ON DIT special

FORUM on the ECONOMY

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You couldn't get a broader range of views!

For anyone with any interest or no interest in the Economy - it should be a ripper - if you like a battle!

THURSDAY 12-2 UNION THEATRE.

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This special edited by Ralph Bleechmore for AUS and Labour Action, thanks to Michael O'Brien, Simon Marginson (AUS), Bill Kirby, David Hall, Frank and Caroline for printing and typing, and the many contributors.

how's your budget— Tertiary Allowances '76

"Australian students stunned by apparent freeze on tertiary allowances rate at $31 per week inspite of Williams Report recommendations, Government survey of student needs and moves in comparable benefits to $38 per week. We call for urgent reappraisal or at least statement of intention and timetable for increase. We seek brief meeting before you depart overseas. Tom Hurley, Education Vice President, AUS."

The Budget for 1975-76 brought down on Tuesday 19th August by Mr. Hayden contains several pieces of information highly relevant to students, and unfortunately, most of it bad news.

The Budget, as has been reported in the mainstream press, is aimed at decreasing Government expenditure and competition for resources in the rather strange belief that this will stimulate the private sector and increase employment while lowering inflation through easing demand on resources.

2. TEAS.

In the budget brought down last Tuesday, there were four changes made to TEAS:

i) An extra $20 million was allocated, taking the allocation for TEAS from $91.6 million to $101.9 million.

ii) Dependent spouse rate will increase as of November 1, from $10 per week to $15.

iii) Dependent child rate will increase on November 1, from $6 per week to $7 per week.

iv) Adjusted Family Income, at which maximum TEAS paid increased from $6,300 to $7,600 for next year's applications.

Comment:

i) As will be totally clear, the Government has ignored absolutely the Williams Report, the AUS mini-campaign, its own survey of student needs in 1974 and now compounded anomalies between Social Welfare Benefits (see attached table). TEAS has now the lowest level of social benefit in Australia, while at the same time, having the most strictly administered and precisely designed means test.

ii) The increase of $20 million will do no more than cover increased applications due in 1976. The obvious assumption underlying this can be questioned in that students from families of low income earners may not be able to find places in tertiary education due to the cutback in funds allocated to tertiary education. Also such students may find the dole more attractive, being set at $38 per week, as at November 1, for those aged more than 18.

The increases in Dependent Spouse and Child Allowances will effect very few students. In the year 1973-74, only 1,321 students received Dependents Allowances in any form. It is unlikely that this figures would grow to exceed 3,000 for the 89,000 students on pay, or indeed for the total of 113,000 applications the Department has received to date.

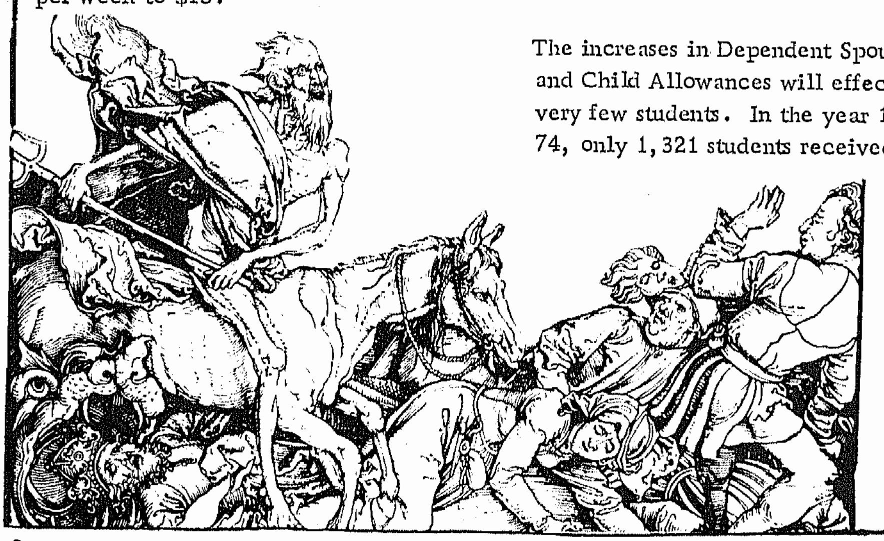
We are at present trying to work out exactly where the extra $20 million is to be spent. It is not impossible to imagine that there is money left in the kitty to give students some tokenistic increase in March, 1976, when campuses resume to ameliorate the customary first term TEAS processing frictions. Alternatively, the Department must be gambling on a total of 12,500 new applicants, each being eligible for the full $1,600 allowance.

iii) The change in Adjusted Family Income does no more than keep it abreast of inflation, if that. The average weekly earnings for the December quarter 1975 were $152 per week, which can be projected forward at 20% inflation to predict approximately $180 per week in the March quarter, 1976 (assuming wage restraint doesn t occur or merely keeps pace with present cost trends). This would place the $143 per week Adjusted Family Income, way below what most Australians receive.

iv) AUS Moves.

After the budget, on Wednesday, Ian Macdonald and myself had over two hours with Kim Beazley in which he said that no change was planned by the Government and that the Williams Report had been received but not acted on.

As a matter of interest, the recent Poverty Commission Report indicated a poverty line for a single person in Australia in the region of $38 p.w. Christ knows what life will be like on $31 p.w. in late 1976.



LAWN MEETING FRIDAY 19TH SEPTEMBER.

THIRD TIME LUCKY

1890

Like America, Australia had been a dumping ground for British convicts. But we emerged from that lowly status much faster than the USA. We became urbanised more rapidly and completely. And although most of the century s revolutionary scientific discoveries were made overseas, we took them up just as eagerly to overcome problems of distance and under-development.

The result was a unique "Golden Age". During a long economic boom which lasted for most of the 1870s and 1880s a frenzy of expansion transformed Australian society people and institutions.

Gambling in land values seems to have remained part of the Australian character ever since. For example land values in Surrey Hills, a new Melbourne suburb, increased 20-fold from $1.50 to $30 a foot during the 1880s, then dropped back to $1.50 in the 1890s.

Similar development and speculation occurred on a smaller scale in other capital and provincial cities.

During the boom, trade-unions were tolerated in many industries for the first time, and sometimes succeeded in improving wages and conditions.

Friendly societies achieved huge enrolments, protecting their members against the worst effects of accidents or illness and incidentally demonstrating a deep-seated desire for insurance against the perils of life.

A series of royal commissions, particularly in Victoria, attempted with mixed success to ameliorate the worst abuses of sweated labour and child employment.

SUDDENLY the great boom was all over. With appalling swiftness, the bubble burst, panic spread, and all of these bright hopes, these common human ambitions, were shattered.

In Melbourne, where practically every financial institution closed its doors, politicians refused to interfere with what they described as "the free play of market forces." Suggestions that bank and building society deposits should be guaranteed by the Government were regarded as only one step from communism.

In Sydney, most private banks also closed their doors. The Premier, Sir George Dibbs, immediately guaranteed savings bank deposits and private bank notes, easing the crisis almost overnight.

Tragedy, to see for the first time in 20 years respectable men, women and children forced to beg on the streets. Appalling, to think that people could actually starve to death in the industrial suburbs while factories lay idle and crops remained unsown.

Ordinary people scrounged as best they could. Sir Charles Lowe, later a Victorian Supreme Court justice, recalled how he and his family lived off the rabbits which he managed to catch in the bush.

As laissez-faire capitalism lay writhing in its last convulsions fundamental changes began to take place in Australians out look and character.

Instead of being partners in growing national prosperity, employer and employee became separated forever by a gulf of mutual suspicion and fear.

Most trade-unions were shattered by the great strikes and lockouts of 1890-4, when the combined forces of capital and labour met head-on in massive clashes for social supremacy.

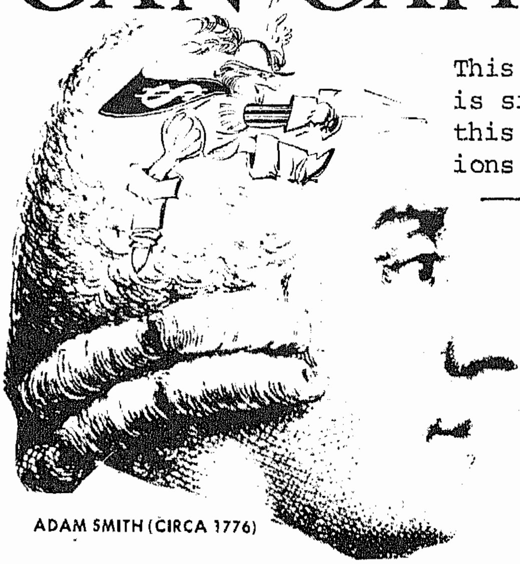
In theory, employers were the victors, but when business was resumed there were few spoils left. Both classes had to undergo a painful period of rebuilding and readjustment which lasted well into the new century.

By now the carefree, volatile Australian of that brief Golden Age had disappeared for all time - or at least until the somewhat similar financial frenzy of the late 1960s.

The scars of the crash lasted for generations. Building societies took many years to recover even part of the respect and the deposits they had once enjoyed. The ultimate in government intervention - the desire to regulate or nationalise private banking - flowed directly from the great bank smash of 1893.

TOMORROW ?

CAN CAPITALISM SURVIVE?



ADAM SMITH (CIRCA 1776)

This article was published by Time Magazine (July 75) - which is significant in itself. The format has been changed for this issue. One could certainly disagree with their conclusions and assumptions but the article is still informative.

Like the American nation, the economic system known as capitalism is nearing a bicentennial: the 200th anniversary of the publication, in 1776, of the Scottish philosopher Adam Smith's classic work *The Wealth of Nations*. In its 1,097 pages, the world found the first full description of a free economy—one in which, Smith prophesied, the drives of millions of people for personal profit, colliding against each other in an unfettered market, would produce "universal opulence which extends itself to the lowest ranks of the people." His book rapidly became a capitalist declaration of independence from the remaining shackles of feudalism and helped launch an economic revolution that has produced far more wealth than man had amassed in all previous history. Yet today the heirs of that revolution cannot celebrate in triumph. As capitalism approaches its bicentennial, it is beset by crisis. Increasingly, its supporters as well as its critics ask: Can capitalism survive?

The question is all the more urgent because the U.S., by far the most powerful capitalist economy, is recovering from its recent debilitating bout of inflationary recession and faces a particularly uncertain economic future.

There is a gnawing fear that capitalism has no way to cure inflation except deep recession, and that any concerted attempt to lift an economy rapidly out of recession will only fan inflation.

The situation is more threatening in other major capitalist nations. Britain, with its inflation roaring at 28% and its pound scraping an alltime low of $2.19, totters on the edge of economic collapse.

To fight severe inflation, the governments of Italy and Japan are putting their peoples through the worst recessions in a quarter-century. Inflation in Canada is currently running at 10.1% and in Australia at 17.5%. Even West Germany, which has the most successful postwar economy, is wrestling now with inflation and unemployment.

Meanwhile, many intellectuals—and young people—contend that capitalism at best can build only a rich, not a just society. In January seven Nobel prizewinners, including Economists Gunnar Myrdal and Kenneth J. Arrow, signed a declaration condemning Western capitalism for bringing on a crisis by producing "primarily for corporate profit." They called for an intensive search for "alternatives to the prevailing Western economic systems."

It is a little early to write off capitalism. The system has survived wars, depressions, the loss of colonial empires—even the accession to government power, in such countries as Britain, France and Germany, of parties that called themselves socialist but proved unable or unwilling to dismantle the system. New Left Philosopher Herbert Marcuse denounces capitalism's profit motive as "obscene" but concedes that it is so powerful that the downfall of capitalism "is not imminent." Michael Harrington, the pre-eminent American socialist, concedes that capitalism "has shown remarkable resiliency" and predicts that it "will spend and plan its way out of the present situation."

the beginning

Self-interest expresses itself as the drive for profit

In Smith's view, the great motivator of economic activity is "the uniform, constant, and uninterrupted effort of every man to better his condition"—or, bluntly, self-interest. Only this drive moves men to produce the goods that society needs. If consumers are free to spend their money any way they wish, and businessmen can compete uninhibitedly for their favor, then capital and labor will flow "naturally" (a favorite Smithian word) into the uses where they are most needed.

Moreover, the process is not merely circular but also dynamic. Competition keeps wiping out the inefficient businessmen, rewarding those who can turn out the most goods at the lowest prices and forcing even them to keep reinvesting their profits in new products or better operating methods if they want to stay ahead of their rivals.

Far from admiring merchants, he looked upon them as a greedy lot who were forever trying to bypass the market by conspiring to fix prices and hold down wages. But he thought, somewhat naively, that such monopolistic schemes could prosper only with the active aid of government—which, in his day, they often got. So he advocated complete laissez-faire. Government, he said, should stop trying to regulate trade, cease all intervention in the market and let free competition work its wonders.

These ideas were well to the left of the 18th century's mercantilist doctrine, which held that trade should be strictly regulated in order to pile up gold and silver in national treasuries. By the early 19th century, Smith's doctrine had conquered the academic world and began inspiring governments to unchain their economies.

Entrepreneurs accumulated and reinvested capital on a truly awesome scale. Production multiplied to a degree that is difficult to believe.

But capitalism also proved to be a disruptive force on an equally gigantic scale. It subjected humanity to the psychological shock of living with continuous and accelerating technological and social change. The Industrial Revolution covered Europe and America with what Smith's contemporary, Poet William Blake, called "dark Satanic mills," wiping out cottage industry and jamming workers into ugly new factory towns. Though the purchasing power of factory workers began to rise slowly, a father's earnings were often insufficient to support a family. Children as young as eight worked as much as 14 hours a day in the mills and mines.

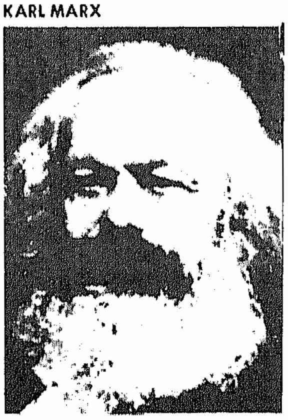
DAVID RICARDO

Exploitation of labor continued for generations. As late as the 1890s, Henry C. Frick, after breaking a strike at the Carnegie Steel Works in Homestead, Pa., reduced wages and re-established an 84-hour work week.

In 1912, Woodrow Wilson, no radical, lamented that "we are all caught in a great economic system which is heartless."

