NOTES ON THE ECONOMY

Inflation

WITH THE RATE of inflation accelerating and unemployment beginning to increase, the prospects for the immediate future are quite predictable: increased government anti-inflationary pressures, with a consequent rise in unemployment. The Treasury men will argue that we need a little unemployment for our own economic health. Of course, the men who advocate such a policy have complete job security! It is not difficult to guess at the kind of measures the government will look to: hold back wage increases; cut back ‘inessential’ social services and government expenditure; increase indirect taxes.

The attempt to blame inflation on wage increases will be called an ‘incomes policy’. And, when producers have varying degrees of monopoly power or tacitly agree to raise prices in concert, rising wages do lead to rising prices. The inherent logic of an incomes policy is quite simple — for business (especially ‘big businesses’) to prosper and keep most people employed, high profits are necessary for high levels of investment. Any attempts to hold down prices now as a part of an over-all incomes policy affecting wages and profits will put a squeeze on profits (already lowered over the last year), thus preventing businesses from fulfilling their mission in society as investors for the future.

You won’t hear too much about the role of foreign investment in contributing to inflation over the last few months, in spite of the fact that such investment has increased rather dramatically this year to about $1400m — up by over $300m. There will be scant attention given to the high rates of salary increases for business executives over the last couple of years — already, between 20% and 30% of these incomes are paid as tax-dodging ‘perks’. Naturally, the tax-savings are enormous — over $1,000 for income of $10,000 plus $2,500 in ‘perks’, and over $2,500 for an income of $20,000 plus $5,000 in ‘perks’ (how else do they get those houses and cars?)

And you will hear plenty about those steel price and state payroll tax increases which will be used to justify a large hike in prices — in spite of the fact that the cost-increasing effects of these changes will only average about 1% for all of manufacturing. The truth of the matter is that profits were down anyway and a good excuse was needed. How can you knock profits when your job in the future depends on them? By definition, an incomes policy under capitalism must mean a policy of restraining wage increases (with an occasional tut-tut for grossly excessive price
There is little scope for considering the equity of such a policy when the dynamism and ultimately the existence of the system is at stake. The only answer to an ‘incomes policy’ is worker control — control of how much and to whom now (wages) and how much and for whom in the future (investment). No wonder such demands are resisted...

**That Bougainville Copper Float (or Fleece)**

How would you like to get 40% on your money? Even that outrageous tax-perk which gives the greatest benefits to the rich — the $1,200 deduction for life insurance — only yields such a high return on your investment with a taxable income of about $6,000 (at $15,000, it’s well worth over 50%)

Better still, how would you like to earn 40% on a $350 investment when you get your own money back as soon as you sell a 10% share to the public? That’s about the way it works for Conzinc Riotinto of Australia* in its Bougainville copper project.**

<table>
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<tr>
<th>Cost of Project</th>
<th>$350m</th>
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<tr>
<td>Source of funds</td>
<td>Australian ‘public’ $30m</td>
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<td></td>
<td>New Guinea Administration $70m</td>
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<td>Borrowing $250m</td>
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<td>$350m</td>
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How come CRA hasn’t put any money in? Well, it’s not quite true that they didn’t put any money in — they financed the preliminary surveying and a few other initial costs. They get all of this back with the new share float on the Australian ‘public’. Not bad so far, since they can use these funds now on new ventures. They are able to pay off all of their loans in about 6 years. And, by about 1980, they will start paying taxes in Papua-New Guinea . . . an incredible fact, considering they persuaded the New Guinea Administration to put up a good chunk of the direct project costs now, simply by calling it the New Guineans’ stake in their futures, and asked them to put in a good deal of extra money for public works related to the project. The neatest thing of all is that the New Guinea Administration bears the ‘cost’ of the long-term ‘political’ risks. . . .

David Evans

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* Source of profit figures: the estimates made last year by Mr. B. R. Stewardson in a paper ‘The Bougainville Copper Agreement’ (presented to the ANZAAS conference in Port Moresby) adjusted for recent copper price trends were confirmed by the 40% dividends offered in the recent Bougainville Copper Float.