An Economic Strategy for a Labor Government

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The thesis of this article is that simultaneous movement towards the goals of full employment, stable prices and equity cannot be achieved without changes in both short-term economic policies and in the Australian economic system. The monetarist approach of recent years, even when modified by electoral pragmatism, has failed to reduce inflation significantly and has suppressed economic growth, causing higher unemployment. The assumptions underlying Australian monetarism are misguided.

The principal causes of sustained inflation relate to the nature of the economic system rather than to monetary phenomena. Alternative strategies are required. Introduction of economic and social planning would enable preparation of a national strategy. Stimulatory short-term policies prepared within this framework would increase employment opportunities. If supported by a comprehensive, equitable voluntary prices and incomes policy, inflation could be simultaneously reduced. Maintenance of such policies in the longer term would be supported by changes to the pattern of ownership including movement towards economic democracy.

WESTERN ECONOMIC DISORDER

Economic strategy in most Western industrialised countries is in disarray. In 1982 unemployment in countries belonging to the Organisation for Economic Cooperation and Development (OECD), is expected to reach the staggering total of 28.5 million people.[1] Yet inflation remains disturbingly high, the annual rate averaging 9.1 per cent in February 1982 in OECD countries.[2]

From the end of the Second World War until the late sixties the international economic system designed by the countries of Western Europe and North America operated satisfactorily in their interests. They all

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made economic growth their principal economic goal, so there was unprecedented growth of income and employment. Economic policies in each country reinforced the others. There were shallow recessions during the period but average growth rates remained high. Participation by the industrialised communist countries (the East) and the developing countries (the South) gradually increased, but the structure of the international system was weighted against their interests. Economic power was, and continues to be, concentrated in the West.

In the late sixties the rate of inflation took off. The causes were complex. Rapid economic growth in many countries increased inflationary demand-pull pressures. Rapidly rising demand for commodities, to which the Vietnam war and the Russian harvest failure of 1972-73 contributed, led to sharp increases in commodity prices. U.S. deficit financing of the Vietnam war led to balance of payments surpluses in other countries, some of which did not manage their money supply effectively, so enabling faster inflation. The results of the formation of OPEC on oil prices are well known. Money wages began to grow more rapidly in many countries in the late sixties partly to compensate for increasing tax payments as employees moved into higher tax brackets. The collapse of the system of fixed exchange rates added to uncertainty and contributed to growing inflationary expectations.

Most Western governments responded by imposing contractionary policies, and the boom collapsed in 1974 and 1975. Inflation fell but remained much higher than in previous decades and unemployment snowballed - slower economic growth and rising unemployment in many countries intensifying the recession in others.

A modest recovery began in most of these countries in 1976, but with the OECD urging all members to fight inflation first, and some governments adopting monetarist policies, average growth rates were slower than before 1974. The second oil price shock in 1978-80 depressed real growth rates of oil-importing countries and increased inflation everywhere. The current recovery from this second and deeper recession is much slower than in the mid seventies.

In countries which have adopted monetarist policies there is little or no growth. In Britain average real income has fallen for two years, unemployment has risen to 11.5% and even inflation has increased. The U.S. is still to feel the full impact of Reaganomics - the pincer of Friedmanite monetary policy combined with regressive and militarist, though in part expansionary, supply side fiscal policy. The principal results so far have been ten million unemployed people, widespread deprivation, historically high interest rates and a military establishment whose greed for funds has grown even as it has been fed. Australia was one of the innovating countries with monetarist doctrine, though Fraser's pragmatism has saved him from the excesses of his doctrinaire, regressive ideology.

The next section of this article briefly describes Australian neo-conservative economic policy and its results. This is followed by a critique of the assumptions underlying Australian monetarism from which the conclusion is reached that these policies can never restore simultaneous full employment and price stability. The second half of the article suggests that one of the principal forces sustaining high inflation is the struggle for shares of income. Therefore, an alternative economic strategy is required which includes a prices and incomes policy to regulate all incomes and which is supported by other changes in the economic system.

One such change which could be considered in the longer term is economic democracy - increasing the proportion of ownership by employees.

THE FAILURE OF AUSTRALIAN NEO-CONSERVATISM

The Fraser Government has claimed to give pre-eminence to reducing the rate of inflation. Both monetary and fiscal policy has generally been contractionary, though neither the direction nor the intensity of application has been consistent. Unemployment has therefore increased. This planned result was expected to restrain growth of wages and therefore of inflation. Market forces are said to have been preferred and the Government has aimed to cut back the size and regulatory powers of the public sector. The extent of differences in the distribution of post-tax income and wealth has been increased, and this has been justified by a wish to increase incentives.

The results of these policies are well known. The Fraser Government has suppressed economic growth and so increased unemployment and allowed living standards to stagnate, increased interest rates to record levels, failed to control inflation, and widened disparities in the distribution of income and wealth.

