Economic Notes

by Terry O’Shaughnessy

On April 1, the Fraser government set up a top level committee to review the operations of the Trade Practices Act. Within hours it came under strong attack from Mr. Mick Young, Labor spokesman on industry and commerce.

The committee has been given wide powers to investigate and report on all aspects of anti-trust legislation. It does not include a representative of any consumers’ organisation, or of the trade union movement.

Its members are: Mr. T.B. Swanson (chairman), former deputy chairman of Imperial Chemical Industries of Australia and New Zealand Ltd.; Mr. J.A. Davidson, managing director of Commonwealth Industrial Gases Ltd.; Professor A. Kerr, professor of economics at Murdoch University and a former chairman of the WA Consumer Affairs Council; Mr. H. Schreiber, a Sydney solicitor, and Mr. A.G. Hartnell from the Department of Business and Consumer Affairs.

"The chairman of the committee", Mick Young said, "has been associated with a company that has been embroiled in several investigations by the Trade Practices Commission involving massive price discrimination designed to destroy competition by selling goods below cost."

Commonwealth Industrial Gases (CIG) currently has three applications for clearance and authorisation before the Trade Practices Commission. One concerns technical information sharing arrangements it has with a US company; another concerns a similar agreement it has with a UK company; and the third is about conditions the company attaches to the sale of particular containers, namely that the gases should not be resold.

CIG also made an application to the commission which, if accepted would have prevented a new competitor entering the industry. The application opposed the agreements between BHP and Linde for the supply of gases to the new market entrant.
"Another member of the committee", Mr. Young also charges, "is a partner of the Minister's (Mr. Howard's) brother in a huge Sydney law firm which acts for many business organisations who since the inception of the Trade Practices Act have been opposed to it."

The committee has been given 12 weeks to report on:

- Whether the Act is "achieving its intended purpose of creating a free and fair market, and whether consumers are benefiting".
- Whether the Act is "causing unintended difficulties or unnecessary costs to the public, including business".
- Whether "in the current economic circumstances any part of the Act inhibits economic recovery contrary to the objectives of the government". And "how the Act can be improved".

It does not take much reading behind phrases like "the objectives of the government" or "intended difficulties or unnecessary costs to .... business" to see the approach the government expects the committee to take.

Young and the Minister, Howard, also clashed on the purposes of the Act. "The purpose of trade practices legislation is to give effect to the broad economic philosophy and objectives of the government", Mr. Howard said in announcing the committee.

"The Minister mis-states the purpose of the legislation", Mick Young replied. "The Trade Practices Act was never designed or intended 'to give effect to the broad economic philosophy and objectives of the government' or any other government."

"Competition is the main purpose of the Act. The Act is designed to strengthen the competitiveness of private enterprise for the benefit of the public as ultimate consumers."

While it is clear that the Fraser government is trying to draw any teeth the Trade Practices Commission has that offend its big business backers, this commitment to "free competition" itself merits criticism.

It is unrealistic, or hypocritical, to extoll the merits of "free competition" in the way that both the Liberal and Labor parties do without coming to terms with the degree to which the Australian economy is dominated by monopoly capital, and will remain so despite a hundred Trade Practices Commissions.

YOU'D THINK WE HAD A MONOPOLY

Industry in Australia, as in other advanced capitalist countries, is dominated by a small number of giant firms. In the latest available Manufacturing Census conducted by the Australian Bureau of Statistics for 1972-73, there were 36,437 manufacturing "establishments" owned by a total of 30,389 "enterprise groups".

Two hundred of these "enterprise groups" or companies, however, outweigh the other 30,189. Although they make up only 0.68 per cent of the number of "enterprise groups", they control 8 per cent of manufacturing "establishments". These, in turn, account for over half - 54 per cent - of total manufacturing turnover.

These two hundred enterprise groups contributed 51 per cent of value added in manufacturing industry, although they employed only 44 per cent of workers in industry. In other words, value added per worker was higher in these big firms than in industry as a whole.

These firms also accounted for 49 per cent of wages and salaries paid, which shows that their average wage level was slightly higher than in the rest of industry.

We can compare value added with wages paid per worker for the largest 12, the largest 25, the largest 50, the largest 100 and the largest 200 enterprise groups. (See Table 1.) In the 12 biggest firms, value added per worker was $9537, while the average wage was $5230 (remember this is 1972-73). This gives a ratio of value added to wages paid of 182 per cent.

