knows that it should encourage entrepreneurial companies, but its instincts on the way to go about it are those of a rich and interfering uncle. . . It does not understand risk-taking."

In short, Sweden suffers many of the problems that are currently afflicting Australia — traditionally high inflation, low investment, wages increasing at a faster rate than international competitors and stagnating living standards.

The OECD Report on Sweden has warned that an economic policy "based on continuing currency devaluation would not appear viable in the longer run" and that "other ways of reconciling the targets of low unemployment and inflation must be sought".

What, then, was the special attraction of Sweden for the ACTU/Trade Development Council mission? Why is the Swedish model so attractive? The answer lies in union power.

Sweden has the most powerful trade union movement in the Western world, with over 90 per cent of employees union members (the comparable Australian figure is about 50 per cent). The metal unions are particularly strong.

This, rather than economic performance, is the particular attraction of the Swedish model to the Australian trade union movement.

According to *Australia Reconstructed*, 57 per cent of the Australian workforce is unionised. The latest figures released by the Australian Bureau of Statistics suggest that unionisation has fallen over recent years to around 46 per cent. An important recent development is that unionisation in the private sector has dropped to about 34 per cent — compared with around twice that figure in the public sector. In other words, the strength of the Australian trade union movement now resides in the tenured and superannuated ranks of the public service and public utilities.

The fall-off in the relative strength of the Australian trade union movement has reflected the increasing unpopularity of the trade unions and their leaders. According to Mr Hugh Morgan, public opinion polls which asked the question "Do you think trade unions in Australia have too much power?" obtained affirmative responses of 47 per cent in 1961, 49 per cent in 1971, 68 per cent in 1980 and 78 per cent in 1986.

Little wonder that the trade union leaders are worried about their falling membership and that in November 1986 the ACTU Executive authorised the expenditure of around $1.5 million to counteract the influence of what it likes to term the "New Right".

Over the past four years the Australian trade union movement has sought to retain political power through the ALP-ACTU Accord and, more recently, by attempting to force members and potential members into union controlled superannuation funds. The recommendations in *Australia Reconstructed* would take this process significantly further with the union movement playing a key role in developing "a central national economic and social objective" for Australia.

*Australia Reconstructed* is very much the brainchild of Mr Laurie Carmichael (with the assistance of Ted Wilshire and Terry Counihan of the Trade Development Council). Mr Carmichael is the National Research Officer for the Amalgamated Metal Workers Union.

Mr Carmichael seems to have undergone some degree of economic conversion since the heady days of 1981 when he led the successful campaign of the Metal Workers Union for a 25 per cent across-the-board increase in hourly labour costs. The increase had to be paid by all employers in the metal industry — irrespective of whether they were making profits or facing imminent bankruptcy.

This so-called industrial "victory" was a significant contributing factor to the 1982 recession. At the 1986 ALP National Conference Treasurer Keating accused the Metal Workers' leaders of the day of being directly responsible for driving 100,000 Australian workers on to the dole queues.

After years in the economic wilderness, Mr Carmichael has now apparently come to realise that Australia is part of the world economy and that wealth cannot be distributed unless it is created. He also now apparently accepts that wealth can be created most effectively where there are good relationships at the enterprise level between management and employees.

***The corporatist solution is precisely the wrong remedy for Australia's economic ills. Australia needs less, not more, regulation.***

Mr Carmichael has belatedly recognised the inevitability of economic change. His aim is to ensure that union power is not diminished — but rather increased — by it. Hence the current fascination with the Swedish model. Hence the decision to devote one third of *Australia Reconstructed* to a description of the Swedish economic way.

In a recent media interview Laurie Carmichael made no attempt to disguise the reason for his infatuation with the Swedish model. Referring to the current world-wide stress on the importance of employer-employee communication at the enterprise level, Mr Carmichael stated: "It has been adapted in America without unions, except in a few instances. That is why unions are down to 17 per cent of the workforce in the United States. In Sweden it takes place exclusively through the unions, which is why the unions are 92 per cent of the workforce."