The growth rate of GDP during the five years 1975 to 1980 averaged only 2.5 per cent in real terms. With population growing by an annual average of 1.2 per cent during those years, annual growth of income per person averaged a mere 1.3 per cent, an extraordinarily poor result for a mineral-rich country in an energy-scarce world. In comparison, the average annual growth rate per person for all OECD countries during the same period was 2.5 per cent, nearly twice as fast.[3]

Unemployment rose rapidly when the first Fraser Government took office and has remained high. In March 1982, 460,000 people were officially described as unemployed by the Australian Bureau of Statistics. The restrictiveness of the Bureau's definitions, combined with the discouragement to potential job seekers caused by the state of the labour market, mean that there are nearly as many hidden unemployed. Hundreds of thousands of older people, married women and migrants would re-enter the workforce if employment opportunities became available.[4]

Interest rates on housing loans have risen by four per cent in the last two years and other interest rates by more. Taxes are at the highest level in Australian history, yet social security payments and community services have not been improved and in many cases have deteriorated. Poverty has increased principally because of rising unemployment and reduced real social security payments. After six years it is hard to take seriously the Fraser Governments' claimed aim of reducing inflation first. At the beginning of 1982, after six years, the inflation rate was still over 11 per cent. Many decisions have added directly to this rate of growth of consumer prices. Amongst the most powerful have been abolition of Medibank, and the confusing sequence of five health insurance arrangements; the introduction of charges at public hospitals; increases in excise and sales tax; increased tariffs and more widespread use of import quotas; and the sudden introduction of import-parity pricing of Australian oil. The Commonwealth's squeeze on funds for the states and on state and statutory authority borrowing has forced increases in state and local government taxes and charges. The neo-conservatives have been fighting inflation by raising prices.

The supposed attack on inflation has been used to justify mean, destructive and short-sighted cuts in community services, public works, housing and pensions. (For a thorough account see the book edited by R.B. Scotton and Helen Ferber).[5]

The extent of the Fraser Governments' handouts to business and the well-off are less well documented. Direct budget assistance to industry during the six years from 1976-77 to 1981-82 in constant 1980-81 prices totalled $3554m. The estimated revenue foregone through the investment allowance over the same period and on the same basis has been $2602m, from the trading stock valuation adjustment $1081m, and from double depreciation $288m. So the total cost of direct assistance to business by the Fraser Government in constant 1980-81 prices has been $7525m.[6] Yet evidence throwing doubt on the cost effectiveness of various of these schemes has simply been dismissed.

This is only one aspect of the misdirection of public resources. Most of the benefit of changes to personal income tax rates which came into effect on 1 February 1978 was received by high income earners. For example the top 10.4 per cent of taxpayers received 42.7 per cent of the total tax relief.[8]

The amount of revenue foregone through many other tax concessions cannot even be calculated. When questioned about 49 separate tax deductions available to companies, investors and farmers, the Treasurer was unable to provide any estimates of revenue foregone for 27 of them and only partial estimates for some others. The 16 concessions which could be fully costed involved revenue losses in a full year of $1024m.[9]

Everyone is aware that tax avoidance and evasion is causing billions of dollars in lost revenue every year and therefore making the post-tax income distribution even more inequitable. Professor Russell Mathews, a couple of years ago, estimated revenue foregone at an annual figure of about $3 billion.[10]

Despite the appearance of legislative activity to suppress particular tax avoidance schemes, the Fraser Governments have refused to adopt the tough measures required to effectively curtail tax avoidance such as retrospective legislation and strengthening the Taxation Office. The result of these tax concessions and the failure to prevent the explosion of tax avoidance has been that the burden of taxation falls increasingly on wage and salary earners. The proportion of rapidly increasing Commonwealth tax receipts paid by employees rose from 42 per cent in 1975-76 to an estimated 46 per cent in 1981-82.[11]

In order to demonstrate the need for an alternative economic strategy it is necessary to show why the Fraser Governments' approach can never work. To do this the assumptions underlying their strategy must be examined more closely.

MISGUIDED MONETARISM

It would be a mistake to assume that because neo-conservative governments espouse monetarist doctrine that they do so for other than ideological and self-interested reasons. However, their advisors, such as those in the Australian Treasury and Reserve Bank, prepare economic policy within a quasi-monetarist framework in which they apparently believe. Despite this

difference, Liberal and National Country Party politicians and their senior economic advisors share crucial assumptions which have enabled them to work effectively together. These include the beliefs:

* that reducing the rate of inflation is more important than, or must precede, reducing unemployment;

* that sustained economic growth can be achieved only through a revival in the private sector and that the public sector should be cut back;

* that reducing real wages would increase profits and employment; and

* that reducing tax on higher incomes will act as an incentive to greater effort, stimulating faster economic growth.

Each of these assumptions has been rigorously analysed elsewhere and none of them has been found sustainable.[12]

It would be impossible to prove that the total personal, social and economic costs of recent rates of inflation have been greater than total personal, social and economic costs of unemployment. Inflation is disturbing, reducing economic security and stability, causing arbitrary changes in the distribution of income and wealth, and reducing Australia's international competitiveness. Unemployment can destroy personal dignity, cause family breakup and innumerable psychological and social problems as well as reducing the economic well-being of the whole community by slowing national economic growth, reducing tax receipts and diverting available funds into unemployment benefit payments. To attempt to compare the costs of the two economic cancers would be a hopeless task. Though both inflation and unemployment are costly to everyone, the well off are generally more aware of the impact of inflation than fearful of unemployment, and this accounts in part for the inflation first strategy of conservative governments everywhere. Treasury's argument for an 'inflation first' strategy is, however, somewhat more sophisticated; viz, that high inflation rates <u>cause</u> unemployment by depressing consumption and investment and decreasing exports and increasing imports.[13]

This approach is simplistic. It is not even certain in which direction the rate of inflation would affect the level of consumption, for consumption might either be reduced as savings increase as a precaution against perceived insecurity, and to restore the real value of wealth, or spending might be maximised so as to obtain goods and services before prices rise further, let alone the extent of the effects. Even if the rate of inflation has a small effect on the aggregate level of consumption through the rate of saving (as Nevile concludes[14]), many other influences are certain to be involved. Total consumption is determined by innumerable factors including the levels of employment, wages and other incomes, tax rates and public spending.

