Abbott's Phoney Class War

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> Smash the rich! The Coalition and their friends at The Australian are crying war on the business classes. Who is the 'business community' and are they as homogenous as Abbott and co would have us believe?

According to The Australian and Tony Abbott, we are now engaged in class war. The Australian's headline was "Smash the rich" the morning after the Budget, followed by "Class War" the next day. And in case we missed the written message, Wednesday's cartoon by Bill Leak, in Soviet Realist style, showed Gillard and Swan marching under the banner of the hammer and sickle.

Had we woken up to angry masses marching down Pitt Street, singing the Internationale and smashing their way into corporate offices? Were the sacked workers occupying the Toyota factory? Was the Melbourne Club ablaze? Or was this yet another Murdoch-Abbott beat up?

To the disappointment of Australia's surviving "true believers" Tuesday's Budget is notable not so much for its mild re-distribution, as for the way it keeps in place so many measures that entrench privilege. Family trusts — the vehicles used by the rich to minimise tax — remain untouched. Pension income from accumulated superannuation funds is still untaxed. The Government still shies away from the modest suggestions in the Henry Review that there be a bequest tax and a review of Costello's generous capital gains tax provisions.

The less hysterical message to emerge in the post-budget commentary is that the Gillard Government, because its Budget is re-distributionist, is somehow anti-business, an argument dismissed by Ben Eltham yesterday. He pointed out that in fact the Budget had many measures that are strongly supportive of economic growth.

But is economic growth the main concern of the business associations who are complaining so loudly? Or are they pursuing some other agendas? Is their opposition a conditioned reflex like Pavlov's dog — "what's good for the Liberal Party is good for Australia".

I suggest that their strident partisanship is not just an emotional attachment to the Liberal Party. Rather, it is representative of the interests of a group of businesspeople, particularly those who are already doing very well and are resistant to change. Those interests do not necessarily align with the broader community interest of ensuring that we have a strong economy.

When industry lobbyists and journalists talk about "the business community" and "business interests", it's useful for the sceptical reader, listener or viewer to ask just what, if anything, those terms mean.

To start with "the business community", the only feature that could define such a "community" is private ownership. Otherwise it is a hugely heterogeneous patchwork of enterprises. There are sole-trader businesses such as contract gardeners and massive firms like BHP-Billiton. There are restaurants and airlines in fiercely competitive industries through to pharmacists and privatised utilities comfortably shielded against competition by policy or by geography. There are family farmers and giant agri-business corporations, boutique brewers and SABMiller (the multinational owners of Carlton United Breweries). There are sole traders, partnerships, private companies and publicly-listed companies, many of which have substantial foreign ownership. There are "low tech" and "high tech" businesses, alternative energy entrepreneurs and coal miners. And so on.

In short, there is no meaningful entity denoted by the term "business community".

If there is no business community there is no such thing as "business interests". It's necessary, at times, to remind ourselves that a "corporation" is no more than a legal construct, rather than an animate being. People have interests, businesses don't. These people include shareholders, customers, employees, suppliers, and the communities where businesses are located. Industry associations, however, represent only a small sub-set of those stakeholders — often the highly paid executives and the bigger shareholders (in many cases the same people).

That selectivity helps explain the sycophantic partisanship shown by industry lobbies — an attitude elegantly covered by Bernard Keane recently in his open letter to Jennifer Westacott of the Business Council of Australia and by NM's Ben Elthamin his Budget analysis. Their constituents' interests may relate more to their personal circumstances rather than the long-term health of their firms. Their firms' fortunes would be of interest to executives only to the extent that they can pay high salaries and stock market returns in the short term — an interest reinforced by the structure of remuneration packages and termination payments. Also, it is useful to recall that the senior executives of industry associations themselves are among the few with incomes to have been personally affected by the Government's redistributions.

The other problem with industry associations is that their membership is often heavily weighted to old and established firms, particularly those which see structural change as a threat and seek to maintain the status quo.

This is illustrated most starkly in relation to the Government's carbon pricing policies. To hear the squeals from the industry associations, one would believe that the only energy firms in Australia are the coal companies. Their public protestations are insulting to all those people, many in small innovative firms, who see carbon pricing as an opportunity for business expansion.

This narrow membership also contributes to support for the Coalition, particularly as it is presently presenting itself, for Abbott has clearly stated his technological conservatism. He is well aware that the National Broadband Network, for example, is a disruptive technology, which could hasten the process of new and innovative firms gaining advantages over existing players, and in his Budget response he once again scoffed at its value.