Some of the thinkers who followed Adam Smith had made capitalism seem heartless indeed. The Rev. Thomas Malthus grimly announced that no person has any claim on society for a "right to subsistence when his labor will not fairly purchase it." David Ricardo worked out what became known as the "iron law of wages." His thesis: workers in the long run would get only the bare minimum necessary to keep themselves and their families alive. If they temporarily should earn more, they would breed so many children that competition for jobs eventually would drive wages down again. Ricardo did not think that this state of affairs was desirable—only inevitable.

KARL MARX

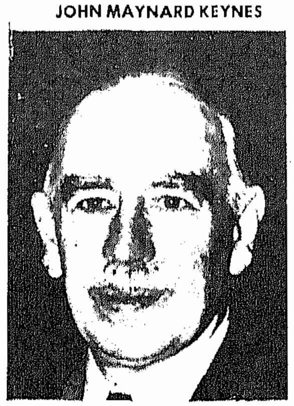


The science seemed especially dismal to Karl Marx, who damned capitalism as an inhuman system in which "all that is holy is profaned." He charged that it tended to "mutilate the laborer into a fragment of a man, degrade him to the level of appendage of a machine." In *The Communist Manifesto* (1848), Marx and Frederick Engels conceded that capitalism "has created more massive and more colossal productive forces than have all preceding generations together." Nonetheless, Marx prophesied that capitalism would destroy itself: "Capitalist production begets, with the inexorability of a law of Nature, its own negation."

Capitalism, Marx reckoned, would pour out more goods than workers could buy with the paltry wages that the system paid them. Wages might rise during a period of expansion, but that rise would cut into profits, leaving capitalists with too little investment money to keep the boom going, and the machine would falter into a slump. Big capitalists would seize the opportunity to slash wages, buy up the plants and machinery of their ruined brethren and get the boom going again, but the cycle would repeat itself, leading to a worse crash. Eventually, ownership of the means of production would be concentrated among so few capitalists that they would be ripe for overthrow by a proletariat driven by increasing misery into revolution.

Though the apocalyptic prophecy was spectacularly wrong, Marx did point out two highly vulnerable areas in the system. His theory of capitalist concentration anticipated the rising power of large corporations, which can stifle competition and raise prices even in periods of weak demand. More important, Marx heralded the terrifying and prolonged depressions of the 1870s and the 1930s, which classical economics said the self-regulating market would never permit. The nightmare of the 1930s for a while threatened to give Marx the final word.

JOHN MAYNARD KEYNES



Fortunately, the Great Depression also inspired the most significant theories of John Maynard Keynes, the British economist who has often been called the savior of capitalism. Keynes insisted that a government could get the free economy moving up again by pumping in purchasing power—through tax cuts, heavy spending and the outright creation of money. Then production would increase, generating more savings, which would be invested. His prescription worked—though it took Government spending on the previously unimaginable scale of World War II to end the Depression. (Keynes also said that tax increases and spending cuts could help contain inflation, but popularly elected governments have seldom been brave enough to follow this part of the Keynesian prescription.)

Since World War II, all capitalist governments have become enthusiastically Keynesian. None would dream of leaving a depression, or even a severe recession, to right itself. By winning acceptance for the idea that government is responsible for the health of the economy, Keynes promoted a degree of state intervention into the market that has helped transform capitalism in a way that Smith never anticipated.

Keynesian philosophy accelerated the trend toward progressive legislation, which had been building in the U.S. since the days of the early trustbusters and Teddy Roosevelt, and inspired a bewildering complex of interventionist policies.

But this complex of laws has on the whole made capitalism both more humane and more effective. As Economist John Kenneth Galbraith once commented wryly: "An angry god may have endowed capitalism with inherent contradictions. But at least as an afterthought he was kind enough to make social reform surprisingly consistent with improved operation of the system."

Ten years ago—at least in the U.S., Canada, Western Europe and Japan—this modern capitalism seemed to be on the verge of producing the permanently affluent society. Keynesian policies had kept recessions brief, mild and infrequent; the end of World War II opened the longest period of sustained growth ever.

Today few would express such euphoria, but many economists, politicians and philosophers propose various solutions to the troubles in the system.

Inflation and Recession

Through the 1960s, these were considered antithetical problems: inflation was a phenomenon that accompanied booms, and recession was so much its opposite that it was often called "deflation." Today, inflation and recession have become overlapping phases of a cycle—to which economists have given such cacophonous names as "stagflation," "slumpflation," "infession" and "inflump." Breaking that inflation-recession cycle is rapidly becoming the major problem.

Unhappily, the systems of Adam Smith, and even of Keynes, give little guidance as to how to cope with the malaise. Much of the explosive 1973-74 inflation, of course, resulted from what economists call "random shocks" to the system: oil price gouging by the OPEC cartel and food shortages caused largely by unusual weather. But the underlying inflationary momentum seems to be supplied by modern capitalist democracy.

The root problem is that everybody wants more. Even in prosperous times, the demands of labor for ever higher wages, of generals and admirals for increasingly sophisticated weapons, and the less affluent for expanded government social services always add up to more than the economy can produce at stable prices. Rather than say no to the demands of any vocal constituency, democratic governments too often find it easier to run huge budget deficits, thus fueling inflation.

Sooner or later, however, governments must act to curb inflation—and risk recession—by curtailing spending and restricting the growth of money supply. It now seems to take a much deeper recession than in past decades to break a price spiral.

Worst of all, inflation increasingly seems capable of directly causing recession. Inflation does so by either pricing many goods out of the reach of would-be buyers, or by making consumers figure that they dare not buy cars or refrigerators because they will need every penny to pay the next round of increases in food, clothing, rent and utility bills.

In dealing with inflation-recession, national policy cannot "fine tune" the economy, but must continue to seek limited yet important aims: adjusting tax, spending and money-supply policies to stimulate or restrain the economy. The recent record is scarcely reassuring.

Economists generally agree that governments should shun utopianism and aim at reducing inflation and unemployment to bearable rates.

Another prime requisite is that governments should be prepared to change fiscal-monetary policy in the early stages of slump or boom.

At some point in the current recovery, it may be necessary for the Government to switch to a restrictive policy even when unemployment remains uncomfortably high, inflation is decelerating and the need for any restraint at all is not readily apparent to the voters.

For the longer term, however, fiscal and monetary policies must be supplemented by other measures to contain inflation and ease recession. The two most hotly disputed issues are whether the U.S. should adopt some form of wage and price restraints and whether it should move to some form of economic planning.

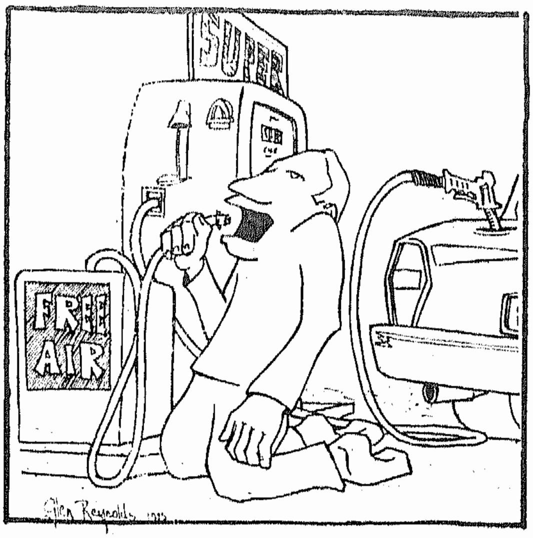
If another Smith—or Keynes—came along today, the tremendous intellectual challenge facing him would be to devise wage and price restraints that would be effective but not coercive. Rigid, comprehensive controls have almost never been effective for very long. They breed shortages by discouraging businessmen from making investments to expand the output of products that they are not sure can be sold at profitable prices. Controls also freeze into the wage structure inequities that workers find intolerable.

A number of economists argue that there is a way short of comprehensive controls that would oblige corporate chiefs and union leaders to consider the public interest when formulating their private policies. According to this argument, the Government should adopt some form of flexible wage-price surveillance to prevent unions and corporations from using their muscle to force outsize increases. A Government body would monitor wages and prices and demand justification for suspiciously large raises. The trouble is that to be effective this body would have to be authorized to roll back increases that it considered unjustified—and this action would amount to controls and coercion. In sum, a huge question remains unanswered: How can a capitalist economy achieve long-term price stability without risking deep recessions or, much worse, sacrificing some freedoms?

In two overlapping areas, pollution control and energy development, misguidance by the market has hurt capitalist societies. Pollution, of course, is a problem for all industrial countries.

Worse, businessmen found profit in highly polluting technologies like the substitution of synthetic detergents for natural soaps. The cleanup did not begin until the befouling of the environment had become a demonstrable threat to human life. Now the cleansing process is holding back economic growth.

The market also failed to foresee the swift onrush and the grave consequences of the energy crisis. For many years, an abundance of oil kept the price low, and cheap energy helped to create fabulous economic growth. But the U.S. in particular squandered enormous quantities of energy on oversize cars, sealed buildings and flimsily insulated homes.



Planning

In order to cope with the inadequacies of the market, a rising number of experts urge capitalist governments to adopt some form of economic planning.

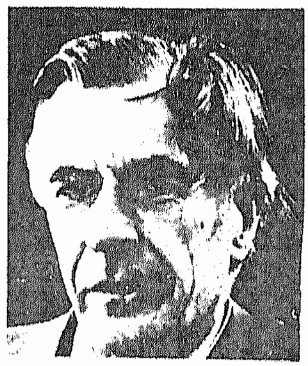
Western European nations are even disillusioned with their persuasion-and-incentive plans of the 1960s, which also generally failed to anticipate the economic crises of the 1970s.

A group of mostly liberal thinkers, including Economist Wassily Leontief, Investment Banker Robert V. Roosa and United Auto Workers' President Leonard Woodcock, have called for the establishment of a U.S. office of national economic planning. They have in mind not a stiff bureaucracy that would sap freedoms by handing down directives, but a forward-looking group of several hundred scientists and technicians (and a few economists) who would study the future of the U.S. economy much as a savvy company studies its market. Relying on such factors as population trends and the likely availability of resources, they would try to estimate the economy's future needs for developing domestic supplies, expanding industries and raising capital.

Nobody is smart enough to predict correctly all, or even most of the time, but it could be that a group of expert forecasters would give the capitalist economy valuable early warnings and prevent some unpleasant surprises.

The tough question: Just *who* is to decide?

JOHN KENNETH GALBRAITH



The Inequality of Wealth

Vast disparities in income and wealth are the deepest philosophical and moral problems of capitalism. Adam Smith candidly acknowledged that "wherever there is great property, there is great inequality." And in his day, "for one very rich man, there must be at least 500 poor."

From 1960 through 1973, economic growth dramatically reduced the number of Americans living below the Government's officially defined poverty line, from 40 million out of 179 million to fewer than 23 million out of 211 million. But last year, according to Government estimates, 800,000 to 1.5 million slipped back into poverty because of the combination of recession and inflation. Though the slippage is doubtless temporary, it has led to great disillusionment among those left behind. Political Scientist Charles Lindblom of Yale asserts that capitalism in the past has depended on women, blacks and other groups to accept unthinkingly a disadvantaged role and a meager share of the system's rewards. Now they are pressing for full equality and, says Lindblom, "it's really touch and go" whether the system can satisfy them. Pragmatically, many theorists contend that inequality is necessary to reward with high income the initiative that produces economic growth.

Among many educated young people in capitalist countries, Maoist China is popular because its communes have created the world's closest approach to true income equality. A significant effort to redistribute income would provoke fierce resistance from politically powerful groups that rank statistically in the upper classes but do not consider themselves at all rich.

The greatest need is to improve the lot of the poor, and for that purpose nothing can replace a resumption of noninflationary growth. But special help. For them, society should provide some form of guaranteed income, an idea endorsed in the past by such conservatives as Richard Nixon and Milton Friedman.

Poor Countries

With increasing emotion, developing nations complain that capitalist countries have subjected them to a neocolonialism that keeps them poor. The West, they charge, buys their raw materials cheaply, sells them manufactured goods at prices that are pushed steadily higher by inflation, and discriminates against their exports of manufactured goods.

The hostility of many less developed countries is potentially dangerous. Producers of ten commodities—copper, bauxite, iron ore, rubber, coffee, cocoa, tea, pepper, bananas and sugar—have talked of organizing cartels to jack up prices by withholding supplies.

The industrial nations are already discussing plans to join in stockpiling enough oil to carry them through any renewed Arab embargo. Yale Economist Richard Cooper proposes broadening the idea to include the steady and coordinated accumulation by many nations of important materials.

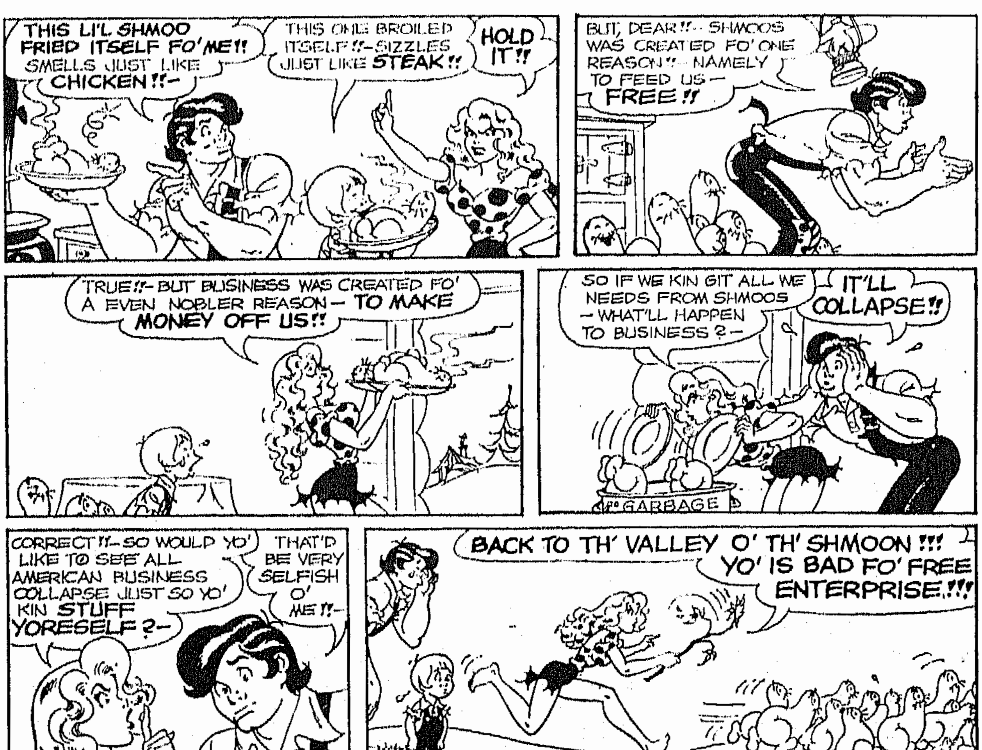
The United Nations Conference on Trade and Development is holding a series of conferences this year in Geneva to discuss the stockpiling idea.