Investment too, depends on many factors, such as expected returns, the level of economic activity in Australia and overseas, and interest rates. Although the rate of inflation may influence business people's expectations by making them more cautious as the rate of inflation increases, it is not plausible to believe that this is likely to be the major factor determining their investment decisions. 1981-82 provides clear contrary

evidence: the rate of inflation is increasing while investment is booming. The rate of inflation is one, but only one, of the influences on interest rates, and higher interest rates do discourage investment, so a falling rate of inflation would encourage investment and therefore employment.

The effect of higher inflation in Australia than overseas on exports and imports is likely to be slight. Most Australian exports are agricultural and mineral products sold at prices fixed on world markets. Australia exports only a small volume of manufactured exports. Imports are little influenced by a relatively higher Australian inflation rate because of high Australian protection.

It is difficult to believe that these at most relatively small effects of inflation on employment are a sufficient reason for asserting that only if inflation falls can unemployment be reduced. The Treasury hypothesis is at best, simplistic, because it greatly over-emphasises the influence of inflation on employment. Economic recovery does not depend principally on reducing the inflation rate.

Equally fallacious is the second assumption, that sustained economic growth can be achieved only through a revival of the private sector. Fraser and his ministers used to repeat monotonously that the public sector must be cut back to make way for the private sector. If that was really their aim they have failed in this objective too, because the public sector now accounts for a slightly larger proportion of GDP than in 1975-76.[15] The major reason for this relative growth has been the weakness of the private sector. Attempts to contract the public sector have damaged the economic environment for the private sector.

The aversion of the neo-conservatives to the public sector was focused initially on the budget deficit and more recently on the public sector borrowing requirement (PSBR). The desperate attempts to reduce the PSBR have been one of the principal causes for the extraordinarily low economic growth rates of the last six years. Cutting the net public sector addition to demand reduces total demand, slowing growth, increasing unemployment, and reducing total tax receipts, so further adding to the budget deficit. With depressed economic activity, reduction of the deficit requires either expenditure cuts or tax increases and Fraser has used both, though principally the latter. Commonwealth tax receipts as proportion of national income have risen from 23.3 per cent in 1975-76 to their highest level in Australian history, a budgetted 25.5 per cent in 1981-82. Public finance policy has therefore been pro- rather than counter-cyclical, intensifying rather than easing the recession.

One of the justifications claimed for this attack on the public sector has been that reducing the PSBR reduces either or both the extent of increases in the money supply or government borrowing. In Treasury's view an increase in the money supply above a certain percentage increases inflationary pressure, and that government borrowing increases pressure on interest rates. However, severely restricting monetary growth is not necessarily the appropriate means of controlling inflation. Davis and Lewis have found that restrictive monetary policies have a stronger impact on output than on prices. They conclude that there is a:

> closer relationship between money and output measures than between money and prices... These results suggest that the L/NCP government strategy of pitching the monetary growth rate target well below the ongoing rate of growth of consumer prices is likely to have a more reliable impact upon output than upon prices.[16]

When growth of the money supply is curtailed, credit is restricted and borrowing, particularly by small businesses, farmers, home buyers and consumers is reduced, depressing economic activity. Evidence from the 1961 and 1977 credit squeezes confirms this conclusion, for in those years real GDP grew by -0.1% and 0.9% respectively, well below average Australian growth rates and growth rates in other OECD countries in those years.[17]

The increases in interest rates in 1981-82 are not due mainly to the "crowding out" of other borrowers by public sector borrowing as the neo-conservatives claim. The principal factors have been:

* the high and increasing rate of inflation;
* restrictions on the growth of money and credit, due in part to the low Commonwealth deficit and to the deterioration in the balance of payments;
* de-regulation of bank borrowing rates, which set off an upward spiral of interest rates through competition for funds between financial institutions;
* high interest rates in monetarist America and Britain; and
* increased private investment.

In fact the PSBR fell from a peak of 6.0 per cent of GDP in 1977-78 to 3.2 per cent in 1980-81 and will be considerably lower again in 1981-82.

The third neo-conservative/Treasury assumption, that rapidly increasing and high real wages have prevented economic recovery, is also misguided. Rapid wage increases can add to the rate of inflation. They may also contribute to the substitution of machines for labour, though careful study of this issue has not proved this relationship. Even if rapid wage growth in 1974 contributed to loss of employment opportunities, the real wage overhang - the increase in the real cost of labour in that period - has long since disappeared.[18]

Treasury argues that wage increases reduce the profit share, so reducing investment, and point to the apparently low profit share and rate of investment since 1974 which is observable in official statistics. However, Haig has shown that the official figures are misleading because they are based on faulty definitions.[19] The Australian Statistician makes an adjustment for inflation by deducting a stock valuation adjustment from reported profits, reducing profits reported by manufacturing by some 20 or 30 per cent. But the Statistician fails to take account of benefits of inflation to business through the fall in their real interest and debt repayment costs. So the profit share as mentioned by the national accounts has appeared depressed, while the press has been full of reports of booming profits. Haig concludes:

> In recent years the share of profits has been excessively high, and increasing profits have had a greater impact on rising prices than wages. In historical perspective, profits and not wages are currently excessive.[20]

There is no conclusive evidence to support the fourth neo-conservative assumption, that reduced tax on high incomes will increase work incentives and so the pace of recovery. The Asprey Committee on taxation was "doubtful whether, within the kinds of limit that need to be considered seriously, the changes in the progressivity of the tax scale would have important effects upon work incentives."[21]

This brief review of the neo-conservative/Treasury economic policies and the assumptions underlying them shows that they have not only failed to achieve their claimed results but also have been conceptually weak and misguided.

