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THE SOCIALISATION OF INVESTMENT IN A CONTEMPORARY SETTING

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> The guarantee of sustained full employment requires control of the business cycle... Where the rate of growth declines, whether because of internal or external forces, the future of social democracy will depend on its capacity to guarantee that adequate levels of investment are maintained, whether or not private capitalists are willing to accept the responsibility. It is doubtful that social democracy will be able to avoid, at one time or another, socialising the investment function (Esping-Andersen, 1985: 35-36).

The Keynesian conviction is that capitalist economies are recurrently demand deficient, giving rise to both under-investment and under-consumption, which results in less than optimum employment growth. Keynes (1973: 378) believed that 'a somewhat comprehensive socialisation of investment' would be required for full employment to be achieved and sustained. Keynes left the finer details vague as to how a public investment instrument should operate. This paper attempts to flesh out more thoroughly, within an Australian context, how a socialised investment instrument could function. Superannuation policy is presented as an important tool for the socialisation of investment.

The paper begins by arguing that for sufficient investment to ensure full employment, the socialisation of investment *via* superannuation funds should be employed. It then demonstrates, from a practical perspective

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how pooled employee funds could be used in the socialisation process. This includes (1) a policy to cap overseas superannuation investments and channel a percentage of total superannuation funds into a National Development Fund to be used for productive investment, and (2) a policy that would, in part, de-privatise employee pooled savings over the medium to long-term.

The Attainment of Full Employment

The formulation of policies seeking full employment is necessary to reduce the enormous economic and social costs of unemployment. Among the economic costs of unemployment are (1) the direct loss of potential output and income (2), the costs associated with lower taxation revenues that derive from the smaller tax base and (3), higher rates of government expenditure in unemployment compensation. The social costs linked to unemployment include poverty, crime, drug addiction, homelessness and broken families (Forstater, 2000: 4). These costs are intergenerational in scope and character. One estimate of the economic cost of unemployment in Australia indicates that it could be as high as $40 billion per annum (Watts, 2000: 22). Unemployment, as a social and economic expense, is the principal macroeconomic issue facing Australia today.

The view that unemployment arises from the deficiency of effective demand, and that this results from inadequate investment, is characteristic of post-Keynesian economics. There are three interrelated presuppositions. First, following Keynes, the problem of uncertainty in a capitalist economy limits the rationality of entrepreneurial investment. Second, from a Kaleckian perspective, full employment is not unanimously welcomed from within capital's ranks (Kalecki 1943). The third is that higher than necessary interest rates deter investment. The common theme is that private investment rarely garners a level of demand consistent with achieving full employment. To paraphrase Dow (1997), all recessions are ultimately caused by the demise of industry unaccompanied by the rise of new industry. Accordingly, the stimulus to activity required by an authentic Keynesian full employment economy is that which comes from increased investment. As Keynes wrote:

> it seems unlikely that the influence of banking policy on the rate of interest will be sufficient by itself to determine an optimum rate of investment. I conceive, therefore, that a somewhat comprehensive socialisation of investment will prove the only means of securing an approximation to full employment (Keynes 1973:378).

Central to Keynes's analysis is that full employment depends on policy instruments capable of diminishing the oscillations in the level of economic output. Public investment, in other words, is the all-important variable. While the socialisation process can take a number of forms (Dow, 1996: 153-154), a case can be mounted for the public investment function operating *via* pooled domestic superannuation funds. The socialisation of investment would then involve employing superannuation for investment that is economically useful so that a productive growth sequence will ensure.

Socialising Investment

The concept of increased investment *via* pooled superannuation funds is not new. The Australian Council of Trade Unions and the Trade Development Council in 1987 outlined a proposal seeking the extensive use of superannuation funds as an investment resource (Department of Trade, 1987). The details and policy recommendations of this report have been discussed at length in a previous issue of this journal (*JAPE* No. 39, June 1997). The interesting point in the current context is that the investment function *via* superannuation funds that was outlined in the report continues to be largely ignored. While it is of no surprise that orthodox economists continue to reject employees' pooled savings as an instrument for advanced capital accumulation, it is more surprising that not all heterodox political economists, even after decades of less than full employment, agree with using superannuation funds as an investment instrument.

