

1 Ben Rees

Submission: Select Committee into Jobs for the Future in Regional Areas

L.H. (Ben) Rees; B. Econ.; M. Litt.(econ)

The Secretary

Select Committee Jobs for the Future in Regional Affairs;

Australian Senate

Canberra

ACT 2600

Dear Secretary,

My submission concerns itself with Terms of Reference C.

“lessons learned from structural adjustments in the automotive, manufacturing and forestry industries and energy privatisation and their impacts on labour markets and local communities”

The Problem

Structural reform of the Australian economy applied to all sectors of the economy. Post Bretton Woods collapse in 1971, the Australian economy was considered internationally uncompetitive. Interventionist industry policy based upon the economics of Keynes was replaced slowly with monetarism; and, finally post 1983 global monetarism. Consequently, the economy changed structurally from a mixed capitalist model to a Liberal or tripartite corporatistⁱ economic system. The change was twofold economic philosophy and the economic system. The change in economic philosophy is dealt with in the attached *Rural Debt and Viability*. This submission concentrates upon the impact of structural change upon to overall economic system and industry representation.

In the section “Changing Economic Philosophy” of the accompanying document “Rural debt and Viability”, the performance of the economics of Keynes, Monetarism, Global Monetarism; and, supply side economics are compared and discussed. Supply side economics is particularly relevant as it is identified as a composite policy framework to deliver neoclassical reform to the real sector of the economy whilst monetarism transforms the financial sector. In 1975, the IMPACT Projectⁱⁱ institutionalised neoclassical economics in major Commonwealth Departments including the then IAC which is now the Productivity Commission. The Productivity Commission has been an important institution in structural reform of the real sector of the Australian economy.

Industry policy under Keynes demand management policies required government intervention. The following provisions of Section 51 of the Australian Constitution provided the authority for Government intervention.

51(ii) Taxation so as not to discriminate between States or parts of States

51(iii) Bounties on the production or export of goods, but so that such bounties shall be uniform throughout the Commonwealth

51 (xiii) Banking, other than State banking; also State banking extending beyond the limits of the State concerned, the incorporation of banks and issue of paper money

2 Ben Rees

51 (xx) Foreign corporations, and trading or financial corporations formed within the limits of the Commonwealth

51 (xxxiv) Railway construction and extension in any State with the consent of that State

51 (xxxv) Conciliation and arbitration for the prevention and settlement of industrial disputes extending beyond the limits of any one State

Section 91: Nothing in this Constitution prohibits a State from granting any aid to or bounty on mining for gold, silver, or other metals nor from granting with the consent of both Houses of the Parliament of the Commonwealth expressed by resolution, any aid to or bounty on the production or export of goods.

Under these sections of the Constitution, national income was divided by the Arbitration System, Tariff Board, and orderly marketing of major agricultural products. Social security dealt with those outside of the institutional distribution of national income.

Industry policy structured under these sections of the Constitution served the nation well through depression, recession, wartime, and post war reconstruction. Between 1950 and 1972, the unemployment rate averaged 1.9% whilst economic growth averaged 4.9% annually. A policy of closer settlement was pursued to build regional economies.

From 1975 to 2018, economic philosophy changed to monetarism and neoclassical theory of markets. Distribution of income relied upon market power and collective bargaining in the labour market. The performance of the economy declined sharply post 1972. From 1972 to 2018, economic growth averaged 3.1% whilst unemployment averaged 6.7%. Consequently, empirical evidence suggest that structural change under economic philosophies post 1972 have not served well either the manufacturing or agricultural sectors.

Structural Reform

Agricultural policy turned away from closer settlement and in 1977 embraced the existing policy direction of rural adjustment. The policy objective of rural adjustment sought to reward enterprise whilst shipping out "lame ducks". In 1993, rural adjustment was extended to include drought policy. The reality of rural adjustment has been a structured policy direction of rural depopulation.

In times of protracted drought, rural adjustment has been found particularly wanting. Urban charity has stepped in to provide both support income and real support to distressed rural communities. The reality is that urban charity has effectively become a channel by which urban income is redistributed back to distressed rural communities. Household Assistance provided under rural adjustment policy has been found inefficient, slow, and cumbersome to deliver.

Upon election of the Hawke Administration in 1983, structural reform of the Australian economy was designed to move from the post War mixed capitalist economy to an open global market economy. Deregulation of the financial sector in late 1983 began the move to global monetarism. In 1996, the RBA was granted independence to manage monetary policy. A necessary characteristic of monetarism was in place.

Dismantling post War industry interventionist instruments began in 1988 with major tariff reductions. Tariffs were again severely reduced in Hawke's 1991 Financial Statement. Orderly marketing of agricultural industries began to be dismantled from 1989-90 onwards.

3 Ben Rees

Dislocation and industry decline across both manufacturing and agricultural sectors followed.