There is a further and paramount reason why they must be rejected. In the contemporary Australian economic system these monetarist doctrines could never enable simultaneous achievement of stable prices and full employment. Even if prolonged contractionary monetary and fiscal policies ever led to stable prices or even to slow inflation, stimulatory policies aimed at restoring modest economic growth and increasing employment opportunities would soon cause renewed inflationary pressure, and another round of contraction would have to follow.

The experience of 1980 to 1982 is an example, for though real GDP grew by only 2.9% in 1980-81 and recorded unemployment remained at around 400,000,fiscal and monetary policies were sharply tightened in 1981-82 (by increasing taxes by more than outlays and restricting growth of the money supply to much less than the growth of national income), to try and dampen inflationary pressure. This is the crux of the failure of existing policies: they cannot offer any real possibility of escape from high unemployment and inflation. We must look beyond the inadequacies of monetarism to find the features of our economic system which prevent the achievement of lower inflation without rising unemployment.

The second part of this article is an attempt to describe the changes in national economic policy that are required in order to achieve full employment and price stability, and also to show that these must be supported by gradual change in some aspects of Australia's economic system. First, it is necessary to discuss the way in which the economic system operates at present to increase inflation.

THE AUSTRALIAN ECONOMIC SYSTEM AND INFLATION

Features which distinguish the Australian economic system amongst industrialised capitalist countries include:

* the relatively small public sector. Outlays of government as a proportion of GDP totalled 33.7 per cent in Australia in 1978 compared with the average of OECD countries other than the U.S. of 40.8 per cent;

* the similarly low proportion of tax in Australian income, due especially to the absence of social security taxes;

* the relatively small number of directly productive enterprises which are publicly owned, either by the Commonwealth or the states;

* the high degree of market imperfection, involving the concentration of market power, in crucial industries such as the media, banking, and finance, air transport, mining and some sections of manufacturing;[22]

* the relatively high, though declining, proportion of owner-occupied housing;

* the relatively small proportion of national output which is traded in relation to the small size of the Australian domestic

market. In 1979 exports were 15 per cent of Australian GDP compared with an average of 23 per cent in all OECD countries, and for example, a country of similar population size, such as the Netherlands, where exports were 43 per cent of GDP;

* the apparent relatively high level of Australian protection;

* the high degree of foreign ownership and control, one estimate of which places Australia second only to Canada amongst Western industrialised countries;[23, 24]

* the existence of the arbitration system for the settlement of industrial disputes and wage determination; and

* the federal structure in which the Constitution limits the powers of the Australian government.

Thus, ownership is predominantly private, highly concentrated in crucial industries and often by foreign corporations. Allocation is therefore through a more or less imperfect market structure which allows many enterprises to exploit their position. Protection limits the competitive impact of the international market. The post-war growth in the concentration of economic power is one reason for the decline in effectiveness of traditional instruments of demand management.

The larger a corporation's financial resources and the more widespread its links, the more effectively it is able to resist, for example, the effects of tight monetary policy. The greater the capacity of such businesses to resist the government's economic levers, the more severe and extended the application of national economic policies will have to be to achieve a particular result. With the growing divergence of economic power between individuals, farmers and small businesses on the one side and gigantic transnational and large domestic corporations on the other, the effects of demand management policies have become increasingly inequitable. An attempt to slow inflation through contractionary monetary and fiscal policy increases unemployment and bankruptcy amongst those unable to borrow or pay the high interest rates, but has little impact on large corporations. The growth in international market distortions through the increasing power of transnational corporations and the less visible influence of international cartels and oligopolies further intensifies these constraints.

In this context the contractionary macroeconomic policies and higher unemployment during the latter part of the seventies were insufficient to force down inflation to 1960's rates. The changes in the nature of domestic and international economic systems were and are contributing to maintaining high inflation rates through cost-push pressures. With high inflation everywhere, corporations and other powerful groups try to maintain their real incomes by increasing prices, wages, fees and rents by at least the expected inflation rate.

One of the principal factors maintaining high inflation rates now is a struggle for shares of income. Marx would have described this as an outcome of the class war. Every group in the community aims to maintain and increase the real value of their incomes: corporations seek higher prices and profits; unions higher wages and salaries; trade and professional associations set higher fees; property owners increase rents. Each group is competing against the others. With prices already rising rapidly each organisation has to achieve some regular increase in money income just to keep up.

The growth in the concentration of economic power facilitates this process. Unions, professional associations, trade and producer organisations have also learnt more efficient organisational, and more sophisticated bargaining techniques. With power to resist government pressure to reduce the rate of growth of prices, wages, fees and rents, recession and growing unemployment makes little difference to these organisations.

