NOTES ON THE ECONOMY

That Budget and the Domestic Economy

WHAT IS THERE LEFT TO SAY on the Budget? Not much. At the time of writing (mid-September) the first signs that the government had over-reacted were becoming evident. In a week of gobbledy-gook statements, Mr. McMahon attacked the prophets of gloom and denied that unemployment would rise above 100,000. He then announced that of course it would rise above 100,000 at the beginning of 1972, pointing out that it nearly got there last January (as if that made it OK). Careful questioning in Parliament and on TV has now revealed that the extra 50c for pensioners was not nearly as good as it looked (40% of pensioners don’t get a rise) and it looks as if the Wool Commission is well on its way towards implementing the final and logical step of various Australian government policies towards agriculture . . . protection all round (at least double the budgeted cost).

Don’t worry, 55% of the government contribution via price supports go to the richest 15% of wool producers. Even more importantly, the immediate beneficiaries will be the banks and the stock companies, whose loans to farmers will be paid off. And the present Rural Reconstruction Scheme with its emphasis on debt reconstruction and loans for viable farms is designed to help those who want to stay on the land, not to help people get off . . . farm size has to increase, so you wait around for your neighbour to go broke, so that the government can help you buy in for a song. (How nice and neighbourly on our family farms.) There’s not much help for that move to a new job. . . . None of this will help wool in the long run; no matter what the price of wool, recent changes in relative processing cost are now so high in comparison with synthetics that even free raw wool would not be sufficient to close the price gap between woollen and synthetic garments sufficiently to maintain high enough prices for Australian farmers. It has recently been found that synthetic processing machines can be speeded up considerably, but wool fibres are not strong enough for this to work in wool processing. Worse, new machines have recently been invented to make fine yarns out of coarse wool, so that the demand for high quality wool has fallen. As one expert suggested to me, you can’t do too much to a horse-drawn buggy to make it sell once the automobile is around.

As if the wool crisis, the dollar crisis, and a lousy budget were not enough, the High Court threw out much of that toothless
wonder, the Restrictive Practices Legislation. But all was not lost,
for the way is now open for a stronger new law. How strong
and effective will it be? Suppose it was as good as the American
Anti-Trust law (usually held up at the best in the capitalist world)
. . . have you noticed much trust-busting there? Of course, there
are other things which do cut into domestic monopolies. Although
BHP may have taken out its monopoly profits in the form of
complacent and comfortable existence for its executives, they must
be trembling at the thought that GMH has threatened to start
buying cheaper Japanese steel. And tariffs, which protect many
jobs (especially in textiles) also protect plenty of profits for Austra­
lian companies. Notice how jumpy Ampol became with the
cheaper petrol imports, only to be followed by the automatic
protective mechanisms to stop so-called petrol dumping . . . as if a
"free market" price existed anywhere to be under-cut by dumping
. . . but then that’s another story, since Australia could get very
cheap petrol if she exported some of the light Bass Strait crudes
in exchange for heavier crudes. This would lower refining costs,
even if it meant upsetting the cosy little agreement between Mr.
Gorton, BHP and Esso.

Since when has Sir Cecil Looker become interested in paying
taxes? Well, he is advocating a capital gains tax, which at first
sight should hurt the share traders. Puzzlement? Not really, since
the present arrangement is a little uncertain. The wording of the
tax law is a bit sloppy and sometimes you can get away with no
capital gains tax, and at other times you get hit for the full amount
for personal income tax . . . a mere 66.7% for most who operate
on the stock exchange. The trouble is that, with the new com-
puterized tax man, it’s getting harder to pose as a ‘genuine investor’
so that you can evade capital gains taxes. While all income, no
matter from what source, should be taxed at the same rate, the
game is getting a little tough . . . imagine a capital gains tax of 25%
(the American rate) . . . better to be hit for 25% than 66.7% . . .

The International Money Crisis

WILL AUGUST 15 GO DOWN IN HISTORY as the beginning
of the 1970's trade war? The latest moves by the United States
to try to blunt the challenges to its economic supremacy from
the vanquished countries of the Second World War (Japan and
West Germany) clearly mark the beginning of a new phase of
inter-capitalist rivalries. It may be said that the seeds of the
present crisis lie in the internal contradictions of capitalism.
However, the more immediate causes lie in the particular arrange-
ments made towards the end of the Second World War at Bretton
Woods in New Hampshire, USA, for the international monetary
arrangements for postwar capitalism. The experience of the 1930's had already shown that the old Gold Standard system was no longer workable. This fact, coupled with doubts as to the sufficiency of future increases in the supply of gold to provide internationally acceptable money, ruled out a return to the old system.

However, once accidents of history and immutable economic laws ceased to govern the supply of international money, the crucial issue to be resolved at Bretton Woods was the control of the printing press for international paper money. The economist and negotiator for Britain, Lord Keynes, argued for an International Monetary Fund with some powers to (in effect) print money. He even suggested that the new currency be called 'bancor'. It was impossible to reach agreement on such an international institution due largely to the issue of the control of future increases in international money. The system accepted was a modified Gold Standard under which the US dollar was directly related to gold, and all other currencies related to the dollar. Under this arrangement, both the US dollar and a shored-up pound sterling were to become the pivot currencies to be held by other capitalist countries alongside the ever (relatively) diminishing supplies of gold. The system has worked in a crooked sort of way, although prone to exaggerated speculative movements of 'hot money'. In effect, currency speculators can make a one-way bet on a weak currency. For example, whenever sterling is weak, it's silly to leave money in a London bank when it can be switched to Switzerland; you can't lose on sterling becoming more valuable, but you have a good chance of gaining from sterling becoming cheaper. This is especially so since the speculative act further weakens the currency under attack and increases the chance of gain.