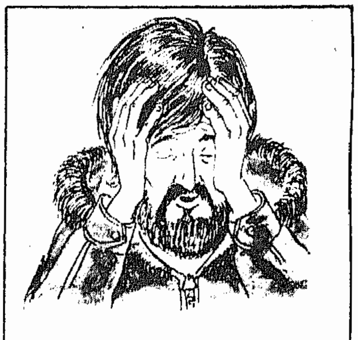
Dominance of the Corporation

Big corporations account for ever increasing shares of capitalist enterprise.

The late Joseph Schumpeter, a giant among economists, feared that corporations would rob capitalism of vitality by splitting capitalists into owners who did not manage and managers who did not own; neither group, he thought, would care enough about the system to fight to save it from socialist takeover. That has not happened yet, but the possibility has worried many capitalist thinkers, among them Economist Milton Friedman and Sociologist Daniel Bell.

John Kenneth Galbraith implies that corporations have already killed Adam Smith's self-regulating market. In his view, the larger a corporation grows the more it can escape from the workings of the market to become a law unto itself.





Student on T.E.A.S.

thus paralyzing Adam Smith's "invisible hand." According to Galbraith, large companies can set prices more or less independently of demand, produce what they rather than consumers want, and in effect ram the products down consumers' throats by the power of advertising. If corporations cannot defy the market, they can sometimes resist it for a long time when it refuses to conform to their plans. Strong consumer resistance can occasionally force price reductions.

A special set of problems is, however, presented by the growth of multinational corporations, which now account for most of the global exchange of goods, services and investments.

They can—and do—disrupt currency markets by shifting huge sums from, say, dollars into Deutsche Marks. They can concentrate production in countries where tax and pollution laws are most lax, and foil national economic objectives by shifting their operations around from nation to nation.

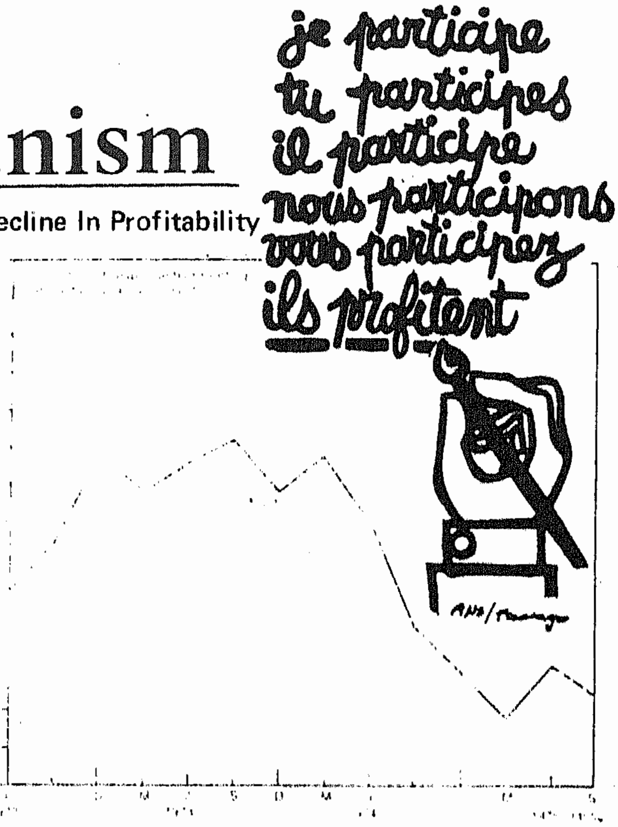
In attacking its many difficulties, capitalism faces a final danger: most of the potential solutions involve an increased role for government regulation and control of income. There is a real question of how much further that can go without destroying the dynamism of the market system that makes capitalism so productive.

Profits

One of the capitalist market system's enduring strengths is precisely its reliance on the profit motive which, like it or not, is a powerful human drive. To many idealists the primacy of the profit motive has long seemed to be a sanctification of selfishness that produces a brutalizing, beggar-thy-neighbor society.

The argument between ca talism and authoritarian economic stems comes down to two questions: Which system can make the most efficient use of manpower, materials and money to create the greatest opportunities for free choice, personal development and material well-being for the greatest number of people? And which system is more just and satisfying in human terms?

The Flight from Keynesianism



The present recession in the Australian economy, the most severe since the Great Depression, is continuing to deepen. The *Australian Financial Review* (July 1) reported that industrial production had turned down again during April providing "further cause to doubt that there will be an economic recovery in the next two quarters. The ANZ bank index of factory production fell two points in April, ending hopes that the March figure (down one point on February) represented a stabilisation." The *AFR* concluded that "the response of firms in increasing production will be long" indicating a further deterioration in capital's position would occur.

The total output of goods and services for 1974–75 will probably by 2½ percent below its level in the previous financial year. A number of industries, however, have fallen into a more acute state of recession, notably the auto and building industries. The official figures for the number of workers unemployed is presently 288,000 (4.81% of the workforce) but this could escalate even more dramatically under the impact of Labor's budget. The director of Melbourne University's Institute of Applied Economic and Social Research projected "unemployment could reach 400,000 within the next year" *(Australian,* July 28), while social-democrat economist, Ted Wheelwright, has forecast 500,000 out of work *(Australian,* July 20).

Seasonally Adjusted Unemployment Figures

Month	Number	Percentage
January	236,040	4.06
February	251,973	4.22
March	267,817	4.48
April	281,050	4.70
May	270,011	4.52
June	170,189	4.52
July	287,666	4.81

ANS/Australian

The worsening economic health of capital is perhaps best expressed in the decline of profitability. The National Bank's July monthly survey reported 43 per cent of firms expect their level of profitability to decline during the next 12 months, 33 per cent anticipate no change and only 24 per cent believe that a rise is in prospect. On present indicators, it is projected capital's profits will decline by approximately 18 per cent during 1974–75.

Decline In Profitability

ANS/NB Monthly Report

Keynes Jettisoned

As the economic crisis deepens, the Labor government, in step with capitalist government's throughout the world, is progressively adopting more reactionary economic strategies to protect the profit level of the big corporations.

The imperatives of capital, plunged into a classical crisis of overproduction, have become more and more demanding. In response the Labor administration has seen fit to jettison the now bankrupted economics of Keynes in favour of a monetarist approach, the most "orthodox" panacea peddled by capitalist idealogues.

The elevation of Bill Hayden to Treasury, Jim McClelland to the Labour protfolio and John Wheeldon to Social Security in the cabinet reshuffle conducted by Whitlam confirmed this shift. "It is no mistake," reported *Australian Financial Review* staff writer, Robert Haupt, on June 6, "that in the last Whitlam cabinet these were the ministers who were the most outspoken defenders of the tenets of post-Keynesian economic orthordoxy; that government deficits can't be limitless, that profits must be preserved, that interest rates can't be artifically held low." Haupt estimated that the over-riding consequence of the ministerial reshuffle "is the shift in the balance of cabinet power towards supporters of conventional economics . . . the Treasury's line of fiscal orthordoxy now has its strong supporters at the highest level of government.

"It is not true to say the ministers whom they have replaced – notably Treasurer Dr. Cairns and Labour Minister Mr Cameron – did not believe in any of these things. But they tended to believe in some less orthordox remedies to economic problems, which all shared one characterisitc in common – they were softer options."

Monetarist theories, the "post-Keynesian economic orthordoxy" as Haupt so delicately put it, have filled the vacuum left in capitalist economics with the failure of Keynesian prescriptions. The latter sought to slow down (though it could never actually prevent) crises of over-production by the expansion of credit, that is, of paper money or inflation. More than three decades of this sort of inflationary practice culminated in a very serious crisis in the international monetary system and the "stagflation" of 1970–71. This comination was sufficiently disturbing in the eyes of the bourgeois class to discredit irrepairably the myth of the curative powers of Keynesian economics. The monetarists, on the other hand, argue that a slow-down in the growth of the money supply is the chief anti-dote to economic depression.

Capitalist Crisis

Both monetary and Keynesian apostles, however, confuse the symptom (the money supply) and disease (capitalist accumulation). The insuperable contradiction of capitalist production, as Marx explained it, is that **growth itself leads to crisis.** The drive to accumulate capital is unplanned and uncontrolled, propelled along by the dictates of private profit rather than social need. Eventually this anarchic expansion drives investments to a point where the profits demanded of them are no longer forthcoming. When the expansion of production outruns its profitability, the accumulation process grinds to a halt. This constitutes the capitalist crisis.

The new currency enjoyed by monetarist doctrines (remember when even the capitalist press regarded Milton Freidman as a lunatic) reflects the fear of a ruling class less and less certain of its ability to weather the crisis and increasingly prepared to attack the living standards of the working class to preserve its own class hegemony. The draconian cuts in government expenditure, envisaged by the monetarists as the "solution" to economic depression, will produce mass unemployment and the emasculation of the welfare state – education, health, welfare services, etc. – and in this sense, monetarist themes can be seen as the programmatic basis of a vicious (though as yet un-realised) offensive by capital.

The influence of monetarist thinking within the Labor cabinet can be guaged from a report in the *Australian* (June 5th). Hayden's once unpopular views "are now the accepted dogma . . . Briefly, Mr Hayden believes that the rate of which the economy is expanding has to be slowed, and that the main scope lies in government spending and the money supply". Hayden, according to the *National Times* (June 9–14), "has been obsessed for a year with the need for spending restraint"; and has embraced a so-called "economic rationalism" which involves "a low tariff policy, a tight grip on the bureaucracy and the rate of government spending".

The objective of this "economic rationalism" is quite plain. As Hayden told the *Sydney Morning Herald* (June 7) "his most important responsibility was to get the private sector sector to a fairly prosperous, viable state" and thus ensure the survival of capitalism, whatever the cost to Australian workers.

Inflation

The current recession is compounded by the persistence of inflation, currently hovering around 17 per cent in Aust-ralia.

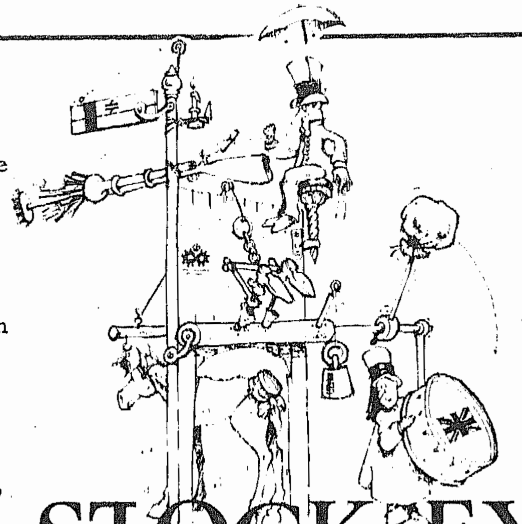
Hayden, in an interview with Dennis Minogue in the *Age* (August 6) declared: "I think the realisation was there all the time that inflation was the problem but there has been debate about which is worse: unemployment or inflation." Minogue commented that the result of this "bitter battle" has been a "victory for theory over the emotionalism of jobs for the workers" – in other words, high unemployment is now an acceptable tool of 'econ-omic management'. "The only thing that is left is, in my opinion, severe monetary management or severe demand management and that calls for severe contraction," Hayden said, and then pointing to the U.S. experience added: "The Americans have pulled down their inflation rate considerably but they have had to do this by creating an unemployment rate of 9 per cent."

Crisis in Bourgeois Leadership

Cameron and Cairns had reservations about such an econ-omic policy. Instead, they advocated a further inflationary expansion of the money supply, a policy which most of the major imperialist countries are still pursuing. These conflicts – which are only syptomatic of the deeper divisions within the ruling class over perspectives to safe-guard capital – came to a head in the crisis of leadership within the Labor party. The cabinet reshuffle in June, the phoney "loan's crisis" and the subsequent dismissal of Cairns from office all revolved around one central issue: the problem of dealing with the capitalist crisis.

The demotion of Cairns to Environment Minister saw an immediate reversal of Labor's economic orientation. The government, reported Michelle Grattan in the *Age* (June 4) was "facing up to its toughest challenge yet, pruning its own cherished programme to keep the budget deficit within the $1500-to-$2000 million limit that is considered by Treasury at least an approach to economic sense." Education, health, transport, black's and women's pro-grammes were severely cut, but not before the dispute over economic perspectives exploded in another crisis of leadership.

As Grattan observed in her *Age* article: "A . . . difficulty the government faces in its march to economic rationality is that this month's reshuffle – while elevating the hard-liners (Treasurer Hayden and Labor Minister Jim Mc Celland) – has also created a potential guerrilla group within cabinet. The Deputy Prime Minister (Dr. Cairns) and the former Labor Minister (Mr Cameron) may come to form an opposition on economic matters." Inside cabinet, Cairns pressed his own solution to the capitalist crisis – a "people's budget" with a deficit of at least $4000 million. Alan Woods, in the *National Times* (July 7–12) wrote that "Hayden was still a Treasurer beset with tremendous diffi-culties, not the least of which was the continued presence of an unrepetant Dr. Cairns", who had been "pressing his line strongly" in cabinet meetings. Cairns posed a threat to the monetarists because he was advocating a "soft option" and secondly because he was "still regarded by many of cabinet colleagues as the man who turned the budget in the right direction last year and they would be saying to themselves 'maybe Jim's right'." But, as Wood concluded approvingly, Cairns oppostion was eliminated by the "loan's crisis", his letters to Melbourne business-man, George Harris, providing Whitlam with an excuse to sack him altogether from cabinet. With Cairn's demise, the economic reins rested firmly in monetarist hands.



HATS OFF to the STOCK EXCHANGE!

At the moment it appears highly probable that the majority of people studying within this university will be unable to find employment on the attaining of their degrees. In fact this present recession is beginning to look more and more like the harbinger of a major depression, in which case the employment situation could be chronic for up to six years, using the last depression as a guide.

The responsibility for this situation falls, as it did in the last depression, on the Stock Exchange system and its bulwark, the so-called 'free' enterprise economy.