From that point onwards neoclassical supply side reform drove the structural reform agenda. As both monetarism and neoclassical economics share a common assumption that under flexible markets, an economy operates at full employment output, structural reform of the labour market became an important policy objective. The Arbitration Power was rendered irrelevant with the 1993 move to use Section 51 (XX), The Corporations Power, to structure a national industrial policy. Collective bargaining became the preferred distribution of income across the labour market.

As monetarism has no formal model of the real sector, the assumption of full employment under flexible markets means economic growth has to be structured through asset inflation. This is achieved through structuring the taxation system to encourage monetary expansion to flow directly into the wealth variable “W” in the modern monetarist model. From there it is assumed that asset inflation increases personal wealth which stimulates consumption expenditure. As consumption expenditure rises, investment expenditure also expands maintaining full employment. The negative factor in this policy strategy is policy driven rising household debt as inflating asset values encourage borrowing to consume.

Structural Reform Reality

As structural reform was implemented across manufacturing, sectoral employmentⁱⁱⁱ fell from 1.2 million in 1983 to 907,000 in 2018; or, 22%. Meanwhile over the same period, agricultural structural reform reduced sectoral employment from 374 000 to 279 000 or 25%. In 1983, manufacturing employment represented 18.4% of the labour force but fell to 7.3% in 2018. Agricultural employment has fallen from 5.9% of the labour force in 1983 to 2.2% in 2018. Empirical evidence suggests that dismantling of interventionist industry policy has been substantially responsible for the decline in the level of employment in both manufacturing and agriculture. For regional Australia, population decline became policy driven as the unemployed move to urban areas in search of employment.

Following Australia’s move to global monetarism post 1983, the Constitutional provisions that allowed development of an interventionist industry policy have been neutered by signing free trade international Treaties under the External Affairs power {Section 51 (xxix)}. In 1936, The High Court of Australia outlined limitations to the use of the External affairs Power^{iv}

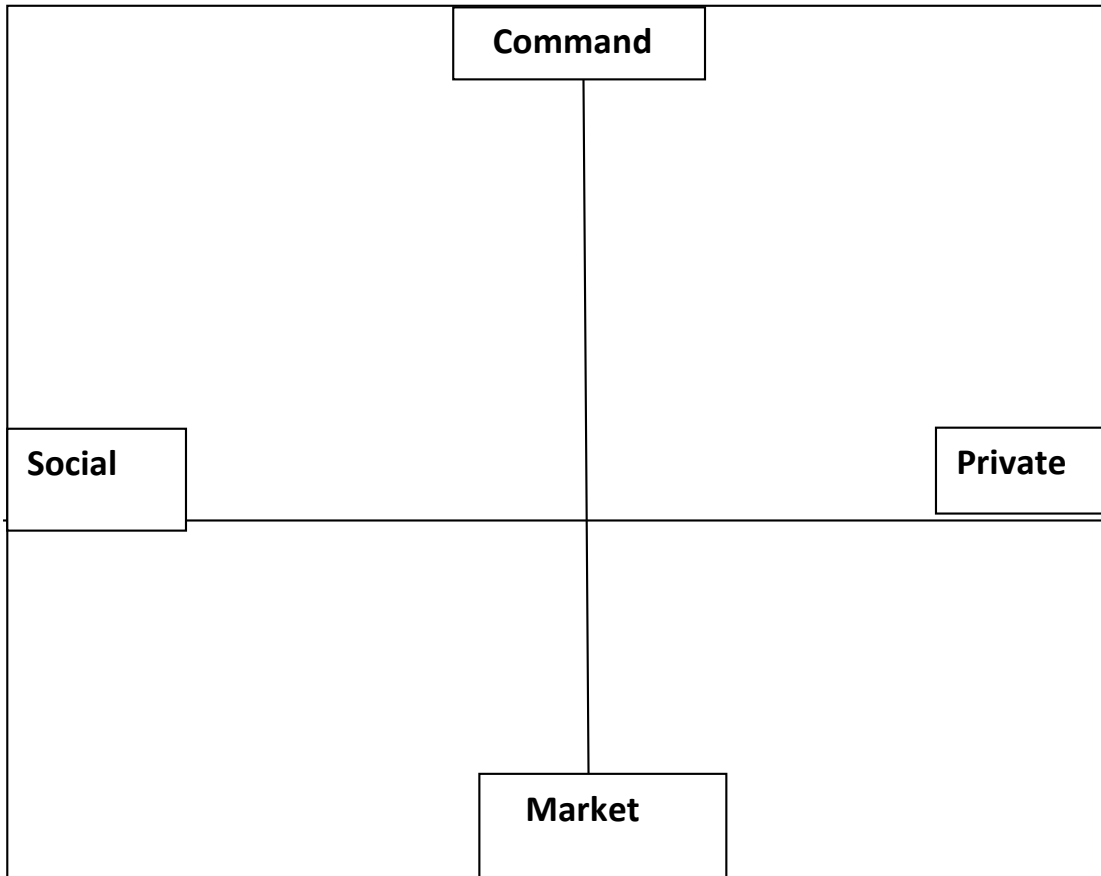
- The international agreement cannot be a device to attract domestic jurisdiction
- Implementing legislation must conform faithfully to the words of the treaty
- Subject matter must be external in character
- Exercise of Power must conform to prohibitions contained elsewhere in the Constitution e.g. Section 92
- The Court will ensure the External affairs Power is not used to diminish the reserve powers of the States

To rebuild employment and prosperity in regional communities, there might need to be a review of the liberal use of the External Affairs power that effectively neuters interventionist powers embedded in the Constitution.