Contractionary policies therefore reduce inflation only slowly. The unemployed are forced to be Australia's inflation fighters, but the strategy is ineffective. An alternative approach to inflation as well as to unemployment is essential. Changes to both macroeconomic policy and to Australia's economic system are required.

The remainder of this article outlines proposed changes in three sections: preparation of a longer term national economic strategy; introduction of new short term macroeconomic policies including a comprehensive, equitable prices and incomes policy; and commencement of movement towards economic democracy. First, national goals must be clarified.

GOALS, PLANNING AND STRATEGY

A Labor Government must at least aim for: growth of employment until opportunities are available for all who want a job; price stability; reduced inequality in the distribution of income and wealth; steady improvements in the quality of and access to public services, in living standards of low and middle income earners and in opportunities for leisure and its creative use.

Restoration and maintenance of full employment and improvements in living standards require faster economic growth. Faster growth is a necessary condition for increasing employment opportunities given the pattern of demand for various skills, the state of technology and the way work is organised. As these gradually change, by, for example, increasing the relative importance of personal services and the spread of shorter hours and work sharing, the growth rate of national income required for a given rate of employment growth will be lower. Furthermore, growth can and must be achieved in an ecologically responsible manner.

Taken all together, these are ambitious aims. Even limited targets along the way will take several years to achieve. There will be conflicts between the aims in whatever strategy is used. Priorities will have to be set, which involves choosing between alternative uses for the limited available resources. The choice of strategy and the setting of priorities are the essence of planning.

There is opposition to planning from some people who have a doctrinaire belief in the ideology of what they choose to call "free enterprise". Yet such people are normally involved in planning within the corporations in which they work. They also however, often regard government intervention through tariffs or quotas, subsidies and marketing schemes as essential aspects of our economic system.

The war-time organisation of the Australian economy is the clearest example of economic planning in this country, and that experience offers lessons to a government committed to coping with the crisis of massive unemployment.

Planning is essentially a matter of clarifying objectives, determining a strategy based on particular values, and sorting out priorities. Therefore a Labor Government would need a planning committee. A parallel caucus committee could maintain a review of progress.

Since no part of the public service currently has planning functions a new organisation will be needed. A Department of Economic Affairs is one possibility which would include both a new division of economic planning (which would be the senior policy-making division) and most of the functions of the existing Treasury. Such a Department would put planning directly under political control (as distinct from the planning bureaux in some European countries), would avoid the danger of conflict between two competing economic policy departments, and would be able to effectively coordinate other departments and authorities.

Establishment of an Economic Planning Advisory Council with members representative of unions, business, farmers, and consumers, and chaired by a senior minister, could contribute to conflict resolution through consultation and bargaining.

The structure described deals only with central organisation. Certain allocative and distributive decisions must be made at the centre, by Cabinet, with advice from officials. Other aspects of economic and social planning more effectively take place on a decentralised basis in departments, authorities and regions. Detailed planning of the various forms of public expenditure - education, health, income maintenance, defence, infrastructure - must be proposed to Cabinet by the minister responsible on the advice of his department, and of the advisory organisations in the field.

Similarly industry planning should be the responsibility of the industry department, and of the advisory industry councils, in the context of guidelines set by the national economic strategy. In the context of these arrangements preparation of even an initial comprehensive national strategy could well take over a year. The immediate tasks would be economic forecasting in the absence of a plan, setting of objectives and priorities, preparation of an alternative strategy and setting of realistic and integrated targets taking account of the constraints revealed by the forecasts. Within the context of a national strategy a more detailed public sector plan could be prepared.

The initial product of this activity would be a document setting out a national strategy and targets for several years. Flexibility would be increased if rolling plans were introduced so that revisions were made every year or two.

A central element in a national strategy should be the division of investment between various alternative public and private sector uses. At present the internationally determined rate of investment in mining and mineral processing is being allowed to dictate the pattern and pace of other investments. Governments should not abrogate responsibility in this way. A balance should be sought between mineral and community infrastructure and other investment: adequate provision of public housing, transport, education and health facilities as well as power for the wide community is essential, as is the investment of private and public sector funds in directly productive activity.

The Australian government cannot control private investment, but various means of influence are available. Approval of foreign investment

proposals can be limited to those in which there are clear national benefits. A variable deposit ratio or embargo on short term capital movements should be introduced to limit and discourage speculative financial flows. Changes to taxation arrangements would influence the direction of investment: for example a thorough study of existing concessions should be made and the investment allowance should be abolished.

A consistent method of deciding on public sector investment priorities is required, rather than the Loan Council's present practice of first come first served. States should provide details of longer term investment requirements as well as detailed assessments of individual projects. Social cost-benefit analysis using a standard discount rate and shadow prices, or a planning balance sheet, could then be used to make comparisons between alternative uses of limited Commonwealth and state funds.

A national strategy would also provide the basis for labour force planning, including more effective planning by educational and apprenticeship authorities. Effective labour force planning would contribute to reducing inflationary pressure from rapid growth of mineral investment and processing by predicting bottlenecks and so allowing educational and training authorities as well as invididuals to plan their own programs on the basis of better information. Regional planning could also be introduced on a firmer basis.