During the latter half of the sixties and into the early seventies, this country, along with most of the western world, experienced what was then termed a 'boom'. This was reality little more than an unmitigated speculative binge. The stock exchanges throughout Australia were embroiled in an atmosphere of frantic activity. Brokers were enlarging their staff and working overtime to cope with the onslaught. Patrick partners is the most illustrative example of this period. Mining companies were floated by those either directly involved with the stock exchanges, or having intimate connections, which did little more than enable their directors to live high on the hog, thanks to company expense accounts funded by gullible investors. Ore samples were manufactured. Share prices, such as Poseidon rose to heights which in no way reflected the real worth of the holdings.
At the same time real-estate values began to rise at an unprecedented rate, parelleling the boom in the stock market. Again speculative, non-productive investment dominated the scene. Insurance companies began to direct the capital contributed by their policy-holders away from real productive investment into real estate, realising that speculative investment in unneeded office blocks would realise the highest return. This brought about a shortage in building materials which caused the home building sector to slump and deprived many people of a home. Land prices skyrocketed as speculators, both large and small, bought heavily into outlying suburbs, profiting from those who could afford it least. Mainline and Sydney's largest church landholder were ultimately to pay for the sin of avarice.

Times were good....if you had the capital. Everyone seemed to know someone else who had made a killing with stocks or land. But then it all collapsed, as all booms do, bringing in its wake the inevitable recession. Inflation began to surge upwards as the value of the dollar began to bring itself into line with the reality of the nation's real wealth. Inflated, speculative prices could not drop, not at that time anyway, hence the value of the dollar had to drop, bringing artificially created values back to real values.

At the same time the working man, not oblivious to the fact that a section of the community had recently acquired new wealth, that prices were rising and that the value of his pay packet was being eroded by inflation, began to demand wage increases. And here is paradox. Today it is held that wage rises are responsible for inflation. Perhaps we all have short memories or could it be that the business community prefers half-truths.

No-one would deny that an economic recovery depends on increased profitability, which in turn requires a moderation in wage demands, or that inflation can only be cured by damping the wage-price spiral.
But why must it always be at the expense of that section of the community which can afford it least.
Among the work force exist the 703,000 families and single people who live below the poverty line.. these people are amongst those who will have to bare the brunt in remedying a situation brought by the short-sightedness and greed of the business community.
Such finger-pointing does nothing to alleviate the situation but it does correct a number of fallacies and hopefully enabless us to pinpoint areas harmful to Australian society. The first of these is the Stock-Exchange system. Before we can ever hope to attain an economy which assures us of a future not fraught with recession and depression this archaic, inefficient and thoroughly unscrupulous body will have to be abolished. The planning of the economy cannot be entrusted to individuals who see little further than short-term profit. A more rational system for capital investment must be established, composed of all sections of the Australian community, able to direct investment into areas which may not return profits in the short-run but which are essential to the well-being of the nation. The second is the insurance industry.
If these largely foreign owned concerns are to be allowed to influence

the Australian economy by their investments, they must be forced through the establishment of a committee composed of all sections of the community, to establish that their actions are in society's best interest.

Thirdly, we must not draw too strong a correlation between increased government spending and the present economic crisis.

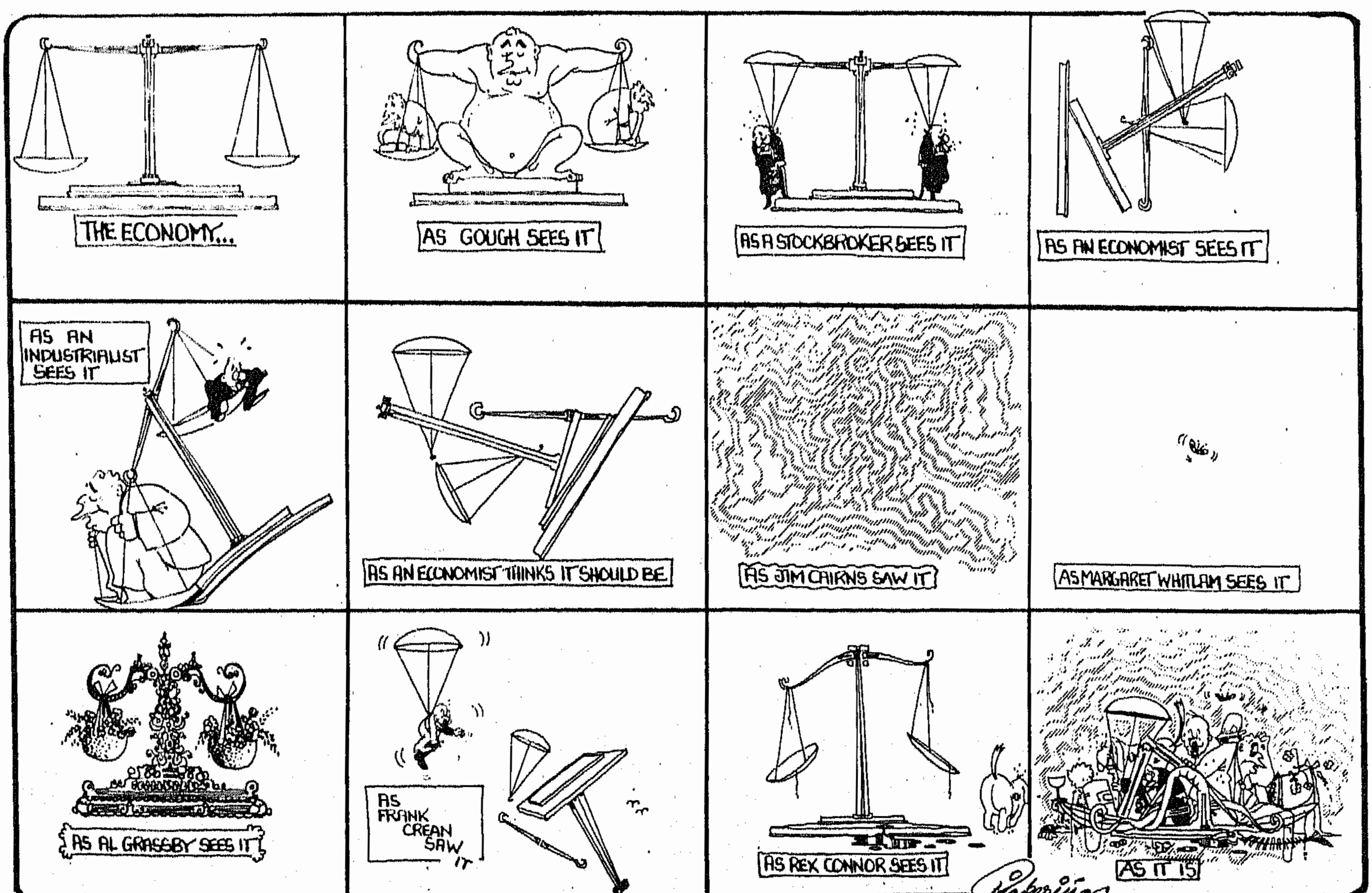
The present economic orthodoxy held by businessmen and the Liberal Party, is that the recession has been greatly aggravated by a diversion of national resources from the private sector to the public sector. This was a basic assumption of the Liberal Party's alternative budget..... slash government expenditure.

This notion would be laughable if it were not so dangerous. If the public sector ceased to grow or was euphamistically, 'pruned back', would this automatically mean an enlargement of the private sector and consequently a return to economic health. Would the resources freed from the public sector flow into the private sector, or would it just mean a decline in the public sector and hence a decline in the total economy. Businessmen are not going to invest through patriotic duty. Mr. Fraser, the reputed admirer of American philosopher, Ayn Rand, should know this. Self interest obviously comes before national interest.

Is this not the fundamental assumption of the 'free' enterprise system. Business will only reinvest when it senses an upturn. Many businessmen have gone into varying degrees of liquidity for this very reason, hoping to realise high profits by buying in at rock-bottom prices and benefiting from the capital gains which accompany economic recovery.
(See Financial Review, Monday, 1st September re BHP high liquidity position).

Perhaps the private sector, because it is awaiting an upturn, will be unable to initiate the increased economic activity necessary for such an upturn. This was the situation in the last depression. Roosevelt felt that if the private sector could not or would not invest then the government would have to do so. This was the basis of his 'New Deal'. Let us not blind ourselves to the fact that an economic upturn may only come about by greater involvement in the economy by the government. The last depression was seriously aggravated by an insistence on the part of the business community that the government should balance its budget. This was the prevailing economic orthodoxy, it being thought common - sensical to run a country the same way as a household is run, by only spending as much as you earn. This nice little theory was shattered and economic recovery came about, funded by governmental deficits. Mr. Fraser and the Liberal Party's economic philosophy seems dangerously pre-1929.

Michael O'Brien.



(ANS/Tribune)—The international economic outlook is generally recognised to be very gloomy indeed in capitalist countries, including Australia.

Many economists initially saw the present crisis as a short term one. However, reassessment of the situation has produced quite different conclusions.

This is apparent in *Economic Outlook*, the latest report of the Organisation for Economic Co-operation and development, the policy "think-tank" of 23 main cpaitalist countries.

OECD predicts "continuing economic difficulties for member countries with no rapid recovery in growth and no substantial respite from inflationary pressures". Fifteen million are jobless, averaging over five per cent, and the future labor market is very gloomy.

While each capitalist country has its particular economic features, recipes for "cure" of present ills are basically the same whether governments are of Liberal or Labor type. Essence of the remedies is succinctly put in a statement by Mr Max Dillon, Federal President of the Associated Chambers of Manufactures of Australia (ACMA):

"The principal need is for a transfer of part of the share of the Gross Domestic Product from the government sector (and/or wages, salaries and supplements sector — or from both) to the private capital sector (representing free enterprise profits)."

Similarly from Senator Cotton, Liberal-Country Party Shadow Minister for Manufacturing Industry and Industrial Development: "Prices should be permitted to rise faster than wages rather than the other way." *(Australian Industries Development Association Bulletin* No. 265, July 1975).

The Whitlam government has clearly accepted this basic approach. The Prices Justification Tribunal raised the price of steel 10.5 per cent, despite BHP's record profit and the fact that the increase will inflate the whole price structure. Savage increases in postal and telephone charges and other indirect taxes will add to the spiral.

Cuts in government expenditure will be in areas like education, pensions, social services, urban and regional development, etc. This will not only lower living standards, but will further boost unemployment. So will abandonment of the Regional Employment and Development (RED) Scheme.

Unemployment has regrettably been somewhat downgraded, compared with a year ago, as the most powerful motivating political issue. This change greatly helps the employers and the Liberals who have always wanted a pool of unemployed.

But it has also removed some pressure from the Labor Party, including from government members — who had been genuinely concerned, but are now more taken up with demands to increase profitability and cut government spending.

A major reason for the focus having been taken off unemployment is that it has mainly affected young people and women. A *National Times* report (July 21–26) reveals that about one-third of current unemployed are under the age of 21, while over half are female. Furthermore, many women do not register as they are not entitled to unemployment benefits if there is another income in the family.

Many young people are also not included in the unemployed figures, being kept at school whether they want to remain or not. But next year, many of these will swell unemployed ranks.

This makes entirely credible estimates of 400–500,000 unemployed, made by economists such as Professor Wheelwright.

While cyclical ups and downs in the capitalist economy will continue, the halcyon days of the 'fifties and 'sixties are over. A new stage of capitalist crisis, with chronic unemployment and under capacity operation has begun.

This requires a more adequate political response from the left.

Tacit support for a policy based on propping up and stablising capitalism, is given by some on the grounds that most workers are not too badly off anyway. Others say that we cannot realistically expect to alter the system soon. Since profit is necessary for capitalism to function, the left must be "responsible" and help or acquiesce in measures to this end. There is the further argument that whatever happens Labor is preferable to Liberal, so we must basically go along with what they do.

Such approaches should be rejected. The continuing developing crisis requires support for every mass movement which, however partially, challenges the assumptions of current ruling class and government policies. For example, the moves to break wage restraint, to oppose budget cuts, to refuse the sack, to work in, to demand nationalisation, to reduce hours of work. All these mass movements are developing momentum.

Far more persistent, extensive and imaginative development and dissemination of socialist policies is also required.

This material should put the current struggles in a framework of fundamental social change, in terms of Australian conditions, and promote the movement for nationalisation of key monopolies and multinationals under workers' control as the foundation of self-management socialism.

Slightly adapted from an article by Eric Aarons.

As the economic crisis deepens, the Labor government, in step with capitalist governments throughout the world, is progressively adopting more reactionary economic strategies to protect the profit level of the big corporations.

The imperatives of capital, plunged into crisis by over-expansion, have become more and more demanding. In response the Labor administration has seen fit to jettison the now bankrupted economics of Keynes in favour of a monetarist approach, the most "arthodox" panacea peddled by capitalist idealogues.

The elevation of Bill Hayden to Treasury, Jim McCelland to the Labor portfolio and John Wheeldon to Social Security in the recent cabinet reshuffle conducted by Whitlam confirms this shift. "It is no mistake," reports the *Australian Financial Review* staff writer, Robert Haupt, on June 6th, "that in the last Whitlam cabinet these were the ministers who were the most outspoken defenders of the tenets of post-Keyesian economic orthordoxy; that government deficits can't be limitless, that profits must be preserved, that interest rates can't be artifically held low." Haupt estimated that the over-riding consequence of the ministerial reshuffle "is the shift in the balance of cabinet power towards supporters of conventional economics . . . the Treasury's line of fiscal orthordoxy now has its strong supporters at the highest level government."

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The monetarists, on the other hand, argue that the rate of growth of the money supply is the chief determinate of the boom/bust cycle. This, however, confuses the symptom (the money supply) and the disease (the laws of capital accumulation).

Because accumulation is the only way capitalists can preserve and enlarge their capital, they do so without regard, indeed without the *ability* to regard, the profitability of the total social capital, on which the profitability of all private capitals finally depends. The desire to profit becomes a self-propelling expansion (which the money supply chases, but certainly doesn't control) that eventually drives investments to a point where the profits demanded of them are no longer forthcoming.

At this point a crisis develops: its approach is signalled by a slackening rate of accumulation, an overproduction of commodities, an increase in unemployment and the depression of real wages. The crisis, in other words, is that stage where the level of profits generated by capital is no longer sufficient for the employing class; and tinkering with the money supply does nothing to alter the root cause of the crisis: capitalist accumulation.

The new currency enjoyed by monetarist doctrines (remember when even the capitalist press regarded Milton Freidman as a lunatic) reflects the fear of a ruling class less and less certain of its ability to weather the crisis and increasingly prepared to attack the living standards of the working class to preserve its own class hegemony. The draconian cuts in government expenditure, envisaged by the monetarists as the "solution" to economic depression, will produce mass unemployment and the emasculation of the welfare state – education, health, welfare services, etc. – and in this sense, monetarist themes can be seen as the programmatic basis of a vicious (though as yet unrealised) offensive by capital.