Privatization

The other important point in the Terms of Reference C is energy privatisation. The effect of privatisation whether in energy, the financial sector, or wider economy has contributed significantly to change in the economic system from post War mixed capitalist model to corporatism. This important aspect of structural reform has been conveniently ignored by politicians and commentators concentrating on sectoral effects of structural change

Economic Systems^v



1. The horizontal axis describes the economic order or ownership of the means of production distribution and exchange
2. The vertical axis describes the political order or decision making process

Quadrants 1 and 2 denote private ownership of the means of production distribution and exchange. A vector dropped from the origin to “market” rotating rightwards to “command” describes a continuum of economic systems comprising private ownership of the means of production distribution and exchange from laissez-faire capitalism to authoritarian capitalism. The vector moves through increasing concentration of ownership and control by the private sector whilst the underlying economic system displays increasing levels of authoritarianism. The economic systems become identified as free market capitalism, corporatism, fascist corporatism; and finally command fascism.

The old mixed economy is situated in the third quadrant; and, is defined as “an economic system based upon private enterprise but with government intervention to rectify some deficiencies of the process of production and distribution”^{vii}. Privatization therefore moves the pendulum to the right through laissez- faire capitalism to corporatism. As the pendulum swings

5 Ben Rees

to the right, increasing government authoritarianism is achieved through regulation and legislation as private production is managed in the interests of the corporate state. Corporatism is defined as *a political system which rest on direct involvement in government decision-making institutions of a limited number of corporations or groups which are functionally necessary for the stability and growth of the economy*^{viii}.

These corporations usually comprise business groups, trade unions, farmer groups and professional bodies. The Australian corporate economic system is the Liberal Democratic version which links decision making to parliamentary institutions. A tripartite version of corporatism gained popularity in Western Europe over the 1960's and 1970s. Initiatives of the Hawke Administration based upon corporatism were: 1983 National Economic Summit, 1985 Tax Summit, Economic Planning and Advisory Council^{ix}.

Corporatism is basically a political management system providing direct access to Government Ministers and Department to the selected elites that represent chosen groups. The decision process becomes one of consensus politics. The role of the selected elites then becomes one of consensus decision making. Once decision are determined, they are "sold" to constituencies of the various elites. Discipline across representative elites is achieved through threat of exclusion from the corporatist system and consensus decision making process. Whilst discipline would not apply to peripheral policy issues, dissent over major philosophical policy directions would not be tolerated. The elites then become effectively extensions of government rather than representative groups fighting for their members.

The limitations of chosen elites is the level of knowledge within these limited groups; and, their freedom to dissent over major policy direction. Consensus decision making is in reality a misleading term. Decisions are dominated within the system by the economically and politically powerful elites rather than the needs of a particular region, industry or minority group. A support document, "QCL Drought Policy" identifies the sad lack of economic knowledge residing within the agricultural sector. Drought policy is considered by a major industry group to be a "business cycle" phenomenon. In reality, this view of economics is shown to be little more than conventional wisdom.

In conclusion, Terms of Reference C offers an opportunity to constructively discuss necessary changes to rebuild industry, employment, regions ,prosperity and rising living standards not only in regional economies; but also, in the wider economy. Review of Liberal democratic corporatism and global monetarism need to be the first steps for rebuilding the Australian economy in general and regional economies in particular.

Yours Faithfully,

Ben Rees; B. Econ.; M. Litt. (econ.)

Supporting documents:

Rural Debt & Viability

Business Cycle

6 Ben Rees

-
- ⁱ Macquarie University, *Penguin Macquarie Dictionary of Australian Politics*, Penguin Books, 1988, p.p. 96-97
- ⁱⁱ Lloyd P.J.; Protection Policy, *Surveys of Australian Economics*, Ed. Gruen F.H.; Chapter 3, George Allen & Unwin; p. 274
- ⁱⁱⁱ ABARES commodity statistics 2017 & 2018 Tables 2 and 1.2 respectively
- ^{iv} Emy Hugh, *The Politics of Australian Democracy, Fundamentals in Dispute*, Macmillan, 1978 p.p.45-48
- ^v Richmond W; Lecture Topic 4, *Political Economy and Comparative Economics*, EC113, Department External Studies, University Queensland, Bachelor Economics Degree, 1974
- ^{vii} Noble C.E., *Australian Economic Terms*, Longman, 1971, p.93
- ^{viii} Macquarie University, *The Penguin Dictionary of Australian Politics*, Penguin Books, 1978, p. 96-97.
- ^{ix} Macquarie University, *The Penguin Dictionary of Australian Politics*, Penguin Books, 1978, p. 97