TRAILERS

DIVIDENDS OF PAIN

BILL MITCHELL AND RICHARD DENNISS ARGUE THAT INCREASED CORPORATE PROFIT IS RELATED TO INCREASED UNEMPLOYMENT.

Australia by any standards has had more than two decades of high and persistent unemployment. The thrust of Federal Government policy under Labour, and now the conservatives, has been to focus on the unemployed individuals and suggest that they should try harder or retrain to acquire new skills. This emphasis on the supply side of the labour market was consistent with international trends inspired by rationalist economics.

The contraction of the role of government in recent years was part of this rationalism and it has been claimed that the private sector would more efficiently use the resources freed to invest in productive capacity. Wages policy over the last thirteen years also deliberately delivered a substantial reduction in the share of wages in national income with the stated aim of increasing private sector investment. The link was that a higher profit share would automatically feed into higher capital expenditure outlays.

The history of the eighties, and the nineties to date, shows that this argument is flawed. Unemployment has not been reduced substantially because, even with the unprecedented redistribution of national income to the profit share, declining government spending levels have not been offset by rising private sector investment.

Figure 1 shows the movements in the profit share of corporate trading enterprises and the percentage of Gross Domestic Product (GDP) which this sector has invested in plant and equipment since 1960. The figure clearly shows that the profit share has been restored to levels that were common in the 1960s, with the lower profit shares of the mid 1970s being eliminated by the effectiveness of the Wages Accord. However, the redistribution of income has not translated into higher levels of capital investment. There has been a steady reduction in the share of national income being invested in new equipment purchases.

Figure 1: Corporate trading profits/GDP and corporate investment in plant and equipment/GDP (per cent)

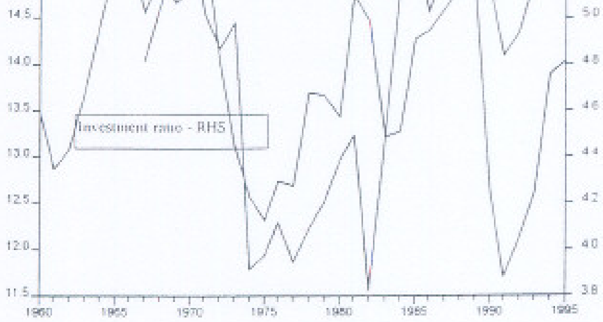


Figure 2 clearly shows the impact of this poor investment behaviour on unemployment. The unemployment rate has worsened with the steady decline in total capital expenditure in Australia. All the talk about the impact of welfare payments on incentives and the like, pales into insignificance when we see the enormity of the impact of the declining investment performance.

High profits, low interest rates and low inflation, although objectives of the current and previous Governments, do not in themselves provide many benefits to most Australians. Rather, it is the investment in new capital equipment, which such conditions are supposed to encourage, that provides benefits in terms of greater output, employment and incomes.

As governments spend increasingly less on infrastructure and investment, private sector investment becomes increasingly important. Unfortunately, the private sector in Australia has shown an unwillingness to put responsibility in a capitalist economy to maintain adequate investment levels ahead of short-term wealth aspirations.

With profit levels remaining high, but investment levels remaining low, the residual must be going somewhere. In part, the lower investment is providing the room for companies to make higher dividend payments to equity holders.

This trend towards greater payment of dividends has important implications for both the performance of the economy and the distribution of income. Retained profits have traditionally been an inexpensive and low risk form of funding expansion. Greater distribution of dividends rather than increased investment will result in lower levels of economic growth.

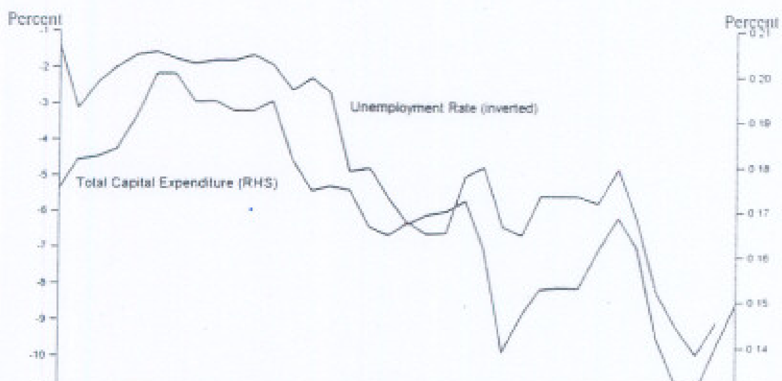
Such a change has severe implications for the state of the economy, particularly with the on-going cutbacks in the public sector which have exacerbated the loss of private capital investment. Continued reliance on the private sector to provide adequate investment, despite demonstrated lack of willingness to do so, will result in an Australian economy with insufficient capital stock to fully, and productively, employ its labour force.

Yeah well for next Christmas we're privatising! So it'll all be user pays from then on. No more of that irresponsible bleeding heart unfunded good cheer and that lefty redistribution of luxury consumer goods! ...and there'll be lotser changers round here too! All that restructuring and downsizing stuff ...and why we keep those reindeer all year long when we only use 'em for one day is beyond me to fathom!

The sole reliance on private sector investment is a dangerous strategy for several reasons. Firstly, as can be seen above, high profits do not necessarily result in high levels of investment. They may, in fact, result solely in higher levels of low-taxed dividend payments.

There is also a question of an investment strategy. The advantage of public investment is that it can be highly targeted, both in terms of geography and services. A recent example concerns the problems associated with the Pay TV rollout and the placement of mobile phone transmitters. Mostly the press has only focussed on the aesthetic problems created. But what has gone largely undiscussed is the massive waste inherent in these projects which have been driven by the rationalist claim that competition is always good. The duplication of mobile phone towers is highly inefficient. The same service could have been provided with less investment expenditure, and less impact on the environment.

Figure 2: Australia unemployment rate (inverted) and total capital expenditure/GDP



The challenge for the Government is to ensure that in addition to an adequate investment level occurring, scarce investment resources flow into areas of most need. While governments are increasingly reducing their involvement in both expenditure and direction setting they should remember that not only are markets not always right, they rarely are. That 70 per cent of small businesses fail in their first year should be evidence enough of that.

The dilemma for Australia is that it is held even more tightly in the rationalist vice as a result of the change of government in March. The present Government has abdicated its responsibility to provide a coherent economic direction for the country. And on past performance, the private sector is not to be entrusted with this responsibility.

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