BUSINESS UNDER LABOR

By Frank Crean, M.P.

(This address was delivered by Mr. Crean, a member of the Opposition and "shadow" Treasurer in the Federal House of Representatives to a luncheon meeting of The Securities Institute in Sydney on 4 August, 1972.)

Before we launch into the rather cloudy atmosphere of such topics as -

Overseas Investment
Federal control of the securities industry
Taxation structure

I would like to begin by stating firstly what seem to be acceptable goals of economic policy which involves business generally These are:-

1. The best possible rate of economic growth.
2. Rising living standards quantitively, individually, and qualitatively from a community view.
3. Economic stability, implying the avoidance of unemployment and inflation.
4. Equity in the distribution of income and wealth.
5. Efficient and economic production.
6. Surplus in balance of payments.

With the exception of the balance of payments situation - to use a purely (Victorian) Australian rules analogy - we are currently scoring points rather than kicking goals, and the balance of payments position is being bought at an uncertain price.

Secondly, I was to make the observation that "business", whether under Labor, or not under Labor, is not likely to be so untramelled in the future as it has been in the past, and this is likely to impact upon your own particular sphere of economic endeavour.

This aspect was very well stated a year or so ago by Mr. David P. Eastburn, President of the Federal Reserve Bank of Philadelphia.

He was addressing a somewhat similar body to this - a joint meeting of Indianapolis Society of Financial Analysts and the Financial Executives Institute, Indianapolis, Indiana, December 10, 1970.

He suggested that put in "very simplistic terms the traditional economic role of the securities markets" was to help allocate scarce resources to socially desirable ends, but that "only a small proportion of securities transactions involve shifts in the command over real resources, most of them involve trading in outstanding issues".

... "the main function of these secondary markets is to provide liquidity".

... "in the process of performing their economic role securities markets respond to needs of society".

Mr. Eastburn concedes that this is a greatly oversimplified description of the traditional role of securities analysts and securities markets; but simplified as it was he felt it was sufficient to take a further step and examine how young people concerned with social matters might look at the same process.

He referred to a description of the state of mind of today's young people that Charles Reich in a book "The Greening of America" had called -

"Consciousness III" - a new view of the promise of life, but at the same time, a disillusionment with existing conditions.

It emphasises the discrepancy between what could be and what is.

Mr. Eastburn suggests -

"The young person imbued with Consciousness III might well question not only the ethics of spending one's adult life trying to beat the other guy, but whether there is something an industry might do that is socially more productive.

"Is it all worth the millions of manhours poured into analysis?

"Do the short fluctuations in stock prices serve a worth-while social purpose?

"And, behind it all, are real resources being directed to socially worthwhile uses?"

I have described these two matters - of acceptable goals of economic policy, and of contemporary criticism of the convential wisdom - because they seem to me to form a necessary background of explanation for some of the economic proposals of the Australian Labor Party.

At least since the Keynesian revolution of the 30's it is acknowledged that the totalityof the economy can be influenced considerably, upwards or downwards by fiscal and monetary policies with the initiative able to be taken by the Government, and we are supposed to know broadly how to control the total level of money expenditure at a desirable level.

This, however, is an assumption difficult to apply in this country where the fiscal weapon has been allowed to become so blunted that the ancillary monetary weapon can only have effect when it is applied as a bludgeon, and recently when it was sought to apply the monetary weapon in conjunction with a limited amount of fiscal policy on public works and housing the effects were nullified by an excessive capital inflow from overseas which found its way into speculative property fields, and produced unhealthy property boom consequences which flowed on into other areas. These events at long last stirred even the Government into a realisation that some scrutiny or screening of foreign investment might be necessary.

The Reserve Bank in August, 1971, had noted:-

"As in earlier years, the existence of favourable opportunities for long term investment, particularly in the development of natural resources, was undoubtedly a major factor underlying the large inflow of foreign capital."

And more recently it was observed in the Treasury Economic Paper No. 1 - Overseas Investment in Australia:-

"From the viewpoint of internal economic management it is important to assess the extent to which the higher level of private capital inflow over the last two years has been due to:-

(a) increased investment in Australia of a more or less permanent kind, from overseas sources

(b) borrowing abroad by companies operating in Australia ... because of reduced availability and/or increased cost of funds on the domestic market.

