A REVIEW OF SHANN TURNBULL’S BOOK — DEMOCRATISING THE WEALTH OF NATIONS

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1. Inflation and its consequences is the main economic, social and political problem in Australia today. Inflation is more important than unemployment because unemployment is very much a result of inflation and cannot much be reduced unless inflation is reduced.

Inflation cannot be reduced rapidly at all because the consequences would be a high level of unemployment and low output for several years - a loss of perhaps $10,000 million a year for several years. For those who are not much worried by a loss of jobs, this loss of profit, income and money will be worrying enough to prevent action which would cause it. The loss would extend into all services - education, health and urban improvement because it is not possible, or yet possible, fully to maintain government services during serious recessions.

2. Inflation and its consequences is the main national problem, but

Analysis and policy about inflation are inadequate and contradictory. They are as inadequate and contradictory about inflation now as they were about depression forty years and more ago.

John Maynard Keynes, the famous British economist, recognised this about depression forty years ago and was responsible for the Keynesian Revolution which is supposed to have resulted in full employment and ended depressions. It is unfair to blame Keynes for us now being in the same position about inflation as we were about depression forty years ago. But it is Keynesian theory and Keynesians in universities, banks, treasuries and newspapers who seem to be responsible for our inability to deal with inflation now.

Keynes wrote in 1935: “If my explanations are right, it is my fellow economists, not the general public, whom I must first convince.”

Keynes was right then. It was his “fellow economists” who were demanding lower incomes, lower money demand for goods, and higher interest rates to deal with depression whom he had to convince. As he pointed out then, facts would not convince them. It had to be theory.

But the situation is worse now than during the depression. During the depression most people doubted or rejected the views of the economists who wanted to cut income and demand for goods and raise interest rates. But today there is almost general acceptance of, or perhaps resignation about, conventional economists theory.

Keynesians seem to have convinced the people. Keynesian economics is now conventional wisdom. Keynes himself foresaw this and warned about it. In 1935 he wrote: “...the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be exempt from any intellectual influences, are usually the slaves of some defunct economist.”

If we are to free ourselves today from inadequate and contradictory economics about inflation we have to educate not only the economists but the people.

3. Economics is today inadequate and contradictory about inflation because it is concerned only with income and employment, mainly with income, and with the very restricted and abstract Keynesian analysis of income and employment. The analysis deals with the propensity to consume, the marginal efficiency of capital and the rate of interest. Everything else is taken as given or dependent, and, in fact, remains given and dependent. Policy derived from this analysis is mainly relevant to a condition of much less than full employment and suggests as policy measures an increase in the propensity to consume and a low rate of interest. This is the policy prescription when there is less than full employment of labour, but when there is less than full employment of plant and machines, what then. What when there is unused capacity in the whole economy of 10 or 15 per cent, and especially in the manufacturing sector of 20 or 30 per cent? What do we do then? Increase the propensity to consume and lower the rate of interest? Certainly one would think so and Keynes in Chapter 22 of the General Theory appears to say so. But today, as in the Depression, conventional economists demand that we should do the opposite.

In the case of a “collapse of the marginal efficiency of capital”, which we are suffering now in large measure, Keynes warned at P. 316 of the General Theory that “no practicable reduction in
the rate of interest will be enough", and writing at P. 317, about the "return of confidence", warned that, "This is the aspect of the slump which bankers and businessmen have been right in emphasising, and which the economists who put their faith in a 'purely monetary' remedy, have underestimated."

I am quoting Keynes here not because I have so much sympathy for him, and I do not, because of his undue abstraction in the greater part of his work, but because I do not think Keynes would have remained a Keynesian, like so many of his timid followers, were he alive today to analyse modern inflation.

I say this because a simple non-algebraic reading of the General Theory reveals Keynes' belief that in conditions of full employment the marginal efficiency of capital would so far decline that it should lead to the "euthanasia of the rentier", (the specialist money lender), and that a "comprehensive socialisation of investment will prove the only means of securing an approximation of full employment." (P. 375 - 376). And at P. 320 Keynes wrote "In conditions of laissez faire ... I conclude that the duty of ordering the current volume of investment cannot safely be left in private hands." Keynes did not foreshadow how these results can be obtained, and no progress has been made in forty years towards the "euthanasia of the rentier" or towards a different way of "ordering the current volume of investment". This lack of progress is alone due to the almost exclusive concern of employers, economists, workers and every one else, with employment and income, and with the influence of the narrow Keynesian economic theory about them.