In the late 1940's and early 1950's, dollars were very scarce and most capitalist countries used the dollars they earned either to buy goods only obtainable from America (the only major economy to survive the war unscathed) or to accumulate reserves. And, after the initial scarcity of goods (and particularly American goods) was relieved by the economic recovery of war-devastated Europe and Japan, the ability of the United States to effectively control the printing press for international money (i.e. the dollar) came into its own. Thus, a period of 20 or so years ensued during which the richest country in the world, for the price of a small interest charge paid on foreign holdings of the dollar, has been able to buy more goods and services from the rest of the world than she sells. There should be no need to mention here some of the services bought — military bases, key sectors of foreign capitalist countries — all made a little easier when you are in effect the banker for the capitalist world.
The crises in international money during the early part of the 1960's revolved around the strains imposed as sterling bowed-out as the major buffer for the dollar; when the costs imposed on the domestic economy of the UK became too great. It became ridiculous to continue in this role when it became necessary to resort to recommending cold showers for workers and capitalists alike to smarten themselves and sterling up. Not only were the working classes unwilling to have wage and employment policy governed by the interests of the City of London and the international role of sterling, but export profits for manufacturing capital were being kept down too. The crises of the latter part of the 1960's were related to the Japanese and West German challenges to American economic supremacy in both commodity and money markets, and also French efforts in the money markets. That De Gaulle failed in 1968 to bust the dollar and force a return to gold is history. Now the Japanese and the West Germans, who for a long time have been accumulating dollars, are becoming increasingly reluctant to play the old game and re-value whenever the dollar is threatened. It was a great deal easier for the Americans to put on political pressure to force either additional accumulation of dollars or a currency revaluation during the Cold War years. (For an excellent analysis of these trends, see Mandel's *America versus Europe: Contradictions of Imperialism*, reviewed in *ALR* 32.)

The immediate cause of the present crisis lies in the overvaluation (once again) of the dollar in relation to the yen and the deutschmark. Weakened by the strains of the Indo-China war, the dollar has not been able to withstand the recent competitive onslaught of many Japanese and West German goods. Worse, key American industries such as electronics, steel and autos have begun to feel the effects of competition for the first time in years — that is, competition which eats into monopoly profits. Earlier in the 1960's, it was mainly textiles . . . as if that was not bad enough.

The man behind the latest American moves in Treasury Secretary Connolly, the conservative Democrat and former Texas governor. In an early August warm-up, he announced a 'get tough' policy with Latin American countries that expropriate American holdings. As Connolly put it, 'We don't have any friends there anyway'. It's rumoured that US copper interests have been doing some homework! Then the Nixon package for the 'New Prosperity' on August 15. He faced the problem of protecting the dollar, of protecting American industry from Japanese and European competition, of protecting the American position as banker for the world, and of protecting his rear by stopping further rises in unemployment.
(you need to keep-em on their toes, but not too much as to encourage them to start a revolution). Given that the West Europeans and the Japanese were proving none too cooperative in revaluing their currencies, he had to act dramatically. (It's a little tough when the bargaining has to be done on a more equal basis.) The main weapons used by Nixon were the 10% import surcharge and a stop on gold exchanges for dollars. The fact that the (GATT) rules were broken by the former policy did not deter Nixon and predictably everyone else has been calling 'foul' ever since.

Not surprisingly, Australia was left in the lurch. With a balance of trade deficit over-compensated by capital inflows, a case could be made for Australia to revalue her currency with the yen. But underneath the veneer of confidence, the Treasury men are scared about the trade deficit (what would happen if foreign investors stopped liking us and we had to pay 'em back?). Grasping for straws, we clung to good old sterling!

Will the policies do what Nixon wanted them to? With such a long list of requirements, he obviously won’t get everything he wanted. And his success at solving what was for him the most immediate economic problem — the dollar — depends crucially on the reactions of the Europeans and the Japanese. Already the threats of a trade war in retaliation have been made, but it’s a little early to predict the outcome. In business, if you think that you alone can survive ruthless competition, you wait around till the others go broke. However, when competition gets tough enough to threaten mutual destruction, you join in an explicit or tacit monopoly-type arrangement. But nations are more complex than countries, and the contradictions between competitive drives and the threats which these may bring to the survival of the capitalist system as a whole are not so easily controlled. The forces of nationalism and various domestic economic and political pressures are pushing the governments of Western Europe and Japan to more serious challenges of US economic and political domination of the capitalist world. Yet in spite of all this, one should not underestimate the capacity of capitalism to rebuild its weakest institutions. After all, capitalism survived the ruptures of a massive depression and a global war not so long ago. Socialists cannot afford to wait around for the system to collapse, but should increase their resolve to bring about radical change and use current crises and rifts in the capitalist world to help achieve that end.

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