

Albo's war against Capitalism

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Seeking to disabuse critics of the notion that his interest and expertise in economics were Whitlamesque, Anthony Albanese released a couple of pages of an undergraduate essay on economics he wrote nearly 40 years ago. The material was replete with supply and demand curves to burnish his credentials on any sceptic.

Mr Albanese's economics degree was from the 'political economy' school of Sydney University – which had a strongly Marxian focus – stressing on how the economy should best be managed by those who consider themselves well able to understand and manipulate it. The

university mentors favoured central direction rather than what they perceived as the anarchy and heartlessness of the market system.

The practicalities of this involve a very minor role for the price mechanism in investment, employment, and other aspects of the economy. They downplay the importance of millions of interactions of suppliers, consumers, and intermediaries in driving investment and product decisions.

Mr Albanese's prior affinity to this philosophy doubtlessly attracted him to the subject. That attraction may not have been overturned by his exposure to alternative economic systems to capitalism's reliance on individual preferences and private property. Few see outcomes of such systems – in the Soviet bloc, China pre-1998, and modern-day North Korea and Cuba – as anything but catastrophic.

With this background, Mr Albanese is keen to display empathy with workers. On election, he had an opportunity to do so. He backed a 5 per cent wage increase, which under Australia's unique system, allows a court of law to make a wage determination that flows through to almost all employees in the country.

Mr Albanese took the view that a 5 per cent increase is both absorbable by employers and fair compensation to workers for price increases. But the point about wages is that they are determined by productivity and this rests on the skills of workers, the capital base, costs of security, and other matters. That explains why Australia has wage levels that are maybe 10 times those of a country like Ethiopia, where the workers are even more worthy of a pay increase.

Doing the arithmetic Mr Albanese would have thought 5 per cent wage increase in the overall cost structure of businesses, where wages

comprise around 60 per cent of total costs, would mean an overall increase in cost to a business of 3 per cent. That doesn't sound very much. Nor is it in a situation where it is validated by a corresponding increase in productivity.

However, where productivity hasn't risen a non-market determined increase in costs of 3 per cent can spell disaster for an economy. This is because profit is the instigator of investment and output from businesses in a capitalist economy. Profit, often used as a derogatory term indicating pitiless corporate greed, is actually the residual after a firm has paid for inputs, labour, capital, sales promotion, and taxes. If that residual is 10 per cent of a firm's revenue the 3 per cent cost increase is a 30 per cent reduction in the revenue of the owner. A 30 per cent reduction in an owner's income has a huge impact on the driver of the firm's decisions. If the increased mandatory wage is in excess of underlying market rates, it will reduce employment and dampen down new investment and hence reduce productivity, the underlying basis on which sustainable wage increases are possible.

It is cold comfort that the forced increase in Australian wages, by bringing job-shedding may avoid the American predicament of over-full employment co-existing with high prices and sudden shortages of goods like tampons and baby formula.

Probably all politicians see a purpose in their career choice as 'making a difference'. Unfortunately, few seek to rectify the damage to economies brought about by previous political interventions.

In the past, liberals sought to overturn unequal treatment of women, the LGBTQ+ community, and racial minorities, improve the conditions of the unfortunate poor, and eradicate conditions that cause diseases to spread.

Nowadays these worthy goals have morphed. Combating discrimination has become promoting 'diversity' by positive discrimination to all but white (and increasingly Chinese) males. Alleviating poverty and hardship for the unfortunate – once the role of the tithe – now takes a quarter of earners' income. And previous campaigns against adverse environmental and safety outcomes from productive activities have mutated into the all-encompassing war against carbon dioxide emissions, and hence against coal oil and gas; that war has come to define politics and is overturning the energy supply system that created modern prosperity and without which that prosperity would be lost. It is also, *a propos* the national wage case, one reason why Australia has seen productivity go backward.

Mr Albanese's history and training make him well-qualified to spearhead the ongoing triple attack against the productive modern economy. Unfortunately, we don't appear to have any current politician in a senior role to lead the counter-attack.