No Puritanic, nineteenth century owner of a textile mill, moved by the work ethic, ever rated employment as high as the militant or Marxist trade union leader of the twentieth century, No Rothschild or Harriman ever valued income as high as the worker in the oil industry in Australia today. No nineteenth century economist ever thought so much in terms of income as do those twentieth century economists who thought they were so terribly modern in devising national income accounts and budget theories and measures of the money supply.

4. Let us look now at the limitations and contradictions of bank and budget theory derived from Keynes as a means of dealing with inflation today.

Fiscal and monetary policies, and incomes policies as well, do not now lead to reduced prices. The decline in sales that results from them, as they make capital and credit scarce and dearer and reduce wages and consumption against a rising cost structure, causes large corporations to cut output and employment and to raise prices to cover costs and acquire funds for investment, and causes small firms to try to do the same and to close down if they cannot.

The net overall effect of fiscal, monetary and income policies within the politically acceptable limits is the opposite of what is assumed.

It may be possible to reduce prices significantly by these policies if they were not for the political limits. To be effective these policies would require a large cut in the money supply for a long time, (as the Reserve Bank brought about in 1974 for a short time) and a large budget surplus as the Treasury unsuccessfully sought in 1974. But even with these cuts the results are uncertain. This is not the decade of the world depression. There is not now the same relation between the level of unemployment and the rate of wage increase there was then, nor the same willingness to accept a high level of unemployment without social upheaval. If such a policy was given effect to even the ivory towers would be shaken by public disturbance.

The conventional methods of western governments for managing their economies are inadequate, contradictory and dangerous. Unfortunately little new thinking is being done in the Universities beyond Wheelwright and a few others, none in the public service, where in both places it endangers promotion, and very little in the labor movement. In the business community the situation is no better but there are a few like Mr Louis Kelso and Mr Shann Turnbull, whose book Democratising the Wealth of Nations is the most adequate business view of new policy which I have seen.

Mr Turnbull points out that economists are concerned only with national income and not national wealth. There are two cakes not just one, Mr Turnbull points out, or as Kelso puts it there are two factors not just one, and a two factor theory is essential.

Turnbull writes: "The conspiracy of silence among most economists not to recognise and analyse asset ownership and the distribution of National Wealth suits the political ambitions of the more extreme and opposing ideologies." Mr Turnbull is certainly correct. But the economists' "conspiracy of silence" suits also, as I have said, the timid, the comfortable and the conservative.

Concern with income hides the fact, as Turnbull puts it, that "Ownership without control or predetermined rights to distribution of profits and assets is an increasingly dominant feature of modern societies... ownership and control of over 90% of the country's procreative assets is held by less than 5% of the population"; and, "Corporations provide one of the most subtle and pervasive mechanisms of employees staying poor and rich getting richer".
And Mr Turnbull believes that “The process by which corporations concentrate wealth in the hands of the shareholders, not the employees, is hidden from business analysis”.

It appears also to be hidden from the Universities, the Treasuries and the Tax Departments.

Mr Turnbull wonders why Corporations should favour their shareholders so much over their employees when their employees are the people who do the work, and from whom a vast amount could be obtained for investment and reinvestment? “Corporations are but a set of rules for owning assets,” he writes, and, “They can provide the means for the individual to create more wealth in one transaction than he could earn from working for two or three centuries”.

Mr Turnbull gives an excellent summary of the production of wealth in Chapter 10 of his book. He points out that the classical method of accumulating wealth was from income from labour, and the traditional concern of economists and political philosophers, including Marx I emphasise, was the employment of people and with income from the employment of people.

Production was dependent upon employment and wealth was dependent upon income. The development and accumulation of machine power is a more recent development.

Changes in income were easy to bring about, but changes in ownership of wealth were not. “Unless wealth was due to an inheritance,” Mr Turnbull correctly tells us, “changes in ownership of fixed assets were more likely to be accomplished by social force or by political fiat.” Even the law was rigorous against changes of ownership and capital markets were recent developments. No wonder Marx, in the nineteenth century, thought a revolution would be necessary to change much the ownership of wealth.

One problem that arises from this is that if governments limit their interest only to the income layer of the economic cake, then their analysis of both fiscal and monetary policies is restricted to their effects in this top layer. Not only is the bottom layer neglected, but its intimate interaction with the income layer through cash flows is ignored, and the whole structure is restricted in its growth and development. Not only this, but reform is limited to redistributive measures, within that restricted and fluctuating whole, and after even a few per cent change in distribution, the Treasurer has to say that we are at the end of the road of reform, indeed that we have gone too far.