For industry as a whole, value added per worker was only $8109 - 15 per cent less, but wages were also lower and stood at $4392. In fact the ratio of value added to wages paid was almost the same and came to 185 per cent.

The most dramatic indicator of concentrated economic power is the way investment is dominated by the largest firms. The twelve biggest enterprise groups, although they made up only 17 per cent of turnover, 15 per cent of value added, 12 per cent of employment and 14 per cent of wages paid, accounted for 25 per cent of all fixed capital expenditure.
TABLE 1
Value added per worker, average wage paid and the ratio of value added to wage paid in industry as a whole, and in the largest companies.

<table>
<thead>
<tr>
<th>Industry as a whole</th>
<th>The largest companies</th>
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<tr>
<td></td>
<td>largest 12</td>
</tr>
<tr>
<td>Value added per worker ($)</td>
<td>8109</td>
</tr>
<tr>
<td>Average wage paid ($)</td>
<td>4392</td>
</tr>
<tr>
<td>Ratio of value added to wage paid (per cent)</td>
<td>185</td>
</tr>
</tbody>
</table>

The largest 200 firms accounted for 54 per cent of manufacturing turnover but they were responsible for 61 per cent of investment. In other words, these big firms are the ones that are accumulating capital and growing most rapidly, so their domination of the Australian economy must increase, not decrease over time.

This trend is shown by changes between 1968-69 and 1972-73. The 200 biggest firms' share of value added grew from 49 to 51 per cent, their share of employment from 42 to 44 per cent and their share of fixed capital expenditure from 57 to 61 per cent.

No legislation, and especially no talk about the importance of 'small business' and 'free competition' arrested this tendency, and we can be sure it is continuing today.

FOREIGN CONTROL

Eighty-seven of the largest 200 enterprise groups are foreign controlled. Foreign control and industry concentration tend to go together. Both industry concentration (measured by the dominance of the largest 20 enterprise groups) and foreign control in the largest 20 enterprise groups were above 60 per cent (based on value added) in the following industries: tobacco products, basic chemicals, petroleum refining, non-ferrous metal basic products, and motor vehicles and parts.

These 87 foreign-controlled firms accounted for 45 per cent of the value added of the largest 200 enterprises, and 23 per cent of the value added for all manufacturing industry. Foreign control in the largest 200 firms was mainly from the UK and USA (11 per cent and 8 per cent respectively of total manufacturing industry value added).

Additional information on industry concentration is given in annual surveys carried out by the Industries Assistance Commission. While these surveys have a smaller coverage than those carried out by the Bureau of Statistics, they include information on capital structure and profitability.

This allows us to investigate the mechanism that generates monopoly control of the economy and to evaluate strategies - on the part of the working class, or non-monopoly sections of capital - that seek to check this tendency.

Results of the latest survey, carried out for the financial year 1973-74 and published in the IAC's 1974-75 Annual Report, show a wide range of profit levels. Operating profit as a percentage of funds employed for manufacturing industry as a whole was 12.6 per cent, while it ranged from 3 per cent in the 'meat products' sector, to 31.2 per cent in the 'soap and other detergents' sector. Most sectors had an operating profit between 10.5 and 17.5 per cent.

It is clear that there are many factors that determine profitability, and our problem is to see if there is a relation between monopoly control of a sector of industry and profitability in that sector.
The answer appears to be that monopolisation of a sector will allow exceptional profits, but will not ensure them. Thus manufacturers of 'soap and other detergents' obtained high profits in a sector where the largest five firms accounted for 71 per cent of sales and the largest ten firms 90 per cent of sales.

In a similar way, tobacco manufacturers obtained a profit of 28.3 per cent, the highest of all sectors in the 'food, beverages and tobacco' group. Five tobacco manufacturers account for the whole output of this sector.

However, other highly concentrated sectors had below average profit levels, including 'glass and glass products', 'motor vehicles', 'petroleum refining' and 'rubber products'. Sales of the five largest firms in each of these sectors accounted for 93, 84, 80 and 73 per cent of the total in each case. Respective profit levels, though, were only 7.8, 8.9, 7.0 and 8.5 per cent.

While we cannot here go into the special factors which determine profit levels in all sectors, and while comparisons between sectors from quite different industry groups might have little meaning, a pattern does emerge if, for example, we look at one industry group. The 'food, beverages and tobacco' group has the largest number of sectors, and if we rank them in terms of the percentage of total industry sales accounted for by the five largest firms we obtain a clear trend. (See Table 2.)