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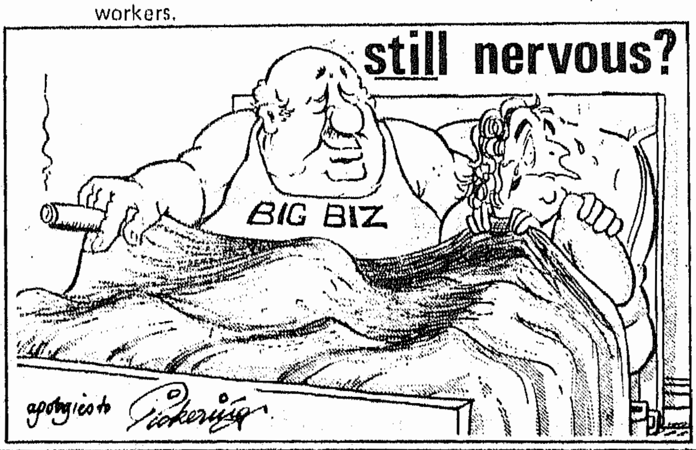
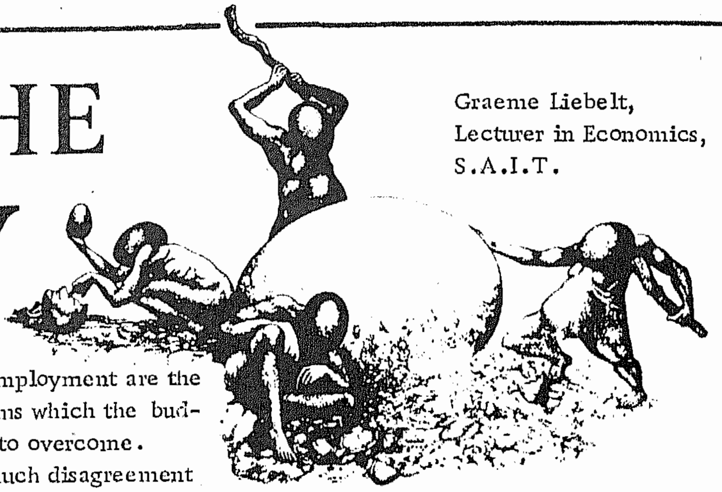


STATE OF THE ECONOMY



Graeme Liebelt,
Lecturer in Economics,
S.A.I.T.

An assessment of the recent Budget cannot be made without knowing the context in which it was brought down. A brief look at some of the main economic indicators will be useful in an attempt to make a statement about the state of the economy at the end of the last financial year.

First, the demand side of the economy. Private consumption expenditure had been relatively stable and the whole of the 1974/5 financial year, however, real private investment had shown a persistent tendency to decrease since early 1974. With the marked easing in financial conditions and changes in budgetary policy this decline tended to 'bottom out' early in 1975, but there were no sign of a strong revival in business conference. The Government object of course, was very high after being at a farily moderate level in 1973/4. There was a tendency to moderate Government expenditure somewhat towards the end of the 1974/5 financial year - a policy which has been continued in the Budget.

What about the production supply side of the economy? Aggregate output for 1974/5 declined for the first time since 1952/3, though there were some signs of a very mild revival in production towards the end of the financial year. Much of the increase in demand experienced early in 1975 was being met by decrease in inventories rather than increased output, but, together with the easing in competition from imports, there were signs that this situation was changing toward the end of the financial year.

Inflation and unemployment are the two major problems which the budget was designed to overcome. There has been much disagreement about whether Australia's inflation was 'imported', 'demand pull , 'cost push' , 'structural' or whatever, but it has been generally agreed that some moderation in the rate of increase in average weekly earnings necessary before it can be brought under control. The consumer price index increased by well over 4% in the first quarter of 1974/5 but since then has been increasing at a lower rate. The tendency is for the rate of increase of prices to be falling off very slightly. Average weekly earnings have shown a quite pronounced slackening in their rate of increase. From a rate of increase of about 10% in the first quarter of 1974/5 it has now moderated to a rate of increase of between 3% and 4%.

Unemployment figures give less reason for optimism. Whereas at the end of the 1973/4 financial year there were about 73,000 persons unemployed (seasonally adjusted) this has increased persistently over the 1974/5 financial year. By December of 1974 unemployment in seasonally adjusted terms had increased to 220,000, and the most recent figures indicate that it has now reached 5% of the work force - the highest figure in the post war period.

The final area which should be considered is the balance of payments. By looking at movements in official reserve assets (excluding any valuation effects) it can be seen that from the beginning of the 1973/4 financial year there was a pronounced and persistent tendency for the balance of payments to move further into deficit (caused predominantly by movements in the current account). This trend was reversed early in the 1974/5 financial year and the balance of payments has now moved into surplus.

Very briefly, by way of summary it seems that towards the end of the 1974/5 financial year, there were some very uneven signs of a slight improvement in the economy. The balance of payments was not a problem in the short term and inflation had shown signs at least of not escalating. Unemployment remained the greatest problem, though there is some small hope that lagged effects of previous policies (to stimulate demand) will afford some improvement.

It is within the context that the Budget must be assessed. Will the new personal income tax scheme, together with lower company tax rates and accelerated depreciation rates, stimulate private demand, sufficiently to raise the level of employmnet? Will the moderation in Government expenditure be sufficient to control the rate of inflation during the period of the anticipated recovery?

Rehearse for the Apocalypse?

INFLATION

The New Inflation.

Inflation is the economic phenomenon of a persistent rise in the general level of prices which reduce the value of money.

There is nothing new about inflation for it has been a recurring problem from the beginning of recorded histroy. It occurred at various times either because of abnormal events such as wars, famine and pestilence; or by the reduction of the precious metal or by a sudden increase in the supply of gold and silver, either from plunder or the discovery of new rich mines.

The worst examples this century were the runaway inflations of some currencies after the First and Second World Wars. The rate of inflation became so rapid that bank notes had denominations of billions of units, and were losing their value even while they were being printed.

But after the Second World War, the developed capitalist countries experienced a new kind of inflation. The difference was that the rate of inflation was maintained at the comparitively low level of around a general average of 4%. It was given the name of creeping inflation to distinguish it from the runaway kind.

Experience showed that the economies and peoples of the developed countries could adjust without too much difficulty to creeping inflation. The exceptions were those living on low, fixed incomes, as they had no way of compensating for the steady erosion of the value of money.

But in 1974, the situation had radically changed for the average rate of inflation in the developed countries had more than trebled in two years to 13%. The higher rate proved much faster increase in prices. With a 3% rate of inflation prices would double in 24 years, which gave time for adjustment and compensating, but with a 15% rate of inflation, prices would double in 4.8 years. The difficulty of adjusting to such a rapid increase in the price level creates serious economic and political strains, and the higher the rate the higher the strain.

Australia moved into double figure inflation in 1974 which made it a major problem. So anyone who wants to play an intelligent role in society today needs to have causes of inflation, for such knowledge is necessary for effective action. The aim for material is to provide a brief contribution to the development of that understanding.

THE KEYNESIAN REVOLUTION.

An influential factor in the post-war period has been the widespread acceptance and application of the economic theory of the late John Maynard Keynes, the famous British economist.

Keynes held that a capitalist economy had an inherent trend towards economic instability, and was more likely to establish economic equilibrium at a level below the full utilisation of all resources. Consequently, unemployment would develop. If this occurred, he proposed that the government should actively intervene in the economy in order to stimulate investment, consumption and employment. The stimulation could be done by a combination of fiscal measures in the budget, plus monetary measures through the Central Bank. If necessary, the government could use a deficit budget to provide the moneys for stimulating the economy, and this could be recovered later from the extra national income that would be produced.

WHAT CAN BE DONE ABOUT INFLATION?

Inflation would be curbed to some extent by resolute price control regulation of monopoly, appropriate fiscal and monetary measures and so on. These are, however mainly defensive in character as they do not attack the root of the problem. And that is that inflation is the product of monopoly capitalism, which has consciously built inflation into the economy as a means of redistributing national wealth in its favour.

This being the case, the solution to the problem of inflation is as much a political as an economic one, for even to curb inflation entails a determined challenge to the power of monopoly capital. To abolish inflation altogether would mean taking the challenge to the extent of replacing capitalism with a socialist form of society. For the current experience of the socialist countries shows that with a planned economy, inflation need not be inevitable, because whatever other problems they may have, inflation and unemployment are not among them.

ROBIN HOOD IN REVERSE.

Besides its adverse economic effects, inflation has adverse social effects. On the one hand, it gives opportunities to the unscrupulous, the smart operators the powerful, the clever manipulators, and the chance lucky ones to enrich themselves. But on the other hand it imposes hardships on those who have to live on low wages, small savings, modest superannuation, pensions and so on. The low wage earner has had no better luck. This is demonstrated by the amount of the minimum wage presented in awards as that below which no adult male worker shall be paid. In December 1974, the Arbitration Commission increased it by $8 per week to $76.10 for males and $68.40 for females. The meagreness of these amounts is demonstrated by the claim of the ACTU for an increase of $22.40 required to compensate the minimum wage only for increases in prices and productivity and not for any increase in its real value.

In Australia

AUSTRALIA'S EXPERIENCES WITH INFLATION.

Australia has had its own particular experiences with inflation in the postwar period. It entered it committed to full employment as expressed officially in a white paper. Economic policy was greatly influenced by Keynesian theory, although the Liberal Country Party Government did not concern itself much with the idea of some distribution of wealth by means of improved social services.

The fluctuations of inflation can be seen from the movements of the Consumer Price Index, which was taken as a rough measure of it because it was the only price index available. The movements show that the rate of inflation ranged from a high of 22.6% for 1951-52 to a low of 0.2% for 1961-63. There was a long period of 17 years of moderate creeping inflation from 1953-54 to 1969-70 when the rate varied between 0.2% to 5.8% with an average of 2.7%.

In 1970-71, the rate had increased to 4.8% and gave every sign of increasing, for the Liberal Country Party Government aggravated it by the mistakes of devaluing the Australian dollar and taking strong measures against what was thought to be demand inflation. The mistakes caused unemployment to increase to 2.4% of the workforce. Matters were not improved when the Government decided to pump about $A1,000 million dollars into the economy in order to reduce unemployment in view of the forthcoming election.

There was, however, general dissatisfaction with the handling of the economy by the Liberal Country Party Government. This was sufficiently strong to enable a Labor Government to be returned when the election was held in December 1972.

A strange thing was that none of the three main political parties said much about inflation during their election campaigns. The word was not even mentioned in the policy statement of the Labour Party. It soon became clear, however, that the general startegy of the new Labor Government to curb inflation was going to be to restructure the Australian economy in order to make it more competitive and efficient. This would then provide the money that was required to pay for the social reforms the Government was keen to introduce. To this end, the Government introduced such things as the two revaluations of the Australian dollar, the general 25% cut in tariffs, a Prices Justification Tribunal and other measures.

A credit squeeze was also imposed in order to reduce the large amount of liquid money which had been inherited from the previous Government.

The Labor Government soon found out that it was not that easy to make Australian capitalism work better.

By early 1974 things were going amess; but by early 1975 the economy was in serious difficulties. The annual rate of inflation from March 1974 to March 1975 was 17.6%, and the registered unemployed had increased in the same period from 1.3% to 4.6% of the workforce. Economic growth had fallen and the lack of confidence of the business world in the economic prospects was reflected in the big all in capital investment, the essential for economic growth.

Priorities

"AS A BOY, I left school at 13 and worked for 5/- a week," Mr. A. V. Thompson, Labor member for Port Adelaide, told an Adelaide audience.

"OUR HOUSE had the only carpet in the street. My dad got some sugar sacks, dyed them red, and that's how we got our red carpet.

"BUT TO-DAY, because the Labor movement has worked hard to improve conditions, many workers can have wall-to-wall carpets."

The Government thereupon reversed its main strategy of restructuring the economy and opened what amounted to a financial soup kitchen for the private sector. The 25% cut in tariffs was lifted, special emergency protection was given to certain ailing industries at considerable cost to the community, and handouts of $A650,000 were made to Electrolytic Zinc and Australian Pulp and Paper Mills.

The Government also decided to take the economic gamble of trying to spend its way out of unemployment by pumping a large amount of money into the economy. This was to be done by means of a deficit of $A2,300 million in the 1974-75 budget, with the prospect of it becoming greater as the Government said that it would continue spending until unemployment was reduced substantially. It claimed that the deficit was not as serious as it looked because the economy was running at $A4,000 million under capacity. So if it could be sufficiently stimulated, the deficit could be quickly made good and unemployment reduced substantially.
The Government placed its main hopes for reducing inflation on a restraint on wages in order to increase the profitability of the private sector. This would restore business confidence to make the capital investment which was essential for economic growth and the reduction of inflation.

In late 1974, the Prime Minister and the Ministers made statements which blamed the wage increases obtained in 1974 for the high inflation and unemployment. It was said that the choice was between jobs and wages for the worker could not have both as they were pricing themselves out of their jobs. Militant unions were accused of robbing fellow workers of jobs by pressing inflationary wage increases.

At the time of writing in May, 1975, it was too soon to see if the Government would succeed in its aims. It was, however, clear that the Australian economy was in a new situation and that things were likely to get worse before they got better.

According to the pessimists, the Government s policy could be self-defeating. For the pumpint of a large amount of money into the economy could stimulate a rate of inflation of the private sector. So although there might be some recovery towards the end of 1974, it would only be temporary. If this was to happen, it has been forecast that inflation could shoot up to 30% or more in 1976, coupled with high unemployment.

It was therefore clear that if the course of events was to be changed an alternative programme was required which would challenge monopoly and develop a programme of socially useful projects to utilize unemployment labour and idle resources.

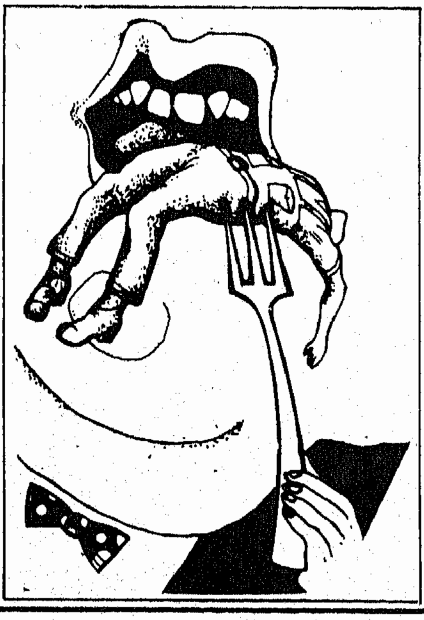
Third World

THE DEVELOPING COUNTRIES AND INFLATION.