*Australia Reconstructed* is all about increasing trade union power. It is not surprising, then, that Mr Carmichael believes that the recommendations in the report have had the effect of uniting the Right, Centre and Left groupings within the ACTU. This explains why the likes of John MacBean (NSW Labour Council) and Joe de Bruyn (Shop Distributive Union) were at ease in co-signing the report along with Greg Sword (Storemen and Packers Union), Tom McDonald (Building Workers' Industrial Union) and Laurie Carmichael.

*Australia Reconstructed* is unequivocal in support for corporatism, maintaining: "In those countries which have most rapidly and successfully adapted to changes in the international economy, government, business and unions have co-operated around generally agreed objectives."

The April 1985 Hancock Report (which was very much a product of the Industrial Relations Club) also identified itself with corporatism which it defined as "policy-making by agreement at a centralised level".

The corporatist solution is precisely the wrong remedy for Australia's economic ills. Australia needs less, not more, regulation. An exporting country such as Australia requires a flexible industrial relations system which encourages productivity and entrepreneurship.

Certain features of the Swedish industrial relations system are attractive — for example:

- there is a strong tradition of co-operation between employers and employees (not unions) at the enterprise levels;
- agreements about pay and conditions are in effect enforceable contracts which cannot be broken by either side.

It is interesting to note that these particular features of Sweden's industrial relations system do not form part of the recommendations of *Australia Reconstructed*. Rather the members of the ACTU/Trade Development Council mission were attracted by the all-embracing Swedish corporatism which gives enormous power to trade union leaders over virtually all aspects of the economy.

When Mr Carmichael and his fellow delegates looked at Sweden they saw regulation, centralisation and close to total unionisation. Not surprisingly, they liked what they saw.

The authors of *Australia Reconstructed* might have become true believers in the Swedish way. But the Swedes themselves are having second thoughts and there are clear signs that the system is breaking down.

As Dr John Burton has put it: ". . . even in the fully corporatist Swedish model, centralised wage negotiation has shown increasing signs of crack-up over the 1980s. In 1984 the centralised system of negotiations broke down entirely. The system was patched up with a new Central Agreement in February 1985 . . . but once again reached crisis point over the period January to October 1986, in both private and public sectors. It is the consensus of most expert commentators that Sweden is now ineluctably moving away from a consensus-based approach and from centralised wage-fixing to a decentralised system."

Ironically, the ACTU is calling on the Australian Government to follow the Swedish model, and to make our centralised industrial relations system even more centralised, at the very time when the Swedes are recognising the need for more decentralisation and less regulation in industrial relations.

*Australia Reconstructed* has been greeted with considerable hyperbole by some of the industrial relations media. One described the mission's report as "an ikon symbolising an important change in Australian society". To another it has ushered in "the early phase of a revolution just as important to Australia as the original industrial revolution was to Britain two centuries ago".

This is all very well. But you don't need a month in Western Europe to find out what is wrong with the Australian economy or, more particularly, why our level of private investment is at such low levels.

Australia is not attracting sufficient investment for one simple reason — the rate of return is too low. High levels of interest rates and taxation, combined with uncertainty about the long-term exchange rate, have all combined to make Australia a relatively unattractive investment proposition. So has excessive union power in many crucial areas of the economy.

Six essential reforms are needed if Australia is to become competitive on world markets once again and if all Australians are to benefit from rising living standards:

- Government expenditure should be cut at all levels — federal, state and local. This would make possible a budget surplus along with reduction in income and company taxation. It would also facilitate a reduction in the net public sector borrowing requirement.
- Most public enterprises should be privatised and government controls and restrictions which stop private businesses competing against public enterprises should be lifted.
- The privatisation of public sector enterprises and monopolies should be accompanied by a more rapid decoupling of industrial protection and a reduction in those regulatory bodies which inhibit the free operation of market forces.
- The gross inefficiencies in the public sector at all levels should be reduced and rorting and over-manning eliminated.
- The enormous legal privileges which trade unions currently enjoy should be withdrawn.
- The reduction (or preferably abolition) of union legal privilege will make possible the freeing up of Australia's highly centralised industrial relations system and will facilitate the rapid abolition of restrictive work practices at the enterprise level. As well, freely-entered-into voluntary agreements between employers and employees should be made legal and cease to be illegal (as most are now).

