

A Splendid or a Happy Land?

*Such is the hold of the libertarian view in Australia today, few can perceive of alternative ways of organising our economy and society. It seems, at the political level at least, we have no real understanding of how happiness can be increased and inequality decreased. Moreover, we have all but lost sight of the notion of using an understanding of the causes of happiness to promote the greatest good of the greatest number. This paper by **Emeritus Professor Tim Robinson** suggests an alternative to the current direction in which the ALP is headed.*

On Easter Monday *The Australian* reported the late Neville Wran considered his government would be best remembered for saving the rainforests of north-eastern NSW. It also published an opinion piece by notoriously dry economist Andrew Leigh calling for the Australian Labor Party (ALP) to measure the effectiveness of policy in terms of its effect on inequality, which he noted has increased significantly over recent decades. The same day *The Australian* also reported John Curtin's great grandson had discovered Curtin was part of a socialist poetry movement – using poetry to make arguments for change.

Each of these stories serves to remind us the Labor Party has traditionally held aspirations to improve quality of life, rather than simply raise income and wealth. Is this still the case? Increasingly (although perhaps not obviously) it seems economic ideas are driving ALP political policy making.

To intervene or not to intervene?

The post World War II revolution in policy leading to the establishment of the welfare state and the widespread intervention of governments in the economy was underpinned by the ideas of mainly English economists who abandoned *laissez faire* in favour of intervention.

On the one hand, this revolution saw macroeconomists, such as Maynard Keynes, argue for stabilisation and growth in national economies through increased government expenditure. On the other hand, micro-economists (like Marshall, Pigou and Little) demonstrated the conditions required for the achievement of efficiency in individual sectors of the economy.

The body of literature developed by this latter group came to be known as welfare economics, where the term welfare was used in its broadest sense to mean the well-being of the community. Importantly, the literature of welfare economics was not confined to consideration and measurement of monetary values alone. The role of any particular economic activity in affecting human welfare was measured by considering all of the benefits and costs associated with that activity. Thus, for example, a policy of closing down the coal industry would consider the benefits of a reduction in mine accidents and pollution alongside the costs associated with the loss of monetary profits

Welfare economics in turn led to the creation of cost-benefit analysis, with its emphasis on detecting and estimating all relevant costs and benefits of economic policy regardless of whether these costs and benefits were made explicit in monetary terms. One of the earliest and most revered exponents of the application of welfare economics to Australian policy making was Nugget Coombs. Many of Australia's most successful policy initiatives of the 1950s, 1960s and 1970s were judged by how well they passed the welfare economics test.

Today, economic commentators look back on the 50s and 60s as a golden age. This was an era of high tariffs protecting local manufacturing, fixed exchange rates, relatively rigid wages and highly regulated trading and work hours.

Each of these characteristics of the golden age was the result of government intervention. In many cases these interventions were designed to moderate the excesses of 19th and early 20th century *laissez faire* which were perceived to be destructive of economic welfare. Governments throughout the

developed world considered they were doing the right thing by intervening in markets in these ways. And that intervention was deemed to be all the more successful if it resulted in a more egalitarian distribution of income and wealth.

So why is it in recent decades Australian governments of both political persuasions have come to believe that decreased intervention in markets will promote welfare?

The answer lies in the pervasiveness of libertarian thought manifested in Thatcherism, Reaganism and more recently in Labor's third way. Simply put, the essence of libertarian economic thought is the idea that *laissez faire* will maximise welfare by maximising GDP per capita. This libertarian ideal gives no consideration to the possibility *quality of life might fall* as GDP per capita rises. Nor is it concerned with the effect on welfare of increased inequality – a notorious concomitant of *laissez faire*.

The essence of the argument being put here is that the ALP has become captive to free market capitalist ideas promoting increased material welfare at the expense of virtually all other sources of happiness. This has involved a creeping dependency on individualistic, as opposed to communitarian or collective, ideas. These individualistic ideas are borrowed from simple-minded economic libertarians who disguise their promotion of the interests of the rich by claiming to champion the interests of the individual.

Just six years before the publication of the libertarian's bible, Adam Smith's *Wealth of Nations*, the poet Oliver Goldsmith warned in *The Deserted Village* that an increase in material welfare should not be confused with an increase in happiness:

*The rich man's joys encrease, the poor's decay,
'Tis yours to judge, how wide the limits stand
Between a splendid and a happy land.*

Leaning towards the right

Let us look at some libertarian policies to see just how destructive of welfare they can be.

The move to deregulate trading and work hours is one such reduction in welfare in the name of benefits for the individual. Such is the extent of the propaganda emanating from free marketeers that ordinary folk travelling abroad are heard to describe countries without the convenience for consumers of a "24/7 opening hours philosophy" as reminiscent of the dark ages. They are shocked to discover in these countries, leisure time in the middle of the day, at weekends or during annual holidays is sacrosanct.

No free market can deliver designated common periods of leisure time designed to allow people to get together for sport, recreation and other welfare raising activities. The state must intervene. While we may hear arguments for designated leisure time in the industrial arena, it seems the Labor party is incapable of articulating arguments for the welfare-raising capacity of common leisure time. The rise of the idea of a 24/7 society dedicated to satisfying every personal whim has crowded out the idea of regulating for common leisure time and its concomitant community benefits.

