In the Public Domain+

(Thinly) Disguised Politics?

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Fritz Machlup once wrote that:

> By infusing a value judgement, a political philosophy or programme, or a rejection of a programme or policy, into the concept of equilibrium designed for economic analysis, the analyst commits the fallacy of implicit evaluation or disguised politics.

By replacing "equilibrium" with "productivity" in the preceding passage, we obtain a remarkably prescient comment on contemporary Australian labour policy debates.

Agricultural economists cut their professional teeth on the conundrum of whether yield per hectare or yield per animal should be maximized. The answer, obviously, is neither — neoclassical optimization requires marginal, not average, concepts. Indeed, we know how to maximise the yield of input X_1 for a given level of output — *viz.* by *minimizing* yield of input X_2. Why in macroeconomic debates the concept of "productivity" *i.e.* output per labour unit — should loom so large is puzzling.

In the study of grand sweeps of economic history, it is customary to compare economic welfare between epochs or among nations by income per head. Economic historians and economists interested in history are, however, usually punctilious in observing that income per head is not usually a satisfactory proxy for welfare even if, invariably, they ultimately resort to using this measure. Some intellectual respectability may, of course, be attached to output per head — at least in the context of one-sector growth accounting models with constant returns to scale production functions.

In most neoclassical models output per head or its growth rate are consequential variables. "Productivity" connotes no normative meaning. However, since more income per head is clearly better than less *ceteris paribus,* we cannot fail to be interested in policies which result in its increase, although we will also clearly be interested in the costs of obtaining increased productivity.

There is a natural tendency to assume that, if output per labour unit is too low, the answer lies in doing something about the labour units. Thus, for example, it is "obvious" we should deregulate the labour market. Paradoxically, however, if the consequence of deregulating the labour market is to simply decrease real wages — *e.g.* by removing the floor to wage rates provided by unemployment benefits — productivity will *fall ceteris paribus.* Even without the "ceteris paribus", a decline in real wages relative to the cost of capital will reduce productivity. Thus the most likely immediate consequence of deregulating labour markets will be to *reduce* productivity. Only if labour market deregulation affects the supply and demand schedules for labour by affecting the shifters of these schedules might productivity be improved at lower wage rates. Of course, lower wage rates also imply distributional effects whose consequences should be evaluated simultaneously with efficiency benefits.

It is obvious from both comparative static and growth accounting models, that productivity is a function of many variables other than labour — *e.g.* the volume and quality of the capital stock, the quality of management. Do the high share prices recently paid in (attempted) takeovers of major Australian companies — *e.g.* BHP, Herald and Weekly Times — in the absence of major structural changes in the labour market indicate that previous management has substantially contributed to poor productivity? Does the dramatically improved

+ This new section is intended to provide an intellectual forum complementing the Sunday afternoon soapbox oratory beloved in major cities around the world. "The Domain" is the location of Sydney's oratory. Contributions to the section are welcome (please contact the Editors).

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profitability of recently divested companies — *e.g.* Nylex — reflect less than satisfactorily on the previous management? Are the widely-publicised work practices, identified by some as causes of low productivity, an indictment of the workforce who sought them, or the managements who granted them and/or failed to negotiate their removal once economic circumstances changed? Can we expect capital widening and deepening — a possible source of increased productivity — to occur at a time of an accelerating flight of Australian finance capital overseas in the wake of the removal of exchange controls in 1983? Could Australia's apparently poor productivity performance result from a failure to invest in R & D and seize the opportunities offered by new technologies? (In the mid-1980s the British Government was pointedly criticising the poor record of British management in turning scientific work to technical advantage and industrial profit).

Facing major economic difficulties, we should not be seduced by disguised politics into thinking that low output per labour unit is solely, mainly — or even necessarily — a reflection on the labour force. A coherent economic analysis, let alone coherent policy, requires a critical evaluation of all the markets affecting productivity — the management, capital goods, finance, new technology, material inputs and risk markets, as well as the labour market. Or, perhaps, as economists, we should be interested in the *efficiency* of *all* these markets.