It is useful to focus on the contribution made by Nick Coates (1997) to that earlier special issue of *JAPE*, as a means of engaging with the arguments for and against using superannuation funds for this public investment purpose. Coates's view is not supportive of neo-liberalism,

but its scepticism about using superannuation for socialised investment provides a useful basis for comparison with the proposals presented here.

Figure 1: Neo-liberal Economy and Post-Keynesian Economy

	Neo-liberal Economy	Post-Keynesian Economy
Investment	□ Primarily private □ *Ad hoc* investment strategies □ Entrepreneurial prerogative re. investment	□ Private and socialised □ Planned investment □ Dispute resolution re. investment/ disinvestment
Unemployment	□ Structural □ Frictional □ Cyclical □ Functional	□ Frictional
Remuneration	□ Deregulated □ Potentially inflationary □ Highly unequal	□ Regulated □ Non-inflationary □ Relatively equal
Labour Market	□ Commodified □ Enterprise bargaining with restricted role for Arbitration Commission □ Private training and retraining □ Private industrial regeneration	□ Decommodified □ Industry/national wage determining criteria *via* Arbitration Commission □ State role in training □ State role in industrial regeneration
Monetary Policy	□ Used to alleviate: □ Inflation □ Current account deficits □ Household debt	□ Used to produce: □ Low interest rates

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Coates argues that using superannuation funds for capital formation has four structural deficiencies. First, any socialisation of super funds appropriated into a National Development Fund is a cost to current income. Second, the strategy is a cost to current consumption. Third, it would lower the return on the super stipends that employees would receive at retirement. And, finally, the strategy would make the burden of capital accumulation fall on labour. These four structural failings, according to Coates, question the viability of the *Australia Reconstructed* report's approach to national development and job creation policies. Given the importance of Coates' arguments, it is imperative to analyse and respond to each one in turn. I do so in this paper by reference to Figure 1 which compares the characteristics of a neo-liberal economy with a post-Keynesian economy.

Comparing these 'ideal types' of economy, the. neo-liberal (N-L) economy can be characterised as relatively low-wage with high inequalities and irregular growth. Conversely, a post-Keynesian (P-K) economy can be classified as having wage growth equal to productivity output, with relatively low inequalities and sustainable growth. More importantly, the underutilisation of labour present in a N-L economy is radically transformed. With full employment and higher wages under a P-K economy, disposable income can be expected to be higher than it would be if left to entrepreneurial capital investment under a *laissez-faire* economic arrangement. It is in this context that the objections made against using superannuation funds for a national investment strategy can be reconsidered.

Would the Socialisation of Super Funds be a Loss of Current Income?

Coates (1997: 94) argues that the socialisation of super funds is a loss of current income as superannuation funds are the forgone earnings of workers. Instead of national savings tapping income after consumption, the socialisation of super funds appropriates income before consumption. This not only affects current income but also consumption expenditure.

While Coates correctly states that the socialisation of super funds appropriates income before consumption and thus impacts upon employees' disposable earnings, the question remains: what is the problem with investing a percentage of *present* income when total income is higher than it would be compared with a N-L economy? The crucial point is that the sacrifice of current income could facilitate a high skilled, full employment economy with higher real wages compared to a N-L economy. Thus in *net* terms there need be no reduction of disposable income, after the appropriation of part of current income, as the higher income that derives from a P-K economy offsets the contribution made to the socialised pool.

Would the Socialisation of Super Funds be a Loss of Current Consumption?

Coates (1997: 81) argues that the part-appropriation of present income is a loss of current consumption. *Ceteris paribus*, that is correct. However, using the investment function *via* superannuation funds would not leave variables unchanged. If it facilitated a shift to a P-K economy this would be radically different from a N-L economy, especially in relation to full employment and higher remuneration. Thus, using the same methodology applied above, total consumption expenditure by employees in real terms, which Keynes recognised as having positive multiplier effects, would be increased because of the higher wages that employees would enjoy. Even if one were to concede that the part-appropriation of present income were a loss to current consumption, a P-K economy, with its higher GDP *per capita*, could subsidise 'lost' consumption through an expanded government transfer system. Thus, in real terms both current income and consumption expenditure would be higher in a P-K economy as employees were reimbursed for their socialised investments.