On a national basis the main victims of inflation have been the developing countries which comprise 70% of the population of the capitalist world. For their economies are subject to bouts of galloping inflation, which in some cases increased at a rate of 1% or more per day. Indonesia, for example, has had periods of three figure inflation, and in early 1974, considered that it was fortunate in having reduced it to <u>only</u> 47%.

The developing countries also received the least benefit from the increasing international division of labour, as demonstrated by the fact that developed countries pay their workers between 10 and 20 times what workers are paid in developing countries.
The intensity of exploitation of the developing countries is reflected in the living standards of the people. According to United Nations statistics, in 1973 the developing countries had at least 300 million unemployed, at least 40% of the total population living in absolute poverty and 40% to 70% living below a meagre poverty line. The average expectation of life was 30 years and for millions, starvation was an ever present prospect.

The multinational corporation are a powerful force obstructing the strengthening of the economies of the developing countries. Their relative strengths are illustrated by the fact that the 1973 gross annual sales of GMH then the biggest multinational, was greater than the gross national products of 94 out of the 100 developing countries.
The multinationals are therefore able to impose forced economic specialization in the developing countries so that balanced development is obstructed.
Australia shows a limited practical concern for the developing countries. It is true that it allocates money for international aid, and granting a 10% preference in tariffs in certain goods imported from them. But when in economic difficulties, as at present, the developing countries quickly become expendable insofar as it adopted a policy of exporting employment to them. This was done by substantially restricting imports from developing countries in areas such as textiles, clothing and footwear, even to the products of cottage industries.



The Language of INFLATION

P A Riach

The contemporary debate about inflation, its sources and its control, would benefit from greater clarity and consistency in the terminology in which the debate is conducted. Thirty years ago the problem of inflation and its control was a cut and dried issue to most economists and politicians — its source was a general level of excess demand and its control was assured by appropriate monetary and fiscal intervention. But in the post-war period it has become increasingly apparent that there are additional sources of the inflationary process, and the phenomenon of prolonged periods of rising prices accompanied by unemployment levels above the frictional has led politicians, economists, and the general public to doubt the thesis that inflation is traceable solely to excess demand. There is considerable confusion about the nature of this alternative inflationary process and the policies appropriate to deal with it, as evidenced by the letter [illegible] antics of academic economists in recent years, and there are two central terms in this debate whose usage has led to [illegible] 'cost inflation' and 'incomes policy'.

The Phenomenon of Sellers Inflation

'Cost inflation' is the term frequently applied to describe this alternative inflationary process whereby prices continue to rise in the absence of a general level of excess demand. Such a term [illegible] lead to the presumption that all [illegible] increases in costs of production are a manifestation of this alternative inflationary process. It also carries the implication that costs, and costs only, are the instruments of this alternative inflationary process. In some cases the term is even more narrowly defined as 'wage inflation', with the implication now that labour alone is responsible for rising prices in the absence of general excess demand, and with the danger that all wage increases will be seen as the outcome of the 'new inflation'.

The truth of the matter, of course, is that excess demand bears on factor markets as well as product markets, and the most elementary economic model predicts that rising costs and wages will result from a situation of demand inflation ('cost inflation'). The observation of cost and wage increases in themselves provides no indication whatsoever of the source from which they arose, and certainly we would expect increases in pay to be generated by competitive employer bidding in a tight labour market. It is also true that pressure on prices, when excess demand is absent, may in certain circumstances arise from factor incomes other than wages and, in particular, from a widening of profit margins (the mark-up on costs).

The way to avoid this ambiguity is to replace the term 'cost inflation' with an alternative suggested by Professor Abba Lerner, 'sellers inflation' — a term which is the natural counterpart to demand inflation. Under demand inflation, the buyers on the demand side of product and factor markets bid up prices in an effort to obtain more goods and services than are currently producable. Under sellers inflation the sellers on the supply side of product and/or factor markets apply concentrations of economic power in an effort to obtain a total level of real income in excess of the flow currently coming forth — the size of the factor claims on the available national income are mutually inconsistent. The advantage of the term 'sellers inflation' is that it carries no implication as to which factor is responsible for this inflationary process; it encompasses *all* sellers in *all* markets. Also, it should not in itself lead casual observers to conclude one way or the other about the source of any cost and/or price increase; both buyers and sellers are essential components of any market and the dichotomy of terminology suggested here recognizes their dual role in price formation.

At any point of inflationary time it is possible that the forces of both 'demand' and 'sellers' inflation are present — a point which Sir Dennis Robertson made with characteristic elegance: 'The economic stalactite of inflated demand has met sociological stalagmite of upthrusting claims; and when stalactite and stalagmite meet and fuse in an icy kiss . . . nobody on earth can be quite sure where the one ends and the other begins.'[1]

It is noteworthy that as long ago as 1943 Michael Kalecki predicted the social and political tensions which would ensue in a postwar world of government-maintained full employment — a world for which his work and that of Maynard Keynes had laid the basis. He forecast an increase in the self assurance of the working class as 'the sack' lost its punitive power as a disciplinary measure: he also forecast that pressure on prices and the fixed income group would result from the improved bargaining power gained by workers in a full employment society. Kalecki finished by warning that, in the postwar world of full employment, capitalism would have ' . . . to develop new social and political institutions which will reflect the increased power of the working class.'[2] Thirty years later this problem has still to be satisfactorily resolved.

Removing the Sources of Inflation

The remedy for demand inflation is obvious and well-tested — simply to remove the source of the pressure, by applying a combination of monetary and fiscal measures to reduce the collective demand of consumers, businesses, and government to a level compatible with the economy's prevailing capacity. In effect the power of buyers is reduced, and this is done by policy instruments which have a long history of acceptance (if grudging) in a democratic society — measures such as increased taxation, and reductions in government expenditure and in the rate of growth of the money supply.

By analogy the remedy for 'sellers inflation' is to tackle it at its source — to moderate the power of sellers so that they are unable, in a situation where a general level of excess demand is absent, to pursue effectively income claims which are inconsistent with a reasonable degree of price stability, thereby facing the government with the dilemma of 'validating' the price increase with an expansion of the money supply, or allowing the level of employment to fall. And here lies the key to the problem — it is much more difficult to moderate the power of sellers than the power of buyers, given the traditional range of policy instruments available in a democratic society.

Many have perceived the problem, but, to date, no policy has been successfully formulated and implemented to deal with the source of sellers inflation. Thirteen years ago W Fellner and F Lutz diagnosed the problem as it arose out of the labour market, and provided the following recommendation — 'On neither side of the labour market should the permissable size and the permissable functions of organizations be regarded as immutable . . . Wherever the bargaining attitudes should create a lasting conflict between significant policy objectives (full employment and price stability), the desirable solution requires sufficiently modifying the size and the functions of the organizational units on both sides of the bargaining table.'[3] This *might* be sound economics but it is certainly dangerous industrial relations. State intervention to dismember unions or to restrict their traditional activities would inevitably create industrial and social turmoil. The miserable history of the Heath Government in Britain between mid-1970 and early 1974 demonstrates the social discord involved in a policy of confrontation, and in introducing the law into areas of industrial relations activity where it had previously been absent.

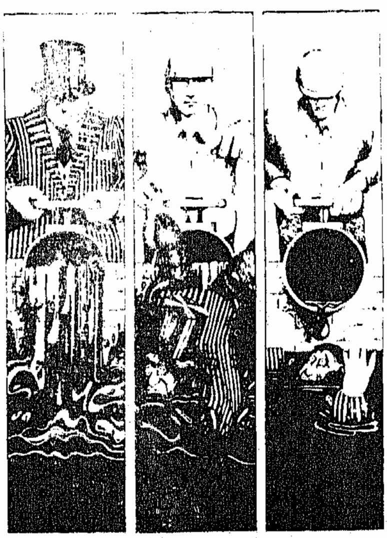
Incomes Control and Incomes Policy

The procedure most frequently put forward to deal with sellers inflation goes by the name 'incomes policy' but here again is a term whose usage has become ambiguous, for it is often equated with something much narrower — direct *control* of the level of prices and incomes.

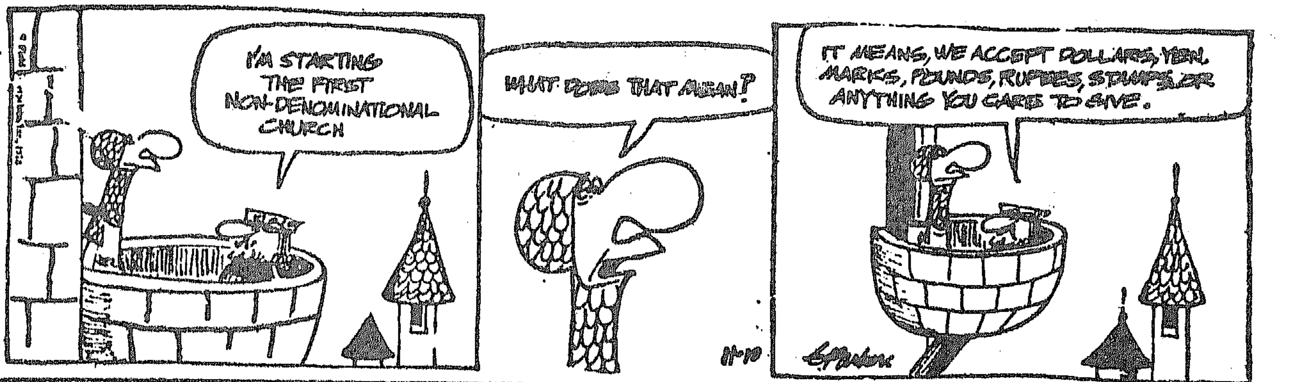
In passing, it is perhaps worth noting that the term itself has gone through a process of 'progressive euphemization'. During the late fifties all the talk was of a 'wages policy'; in the early sixties this was expanded to 'incomes policy' to provide a semblance of equity and to avoid the implication that the policy was aimed solely at clobbering the militant blue-collared hordes; in the mid-sixties the term 'prices and incomes policy' emerged, presumably in recognition of the fact that sellers in product markets might also be culpable; then in 1968 the term 'productivity, prices and incomes policy' was born. The latter was the title of a British White Paper produced by the Government of Harold Wilson, (that pastmaster of the political euphemism) which was intended to inject a positive orientation into the policy — the stimulation of real income growth — alongside the traditional negative objective of limiting the growth in money incomes. But regardless of what it is called, this is the policy instrument most frequently proposed to deal with sellers inflation.

But if the words 'incomes policy' are considered in isolation from the contemporary literature and debate about sellers inflation, it becomes obvious that, in terms of everyday English usage, 'incomes policy' has a very broad meaning. It could encompass any action undertaken to influence the level and/or distribution of money and/or real income. It would be perfectly proper to describe fiscal action aimed at redistributing income, by a restructuring of taxation and transfer payments, as an in-

An [illegible] of this paper was published as 'Coming to Terms [illegible] National Bank Monthly Survey, October, 1974.



1. D H Robertson, *Growth Wages Money*, Cambridge, 1961
2. M Kalecki, 'Political aspects of Full Employment', *Political Quarterly* 1943; reprinted in E K Hunt and J G Schwartz, *A Critique of Economic Theory*, Penguin, 1972
3. OECD *The Problem of Rising Prices* 1961 p 64



comes policy. It would be equally proper to describe overall demand management, aimed at manipulating the rate of growth of the aggregate level of money income, as an incomes policy. In other words, policies going by such a name could have markedly different objectives and methods.

Nevertheless, in current usage, the term is most frequently associated with a procedure of direct third party intervention in the wage and/or price fixing process — with the objective of limiting the rate of price increase generated by sellers inflation. Such a procedure may be of a voluntary or a compulsory nature. If it is voluntary it may be supervised jointly by the peak council of the trade union movement and its employer counterpart; otherwise the responsibility will lie with some government agency — such as a board or tribunal. The supervising body has the task of vetting proposed increases in incomes and/or prices against various norms and criteria, which it either evolves itself or has laid down in its founding charter. The proposed price and/or wage increases, which are vetted, may be chosen by the supervisory agency or they may be determined by government reference. The scope of its power may be limited to labour incomes, or it may extend to include prices and other factor incomes such as rent. In some cases the power may be split between two or more agencies. The procedure may be a quasi-judicial hearing or it may involve officers of the agency collecting data and conducting their own investigations. A variety of enforcement measures may be applied — publicity of disapproval, delay of proposed price or wage increases, or perhaps outright prohibition. But, while the detailed mechanics of such price-policing schemes may vary, what they all do involve is outside intervention at the point of price and/or wage fixation. As such, these procedures would be more appropriately renamed as prices and incomes *control*, and recognized for the strictly limited procedures which they are — an attempt to deal with the symptom rather than the source of sellers inflation.

The term 'incomes policy or prices and incomes policy' would then be confined to those procedures which attempt the, admittedly more difficult, task of tackling the source of the problem by moderating the power of sellers where it is judged excessive. The explicit objectives of such a policy would appropriately include the redistribution of income, as well as the minimization of the overall rate of increase in money incomes and prices. In fact, some policies whose objectives is the modification of seller power have been put forward in recent years, particularly during 1971.

Modifying Seller Power

It is accepted initially that the principal arena from which sellers inflation originates is the labour market, then the need is to moderate the power of trade unions and other organizations which act as the collective representatives of labour. Their power is derived principally from their ability to impose a work stoppage. In the wage-determining process the rationale of the work stoppage and the threat thereof is as an instrument to induce compromise between the conflicting positions of labour and management. In the normal case in the private sector both parties incur losses during a work stoppage — workers lose pay and management loses profits, through the cessation of production and/or sales. If they are being strictly economically rational the parties will engage in a work stoppage, and accept such losses, only if they consider them less than the losses involved in conceding to the other party's position. So we can envisage each party comparing its 'cost of disagreeing' — the anticipated loss of wages or profits during the work stoppage — with its 'cost of agreeing' — the loss involved in accepting the other party's offer as compared with its own 'final' position.

