

OASIS AUSTRALIA NEWSLETTER 13th July.
OASIS-Australia
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Newsletter 13 July 2005

The 1st July Newsletter introduced the concept of economic fundamentalism as the driving force of the current federal government's political ideology. The newsletter also offered the proposal for a support income or basic income for Australia as a way to counter the divisiveness and insecurity which will be created by the proposed industrial relations legislation.

In this and following newsletters we will be looking more closely at some of the areas where people may be affected. Again, references to basic economic principles and practices by page number alone will refer to "Economics" 4th edition, Jackson, McIver, McConnell and Brue.

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First, some background to the current industrial relations proposals.

In the early 20th century following Federation and through to the 1960's Australia developed as a nation with a strong commitment to social justice and cooperation. The basic wage was determined on the basis of the needs of a family. Employers were prepared to train cadets and apprentices in excess of their own requirements in the public interest. Public and private services were provided to regional and rural areas based on cross-subsidisation. Australia prided itself as an egalitarian society.

Then in the 1970's changes began to occur. Changes in industrial relations. Changes in the provision of services nationally and regionally. Changes in the training of cadets and apprentices. These changes continued through to the 21st century, and they are still occurring.

Why is it that today, in the 21st century, we have moved so far away from the social structures developed in the first half of the 20th century. The whole social structure of the nation has changed from one based on a strong sense of social justice and cooperation to one based on competition and individualism. Why have we changed?

The answer, in simple terms, in layman's terms, is a change in economic theory, leading to a change in the way in which economic theory has influenced our political policies. A change from Keynesian economic theory

to Monetary economic theory.

Keynesian economic theory developed as an aid to government, advising and helping governments to maintain their social structures while still achieving economic growth. Monetary economic theory, on the other hand, developed with a strong emphasis on a free market economy, i.e. laissez faire capitalism.

"Keynesian and monetarists have important ideological differences. Keynesians feel that capitalism, and more particularly, the free market system suffers from inherent shortcomings." (p.360)

"The monetarist view is that markets are competitive and that the competitive market system provides the economy with a high degree of macroeconomic stability.....Monetarists have a strong laissez faire or free market orientation." (p.361)

Monetarist economic theory supports a minimum of market regulation. In the global economy where there is no global regulatory body monetarist economic theory reigns supreme. Politically it is more acceptable than Keynesian economic theory to participating nations and it is also far more acceptable to participating corporations and businesses. Politically it is more acceptable to the producers of goods and services who are, in economic terms, endeavouring to maximise the efficient use of productive resources, of which labour is just one of these resources. The appeal to political parties is enhanced by the minimisation of regulation. "Let the market decide" is a good reason for doing nothing.

The more recent move towards new classical economics, or rational expectation theory (RET) does nothing to hinder the move towards a deregulated free market environment.

Concurrent with this shift in political ideology is a shift in the role of economists. The movement away from the wellbeing of society to the wellbeing of the economy, and the movement away from a controlled economy to an uncontrolled economy, has simplified the political processes and reduced the decision making of our political leaders. Economic policy advisers have virtually become policy makers.

As a result, the theory of economics has spread to areas which are beyond its capacity to determine, and political parties bound by economic theory - the economic fundamentalists - are finding it more and more difficult to justify the effect of their actions on society without deception and misleading reporting.

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"Basically, economics is concerned with the efficient use of limited productive resources for the purpose of attaining the maximum satisfaction of our material wants." (p.3)

Economics is concerned with what we have. Economic theory is based on utilising what we have in the most efficient manner. Yet economists claim responsibility for a vast range of issues.

"The spectrum of economic issues with which political leaders must grapple, and for which they may need expert analysis, is very broad indeed; unemployment, economic growth and productivity, poverty, the balance of payments, industrial disputes, discrimination, education and training, pollution, competition and the regulation of big business, foreign investment in Australia, immigration, public versus private supply of services and so on." (p.4)

Economic theory cannot recommend methods for improving the quality of our productive resources, our upgrading of materials and processes and the education and training of our labour resources. Economic theory cannot recommend procedures and infrastructure to upgrade our health policies. Economic theory cannot recommend procedures for the settlement of industrial disputes, for the eradication of poverty, for discrimination within the community, for environmental issues or for immigration policies. At best economists can make recommendations on alternative strategies (which with the current conservative political ideology these become very strong recommendations).

Yet economists lay claim to these and other issues which are primarily social, not economic issues. Social values are being replaced by economic values as economists are increasingly achieving a determining role rather than an advisory role. As I stated in "Unemployment Forever", 1999, p.2:

"In the mathematical world of economic modelling and structural analysis there is no recognition of social needs and objectives - social values cannot be incorporated into economic equations. Society has been replaced by the economy. Economic theory cannot incorporate considerations of equity, social justice and cultural values."