Would the Socialisation of Super Funds Produce a Loss of Future Income?

Coates (1997: 94) suggests that the part-socialisation of superannuation funds would result in employees receiving a lower return on their superannuation stipends. For example, while a National Development Fund financed through compulsory superannuation contributions could offer dividends to members, it is expected that any remuneration paid would be below a market rate of return for two reasons:

- Investments in overseas assets generally pay a higher rate of return. With prudential regulation restricting superannuation fund managers from holding limited assets overseas, under the *Australian Reconstructed* sort of proposal, any limitation on cross border investment would reduce the overall rate of return.
- The provision of 'soft loans' and equity capital for investment in new capacity industry means by definition that the rate of return will be under market value (Coates, 1997: 94).

If the result is that workers receive dividends below the market rate of return, the forgone earnings of workers would therefore be a subsidy paid by labour to capital. However, two crucial issues are overlooked in this reasoning. First, full employment is the primary and most important return on employee investment outlay, irrespective of whether or not capital also benefits from the process. Second, we also need to take into account the higher contributions that are made over the course of an individual's working life in a full employment scenario. An individual worker's pool of superannuation earnings is likely to be higher in a fully employed P-K economy *vis a vis* a N-L economy, due to that individual having higher total disposable income over the course of their employment life and not suffering monetary loss through unemployment. So the part-appropriation of present income need not be a loss of real income or consumption. Nor in a P-K economy need future returns be reduced due to higher remuneration and full employment.

Would the Part-Appropriation of Super Funds Cause Labour to Carry the Burden of Capital Accumulation?

Coates (1997: 93) asserts that 'in an era when constraining capital is deemed unacceptable (and ineffectual) it is labour which is 'tapped' as a source of investment funds, and, thereby, labour which is required to carry the burden of national investment policies.' Moreover, the part-appropriation of present income of workers' wages to generate capital accumulation is unacceptable, according to Coates, because it subsidises capital. Capital, in other words, is the beneficiary of labour's responsible actions.

Implicit in this argument is the view that wages do not contribute to capital accumulation, and, therefore, from a Left perspective, should remain as consumption expenditure. This analysis is problematic, however, for as Keynes (1973: 287) argued, consumption expenditure from wages is beneficial to the macro-economy. Capital accumulation *via* the multiplier effect is the positive by-product. Taking Keynes' logic further and adding a Marxian aspect, it can be argued that labour, in a capitalist economy, *intrinsically* contributes to capital accumulation through capital's appropriation of surplus value. As Marx argued, surplus value is not created by exchange but by the development of the means of production under capitalism that enables the capitalist to enjoy the use value of the workers' labour power and with it to produce values that far exceed the mere exchange value of this labour power (McLellan, 1980: 74).

Thus, if we accept that labour has no choice in a capitalist economy but to contribute to capital accumulation, arguments against the part-appropriation of present income of workers' wages should be less distasteful to the Left. The argument should not be over capital accumulation *per se*, but what benefits to workers can derive from the part-appropriation of present income. As Kalecki argued, the greatest material benefit to labour, and one that facilitates an equalisation of wealth, is full employment. With insufficient private investment to meet necessary demand in a neo-liberal economy, labour must accept that the part-appropriation of its present income is in its interests.

Nonetheless, it is important to acknowledge that political impediments to the socialisation of investment will always be present. Capital, for the reasons described by Kalecki, has little motive to support the implementation of socialised investment, as the maintenance of full employment shifts political power relatively from capital to labour. This is in spite of the fact that higher profits are associated with full employment. It could be expected, however, that while capital and labour both benefit from the part-appropriation of present income, capital would be less likely to agitate against the socialisation of investment, given, as Coates (1997) rightly argues, that it is labour that provides the economic outlay.