***Employee share ownership schemes create improved relationships between management and workers and, as a result, very often lead to increased productivity at the enterprise level.***

The whole direction of *Australia Reconstructed* is hostile to these essential changes. It is also at odds with the broad deregulatory thrust (except in the vital labour markets area) of the Hawke Government. Shortly after its release, Senator John Button described the mission's report as too regulatory. It is all that — and more.

If implemented, the recommendations of the ACTU/Trade Development Council would turn Australia into a gigantic closed shop in which the right of free association would be severely curtailed.

Compulsory unionism is a gross infringement of the civil liberties of those who do not want to belong to trade unions for whatever reason. But if the authors of *Australia Reconstructed* have their way virtually all Australian workers would be unionised.

The right to free association has always been regarded as one of the hallmarks of free, democratic societies. But if the authors of *Australia Reconstructed* have their way Australian workers would have to be content with belonging to one of only twenty union organisations. Some existing unions would be forced to amalgamate — whether their members wanted this or not. And it would become effectively illegal to create a new union. On any analysis, this amounts to an appalling attack on civil liberties.

On the ABC Radio's *Background Briefing* on 30 August 1987, Mr Carmichael made it abundantly clear that he was vehemently opposed to employee share ownership schemes (whereby workers are encouraged to take up shares in the companies in which they work). During the recent Federal Election campaign Mr Keating indicated that the ACTU had advised him that the trade union movement generally was opposed to such schemes.

Once again, the reason is not hard to find. Employee share ownership schemes create improved relationships between management and workers and, as a result, very often lead to increased productivity at the enterprise level. But they do tend to shut out trade union bosses.

Obviously, Mr Carmichael is not attracted to any proposition that will diminish union power. He prefers a situation where the shots are called by big unions in co-operation with government and (if possible) large employer organisations.

That is why Mr Carmichael supports the concept of industrial democracy (by which unions impose obligations on business) but opposes employee share ownership schemes and voluntary workplace agreements between employers and employees — independent of industrial tribunals, trade unions and large employer organisations.

According to the authors of *Australia Reconstructed* Britain under Margaret Thatcher has "failed" but the disastrous years of Harold Wilson, Edward Heath and James Callaghan (where endless compromises were made to trade union leaders while British standards of living continued to decline) were a "success".

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substitution trend against tin. However, there is little indication that lower prices are resulting in substantial lifts in consumption.

On the supply side, production is still falling, being down 13 per cent in 1986. A 10 per cent decline in 1987 is likely. There is little evidence of significant Chinese selling, but the US is still depleting its strategic stockpiles. A continuing destabilising factor is the threat of large sales from ITC creditors.

**Outlook:** Despite a rapid rundown in inventories, the tin price has not improved this year. This situation cannot last. Tin demand is rising, but primary production has collapsed. Mine output this year will not exceed 125,000 tonnes, which is 70,000 tonnes less than five years ago. By year-end some 75,000 tonnes of the surplus stock overhang existing in late 1985 will have been consumed.

In 1988 a shortage could develop unless prices rise. The tin price can only go one way — up. Our forecast average price for calendar 1987 is $3.20, rising to $4.20 next year (4,300 to 5,700 pounds a tonne). Current price is $3.00 (4,050 pounds).

**ZINC**

The underlying long-term demand trend remains positive. In 1986 there may have been some hedge buying in advance of strikes. Auto production remains sluggish and Chinese demand is still poor.