Planning is a centralised activity: some decisions can only be made by a national government. The planning process being described is an attempt to make those decisions more purposefully and consistently. Within that framework there is opportunity for decentralising and democratising all public sector organisations - departments and statutory authorities at the national state and local level. The public sector could lead the way in democratising the work place, setting a pattern for the private sector to follow.

A national strategy would provide a consistent framework for the frequent changes necessary in short term macroeconomic policy, though such changes would have to begin immediately a Labor Government was elected and could not wait until the strategy is prepared. Short term policy must be based on the goals of full employment, stable prices and equity.

Short Term Policy

We can be satisfied with aiming for nothing less than simultaneous full employment and stable prices. As Manning Clarke said recently "...we live in a society blemished and finally condemned by its moral infamy, a society that cannot give a satisfactory way of life to all its members."

The aim of short-term policy should be to gradually stimulate economic activity and so growth of employment through equitable and inflation-reducing selective expenditure increases and tax cuts. There will be some scope for shifting the pattern of spending and taxing even within the existing budget aggregates. A concerted attack on tax avoiders should begin immediately through strengthening legislation, retrospective legislation to catch identified schemes, and staff increases in the Taxation Office.

Public capital works have the largest multiplier effect of any form of public expenditure on economic activity and employment.[25] Increased spending on public housing for example, would stimulate a depressed industry

and depressed regions, begin to reduce housing commission waiting lists and contribute to easing pressure on housing prices. Other socially responsible spending programs could include: increased social security payments; improvements in the extent and quality of public transport; a universal health scheme; improved facilities at many inner city and country schools; and introduction of employment support programs. The most cost-effective tax change would be a cut in indirect taxes. Indirect tax cuts increase economic activity and employment and reduce the rate of growth of prices.

Some initiatives such as these would have to be included in the first budget by the new Government. Changes to income tax rates should be included in this budget to increase the progressivity of the income tax system. Lifting the minimum taxable income is an obvious change which would benefit all taxpayers but have greatest impact on low income earners. A resource rent tax should be introduced as quickly as possible and oil levies abolished.[26] In combination a package such as this would begin to increase the rate of growth of employment and reduce the rate of inflation.

Steady continuation of expansionary fiscal and monetary policies would maintain employment growth but also gradually increase inflationary pressure as the economy recovered. A new, effective anti-inflationary package is essential. The alternative to unjust, contractionary anti-inflationary policies is a comprehensive, equitable, voluntary prices and incomes policy. Growth of all incomes must be restrained if an incomes policy is to be just. The Fraser Government has had a selective incomes policy. There have been persistent attempts to reduce real wages and social security payments. Other income - profits, professional and trade fees and charges, and rents - have been allowed and even encouraged to increase.

A comprehensive and equitable prices and incomes policy must make an impact on non-wage incomes. This is more difficult in Australia than in most industrialised countries because the Commonwealth does not have constitutional power over incomes. However there are many ways in which incomes can be influenced. A progressive tax and social security system is essential. Non-wage incomes can be influenced indirectly. Health insurance arrangements give the Commonwealth influence over fees charged. The Trade Practices Commission has power in some circumstances to investigate fee setting by professional and trade associations, and this power could be extended to bring the professions and trades fully under the TPC. Some form of tax on capital should be introduced. Australia is the only western industrialised country which has no form of explicit capital tax. Without a tax on capital or capital transfers the extent of inequality in the distribution of wealth will increase unimpeded.

An active government housing policy could increase the supply of serviced land and housing, increasing competition and containing prices. The Prices Justification Tribunal must be re-established with strengthened powers, to comprehensively scrutinise important price increases. The PJT is also capable of contributing to maintenance of an equitable framework for a prices and incomes policy by refusing to allow over-award payments as a justification for price increases.

An effective prices and incomes policy must be voluntary. A compulsory incomes policy can only work for a short period and is likely to be ineffective for it leads to the build up of explosive pressure for wage and price increases obliterating any effects of the policy. In contrast the essence of this proposal is for the initiation of a permanent, consultative

social partnership. The new Economic Planning Advisory Council would provide the institutional setting for discussion, negotiation and bargaining about the nature of economic policy.

The arbitration system will continue to get wage rates within guidelines agreed on by the tripartite national Economic Planning Advisory Council. The existence of a centralised wage fixing system in Australia is one of the factors increasing the chances of success of prices and incomes policy. Maintenance of real wages through quarterly indexation and sharing in the benefits of productivity growth should be the basic guidelines for wage determination within a prices and incomes policy.

Such employment-stimulating and inflation-reducing policies must be supported by firm (as distinct from contractionary) monetary policy. The volume of money should be allowed to grow at about the same rate as nominal (money) national income, though this is not an inflexible rule. There are circumstances when the money supply should grow more slowly. Monetary policy must always be consistent with other policies.

If elected at the end of 1983 Labor will come to government at a time when the current high level of investment in mineral extraction and processing is likely to be beginning to cause a net improvement in the balance of payments. This improvement, which is expected to be most marked after the mid-eighties, will reduce the balance of payments constraint on more expansionary macroeconomic policies.

Taken together even all these elements of short term economic policy are unlikely to lead to full employment and stable prices. One reason is that the rate of inflation and level of unemployment are influenced by the state of the international economy. For example, there is no possibility of industrialised countries stabilising their prices while Reagan continues with his dangerous and inflationary military buildup. Although Australia cannot cut links with the rest of the world without severe domestic economic contraction, such constraints do not provide an excuse for failing to maximise the extent to which our goals are achieved within the feasible limits.