Institutional Changes

If the socialisation of investment is necessary for full employment to be achieved, how could or should it proceed? Central to the socialisation process is a statutory authority that would oversee trade, investment and disinvestment. Its purpose would be to control and monitor disinvestment so that proactive planned investment would fill the void. Moreover, the statutory authority would administer import substitution schemes with the purpose of enhancing the production of value-added goods, thus eliminating the need to raise interest rates to offset current account deficits. For the authority to operate as intended, the explicit re-politisation of the central bank would be required. More importantly, a National Development Fund (NDF) financed through the part-appropriation of present income would be the basis for a fully-fledged socialised bank. The National Development Fund, in other words, would be the precursor to a fully socialised National Development Bank that would administer loans for productive investment purposes. With superannuation funds expected to grow in the medium to long term there is nothing to suggest that the billions of dollars that derive from pooled savings could not underwrite a National Development Bank.

It is important to acknowledge that a socialised bank is very different from a socialised banking system. Moreover, there is nothing intrinsically contradictory in a socialised bank operating within a deregulated liberal banking sector. The point is that domestic financial

deregulation and the concomitant internationalisation of finance do not preclude a nation state from instituting a NDF with the purpose of utilising pooled savings for productive investment. Thus, unlike a neo-liberal economy, in which *ad hoc* private investment cannot ensure sufficient demand, the task of a negotiated economy is to ensure that consumption expenditure + private investment + socialised investment is equal to necessary demand.

A National Development Fund and the Socialisation of Investment

The first logical step in developing a NDF is to cap overseas investments. The ceiling could be set at 15% of total superannuation assets, for example. With tightened domestic prudential legislation, capital controls of this nature could be enforced, notwithstanding the more general process of financial liberalisation that has occurred. Unlike other forms of capital accumulation that are subjected to both domestic and international inputs, capital accumulation derived from domestic pooled savings is inherently 'home based'. Pooled wage earnings, in other words, only become internationalised after and not before the accumulation process.

According to the (Australian Prudential Regulation Authority (2003), Australian assets held overseas by superannuation fund managers amount to $98 billion, comprising 18% of total assets held ($549 billion). If overseas investments were capped at 15% of total investments, I estimate that $16 billion dollars would return to Australia's shores. If, on an annual basis, superannuation fund managers were required to make these resources available to the NDF for investment in new industrial capacity, the government could borrow from the fund for planned investment to meet necessary demand and reimburse the private superannuation funds by issuing Commonwealth government 10-year bonds. Even if superannuation fund managers allocated only this small percentage of their total assets to the NDF over a fifteen-year period, I estimate that the NDF would grow to over $240 billion. More importantly, as Boris Frankel (2002: 33) argues, additional taxation revenue generated by meeting necessary demand, in conjunction with GDP growth and savings

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associated with a reduction in welfare costs, could generate up to $6 billion each year—more than enough to meet debt repayments.

The Federal government could also provide various tax incentives, such as favourable capital gains and tax rebates, to encourage superannuation funds to invest their funds domestically. A sliding taxation scale could apply which would give incentives to superannuation funds to invest in productive infrastructure. In addition, the Commonwealth government could reintroduce concessional tax treatment on the condition that superannuation fund managers hold 30 per cent of assets in government securities, of which a proportion would be held in Commonwealth government bonds. Finally, decision-making institutions would need to be established that would seek to determine national strategies for economic development and the regeneration of productive activity (Dow, 1996: 153). Currently in Australia no such decision-making institution exists, though past institutions such as the Economic Policy Advisory Council (EPAC), the Australian Manufacturing Council and the Commonwealth Development Bank all attempted, in varying degrees, to institutionalise and develop long-term investment strategies that would lead to economic regeneration.