(c) increased short-term investment by overseas sources because of higher interest rates in Australia

(d) overseas investors, or for that matter, Australian nationals also, seeking to gain from a possible appreciation of the Australian dollar, whether before or since the currency realignment of December, 1971". (Overseas Investment in Australia - May 1972, page 107.)

Thus, on to the question of the desirability or otherwise of foreign investment have been grafted factors that complicate the future operation of monetary policy, and hence the domestic management of the economy more generally.

However, to confine to the merits of foreign investment as such.

The Platform, Constitution and Rules approved at the 29th Commonwealth Conference of the Australian Labor Party in June, 1971, reads as follows:-

"Establish clear guidlines for overseas investors, for the benefit both of those investors and of the Australian community.

"Overseas investment in Australia to be encouraged only where it introduces new technology and expertise - includes plans for Australian participation in the enterprise, and/or otherwise shows itself to be in Australia's national interest".

It cannot be denied that in the past decade and more that foreign investment made significant contribution to the not very satisfactory general growth rate of the economy.

In more recent times the effects on internal liquidity already referred to have made obvious the need for reappraisal of the total situation, a reappraisal, however, which should have been undertaken prior to the threat to the domestic management of the economy.

It is no longer satisfactory not to have "a map" of total overseas investment in Australia. There are considerable inadequacies in available statistical information as to the extent and direction of total foreign investment in Australia, and even as to the intent of some current capital inflows.

In particular the very obvious shift in the proportion of total overseas inflow now going into the category "Portfolio and institutional investment" requires a great deal more disclosure than is currently the case.

Nor is secrecy as to "nominee holdings " warranted.

We have also moved from a period when most of new capital inflow was going into manufacturing (and too often this was allowed to become over-fragmented and unduly dispersed) to a period where much of it is in mining and extractive fields, and more latterly, into property.

This investment seems to be of two rather hazily defined kinds. Directly by consortia of local and foreign interests, with no regular pattern as to relative equity, and secondly via portfolio and institutional channels.

The pattern is also complicated by inducements of no particular consistency on the part of State Governments offered to foreign interests.

Further, scrutiny is also required as to whether capital in significant quantities is induced because of advantages of tax patterns, rights of repatriation and interest rate differentials.

Double tax action agreements, while purporting to treat both sides equally, are scarcely as between equal partners.

In his E.S. & A. Research lecture delivered in 1968, Professor Warren Hogan pointedly drew attention to the dangers of lumping together all foreign investment, and of the need to distinguish the various types.

Even more than in 1968 is this the case now, and there is also a need to extend the field of exclusions of foreign entry - currently restricted to banking, internal airways and broadcasting and television.

Australia, in respect to foreign investment in the future, could well emulate Japan, who has been able without much foreign direct investment to absorb technology from abroad rapidly, and to develop its own technology. The success of Japan's policy illustrates that perhaps the direct investment package can be broken, and technology can be separated from control.

We could also emulate some of the initiative displayed by the Japanese Trade Department (MITI) and the better co-ordination which seems to exist between Government and business (whether operating as buyers or sellers).

Finally, greater co-ordination between existing agencies - Reserve Bank, Treasury, Trade Department, Australian Industries Development Corporation - is necessary, as well as perhaps the creation of new agencies such as one to examine mergers, takeovers and monopolies, both internal and foreign.

I claim no particular expertise in the ramification of the securities industry, but corporate enterprise in Australia, certainly in its largest units, operates nationally or across State boundaries and not just confined within them, and as we have already seen, many of the largest operators in Australia are foreign and multinational.

The regulation of corporate activity in Australia is inadequately covered by separate State Company Acts, however much the States and the Commonwealth may seek to secure uniformity.

To some extent, in response to challenge, and in answer to scandals, the Stock Exchanges themselves have sought to put their own houses in better order, but the need exists both for a Commonwealth Companies Act, and for some regulatory exchange authority on a national basis.