On the supply side, primary output continues to be affected by supply disruptions and rationalisation moves should stabilise supply patterns. In the short term mine output is recovering from earlier disruptions, secondary supplies are increasing and LME stocks appear to be rising.

**Outlook:** From its position as being one of the best price-performers in recent times, zinc has lagged price-wise and is back to its mid-1986 price level. The industry still has a sizeable surplus-capacity problem.

However, recent links between the major producers will undoubtedly result in more price-sensitive production rationalisation. Zinc prices should therefore hold up reasonably well. Our forecast average price for calendar 1987 is 36 cents a pound, remaining the same in 1988. Current price is 36 cents.

**GOLD**

We believe annual supply/demand equations are of less use than for base metals. Gold is mostly not used, it is bought and kept.

Generally investment demand is remaining firm, reflecting inflation, inflationary expectations and US excess money supply. For the immediate future there is little prospect of any material improvement in the US trade deficit, and a weakening US dollar. This is positive for gold.

**Outlook:** At worst, we foresee the price of gold being underpinned around $450 an ounce, or slightly lower. The prospects of the price reaching $500 by the end of calendar 1987 are less strong than they were say one month ago. We believe there is a greater chance of gold being closer to $500 than $450 within the next six months. Downside is limited.

## THE OUTLOOK

In a sense, the mining industry is reverting to "normal" conditions. By that I mean that price trends for base metals will show the long-familiar pattern of six to twelve months of satisfactory, or even buoyant prices, following by declining or flat prices for some years as new capacity once again comes on stream, or is resuscitated in response to a more encouraging outlook.

Mining companies prefer stability in prices, hopefully in an improving trend. On the other hand, commodity speculators, and by inference "investors" in resource-linked stock market equities, prefer price *change*, since this creates greater short-term money-making opportunities. They, of course, do not have to run the companies, and cope with significant revenue fluctuations.

Over the next six months at least, both groups should be satisfied, since our crystal-ball-gazing suggests higher *average* prices for metal producers, while there will be *considerable price volatility* around these average forecast prices. Therefore, there should be good pickings and short-term trading opportunities for stock exchange investors.

For the mining industry as a whole, I cannot help but agree with Allen Sykes (again), who said management structure must be appropriate for the size of the company.

For the large mining companies, the day of the large, even giant, project will return, and the casualties of the 1970s, caused by inflation, high interest rates and radically falling demand, are unlikely to be repeated.

Medium-sized companies need the most imaginative and multi-disciplined management and generous incentives for managers (and workers) to perform well, and maximum use of outside consultants, but only as and when required. Goodbye the large head office.

The small mining groups will, in my view, provide the vigour and enthusiasm which the mining industry needs, and which the investment sector applauds. Witness the manner in which generally it is the smaller entrepreneurial companies which led the resurgence in the Australian gold-mining sector and gave a lead to the major companies.

Finally, as a single pointer to metal prices and base metal share prices, the rate of growth of excess money supply in the US will continue to be the best single indicator, as this, with the right adjustments, has a major impact on the price of gold and hence commodities and resource share prices generally. □

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This analysis simply ignores the fact that British productivity has grown significantly throughout the Thatcher years. Moreover, during this period the number of individual shareholders has increased from two million to nine million — due to privatisation and the Conservative Government's encouragement of employee share ownership. There are now more share owners in Britain than there are trade unionists.

Mr Carmichael supports corporatist economies precisely because they enhance trade union power. He is opposed to workplace agreements of the kind that exist in, for example, the United State and Switzerland because they do not require the involvement of trade union bureaucrats.

In September 1983, Laurie Carmichael spelt out the details of his approach to industrial relations and why he supported a highly centralised wages system: "Those who have the idea that the road to socialism is made of individual wage struggles in half a dozen factories without mobilising all the workers, centred in the strength of all the workers of this country, have no bloody idea whatever what it's all about."

Those who oppose Australia proceeding down Mr Carmichael's road to socialism should vehemently oppose *Australia Reconstructed.* □