Economic Notes

OUTPUT AND EMPLOYMENT

The downturn in the Australian economy which began in the middle of 1974 affected both employment and output, but unevenly. How this happened points to the sort of recovery we can expect, and the economic strategy Fraser is implementing.

The diagram shows quarterly output and employment in the non-farm sector of the economy since March 1972. It has been adapted from an article in the Financial Review by Professor B. Cameron, and brought up to date. It illustrates the faltering way in which Australia is coming out of the recession. (Output is given in seasonally adjusted terms and in constant 1966-7 prices. Oblique lines are lines of constant productivity.)

In the period from March 1972 to March 1974, output and employment both increased steadily, but output faster than employment. In other words, productivity was increasing.

Between March and September of 1974 output fell sharply, while employment fell a little too. Unemployment rose because the economy was unable to absorb many of the workers who came onto the labor market during this period, in addition to those laid off.

Since September 1974 the recovery has been faltering. There was an increase in output in the December quarter of 1974, but a decrease in March. There was a further increase in the June quarter of 1975, but a fall in September.

The most recent figures, for the December quarter of 1975, which were published this week, show a further big fall.

In fact, production fell to its lowest level for 33 months, casting doubts about how real the
recovery actually is. Coupled with this was a significant increase in employment.

Output per employed worker has fallen back to 1972 levels. This fall in productivity is very serious; it is starkly shown by the fact that the output produced in the last three months is almost identical to that produced in the three months to March 1973, except that 350,000 fewer workers were employed at that time.

This is explained by a number of factors: there was a fall in overtime, more short time was worked, and there was some loss in economies of scale. Further, employers do not always lay off workers, especially skilled workers, when they have no orders; it takes too long to get going again afterwards if they do.

This has cushioned the effect of the recession. But it also means the recovery will not have immediate effects on employment in a positive direction. Employers should be able to increase output quite dramatically without mopping up very many of the unemployed; in other words they will get big bonus increases in productivity without really trying.

They will also expect continuing high levels of unemployment to discourage wage demands.

These production figures also underline how serious the downturn has been already. If, under normal conditions, production continued to increase at the rate that it did between March 1972 and March 1974, there would have been an extra $6552 million (at 1966-7 prices) produced between March 1974 and now. This represents $14,418 million at current prices, or nearly three months production. It comes to $2670 for every worker in Australia.

**CAPITAL RAISING**

The total new capital raised by companies in Australia in the December quarter was $373.5 million, up 25 per cent on the September quarter. However, the total for 1975 is still down 28 per cent on 1974 figures.

Virtually all the increase in capital raising was outside manufacturing industry - in finance, property and commerce.

Overseas investment in Australia is also sluggish. In fact in the December quarter of 1975 there was a net outflow of $140 million after inflows for the previous year and a half. Overseas owned companies in Australia paid out $211 million more to "related" overseas companies than they received in in new investments. However, firms in Australia not "related" to overseas companies received a net $71 million in foreign investments.

**CAPITAL EXPENDITURE**

While expenditure on housing in the December quarter grew, (though it is not yet back to 1973-4 levels), investment in other buildings and construction was down 9 per cent, as was 'all other' private fixed capital expenditure. Expenditure on both these items is at its lowest level in real terms since September 1968 and December 1969 respectively.

Even on the housing front there are problems. New dwelling approvals (seasonally adjusted) fell in both December and January. This is before Lynch's monetary policies have had time to take effect. With a likely squeeze on building societies in the next few months, even less support for the economy as a whole is likely to come from this sector.

**INFLATION**

On the inflation front most of the news is bad. Recent estimates for inflation in 1976 have been pushed up from the previously accepted 10 per cent or so to nearer 15 per cent. Peter Sheehan, at the Institute of Applied Economic and Social Research has suggested the latter figure, and bases his estimate on indexation remaining intact.

Sharp rises in food prices in January support these pessimistic predictions. This continuing inflation is in spite of cuts in real wages; something the "wage push" theorists have not got round to explaining. Real wages fell by 2.7 per cent during 1975; only the second, and easily the biggest, post war fall over a calendar year.

In other words, Labor's policy of indexation to cloak a wage cut was working. Fraser, with the aid of high unemployment, could maintain this policy. The question is will he instead go for a sharper, more dramatic attack on working class living standards?

He is getting contradictory advice. Clearly some of his direct business backers are pushing for the big stick. Many academic
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Economists however, with the same end in view, argue for continued support for wages indexation as a way of diffusing working class economic struggle. To find the answer, we need to look behind Fraser's strategy of economic recovery.

AN INVESTMENT LED RECOVERY?

The key to the Fraser strategy for economic recovery is the idea that it can be "investment led". In other words, demand for investment goods is to be stimulated by pro-business policies such as investment allowances, deferred and reduced company taxes and by a strong anti-trade union stand in industrial disputes.