### TABLE 2
Profit in the 'food, beverages and tobacco' group, by industry sector.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage of total industry sales of the largest 5 firms.</th>
<th>Operating profit as a percentage of funds employed.</th>
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<tbody>
<tr>
<td>Meat products</td>
<td>38</td>
<td>3.0</td>
</tr>
<tr>
<td>Beverages and malt</td>
<td>47</td>
<td>13.3</td>
</tr>
<tr>
<td>Flour and bread products</td>
<td>52</td>
<td>9.0</td>
</tr>
<tr>
<td>Fruit and vegetable products</td>
<td>53</td>
<td>9.4</td>
</tr>
<tr>
<td>Food products nec</td>
<td>57</td>
<td>14.4</td>
</tr>
<tr>
<td>Milk products</td>
<td>58</td>
<td>9.8</td>
</tr>
<tr>
<td>Confectionary</td>
<td>83</td>
<td>11.4</td>
</tr>
<tr>
<td>Margarine, oils and fats nec</td>
<td>86</td>
<td>19.2</td>
</tr>
<tr>
<td>Raw and refined sugar</td>
<td>90</td>
<td>20.3</td>
</tr>
<tr>
<td>Tobacco products</td>
<td>100</td>
<td>28.3</td>
</tr>
</tbody>
</table>
glut, and so force prices and profits down until a general, roughly uniform rate of profit is established.

Meanwhile, the few capitalists who remain in the former low profit sector will take advantage of reduced competition and continuing demand for their products to raise their prices until they, too, obtain the average rate of profit.

This means commodities from sectors which require a smaller than average quantity of constant capital will in general sell below their value, and vice versa.

This mechanism clearly depends, however, on the free flow of capital from one sector to another and consequent price competition between capitalists in the same sector. If, instead, capitalists in one sector are able to agree to raise their prices together, and at the same time are able to prevent competitors from entering the market, they can continue to obtain above average profits.

They can do this by relying on the massive amount of capital required to start from scratch in some new industry; by pressuring suppliers or customers not to do business with the newcomer; by using political influence to block the newcomer's plans, and by many other means.

Everyone else, of course, then has to pay these monopoly prices. While workers can struggle to increase their money wages to preserve their standard of living by going on strike, for instance, capitalists in the non-monopoly sector are stuck with the situation. They have to pay the same wage increases to their workers that are won in struggles against the more profitable monopolies, who can often be persuaded to buy industrial peace. At the same time, these capitalists must pay increased prices for commodities they buy from the monopoly sector.

The result is the formation of two rates of profit: above average in the monopoly sector, and below average in the non-monopoly sector.

While it is clear that capitalists in the non-monopoly sectors will have a continual bone to pick with their more powerful rivals over this differential, it is not obvious how this struggle will be resolved. Given the economic and political domination of monopoly, we might expect the interests of this group never to be taken into account.

In fact, the state is forced, acting in the interests of the capitalist class as a whole, to intervene. The key here lies in the problem of accumulation. Where newly accumulated capital is invested matters not just to the capitalist concerned, but to the capitalist class as a whole.

The capitalist class seeks, through investments in new, more efficient plant, to lower the amount of labor required to produce the needs of the working class. It is also interested in cheapening the raw materials it requires in the same way.

If newly accumulated capital cannot be invested according to strictly 'economic' criteria, this aim is frustrated. Thus, the state intervenes to regulate particular monopolies and to help plan investment. While ideological and political support for this policy can be enlisted by appeals to the non-monopoly sector of the capitalist class, and even to the working class, the aim is not to further the interests of these groups but those of the capitalist class as a whole, in which the monopoly sector is dominant.

The existence of two rates of profit involves the division of the country's total surplus product amongst the capitalist class; as such it does not determine the rate of exploitation which depends on the real historic standard of living the working class has been able to win from capital and on the size of the social product.

While monopoly pricing may be part of the process that leads to this division of the product, it does not determine it. Money prices, like money wages, do not matter in the end, and while the monopolies can sometimes decide their pricing policy (and even this within limits) they cannot decide the outcome of the subsequent struggle with the working class and with other sections of capital.

Thus a 'free competition' or 'anti-monopoly' strategy for the working class contains serious weaknesses. Firstly, it tends to overestimate the autonomy of monopoly pricing. Secondly, it misunderstands the role the state plays, and can play, in regulating monopolies. Thirdly, it ignores the identity of interest between the monopoly and non-monopoly sectors of capital in increasing the rate of exploitation. It is precisely when the state intervenes to regulate monopolies that this identity of interests is being expressed.