I have referred earlier to contemporary criticism of the conventional wisdom, and I believe the public interest demands intervention in areas that can no longer in any realistic sense be regarded as private, and such intervention is inadequate unless at a national level.

There is much that could be said about taxation generally, and taxation structures particularly.

It would be nice if we could have a tax holiday - alas, of one night only - when all existing taxes would be removed, and then on the next bright morn an entirely new and more equitable system introduced; but taxes in aggregate are part of the economic system, and can only be substantially changed gradually.

I propose, therefore, to mention only some inequities in what is supposed to be the crown of the tax system - the progressive Income Tax on individuals.

In fact, there is not much logic as to what can be claimed as deductions, and what cannot, but there is no equity in the fact that the higher the income the more the concession is worth.

One glaring example is in regard to medical expenses.

When the taxation situation is taken into account whereby a taxpayer can claim as a concessional deduction his subscription to a so-called "voluntary" health fund, together with that part of his medical costs that are not reimbursed from that fund but is paid by the taxpayer and can then be claimed as medical expenses, then the net result is that a major operation is cheaper for a person on a high income than for one on a low income. Given the magnitude of public expenditure on hospitals and medical training, this can hardly be regarded as a situation which has been "willed" by an logical process.

With life assurance and superannuation, as another example, in 1967/68 (not 1968/69 as for other examples) the amount claimed as taxable deductions was $564 million, and this was approximately the same in aggregate as for dependant children, but half of it was claimed for one-fifth of all taxpayers with the highest incomes, and two-fifths of all taxpayers made no claim at all under this heading, but the claims saved those who were able to claim $192 million in tax, which was worth more than the total claims for dependent children.

There are obvious inequities in the existing system, for inevitably the greatest worth is to him with the greatest income, and the inequity is compounded by the extension of deductible items to fields where those with the highest income have the greatest expenditure, and at the moment two-thirds of all deductible items are in this category.

As things currently stand, most people, and particularly those with families in lower income levels, would be advantaged if family concessions were liberalised and all other deductions eliminated, and the revenue yield would go up as well.

The total cost of these deductions, in the sense of revenue forgone, is of the order of $1000 million, which is over half of total Commonwealth expenditure under the description "cash benefits to persons" - $2000 million in the 1970/71 Budget.

This heading includes all health and social service expenditure, and as stated earlier, the taxation deductions are allowed in such a way as to run contrary to the logic of social welfare programs.

No equitable tax reform is possible unless the structure of deductions is examined as well as the rate structure; nor is the desirable degree of improvement in social welfare likely to be achieved until the contradictions between the sources of revenue and the purposes to which that revenue should be put are resolved.

To a considerable extent the income tax, which should be progressive, is acting in reverse to what are usually regarded as its social intentions, because of the combined effects of inflation and an inequitable scheme of deductions.

A society, however, that wishes to give more than lip service to the claim to being democratic should be concerned with the practical effects of the application of its laws which have emerged piece-meal fashion, and on occasions been modified for political rather than for equitable reasons.

The difficulties associated with arriving at any ultimate consensus as to what is complete equity in taxation is well summed up in an article which appeared in the American "Economic Review" over fourty years ago:-

"The reformers who preached progressive taxation when the weight of authoritative opinion was against them, have exercised a powerful practical influence upon the tax systems of the world, and I have no doubt that they won, in part because they were right, because their proposals were sound. But the true explanation of their victory is found in the fact that they were playing the game of democracy ......

....."Taxes are as complex as life.

"The moralist calls for just taxes, but taxes cannot just be just.

"The administrator asks for simple taxes, but experience shows they cannot simply be simple.

"Some politicians would mould taxes wholly in accordance with political expediency; but statesmen realise that in the long run this would be impolitic.

"The business man demands practical taxes; but financial history proves that it is impracticable to make them merely practical.

"The legalist wants taxes administered strictly according to law, but the record of the income tax and the property tax makes it clear that such taxes cannot be successfully administered by methods meticulously legal".

(Ideals and Idealism in Taxation - T.S. Adams, "American Economic Review" - Vol. XVII - 1928).