Mr Turnbull correctly points out: “The exchange of assets and liabilities in advanced industrial societies can generate cash flows of the same order of magnitude as those produced by National Income. Thus, economic policy prescriptions that ignore these bottom layer cash flows are unlikely to work according to plan.”

Keynes was responsible in 1935 for a great advance. He convinced economists that investment was not limited by saving, but that up to full employment, investment created income from which adequate saving would result. We are however still inhibited by that concept, because we cannot now get enough investment even though we are much below full employment of labour, let alone full employment of plant and machines. “The problem,” Mr Turnbull writes, “with associating investment with the word saving, is that it implies to most people, that investments in assets can result only from savings accrued from income already received.” I think this was reinforced unintentionally by the Keynesian method because it was static analysis. Turnbull goes on, “This is consistent with the practical experience of most individuals. It is the only way to acquire assets in primitive or socialist societies” (that is to say, I think, capitalist socialist societies), but “In societies with a developed commercial and investment banking system, in an alternative mechanism and interpretation of the traditional definition if savings and investment is possible. That is, investment equals savings expected in the future from income yet to be produced.”

As long as investment is ‘appropriate’, and as long as demand is good enough to clear its products, then investment is the sole determinant. “The asset is then working for its owner,” Mr Turnbull says. “Buying a house has the opposite result. It forces the owner to work for it – to pay it off. But a truck or a taxi can work for its owner, especially if he employs some one to drive it, while the owner must work for his house.”

It would be surprising if this common sense does not make some impression upon conventional wisdom and upon workers as well.

5. What can be done now?

The first thing to do is to recognise the inadequacy, and contradictions of economic management theory and policy derived from economists which we now try to use. This extends not only to monetary and budget policy, but to contemporary wage and salary determination by the arbitration system as well.

Appropriate economic management theory and policy can result only if property and wealth and the structure, and changing structure, of property and wealth are fully taken into account. Turnbull points out: “Many of man’s behavioural aspects, as regards his property have undesirable characteristics. The greatest benefit that might ultimately arise from changing the legal structure of property rights could be the modification of man’s behavioural patterns and values. This modification may be initiated by the novel structures of ownership, described in the following chapter.”
It is however, possible, or even probable, that asset ownership by workers will make capitalist society even more acquisitive, egalitarian and self-centred.

Before glancing at those “novel structures” and at some additional ones mentioned by Mr Kelso, I want to look at the Kelso-Turnbull approach as a principle.

It is recognised that property rights have no unchanging or sacred nature. They have continuously changed and sometimes ahead of, or outside, the law. Larceny is an extremely narrow concept and there have been and there are, powerful methods of acquiring property from others which are still not inhibited by the law of larceny. We can be very sure that the law and practice of property will change as much in the next fifty years as in the past fifty. Broadly, in principle, there are two approaches. First, at one end of the spectrum, there is abolition of legal property or transfer of it to the State. The other end of the spectrum is the democratisation of property as seen by Kelso and Turnbull. This is not put forward in the old reactionary impossible sense of breaking up large scale into small scale, nor in any anti-planning sense.

It is difficult for me to predict that democratisation of wealth or property will come about in Australia, but I am sure that it is much more likely than abolition of property or its transfer to the State.

I say this because the average Australian is far too committed to the concept of property, and far too keen on money to agree to any abolition of private property or transfer of it to the State. Such an abolition or transfer could not otherwise take place without a national crisis or upheaval which could result only from war or foreign occupation, or both. Such a crisis or upheaval is most unlikely and, if it were, its consequences impossible to predict. It seems also that the basic attitude of most of the workers especially in the corporate, large scale sector will mean an increasing concern to get money. It is likely they will have to turn soon to asset ownership if their demands for money are to be satisfied. Democratisation of wealth seems therefore, even in Australia, to be a likely trend of development in capitalism.

The limitation of the State as a source of welfare represents too, another reason why workers are likely to turn to the large scale corporate structure of wealth for more and more of what we have come to regard as welfare.

Mr Kelso points out that the “affluent society” is a myth. In the United States there are only ‘12 doctors who treat people for every 10,000 patients. In Australia doctors are becoming as expensive if not as rare, as in the United States, Mr Kelso says too, that if everyone in America who needed dental work now actually had it done, it would take all the dentists in the United States ten years to catch up. The position cannot be any better in Australia. Indeed it must be far worse in the case of plumbers. It is not only the workers in the large scale corporate area who are near the end of the road in pushing up incomes and costs. Unless they turn to wealth, not much real progress is possible. But ‘workers’ in the small scale sector too, like doctors and plumbers, whose unions have gained control of training and entry and can effectively restrict both, face problems too. Ask an American, Kelso says, what he would do if he won the Irish Sweepstakes, and he will almost invariably answer ‘travel’. But in a country where “going someplace” is the universal dream, about half the population in 1967 did not take so much as an overnight trip or venture more than a hundred miles from home. In Australia it cannot be much different.