A permanent, equitable, voluntary prices and incomes policy is an essential part of alternative economic policies aiming for a just and secure society. Such a policy is unlikely to remain acceptable to the unions or a Labor government in the longer term unless it is linked with gradual changes in the pattern of ownership.

Restraint of wages and salaries, and higher economic growth rates tend to increase profits. Employees should benefit directly from this through sharing in improved productivity through higher real wages and/or reduced hours. They will also share the benefits if higher profits are used for increased investment which increases both employment and productivity. There is always a tendency, though, for higher profits to be used simply for payment of higher dividends or for diversification through takeover, increasing the concentration of economic power.

For these reasons, and others, proposals have been developed in several Northern European democratic socialist countries for the channelling of higher profits into employee investment funds to be used for the purchase of equity in the enterprises in which they work. Introduction of such a scheme to Australia, would be the beginning of a movement towards economic democracy.

ECONOMIC DEMOCRACY

The Australian economic system as it now operates has proved incapable of providing security and justice for all. Therefore it must be changed. The difficulty is to discern which of the innumerable potential changes are most likely to be cost effective and electorally sustainable. There are many surprising asymmetries about the Australian economic system, one of which is that while most farmers, many members of the professions and some tradesmen own their own enterprises, ownership and employment are normally separated. Most employees have no part in the ownership of the enterprise in which they work. This is the underlying structural factor behind the unhealthy inequality in the distribution of wealth, and the reason for much industrial conflict.

Commitment to democracy and individual freedom logically requires support for economic as well as political democracy. Australians are used to thinking of democracy in political terms - a vote of equal value for each adult - but not of economic democracy - the equitable sharing of economic power. Such a goal is no more visionary than was political democracy in the days when British rotten boroughs could be bought by members of the ruling oligarchy.

No country operates on principles of economic democracy, though social democratic Europe has taken steps in that direction. State socialism too has proved to be as alienating as capitalism. Economic democracy may offer a third way between individualistic capitalism and centralised communism both of which are repressive in their effect on individuals towards dispersed and participatory, yet collective, management and ownership. Experiments are needed which could begin to lay the groundwork for a more democratic economic system in Australia.

There are many versions of schemes to increase economic democracy through collective capital sharing. In broad terms workers acquire (through an intermediary investment fund) a share in the capital of the firm where they work, through retention of profit. That is, a given proportion of profit is paid to the employee investment fund and used for reinvestment in the firm, so increasing the total subscribed capital, and cumulatively increasing the share of total ownership held by employees. The shares of existing owners remain untouched but the proportion of existing capital which they hold steadily declines. Particular variations of the approach have been worked out in Sweden, the Netherlands and Denmark, though in none of these countries is economic democracy yet in operation.[27]

There are, of course, both conceptual problems and difficulties in introducing such a scheme which are specific to Australia. The income prospects of shareholders after introduction of capital sharing would be reduced. Share prices might therefore fall, and consequently shareholders would be likely to want a higher proportion of profits to be paid as dividends rather than being retained. New investors would tend to look for a higher return in order to recover their investment more quickly. Acquisition of capital by new share issues would become more difficult. Foreign investment would be discouraged.

The extent of these effects would be related to the nature of the scheme: the relatively small collective capital sharing element of the Dutch scheme, with its treatment of a levy as a tax on foreign companies, would be unlikely to have any of these consequences. For the same reason, the

rate of capital accumulation would be slow. Even with the more significant Swedish proposals the dangers have certainly been exaggerated by employers. Throughout the capitalist world, the tendency of recent decades has apparently been for a decreasing proportion of investment to be financed by new share issues. Retained earnings and borrowing provide the larger portion of funds. Many of the dangers such as these would be eliminated or minimised by gradual introduction of a scheme over which there was close tripartite consultation.

Federalism and the constitutional limitations on Commonwealth powers over incomes and property complicate this whole issue in Australia. The validity of any specific proposals would require careful study. The constitutional corporations and insurance powers give at least some scope. In practice electoral feasibility is likely to be a more significant constraint. Therefore these ideas are likely to be acceptable only after some years of evolutionary change.

The current pressure from unions for enterprise, industry or national superannuation schemes is a stage in this process. The growth of private superannuation and life assurance schemes during the last couple of decades has already changed the pattern of ownership in Australia. However, private fund managers are not in practice accountable to either their members or the wider community for their investment decisions. A new economic power group has grown up - life assurance and superannuation fund financial managers - whose investment decisions may be little affected by community priorities. So this development is an inadequate expression of democracy in the market place.

Collective employee capital sharing has many attractions. First, the chasm between ownership and work is bridged. Employees participate directly in the profits and risks of ownership. They have influence and responsibility by right. The underlying cause of industrial conflict is progressively removed. Second, there would be a tendency to reduce the high concentration in the ownership of capital, particularly with a Swedish-type scheme.

Third, economic democracy is the most thorough way of ensuring introduction of industrial democracy. Employee representatives would be board members automatically. Co-determination would be complemented by co-ownership. The benefits of both economic and industrial democracy are linked. Increasing employee understanding of the opportunities and constraints on business would be increased. The interests of employees and the community in a humane, safe, attractive and interesting working environment would be more effectively represented. At the same time employee willingness to accept reasonable business decisions would be increased.