One of the unfortunate by-products of this changing political role of economists is the public perception they have created by claiming many of these social issues as "economic issues", and assuming a dominant role. This is reflected in many areas of public discussion, including academia. There is a growing public acceptance that many of these issues are economic issues, and nowhere is this more evident than in the area of employment and unemployment. After all it is economic considerations which are at the

basis of the government's proposed industrial relations changes. Employment and unemployment will be the focus of the next newsletter.

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Laissez faire capitalism has been tried and failed. Economic theory based on free market principles has been tried and failed. Adam Smith, the 18th Century philosopher come economist who is regarded as the founder of economic theory based on free market principles turned away from this concept when he saw the unfair competition in the labour market - few buyers and many sellers.

Today we are revisiting the 18th and 19th century, as the Prime Minister set the scene for the forthcoming national debate in a speech to the Sydney Institute on 11 July.

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In one response to the 1st July Newsletter there were comments regarding the point I made that although a "free and open market" has never existed and probably never will, it is the objective, the goal of economic fundamentalism.

As I see it, economic fundamentalists believe in the virtue of a "free and open market" but also recognise the difficulties in achieving such a goal. Their energies are therefore directed not only towards the promotion of the concept, but also towards the elimination of any impediments to such an objective. Institutions and groups who are seen to be creating or encouraging these impediments - the trade unions - the disabled and single parents who do not actively seek employment - the so-called dole bludgers who do not willingly accept work - these are all treated with disdain, with contempt, and even with hatred. And these feelings reverberate throughout the community and the media. Thus we can get a headline on the front page of the Financial Review of Friday 1st July 2005 - "Unions block right to swap super funds". Reading on, we find in the opening sentence "Hundreds of thousands of workers will miss out on the right to choose how to invest their retirement savings because of agreements between unions and employers...."

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There is still a lot of detail to be discussed and debated before the proposed legislation is presented to Parliament, but looking at the Prime Minister's speech there appears to be one recurring theme - to reduce the scope and capacity of industrial agreements between employers and unions, and to give employers greater responsibility for establishing employment

conditions. Certainly there will be occasions when individual workers can dictate the terms and conditions of employment, but these will only occur when they have special skills and abilities. For most workers, and in particular for workers applying for jobs which require common or limited skills and abilities the employer will establish the employment conditions. And these can go as far as requiring the worker to accept the role of a contractor, responsible for his own superannuation, leave provisions and other employment benefits.

As the Prime Minister affirmed, the proposed legislation will not prevent employees from being members of a union, but it could be a union without teeth. Much will depend upon the extent to which employees can collectively bargain with employers. If there are strict limitations, then it becomes even more imperative that some form of income support be introduced which will give workers greater support. Under the existing welfare system the penalties for failing to accept the stated employment conditions are very severe, and these will be exacerbated by the removal of unfair dismissal legislation. The bargaining power of the employer will be strengthened.

A support income or basic income system for Australia should be seen as an essential accompaniment to any industrial relations legislation which limits the ability of workers to bargain collectively.

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To believe that in any deregulated market system buyers and sellers will not try to influence the market to their advantage is to believe in wonderland. This is the reason why it can be claimed that a free and open market system has never existed and probably never will exist. This is why there are regulations in place today.

Even governments, wittingly or unwittingly, can be accused of influencing markets. One prime example is the market for stocks and shares. The superannuation levy introduced by the Keating government, supported by the trade unions and the Democrats in the Senate (remember the three K's, Keating Kelty and Kernot) has created a huge fund which is influencing the demand for stocks and shares, promoting higher and higher prices. The economic dogma that savings encourages investment and thus increases supply does not apply as superannuation savings are mostly invested conservatively. Superannuation savings are not for risk investment. The flow-on effects of this market intervention are significant.

Firms must increase profits to maintain their price/earnings price ratio, and without expansion or productivity increases the options are to takeover other firms or to increase revenues. The financial sector, and particularly the banking sector is limited in the opportunity for takeover because of the

four bank policy, but it has scope to increase revenue via bank fees and charges - hence the rise in bank shares accompanied by rises in these fees and charges.

It is a recognised fact that superannuation favours the rich and does very little, if anything, for the poor. It is also fact that State influence of the stock and share market favours those with the greatest capacity to invest. Superannuation is a method whereby government provides assistance on the basis of ability to invest - and provides assistance to enable people in retirement to live in a manner to which they are accustomed. It is not a welfare vehicle, it is a commercial undertaking.

On the other hand a support income or basic income system can be seen as a welfare vehicle whereby the State ensures that all citizens have an income on retirement which will be sufficient to maintain a basic standard of living. Surely this is more in line with what State responsibility should be, rather than what is currently provided through superannuation.

Allan McDonald
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