Only if the cost of disagreeing is less than the cost of agreeing will a party prefer a work stoppage to a compromise, and only if the cost of disagreeing is less than the cost of agreeing for both parties will a work stoppage ensue. But alternatively in ratio terms, each party has a bargaining attitude which can be expressed as: Cost of disagreeing/Cost of agreeing. The tactics of collective bargaining, of course, involve trying to depress your own ratio below one, whilst pushing your opponent's ratio above one, so that he will find your terms more acceptable than the prospect of a work stoppage.[4]

If the policymaker has determined that action is necessary to moderate sellers inflation emanating from the labour market, then the need is to strengthen employer resistance and/or to weaken union aggression. This brief outline of bargaining theory suggests four possible avenues by which seller power in the labour market might be lessened. Firstly there is action to increase the trade union's cost of disagreeing, and secondly action to reduce the trade union's cost of agreeing, both of which operate to push the union's ratio towards unity and thereby encourage it to compromise in the acceptance of lower money wage increases. Thirdly there is action to reduce the employer's cost of disagreeing, and fourthly action to increase the employer's cost of agreeing, both of which operate to push the employer's ratio below unity and thereby encourage him to resist more strenuously union demands for high rates of money wage increase.

Policies have been proposed to do just these things. First — increasing the union's cost of disagreeing. An English economist, James Meade[5] has suggested that if unionists stopped work in an attempt to obtain a wage increase in excess of a government-determined norm the following sanctions might be imposed: the strikers would lose any rights they had accumulated for redundancy pay; supplementary benefits paid, in Britain, for the wives and children of strikers would become a liability of the union or the individual striker; and unions would be taxed on strike pay issued to members. The ability to impose such a policy would, of course, depend upon the generosity of such state welfare payments — on the principle that what you do not give you cannot take away.

Second — reducing the union's cost of agreeing. The London *Economist*[6] has suggested that employees who receive wage increases in excess of a pre-determined norm should have the entire excess absorbed by increased national insurance payments. If such a system were introduced, stopping work in an attempt to achieve a wage increase in excess of the norm would be pointless, as there would be no gain in 'take-home' pay to be made. In other words, there would be no 'cost of agreeing' with an employer who was offering a wage increase equal to the norm. Such a system does not merely lessen trade union bargaining power — it virtually entirely removes it in union-management confrontations, where increases in excess of the norm are involved. Any confrontation would now be between union and government, and such a system would have many of the hallmarks of direct statutory control of incomes, supported by penal sanctions for those in defiance.

An alternative, and much less inflammatory, procedure for reducing the union's cost of agreeing is the technique known as wage-indexation. A union stands to lose less, in accepting a low money wage increase, if it is part of a package which provides also for regular adjustment of total earnings in line with the movements in consumer prices. The union is thereby assured a real increase in pay, and so it may prefer a package of indexation plus low money wage increases to a large money wage increase alone — an increase which might be overwhelmed by consumer price increases.

Third — I am unaware of any published suggestions to achieve a reduction in the employer's cost of disagreeing. Although my students have occasionally voiced some fanciful suggestions.

Fourth — American economist, Sidney Weintraub[7] has suggested that employers who concede average wage increases in excess of a government-determined norm should be charged company tax at a penal rate. A variant of the Weintraub plan is the suggestion that wage increases in excess of the norm should not be allowable as a deduction in determining company tax. The latter suggestion, however, would seem inferior to Weintraub's proposal, as it would discriminate in favour of capital-intensive industries — the very sector which is often accused of setting the pattern in wage rounds. It is sometimes argued that the Weintraub plan would be ineffective, as employers would just pass the increased tax charge on in higher prices. This merely amounts to an assertion (or admission) that there is also excess seller power in the product market which requires simultaneous attention.

An important advantage which the Meade and Weintraub indexation schemes have over incomes control is that they do not involve direct interference in the collective bargaining process, nor do they prevent labour exercising its democratic right to withhold services when it considers the reward inadequate. Instead, they aim to tilt the balance of bargaining power in the labour market more towards the employer.

However, there are difficulties with such schemes. Firstly, any norm would need to be specified in terms of hourly rather than weekly earnings and administrative problems would arise in verifying the amount of overtime worked. In particular, the payment of bogus over-

4. This is necessarily a thumb-nail sketch of bargaining behaviour in the labour market. For a more detailed explanation of bargaining theory see A M Cartter, *Theory of Wages and Employment*, Irwin, Homewood Illinois, 1959, ch 9
5. J E Meade, *Wages and Prices in a Mixed Economy*, September 1971 Occasional Paper of the Institute of Economic Affairs, London
6. *The Economist*, 24 April 1971 p 10
7. S Weintraub, 'An Incomes Policy to Stop Inflation', *Lloyds Bank Review*, January 1971

time or the provision of fringe benefits as a means of circumventing the policy would be difficult to police. Secondly, there is the difficulty of providing for some flexibility in the size of the annual wage increase, without creating loopholes to the norm which are so broad and so numerous that they destroy the very basis of the policy. At times there may be a need to vary wage relativities to accommodate structural changes taking place in the labour market, or to provide some stimulus to change which will benefit productivity. But perhaps most immediate and central is the problem of those next in the queue for a wage increase at the time an income policy is introduced with a norm substantially below the going rate of wage increase. These groups face the danger of being left seriously behind in the wage chase — as have many British workers in public employment in recent years. Meade cites[8] a thoughtful suggestion which Reddaway has made to tackle this problem. This is that the measures aimed at curbing union bargaining power should only be invoked if the current wage claim would cause the total wage increase over the past three years to exceed the norm (of say thirty per cent). This would enable some catching up by those who had most recently fallen behind. These are some of the major difficulties of incomes policies which seek to moderate seller power in the labour market; they are not easily soluble, but they are equally problems of direct income *control*.

8. J E Meade, op cit
9. M Parkin, 'United Kingdom Inflation: the Policy Alternatives', *National Westminster Bank Quarterly Review*, May 1974

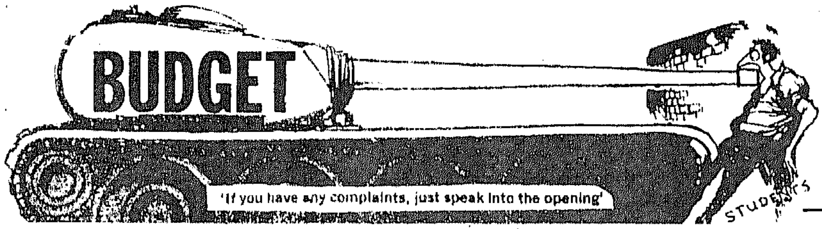
An Anti-inflationary Package

There is no such thing as a 'perfect' or 'ideal' incomes policy at this point of time. The policy instruments must be chosen on a pragmatic basis, they must be carefully monitored, and the policy-maker must be flexible and be prepared to retreat quickly if there are undesirable developments in the earnings structure or in resource allocation. On the principle of the 'stick and carrot' theory a combination of indexation and Weintraub, with a norm specified in Reddaway-type terms, might be most worthy of experimentation. Indexation, as a method of influencing seller power in the labour market, has the additional advantage that it is recognized as a possible anti-inflationary weapon by those who dispute the sellers inflation thesis, and argue instead that wage increases can be explained by a model comprising excess demand plus a variable reflecting inflationary expectations: 'It is possible that . . . measures not tried before could help to reduce expectations more quickly and hence shorten the time taken to remove inflation. One measure is the indexation of all wages and interest rates so that changes in the actual rate of inflation feed through automatically to all markets'.[9]

So if we want to hedge our bets about the cause of the current inflation the indexation of wages has a dual appeal. Sir Dennis Robertson once indicated that a third way of coaxing the donkey is by 'a gentle striking of the ears', which in this case could be equated with the avoidance of provocative legal intervention in industrial relations. If such an incomes policy were attempted there would need to be accompanying measures to deal with seller power in the product market, to ensure profit margins did not widen and, in some cases, that they were compressed and also to ensure that Weintraub tax penalties were borne by profit-takers and not passed on to consumers. The standard armoury here includes legislation regulating: monopolies, mergers and restrictive trading practices; tariff reductions; government owned and controlled competitors in key oligopolized industries. There might also be a need for legislative intervention to deal with practices which restrict competition in areas of activity where labour is self-employed — such as the professions.

Above all, economic policy must be carefully integrated so as to provide the most beneficial economic environment for an attempt at a genuine incomes policy. Fiscal, monetary, competition, balance of payments, social welfare, labour market, and incomes policy must all be carefully co-ordinated, and this involves breaking down the internecine warfare which often rages between government departments. The task is not an easy one but it is critical, as Michael Kalecki warned thirty years ago: 'If capitalism can adjust itself to full employment a fundamental reform will have been incorporated in it. If not, it will show itself an outmoded system which must be scrapped'.[10]

10. M Kalecki, op cit



'If you have any complaints, just speak into the opening'

'75-76

By Jim McIlroy

Labor's Budget aims a blow at the very people who put the ALP into office and have so far kept them there. It is the workers, particularly young workers, who will be hardest hit by the proposed tax increases and other cutbacks. Students, too, will suffer from the ditching of Labor's promises to radically improve education facilities.

The most immediate impact will come with the rises in indirect taxes petrol could go up by as much as 10 cents a gallon, beer by at least 4 cents an average glass, cigarettes by between 6 and 10 cents a packet. Together with the big rises in postal and telephone charges announced previously, this means another hefty slice out of the average paypacket.

'On the economic front, inflation is this nation's most menacing enemy,' said the Treasurer, Bill Hayden, in his Budget speech on August 19. Yet the Government has now given a solid boost to inflation by hitting consumers in the very areas of spending which already take up a large proportion of wage income.

What sort of double-talk is this? What Hayden and his Cabinet colleagues *really* mean when they speak of inflation being an enemy is that for them, as for the business interests they are pandering to, wages are too high and profits are too low.

And trying to drive down real wages and jack up private profits is what this Budget, and Labor's whole economic strategy, is all about. Hayden put it this way in this Budget speech:

'This Government is committed to the present 'mixed economy' framework. We want to strengthen that framework. To reduce unemployment lastingly, recovery in the private sector is essential.

'Expenditure restraint in this Budget will lay the foundations for a desirable balance between the public and private sectors.'

Actually, public spending has been brought virtually to a standstill overall and funding has been slashed in a number of vital areas (see graphs). With this Budget Labor's program of social reform lies in ruins. And all in the name of 'reviving private enterprise.'

These public spending cuts have been generally welcomed as 'responsible' by the capitalist press. Some like the *Sydney Morning Herald* have called for further cutbacks in areas like education. Presumably the Fairfax press would like to see child labor reintroduced instead of wasting money on education for young people.

All in all, most papers see a carrot-and-stick effect in the Budget and are holding off final judgment to see if it will work. The *Sydney Morning Herald* thinks it's a 'clever Budget strategy,' while the *Financial Review* heads its editorial on the Budget, Risky, Subtle . . . But it could Work. What they mean is: Will the workers accept it?

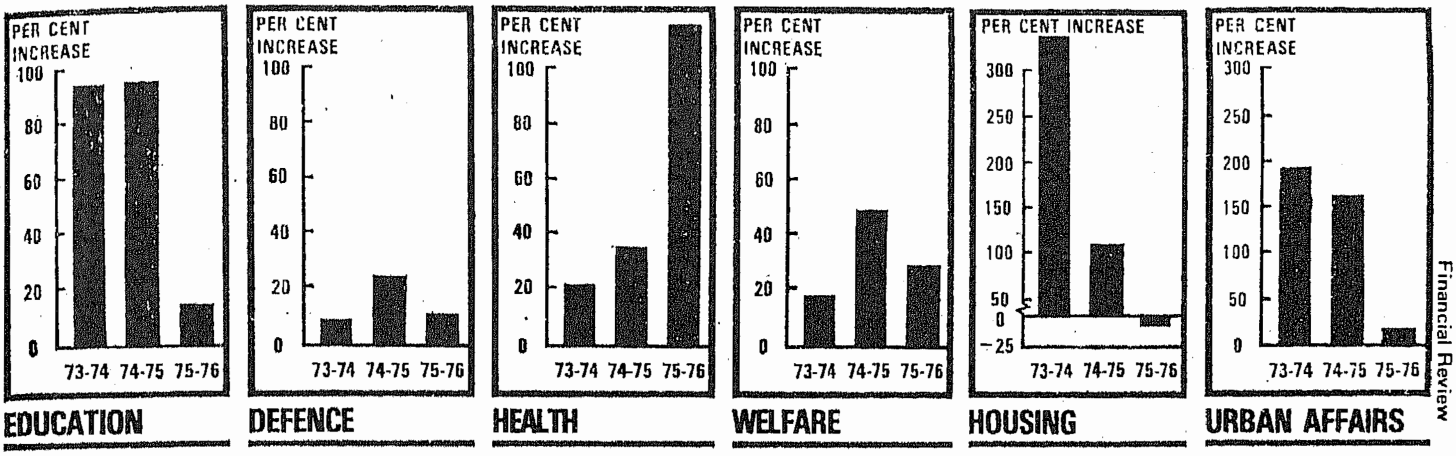
Tax 'revolution'

The main sweetener in the Budget and the 'cleverness' comes with what the Treasurer called 'perhaps the most revolutionary change since the inception of our personal income tax system.' This is the new tax structure introduced in the Budget, the first major change for two decades.

An important feature and one to be welcomed, is the abolition of all tax on incomes below $49 which will provide some relief for upwards of half-a-million people. However, it doesn't go nearly far enough, not even as far as the official poverty line.

But elsewhere the new tax system has a sharp sting in its tail. While workers with dependants get a large tax rebate under the new system, others are hit even harder than at present. As the Financial Review states: 'One of the main groups of losers (under the new scale) will be taxpayers without dependants on incomes of $4000 to $9000 a year.'

As the *Financial Review* goes on to explain, this will affect both the working wife and single, low to middle-income earners. In effect, the new system gives



Labor's spending on key areas compared. Graphs show sudden drop in funding for education, welfare, housing, urban affairs in coming year. Jump in health expenditure represents funds for Medibank.

a small amount of relief to the family but penalises unmarried workers and working women. It adds a little more to discouraging married women from attempting to take a job.

Education program halted

Key education projects will be thrown out and expansion in education will come to a standstill under Labor's Budget plans for the next year. Growth of facilities in schools, universities and colleges will come to a dead stop.

While expenditure will rise in 1975-76 by $236 million to $1908 million this represents only a 14.1 per cent rise above the 1974-75 level ie, a cutback in real terms with inflation at around 17 per cent. Hayden said in his speech that recurrent expenditure would be maintained 'at no less than present real levels, but capital expenditure will be limited to essential projects.'

Essential for whom, we might ask? The cuts mean that nearly all building programs will have to stop. Even with the holding of recurrent spending, schools will have to reduce staff, and do without new classrooms and libraries. Class sizes are sure to rise and teacher unemployment is likely to follow.

Jobs are *essential* for teachers and better education is *essential* as far as school students are concerned. Only the Government and big business think that these are low priorities.