The De-privatisation of Superannuation

De-privatising Australia's superannuation funds would be a stronger policy. The following proposal illustrates how it could work. Each new entrant entering the labour market would be given an Australian National Super Scheme account number (ANSS). The current 9% compulsory employer contribution on behalf of employees would be raised to 10% for all new entrants. Legislation would then direct seven tenths of the total employer contribution to be invested in the ANSS. Individual employees would have the choice to invest the remaining three tenths in a superannuation fund of their choice. An employee would have the opportunity to invest totally within the ANSS if they so desired. Existing employees in the labour market would not be affected by the changed prudential legislation. They would, however, have the opportunity to have their 9% compulsory employer contribution invested in the ANSS. Unlike private superannuation funds, the ANSS would only have

members, so there would be no appropriation of profit by shareholders. As such, it could be envisaged that individual accounts would grow at a rate of at least at the sector average. Thus, for members of private superannuation funds that receive below average returns, an incentive would exist to transfer their funds to the ANSS. Industry funds would also have the opportunity to join the ANSS. Akin to existing prudential practice, workers could choose to contribute above the compulsory 10% to any fund if they so desired.

Using current total Australian superannuation assets as a guide, it is envisaged that over two decades the ANSS would be in receipt of billions of dollars to be tapped for productive investment purposes. In 1983, for example, Australian total superannuation assets stood at a modest $40 billion (Australian Institute of Health and Welfare and the Office for the Aged in the Commonwealth Department of Health and Family Services, 1997). By June 2003, two decades decade later, Australian total superannuation assets stood at $533 billion (Australian Prudential Regulation Authority, 2003). Current estimates suggest that by 2015, leaving things unchanged, Australian superannuation funds are projected to grow to over $1300 billion dollars (Frankel, 2002: 32). Given the magnitude of pooled domestic savings, there can be little doubt that, given political will, nation-states have the 'room to manoeuvre' in relation to macro economic management.

This proposal goes directly against the dominant existing practice of 'privatising the pension', as described by Gallery, Brown and Gallery (1996) in an earlier edition of this journal. It also differs from the position elaborated by Frankel (2001:154-160) because mine would bring, over the medium term, a substantial proportion of worker's savings back under the democratic auspices of the state. Frankel's model, by contrast, preserves capital's right to manage and administer labour's pooled savings.

However, while my proposal is a fundamental break with existing practice, its radicalism must be kept in context. It does not, for example, challenge the prerogative of private superannuation funds to operate for private profit. What it does is to allow labour's pooled savings to be tapped for investment purposes.

Obviously these proposed changes would raise political questions, as private superannuation companies' access to pooled savings would be reduced. Political protest from the financial sector is likely. However, private superannuation companies, under the above proposal, would not be excluded: they would have the capacity to bid for 3% of employer superannuation contributions in the market place—the same percentage figure that operated in 1994 (Drew and Stanford, 2003: 4). More importantly, the new arrangements would only impact upon new labour market entrants. There is nothing inherently illiberal in reducing private superannuation funds' access to the compulsory employer contribution from 9% to 3% for new labour entrants. It is simply a political choice.

A second political issue relates to the issue of citizen rights. Heterodox political economists have long argued that employment is an inalienable entitlement based upon the notion of citizenship. Accordingly, the rights of the unemployed are paramount and outweigh the rights of private superannuation funds and their shareholders to continually benefit materially from the pooled savings of workers. The notion that the subsidisation of capital should continue in perpetuity while a damaging level of unemployment continues to exist must be challenged.

International Financial Integration Revisited

Financial integration and liberalisation have made the task of 'tapping' capital as a source of investment problematic. Let us, for the sake of argument, concede that:

> The world economy has internationalised in its basic dynamics, it is dominated by uncontrollable market forces, and it has as its principal economic actors and major agents of change truly transnational corporations that owe allegiance to no nation-state and locate wherever on the globe market advantage dictates (Hirst and Thompson, 1996: 1)