That's why, on Wednesday, when Joe Hockey delivered his insipid and vague response to the Budget, there was little criticism from the business lobbies. Hockey referred to "a strong agenda to drive economic growth, productivity and employment", but there was no further reference to the agenda, which may not exist at all.

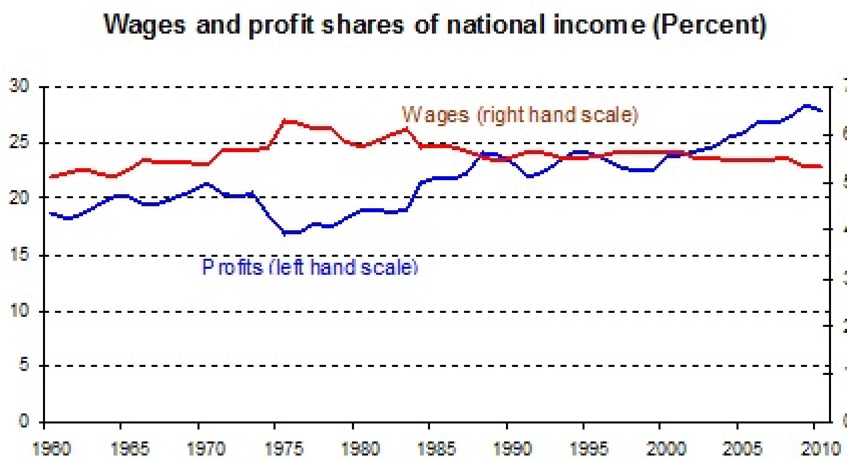
What may have enthused the lobbies, however, was his promise to "lower taxation to enhance the rewards for effort". That's code for increasing the take-home pay of executives; it has nothing to do with the health of the economy.

Abbott followed Hockey with a speech which was even more vague. He referred to "a plan for economic growth", but like Hockey's "agenda", there was no revelation of what was in the "plan". Although he talked about the need for investment in transport infrastructure, he repeated his promises to reduce public spending and restore middle-class welfare.

These promises are mathematically incompatible, and given his priority concerns to cut taxes and to increase welfare, they can only mean even further cuts in infrastructure and skills — the very investments that are needed to ensure that businesses can contribute to economic growth.

If business lobbies were concerned about the nation's economic growth they would be pointing out these contradictions. The silence is understandable if their only concern is for executive incomes.

In any event, there is no evidence that the distribution of the gains from business activity are out of kilter. Over the long term there has been a distinct shift in the distribution of income from wages to profit, as shown in the graph below. There are some qualifications to such a series: some growth in "profits" may be a result of sole traders and partnerships becoming incorporated, and ironically "wages" include executive salaries. But these effects are minor — there is no evidence of this trend reversing.



It is possible, in fact, that this high profit is not a sign of economic health. It may be a negative indicator. A classroom story illustrates the point.

Some years ago I taught a delegation of businesspeople and public servants from a newly established former Soviet satellite state — one of the "stans". I used the Australian concrete industry as a way to teach about profit and loss, balance sheets and financial ratios, drawing on the published reports of Boral, CSR, and Adelaide Brighton Cement.

The visitors were surprised by way such intense competition had kept a lid these firms' profits. One of them, a fellow whose cunning had been a useful asset in the days of Soviet domination, said that the concrete industry was doing so much better in his country than in Australia. Each concrete firm had its geographic territory, he explained, and this was assured by a form of industry self-regulation. In the passenger seat of each ready-mix concrete truck was an employee, equipped with a camera and a shotgun, whose task was to keep a lookout for trucks from other firms which may have strayed out of their region. The concrete industry in that "stan" was much more profitable than ours.

That's the hard lesson of the competitive market. There are only two paths to high profits. One, as so well illustrated by my student, is to suppress competition, and there are plenty of lobbyists in Canberra engaged in the task of trying to secure some corporate or industry-wide privilege. They don't need to carry shotguns; they have chequebooks and friends in the media.

"Rent-seeking" is the common economists' term for such behaviour, and it is generally inimical to economic progress. The other path to profitability is through innovation in processes, products or markets. Those gains are fleeting, for in a competitive market it isn't long before others come into the market.

It is possible that Australia's high corporate profits are influenced by successful rent-seeking, which is what the business lobbies are striving to defend. A test of sound economic management may be the extent of protest from industry lobby groups, and by that measure the Budget earns a reasonably high grade.