Universities are already gearing up for drastic cutbacks fewer students, staff, courses and facilities seem certain. The colleges of advanced education, which had planned major expansions next year, will be hard put to maintain present activities.

The collapse of the Government's education program highlighted in this Budget is one of the clearest reminders of the failure of the Labor Party's dreams of successfully reforming capitalism.

Housing, transport, urban development

Last year, expenditure in the area of housing, transport and urban development received one of the biggest boosts. This year it takes the biggest knock. Funds for housing actually fall *in absolute terms* by a figure quoted in the August 20 *Sydney Morning Herald* at almost $70 million. This is over and above the cut due to inflation in the *real* value of the funding.

With the building industry in a deep slump around the country this cutback will only increase unemployment in the building sector and make houses even more expensive and hard to get for average wage-earners. In all, according to the August 20 *Financial Review*, total spending by the Department of Urban and Regional Development will increase only 11 per cent, a drop in real value when inflation is taken into account. This compares with a growth in the urban area of 170 per cent last year, and must lead to further decay in the condition of roads and other urban facilities.

Urban public transport also takes a heavy cut. The Budget allocation of $43 million to the States to build rail lines and new trains and buses represents a fall of 20 per cent in real terms allowing for the effects of inflation, according to the August 20 *Australian*. With a public transport system in the major cities that is already falling to pieces, with staff reductions and services being undermined, this move by the Labor Government can only lead to a further worsening of living conditions for the great majority.

Unemployment

The problems of the unemployed can only be deepened by the Budget. The Regional Employment Development Scheme (RED) is being phased out. Within three to four months all the $135 million allocated will be used up and no more projects are planned.

The 30,000 who are at present employed on RED projects will lose their jobs with nothing to replace them. Far from expanding public works schemes to provide jobs for the hundreds of thousands who are now unemployed, the Government is even halting what little unemployment relief they have given so far. With such a great need for schools, hospitals, child-care centres, public transport and recreation facilities there is plenty of work to go round.

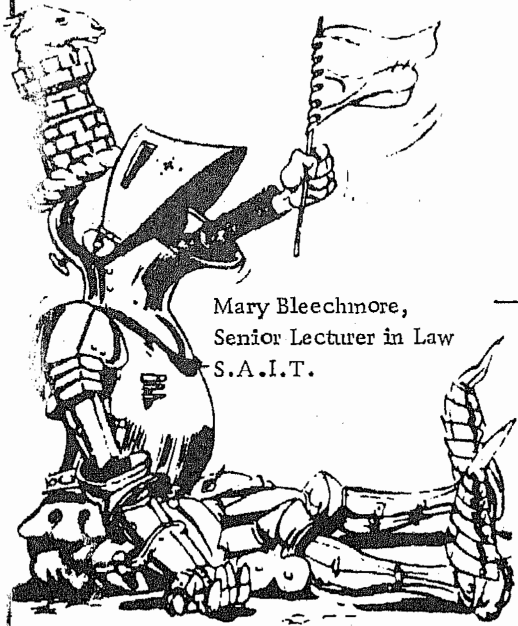
But that's not what this Budget is all about. As the Leader of the State Labor Opposition in NSW, Neville Wran, put it:

'The recognition of the importance of the private sector in the mixed Australian economy is . . . to be appreciated. The reduction in company tax and the doubling of the rate of depreciation on new plant is a big shot in the arm for private enterprise.'

This is what the Budget is all about. Labor Government is concerned with giving big business new tax kickbacks and opportunities for profit-making, not with the interests of working people. 'If inflation is to be curbed there are no easy options,' Hayden said.

Certainly, it will not be easy to sell this particular Budget package to wage-earners. The socialist option is the only one which can offer a real alternative.

DIRECT ACTION



TAX '75–76

Mary Bleechmore,
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S.A.I.T.

The 1975/6 Budget of the Whitlam Government.
"A fundamental reform of the tax system"
OR
...a new taxation system calculated to appeal most to the conservative elements...the upper middle income earners..."

The Australian Government's 1975/6 Budget has attracted wider public interest than any budget within my memory. The reason is not far to seek. The Whitlam Government has shown itself more innovative than its predecessors and all shades of opinion waited to see to what extent the Budget would be used to effect a redistribution of wealth and to cure some of the inequalities which have been so evident in our taxation law.

The Government has had before it, in the last few months, the Mathews Report advocating tax indexation or the introduction of a new tax schedule with a commitment to index it in future and the Asprey Report recommending that a quite different rate scale be introduced with an initial marginal rate higher than the 1974/5 rate and with lower marginal rates at intermediate ranges of income.
(Individual income tax is levied at progressive rates. The marginal rate is the rate applicable the individual's income at different levels. An explanation follows the tables of rates which follow).

On August 19th we learnt that the Government had rejected the Mathews' recommendation of indexation, had partially followed the Asprey line.

A new, personal income tax system was introduced by the Treasurer in his 1975/6 Budget speech. He described it as "radical" and he said that the Australian Government had undertaken "fundamental reform of the tax system with one overwhelmingly important objective - the achievement of a more equitable distribution of the tax burden". Interested observers were told that indexation could not be introduced in 1975/6 because of its cost to revenue, but that indexing of the new scale would be available as an option for the Government for 1976/7. (No commitment)

The first change.
The two great changes introduced were, firstly, the new tax rate scale for individuals -
(Progressive income tax is calculated by applying the rate of 20% on the first $2,000 of an individual s taxable income, 27% on the next $3,000 and so on).

Contact the previously existing tax rate scale -

Progressive tax is calculated by applying the rate of 1% on the first $1,000 of an individual's taxable income 7% on the next $1,000 and so on).

Total Taxable Income 1975-1976 Income Year.

Not less than $	Not more than $	Gross Tax $
1	2,000	
2,000	5,000	400.00 + 27¢ for each $1 in excess of 2,000
5,000	10,000	1,210.00 + 35¢ for each $1 in excess of 5,000
10,000	15,000	2,960.00 + 45¢ for each $1 in excess of 10,000
15,000	20,000	5,210.00 + 55¢ for each $1 in excess of 15,000
20,000	25,000	7,960.00 + 60¢ for each $1 in excess of 20,000
25,000 and over		10,960.00 + 65¢ for each $1 in excess of 25,000

Total Taxable Income 1974-1975 Income Year

Not Less Than $	Not More Than $	Tax on Total Taxable Income $
0	1000	0.00 + 1 cent for each $1
1000	2000	10.00 + 7 cents for each $1 in excess of 1000
2000	3000	80.00 + 14 cents for each $1 in excess of 2000
3000	4000	220.00 + 20 cents for each $1 in excess of 3000
4000	5000	420.00 + 26 cents for each $1 in excess of 4000
5000	6000	680.00 + 32 cents for each $1 in excess of 5000
6000	7000	1000.00 + 38 cents for each $1 in excess of 6000
7000	8000	1380.00 + 44 cents for each $1 in excess of 7000
8000	10000	1820.00 + 48 cents for each $1 in excess of 8000
10000	12000	2780.00 + 52 cents for each $1 in excess of 10000
12000	16000	3820.00 + 55 cents for each $1 in excess of 12000
16000	20000	6020.00 + 60 cents for each $1 in excess of 16000
20000	40000	8420.00 + 64 cents for each $1 in excess of 20000
40000	-	21220.00 + 67 cents for each $1 in excess of 40000

It can be seen at a glance that the new system is simpler - only seven as against fourteen steps. The new marginal rates are considerably higher for the low income earners and a little lower for the higher income group.

The Second Change.

Although the rate of tax applicable to low incomes is higher than formerly the Treasurer pointed out that the second great change to the taxation system made by the 1975/6 Budget - the substitution of taxation rebates for most former concessional deductions - provides much more generous reductions in tax on account of family commitments, especially for the low income earner family man and this cancels out the possibility of unfairly high rates for the low income earner, but means that the higher earners are more heavily taxed on the first thousands of their income.

The deduction allowed for dependants maintenance and personal expenses under the previous system was a deduction from gross income before calculation of tax. The rebate now allowed is a reduction from the amount of Tax payable after calculation of the tax due on the taxable income.

Previously the taxable, income to which the general rates applied was the total assessable income less -

1. The revenue outgoings incurred in earning the assessalbe income.

2. Concessional deductions for the maintenance of dependants as follows.

For spouse	$364
daughter housekeeper	$364
one child under 16	$260
other children under 16	$208
student (dependants between 16 and 25 engaged in full time study)	$260
invalid relative	$364
parent of taxpayer or spouse	$364

3. Other concessional deductions as follows -

	Maximum allowable
Rates and land tax paid on taxpayers principal residence	$300
Medical, dental etc. expenses for taxpayers, spouse and children under 21 or other dependant.	No limit
Funeral expenses in respect of spouse, children or other dependants	$100
Life Insurance premiums, superannuation contributions for benefit of taxpayer, spouse or child of taxpayer	$1200
Education expenses in respect of child or other dependants under 25	$250
Self education exp.	$250
Adoption expenses	No limit
Payments to medical benefit etc. funds.	No limit
Calls paid on shares in afforestation companies.	1/3 amount paid
Gifts to charities	No limit

Interest paid on housing loan on taxpayer's principal residence. (Amount deductable - the whole amount of interest paid for taxable incomes up to $4,000, phasing out when annual net income reaches $14,000).

The new system retains the business deductions from the gross income but all the former concessional deductions except the deductions for gifts to charities. And for interest on loan on principal residence (mentioned last in the old second table of concessional deductions) are connected into rebates deductable from tax payable. The rebate is 40% of the qualifying expenditure which remains the same as stated above for deductions.

Two more innovations -

A rebate of tax of $200 available to parents without partners who are responsible for the maintenance of children under 16. This will compensate "sole" parents who cannot benefit from the spouse or housekeeper rebates.

And, for all taxpayers, in addition to the dependant's maintenance rebate, an automatic minimum rebate of $540 representing other concessional type rebates WHETHER THE TAXPAYER HAS ACTUALLY INCURRED THE EXPENSE OR NOT.

The Result of the Changes.

The Treasurer's View.

The result of the large rebates for maintenance of dependants and family type expenses together with the minimum rebate of $540 from tax payable, the Treasurer reporter, would free nearly half a million people from payment of tax. Whereas, under the former scheme an individual taxpayer attracted income tax at $1040, now a taxpayer with a dependant wife and two dependant student children will pay no tax with an income of $5,372. Taxpayers with dependants, the Treasurer told us, are heavily favoured as compared with the old sys-

tem particularly in the lower income ranges. The Treasurer has given us a few examples to prove his point.

Since 19th August many of us have been making little calculations to examine what the taxation changes in the Budget - Is it as the Treasurer says - a relief for the low income, one income family with dependants?

Some opposing views.

A couple of opposing view points - Edward Nash Economics Editor, The Advertiser (September, 2nd) points out that, in his opinion, the tables issued by the Treasury which compare tax liabilities under the old and new methods are misleading. Firstly, the Treasury has used comparisons which take no account of inflation. The Treasurer did indicate in his Budget speech that wages were expected to increase by between 20 and 22% during the 1975/6 taxation year.

This, according to Mr. Nash, makes the Treasury s comparison irrelevant because the taxpayer who was assessed on a net income of $8,000 in 1974/5 will be assessed on a net income of $9,760 in 1975/6. While he would have paid more tax if the old method still applied, under the new system, while he is only maintaining his position from an income point of view, his tax bill has increased considerably.

Mr. Nash s second point is that the Treasury s comparisons are based on the assumption that the Taxpayers deductions against income (under the old system) are nil, 5% of net income and 10% of net income - He points out that Budget paper No. 13 (which applies to 1973 Income Year) shows that the bulk of taxpayers had deduction equal to about 20% of net income.

Accordingly, in the Nash view, the overall effect of the new taxing method will be that taxpayers with dependants will pay more tax but the increase will be less than it would have been had the old taxing method applied.

Peter Samuel, provocotive in the Bulletin (August, 30th) declares that the new income tax system is "significantly less re-distributive than its predecessor".

"The very practical effect of the new scheme", he says, will be a lot more money going into the pockets of upper and upper-middle income family men.......A.L.P. electorial experts," he avers, see these people as the swinging voters who put labour into power in 1972 and gave it a second go in May, 1974, but who could devert in droves antagonised not only by its general incompetence but particularly by its crippling taxation. And despite the compulsive, bleeding heart liturgy of the Budget Presentation which Labor politicians always find it necessary to recite, the benefits of the new personal income-tax system which it unveiled are greatest for the richest."

So Samuel gives the example of the taxpayers "with little to claim for rebates, who have little by way of life insurance, education expenses or rates - caricatured as the playboy renting a penthouse - the tax savings increase indefinitely with a rise in income. At a net income of $50,000 this man with no dependants and no concessional allowances will pay $1,250 less tax each year."

It is pointed out that a taxpayer on the same income if he had tax allowances equivalent to 10 per cent of his income will pay $640 more tax each year.

Mr. Samuel gives a number of cases illustrating his thesis that "In a fog of hot political air, these extraordinary socialist politicians have brought in a new tax system calculated to appeal most to the conservative elements in the community, the upper middle income earners and especially the family men. The tax scales have been drastically reduced in their progressivity which, without inflation, could be presented as an eminently sensible move to sharpen the incentive to work, and earn more and gain advancement.....It is a smart appeal to the hip pocket nerve - smart, but perhaps too smart by half coming from Labor. For the genuine egalatarians who represent the battlers are going to be angry at the acception. And the supposed beneficiaries of the tax savings are going to be hard hit by inflation. For inflation threatens to make a complete mockery of these tax cuts as it has made previous tax cuts ridiculous...."

What do you think?

Most of the critics query the possibility of giving any significant income tax relief when the Treasurer is budgeting for a $4 million 23% increase in Government spending.

I've presented to you a brief glimpse of budget criticism which is fairly typical, I have not burdened you with a full and detailed description of the old and new systems of personal taxation but I think I have given you sufficient information for you to be able to do your own sums and make up your own minds -

T.E.A.S. RALLY.

The Government's policy is that T.E.A.S. should be a living wage. Since its instigation its value has decreased 40%. Again students will either be forced to rely on their parents or work, their studies suffering accordingly. The Budget cut social welfare to prop up the rich. You now get $5 per week more for doing nothing than you do for studying. THIS IS ABSURD.

LAWN MEETING FRIDAY 19TH SEPTEMBER.

"Therefore I say unto you, What things soever ye desire when ye pray, believe that ye receive them, and ye shall have them."

(Mark xi, 24)

And if you don't receive what you desire, then this is not a sign that the method itself is at fault, but simply that you weren't trying hard enough!