Hirst and Thompson argue that this analysis is exaggerated but, even if it were true, the part-appropriation of present income allows, with political will, nation states to pursue post-Keynesian policies relating to effective demand, output and employment growth. For example, let us assume

that capital is mobile. Let us also accept that labour as a factor of production has mobility inasmuch as an Australian worker can go and sell his or her labour power for money wages in a second country. Under this scenario both factors of production are internationalised. What is not internationalised is the compulsory saving component of surplus value that remains under the jurisdiction of the nation-state where the labour was performed. In other words, the part-appropriation of present income of an Australian working in Britain remains under the auspices of the British state. Of course, it is a political choice made by the *nation-state* about how much of *its* domestic pool is internationalised and how much of it remains within its borders. The point is, even with extensive deregulatory capital processes, no impediment exists to the pooling, controlling, and exploitation of labour's combined resources for productive investment purposes by the nation-state. Stated candidly, the part-appropriation of present income is the escape clause that progressive governments who wish to de-shackle their citizens from neo-liberal governance have been looking for.

Conclusion

Capital in isolation does not invest sufficient resources in productive infrastructure to provide the demand necessary for full employment to be achieved. So the socialisation of investment *via* superannuation funds is required. The part-appropriation of present income would not be a cost to current income, current consumption or future retirement incomes if higher economic output and employment results from the socialised investment. The part-appropriation of present employee income would indirectly subsidise domestic capital, but this is both rational and in labour's interests, as the part-socialisation of present income is the vital instrument relating to the achievement of full employment. There are various practical institutional means by which pooled employee funds could be used in the socialisation process, as demonstrated in this paper. Furthermore, in the medium term, employee funds could be de-privatised.

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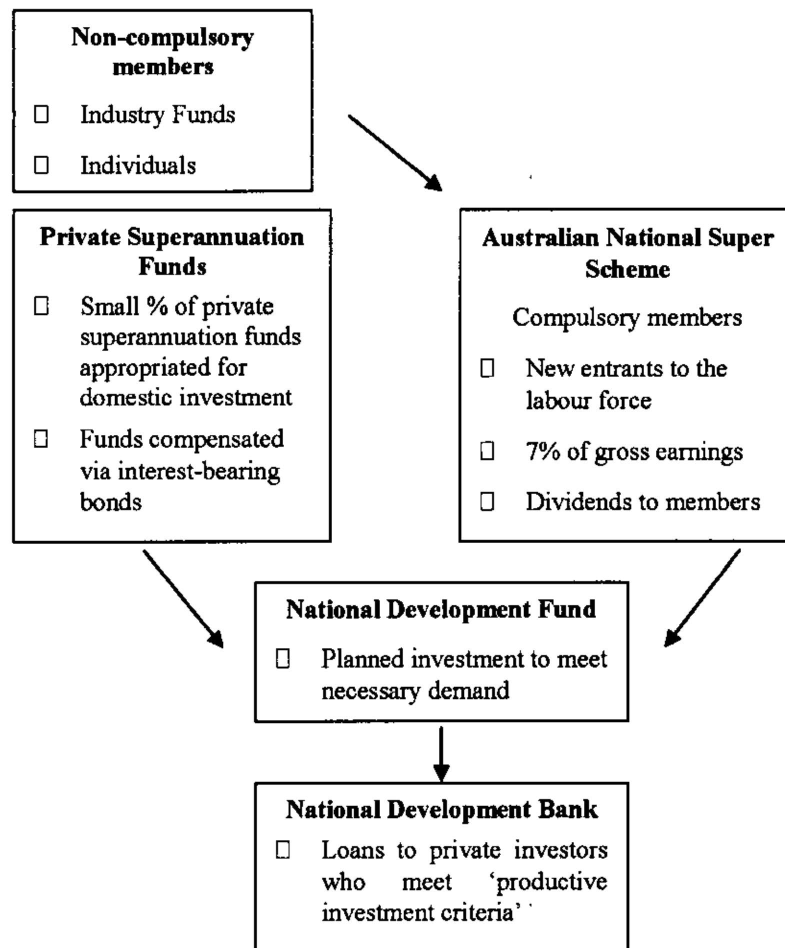
Figure 2: An Australian National Super Scheme and its Relationship to the Socialisation of Investment.



The above schema illustrates the relationship that could be established between an Australian National Super Scheme, a National Development Fund and a National Development Bank.

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