Opinion

Trump won due to worker resentment. Could the same happen here?

Beyond the effects on measured productivity growth, when it comes to shared prosperity, we also need to look at the role of pure profits.

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Economists agree that the three Ps of population, participation and productivity are the drivers of economic growth. But a fourth P – pure profits that exceed the risk-adjusted cost of capital – constitute a large and growing part of Western economies, leaving a smaller share for workers in the form of wages.

Donald Trump capitalised on the resulting worker resentment to win the US election. Could the same happen here?

Treasurer Jim Chalmers has announced a new effort at national competition policy. **Alex Ellinghausen**

Australian wages adjusted for inflation stopped growing during the pandemic and have fallen sharply since. While real wages have resumed growing in the past year, they still have a long way to go to reach pre-pandemic levels.

Australia's measured productivity growth has been in decline for at least a decade. But it's not all bad news. The evolution of the modern economy was driven by technological change, first in agriculture, then manufacturing, and more recently in clerical services.

These changes are all drivers of productivity growth, which has resulted in fewer resources being required in these activities to produce a given level of output.

Services rise in successful economies

Workers have been diverted to service activities, particularly in the "non-market" sector, which includes education, healthcare, aged care and policing.

As a larger proportion of economic activity is devoted to these services, for which, owing to measurement difficulties, measured productivity growth is assumed to be zero, overall productivity growth will naturally slow.

Market concentration enables oligopolistic businesses to retain pure profits.

But isn't this the hallmark of a successful economy and society – more resources being devoted to educating children, to offering older people healthier and longer lives, and to living in safer communities?

Advances in care services, including post-operative care and palliative care in the home, improve lives despite making no impact on measured productivity growth.

Under conventional thinking, productivity in education could be lifted by doubling class sizes per teacher and the number of hospital patients per doctor or nurse. But do we really want this to happen?

Declining measured productivity growth has been a feature of all advanced economies as workers move into labour-intensive service industries.

Beyond the effects on measured productivity growth of these desirable structural shifts into the service economy, when it comes to shared prosperity, we also need to look at the role of pure profits – otherwise known as rents.

Boston College economist Simcha Barkai argues that both the labour share and the capital share have fallen in the US, while the share of pure profits has increased.

He finds that pure profits accounted for almost $15,000 per employee in 2014, nearly half the median personal income.

Is it any wonder working Americans were disgruntled and, ironically, voted for a businessman, Trump, who was successful at tapping into this discontent?

Improving competition

Large businesses don't stifle productivity growth. In fact, they are often best positioned to use economies of scale to gain efficiencies and adopt new technologies.

But market concentration enables oligopolistic businesses to retain pure profits for their shareholders and senior management, while legal firms and merchant banks thrive on facilitating further mergers and acquisitions.

Various Australian governments have had a go at improving competition, including the Whitlam government with its 1974 Trade Practices Act, the Keating government's response to the Hilmer review, the Rudd government's efforts to create a seamless national economy through 27 areas of federal-state regulatory reform, the introduction of the Competition and Consumer Act in 2010 and the Turnbull government's response to the Harper review of competition policy.

Treasurer Jim Chalmers has announced a new effort at national competition policy, which has been agreed in principle by the states and territories.

The Productivity Commission has released an ambitious program of inquiries to support this process. Its chair, Danielle Wood [https://www.afr.com/link/follow-20180101-p5kqmq], will participate in this week's Melbourne Economic Forum to outline the commission's early thinking, along with former ACCC chair, Professor Allan Fels [https://www.afr.com/link/follow-20180101-p5kp48], and Professor Peter Dixon of Victoria University's Centre of Policy Studies.

Despite these many attempts at making the Australian economy more competitive, its remains dominated by oligopolies.

Changes to mergers and acquisitions announced earlier this year, together with the outcome of the renewed effort at national competition policy, have the potential to shift the dial towards an open, competitive economy.

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