

The preconditions of prosperity - and jobs

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Orthodoxy

Central to tolerance of inequality are the views that:

1. Money directed to wealthy investors will trickle down.

(i.e. *sufficient* to create jobs).

2. Only (or mainly) the private sector creates jobs.

(i.e. *necessary* to create jobs).

This address will focus on 2. It represents a search for causality.

Scott Morrison's view

"The Government understands that a dollar in your hand means you are more likely to make it into \$2, while a dollar in the Government's hand is more likely to turn it into 50 cents," he said.

Treasurer Scott Morrison, National Press Club, 16 February 2016

The malign effect of GDP

GDP is the mainstream measure of economy's vigour. Deep defects, including:

1. Flow account, not balance sheet, ignores declines in stocks of capital - natural, human, financial.
2. Measures all traded goods and services, whether good or bad for well-being;
3. Celebrates growth, not sustainability. An economy relying on endless expansion is doomed.
4. Considers government services (e.g. health, education, park rangers) as worthless.

Preconditions for a profitable business: local scale

A hypothetical small business requires:

- Input goods and materials
- Skills to convert inputs into product
- Knowledge – about materials, production process, weather...
- Distribution system or logistics chain
- Public institutions and services (e.g. law & order)
- Customers with discretionary income.**

□ Input goods and materials

- processed goods and materials
- factories and farms

- raw products of the earth, including energy
- land and mineral tenure (property rights)
- water grid
- electricity grid*

* shambles if left to market

- Skills to convert input materials into product
 - on-the-job training
 - universal education*

* even private providers need government (to set standards, compel attendance, subsidise cost)

□ Knowledge – about materials, production process, weather...

- commercial media
 - internet
 - word of mouth
 - industry associations
-
- government extension
 - public media
 - libraries
 - research organisations
 - CSIRO, ABC

- Distribution system or logistics chain
 - transport companies
 - trucks
 - equipment e.g. electronics

- transport infrastructure
- Australia Post
- telecommunications infrastructure.

□ Public institutions and services

- police
- weights and measures
- uncorrupt town planning
- corporations law
- contract law
- currency
- prudential regulation
- health care
- workplace regulation

- protection from unfair competition.

Invisible because have worked well, most of time.

“Gov’t intervention” is nonsense: gov’t creates markets. Even a private contract is underpinned by the enforcement by the state of contract law.

- **Customers with discretionary income**
 - **statutory & policy measures for equality.**

The Industrial Revolution gained momentum in England rather than the Continent because political emancipation allowed the poor to enter the market for goods and services.

Markets cannot deliver equality because *by definition* they deliver the goodies to those with purchasing power.

Preconditions for a healthy economy: state and national scale

Zooming out, governments must also:

- coordinate between government, business and the community
- steer investment to the most beneficial purposes (benefit cost, public interest test)
- protect sources of wealth e.g. environment
- rein in corporate power
- share good fortune around.

Sharing good fortune around

Explanation of final item on previous slide:

- share good fortune around.

“Share” implies progressive redistribution of material circumstances so that life opportunities are equalised from birth.

“Good fortune” in the slideshow implies that large accumulations of wealth commonly derive from luck, inheritance or other favours such as monopoly pricing bestowed directly or indirectly by government – not ‘deserved’ simply through individual enterprise and merit.

Preconditions for a healthy economy: state and national scale, 2

Also, governments must prevent leakage through gaping holes:

- ❑ free trade and foreign investment by companies playing by different rules;
- ❑ diversion of economic capacity, including private capital, to dead-end consumption such as private toll roads or some armaments;
- ❑ drug addiction, crime, prisons - inevitable with a marginalised underclass.

A different view of 'productivity'

Mainstream view: rising living standards depend on better productivity, which depends on business profitability.

Alternative view: easiest way to boost productivity is to put underemployed to work.

Do this by improving their capacities and life skills, allow them to enter markets.

Preconditions of preconditions

Mostly, public services come first – infrastructure before transport. Every private capacity has roots in public institutions and services.

Given faith in individual initiative, if we nourish the roots, enterprise should flourish.

To nourish the public institutions identified above:

1. Strengthen multi-disciplinary policy analysis (e.g. today's conference).
2. Honour public servants, give them secure tenure.
3. Fund public institutions adequately.
4. Remember: Nature has the last word.

Summary

A nation's prosperity depends critically on its public institutions.

These depend critically upon the education, competence and independence of its public service.

Anti-government chorus – by business advocates such as Business Council of Australia, Institute of Public Affairs, Murdoch polemicists and penny-counting Treasuries – poisons the roots of economic prosperity.

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