Fourth, collective employee capital sharing overcomes the problem of changing the distribution of income without reducing funds available for investment. Reinvested profits by employee investment funds would provide a continuing source of funds for a profitable enterprise. More generally, the profit share of national income would remain at a sufficient level to maintain an adequate flow of funds for investment and industrial development.

Introduction of such a collective employee capital sharing scheme must be a longer term objective. In European social democratic countries the proposals came from the union movement as part of the return for cooperation with a prices and incomes policy. This could happen in Australia once a prices and incomes policy is introduced and working.

After a visit to Sweden, Donald Horne wrote that Sweden is:

> always a communitarian society. And one in which, based on the ideas of Rudolph Meidner, a refugee German economist, there is the only present viable debate on a future for socialism. Typically, it is a socialism to be achieved by employees gradually buying control of their companies - out of money paid to them from company profits.[28]

More conventional means of changing the nature of the economic system are also necessary. For example although the extent of intrusive, complicating regulation should be minimised, a government concerned to maximise both economic efficiency and equity must regulate enterprises in those sectors where effective competition is impaired by concentrations of market power. The finance industry is a clear example, contrary to the recommendations of the Campbell Committee. Another effective means available to government to increase efficiency and equity is to establish competitive publicly-owned enterprises. An example of a new enterprise of this kind is Labor's proposed hydrocarbon corporation which will increase Australian involvement in exploration, production and distribution of petroleum.

Joint public-private sector ownership is another means for increasing returns to the community and reducing abuses of market power which has been little used in Australia. There would be significant benefits from using this instrument at present in the minerals industry. One method would be to widen the functions of the Australian Industry Development Corporation (AIDC) so that it is empowered to hold equity. There are many enterprises in which a minority government shareholding would provide a window for information which would make tax avoidance, through transfer pricing for example, very difficult. One feasible method of achieving this result would be the establishment of a national development fund, managed by the AIDC, in which the public would be offered the opportunity to buy shares, and the capital from which would be used to buy equity, mainly or entirely in mineral extraction and processing ventures. Foreign investors seeking government approval would be required to offer a proportion of their equity, say 10 per cent, to the fund.

Another possibility, nationalisation, is made particularly difficult in Australia by both the constitutional limitations and the state of legal and public opinion. It is doubtful whether nationalisation would be the most cost-effective method of changing the pattern of ownership under normal circumstances, given the constitutional requirement that acquisition of property by the Commonwealth must be on just terms. There would be a high opportunity cost in using scarce public funds to purchase an existing enterprices when the same funds could be used for establishing a new one.

Establishment of worker cooperatives offers yet another means of relinking ownership and employment. A new Australian Labor government should quickly establish support mechanisms (access to credit and advice for example) for worker cooperatives, as has the N.S.W. Government.

Would the benefits of introduction of some form of economic democracy be worth the struggle? Corporate capitalism as we know it is perpetually changing and this process will certainly continue providing opportunities for influencing the direction of change. Retention of the individual freedoms in which we believe and from which we benefit may only be possible by extending democratic principles from the political to the economic sphere.

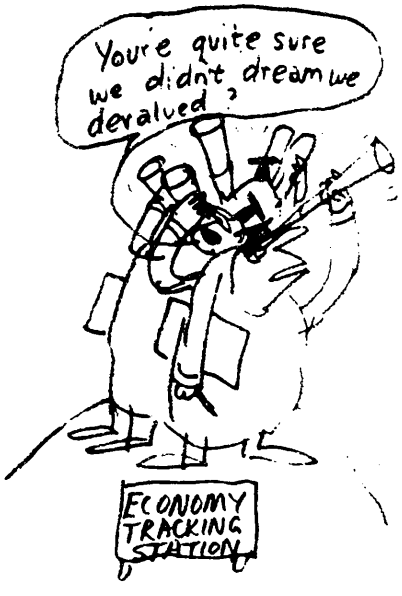
The present contradictions between the two are a major cause for conflict. The alternative to an authoritarian corporate or state capitalist system is a democratic and socialist society.

SECURITY AND JUSTICE

Only some aspects of domestic economic policy have been discussed in this article, and other facets of a national strategy such as international, industrial, technological and regional policies have not even been mentioned. The excellent article by David Peetz in this issue makes an important contribution to preparation of a democratic socialist international economic strategy.[29] This article has dwelt on some of the fundamental economic problems causing unemployment, inflation and inequity. Fresh approaches to macroeconomic policy and to the pattern of management and ownership in the Australian economic system have been proposed. Without changes of this type it is most unlikely that simultaneous achievement of the goals of employment opportunities for all who want them, relatively stable prices and greater equity can ever be achieved.

There are great obstacles in the way of such changes. Forums for discussion of alternative economic strategy are limited. The private media oligopoly is so powerful that sustained, coherent presentation of an alternative is extremely difficult. However governments have greater influence on opinion than oppositions, and the capacity for a gradual evolution of ideas amongst the informed public should not be under-estimated. The professionalism with which ideas are presented makes a difference to their acceptability.

As Hugh Stretton wrote in his great democratic socialist program Capitalism, Socialism and the Environment, "the Left has to supply simple visions, complicated programs and competent performance".[30] Finding the ideas which express such a vision and which also evoke a widespread echo of support in the community is essential. The goals of security and justice for all are in this category. The first tasks are to ensure that these are the goals and strategies of the Labor Party and that committed support is mobilised.



FOOTNOTES

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