The argument goes that when capitalists buy new investment goods and put them to use they will both provide a market for producers of investment goods immediately, and also provide employment. This in turn will provide a market for producers of consumer goods when newly employed workers start spending. The recovery will then flow through to the consumer goods sector, as investors here too will see demand picking up, and will also start investing and providing more jobs.

This strategy has come under heavy attack from bourgeois economists who call instead for a "consumer led" recovery. They say, quite correctly, that investors require not only funds to invest (which the Fraser government is busy providing them with) but also the assurance that profitable markets for future products exist. Without this they will not invest, no matter how much cash they have salted away.

The consumer market is far larger than the investment goods market. As well, the consumer market can be fairly easily and quickly stimulated by government policy. Increased wages and social services get spent quickly and predictably, for example. The increased income of capitalists, on the other hand, can end up in all sorts of places, and might only flow into productive investment in Australia some time in the future, if at all.

Far better, then, to stimulate consumer spending now. This is the advice the government is getting, for example, from the Institute of Labor Studies in Adelaide, and from the Institute of Applied Economic and Social Research in Melbourne.

However, there is an important difference between these two strategies that has not been debated out. While the arguments in favour of a consumption led recovery are both pragmatic and even humanitarian to some extent, they miss Fraser's point. The purpose of his economic strategy is not to stimulate an economic recovery, but also to radically change the balance of forces between labor and capital. These two aims might even be partly in conflict - if the arguments of these other economists are correct, they certainly must be.

Nevertheless, Fraser is prepared to "tough it out". The long term reward for Australian capital is a sharp increase in its profitability, at the expense of working class living standards, and the only way to ensure this is to increase the rate of exploitation. This is central to the "investment led" recovery strategy.

To see how this will work, we can look at investment and consumption in the Australian economy as a whole. Demand for these two sorts of commodities depends on the incomes of the different classes.

What is called "final consumption expenditure" takes up about three quarters of Australia's gross domestic product. The rest is called "capital expenditure". However, much of this is invested in housing, or other areas where it will not be productive for capital. The demand for new means of production (what Marx called Department I of the economy) is much less than this, probably only about 10 per cent of the product.

Demand for Department I commodities comes from that portion of their surplus that capitalists choose to invest. Demand for consumption goods (Marx's Department II) comes from three sources: workers' wages, the wages and salaries of unproductive workers paid by capitalists out of the surplus, and that portion of the surplus that capitalists choose to consume themselves.

Demand for Department I commodities is therefore determined in two steps. It depends first of all on the size of the surplus, or in other words the rate of exploitation. It then depends on the proportion of this surplus that is consumed unproductively.

Suppose there is an increase in the demand for investment goods. This will mean an expansion of Department I, as more resources go into producing means of production. It will also mean a contraction of Department II,
given our very slowly expanding economy. To be sustained this will need a change in the balance of forces between labor and capital.

For example, if we assume a constant proportion of the surplus is invested the overall size of the surplus must increase by the same proportion as demand in Department I.

This implies a decrease in the real wages paid to productive workers. Since surplus value already represents the greater part of a worker’s day, the percentage drop in wages is greater than the corresponding rise in the surplus. The rate of exploitation required to sustain this situation goes up even more.

If we estimate that some 60 per cent of Australia’s wage bill represents variable capital (see last month’s “Economic Notes” for a justification of this - and for the caution about using national accounts data in this way), we get a rate of exploitation of about 175 per cent.

This means a rise in demand for Department I commodities of 5 per cent would mean, under these conditions, a drop in real wages of $\frac{3}{4}$ per cent and a new rate of exploitation of about 200 per cent - up 15 per cent.

Of course, the assumption of a constant proportion of surplus being invested need not hold. If instead we assume only that the same amount out of the surplus as before is spent unproductively by the capitalists and unproductive laborers, we get a similar, if less dramatic, result.

Without a decrease in the living standards of capitalists and their unproductive employees any restructuring in favour of Department I must mean an increase in the rate of exploitation.

Such a restructuring of the economy would also cause serious and long term unemployment, especially in Department II, but Fraser might think that the long term effects are worth it.

WILL IT WORK?

The difficulty that Fraser faces is that his strategy requires the serious defeat of the Australian working class, on a scale similar to the defeats suffered in the late 1940s and the 1950s. While some Liberals might be hoping for just that, 1975 is not 1949. While the ALP has suffered a heavy defeat at the polls, and while unemployment is high, the Trade Unions remain intact, and are not demoralised.

The ideological support Australian capital received in the period of the Cold War cannot simply be rerun. Those days are gone forever.

The international recovery is faltering and localised, and while Australia can expect some stimulus as demand picks up overseas, the conditions that created the long post war boom are gone.  

T.O’S., March 16, 1976