Galbraith it seems, was as responsible for a vast historical inaccuracy, as much as any one he so tellingly criticises, when he called the United States the ‘affluent society’.

We can be sure that Americans and Australians will demand more and more, and that they will look more and more to wealth and less to income to get it. The democratisation of wealth may be an historical probability.

“A few families,” Mr Kelso tells us, “own the capital instruments which produce most of the economy’s goods and services . . . and the incomes with which to buy.”

“And”, he says, “we must finance the new capital goods . . . so that they become owned by the 95 per cent of American families who are today totally dependent on labour.”

I will not look in any detail at the methods by which this can be done because I assume that Mr Kelso and others are mainly concerned with that.

I will mention however, only a couple of preliminary points. What are we going to do about the Club of Rome contradiction? Is technology powerful enough to recycle and conserve to allow to operate the insatiable demand for resources that the power of the “wonderful smell of money” sets up when one sniffs the wind? Another preliminary point is this one. Have the limits of redistribution, not only of corporate profits, but of corporate wages, and doctors and plumbers fees, and so many other incomes, become so strong that we will have to turn, as Mr Kelso says, to corporate wealth for our education, vocational training, medical care, dental care, psychiatric treatment, marital counselling, legal aid, hot meals, babysitting facilities, environmental housekeeping, and thousands of other services and products that the needy will soon think up and demand as fundamental human rights.” All related closely to the workplaces.
I think this may well happen. But it does not mean there will be less for social and political reformers to do. It does not mean that there will be less for trade union members or officials to do. It will mean that there will be more for them all to do.

It does not mean that there will be less democratic participation. There can hardly be less. But, it may mean less soulless bureaucracy; less moral nihilism and corporate double talk.

But the road of reform can only be real if workers become significantly and powerfully involved. If it is no more than another case of slight of hand by corporate lawyers and public relations men, then it will receive the hard and cold rejection it would deserve. If it is no more than another preserve for elites and leaders, it will fail. The alternative to it will deal much more harshly with the corporations and their lawyers and public relations men, and with elites and leaders, and it may mean a harder and more barren road for the people.

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### A REPORT ON FIRST ASIAN SECURITIES INDUSTRY FORUM MANILA (NOVEMBER 10 - 15, 1975)


First Asian Securities Industry Forum was organized and sponsored by the Philippines Government through its Department of Trade and Securities and Exchange Commission. The long-term objective was to enable the securities industry to provide massive capital requirements for the developing economies of Asia. It was believed that the only adequate means of achieving this end was through greater cohesiveness within a regional framework, of the securities industry. And to obtain that cohesiveness, certain preliminary steps were necessary, and these became in fact, the objectives of the Forum:

- to exchange information and ideas on the money and capital markets in Asia;
- to assess the present state of the Asian securities industry in the light of its role in capital formation and national progress;
- to re-examine the industry's problems and prospects, both from national and regional perspectives;
- to lay the groundwork for the formation of an Association of Asian Securities Administrators and a Federation or Association of Asian Stock Exchanges or Securities Association;
- To formulate the concepts and possibly the organizational blueprint for an interlocking

of securities markets in Asia as well as for regional commodity exchanges.

The final luncheon speaker, Mr. A.A. Sommer Jr., Commissioner of the S.E.C. Washington, described the seminar as 'an historic occasion'. It was an apt description. Not only was it the first such seminar held in Asia, but it was in fact the first International Securities conference held anywhere in the world. As such it drew some very distinguished speakers and some very distinguished delegates from a much wider spectrum both geographically and from the world of finance than had been expected.

Perhaps one of the more interesting aspects of the seminar was that the 'Securities Industry' was considered not as an industry in isolation, as it is often regarded in Australia, but as an integral part of a much wider financial scene ranging from commercial banks through investment banks to fund managers, at the same time necessarily including stock exchanges and their regulatory controllers.

Some evidence of the foregoing comment can be deduced from the attendance at the seminar of delegates representing Central Banks and/or Governments (other than S.E.C. or similar authorities) from Brazil, France, India, Indonesia, Japan, Luxembourg, Netherlands, Saudi Arabia and Thailand.

*Note:* Mr. Morris attended the First Asian Securities Industry Forum on behalf of Bank of New South Wales to whom we are indebted for permission to publish this report.