A Labor party standing for welfare maximisation would put an end to indiscriminate deregulation of work and trading hours, knowing any loss in income per capita resulting from such a move would be more than compensated for by increases in human happiness accompanying the enrichment of social networks, including the family unit.

When did you last hear an influential Labor politician argue for enhanced work-life balance? (Not to be confused with work family balance designed to increase opportunities for workforce participation.) This is another area where individualistic materialistic ideas have triumphed over community values. In its never ending drive to raise material welfare the capitalist system has progressively demanded individuals spend their time in the workplace rather than on the sporting field, in the art gallery, at the movies, or at home. Australians work increasingly longer hours, the participation rate of the adult

population is high and moves are under way to increase the span of working life by increasing the retirement age. All of this so people can buy gym equipment they never use, stack fridges with food they eventually throw away, and litter kerbsides with perfectly useful furniture the remuneration from their excessive engagement with work enables them to replace.

Furthermore, the individualistic philosophy requires them to earn ever higher incomes so they can play the envy game by paying ever higher prices for homes, monogrammed clothing, personalised number plates and all those other elements of conspicuous consumption doing nothing to raise community welfare or in fact reducing it. So much for the politics of envy!

The environment is another area where policy is increasingly becoming captive to the champions of free markets. Although it could not be said of the Labor Party, the Australian Greens could never be accused of promoting individual material welfare at the expense of the environment. Indeed, the Greens philosophy, while it may champion individual freedom of thought, is largely directed at raising human welfare by improving the environment, which necessarily means limiting both individual economic freedom and growth in GDP per capita. The ALP's current eschewing of the Greens and what they stand for, puts it squarely in the individualist libertarian camp. While it will require resolve on the part of ALP leaders, to be true to Labor's traditional philosophy, the party needs to adopt economic policies more like those of the Greens and less like those of the Coalition. The Green's policies are largely about raising welfare and equality while those of the Coalition and Labor are about increasing incomes regardless of the inegalitarian consequences.

Society or self?

The welfare state will work only when there is goodwill on the part of the citizenry. When the libertarian, self-interested philosophy takes hold the welfare state becomes the rip-off state and governments of all persuasions must, if they are to control spending, limit welfare eligibility and benefits while ramping up costly policing of welfare cheats.

Prior to the spread of middle-class welfare and the culture of entitlement, welfare benefits generally were confined to the most needy. The welfare state can thrive in a community with strong collective beliefs about welfare eligibility but fails when self interest rules as it does today.

Many of the aspirations of the left in the 1950s and 1960s have been fulfilled. Today, the middle class is dominant and those truly in need are a smaller proportion of the population than ever before. If welfare payments were confined to those who genuinely needed them there would be an enormous freeing up of funds to raise quality of life (rather than material welfare) across the community.

But change would only occur after a long and hard fought campaign to get people to see things differently. The Labor party should be at the forefront disseminating these ideas which have a strong element of moral rearmament about them. After all the Labor party is the party of principle - the party which has fought hardest against injustice and exploitation.

In Australia, the idea free trade indisputably raises welfare has strong bipartisan support, coming of age in the post-Whitlam era. More support for this idea has come from the ALP than anywhere else. But assertions about the benefits of free trade can only be demonstrated by simplistic economic models relying on unrealistic and limiting assumptions, showing free trade will raise GDP per capita. But at what cost?

Excessive protection of domestic industry witnessed in totalitarian states can lead to economic stagnation. But not always. The success of Asian "economic tigers" has occurred because of, not in spite of, protection of emerging industries in these countries. In Australia a policy of protection of manufacturing was pursued for decades in the 20th century as a means of raising wages and promoting immigration. Healthy argument about the costs and benefits of protection characterised political debate in 19th century Australia, yet today libertarian inspired support for free trade has all but muzzled contrary arguments.

Even if free trade can be shown to unequivocally raise GDP per capita, this does not mean the welfare of Australians will be increased. An economy in which selective protection of industry is pursued is one in which there is more economic diversification, meaning the nation is less exposed to a downturn affecting particular industries and where the range of employment opportunities (read range of skills required) is greater. As Australians understood when they confirmed their support for protection in the 1920s, it may also be one in which the distribution of income is more equal.

There is a long history of objection to free trade. Witness the following from Goldsmith's *Deserted Village* written in 1770 when Cook was exploring the Pacific. Here Goldsmith argues the benefits of mineral exports go the rich who in turn impose costs upon the poor.

*Proud swells the tide with loads of freighted ore,
And shouting Folly hails them from her shore;
Hoards even beyond the miser's wish abound,
And rich men flock from all the world around.
Yet count our gains. This wealth is but a name
That leaves our useful products still the same.
Not so the loss. The man of wealth and pride
Takes up a space that many poor supplied;
Space for his lake, his park's extended bounds,
Space for his horses, equipage, and hounds:
The robe that wraps his limbs in silken sloth,
Has robbed the neighbouring fields of half their growth;
His seat, where solitary sports are seen,
Indignant spurns the cottage from the green:
Around the world each needful product flies,
For all the luxuries the world supplies.
While thus the land adorned for pleasure, all
In barren splendour feebly waits the fall.*



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Tim was first appointed to QUT in 1983. Prior to this, he held the position of Senior Research Assistant with the Department of Economics at the University of Queensland. His principal research interests are environmental economics and the work-leisure balance. He is also the co-author of the 2002 book [Economics for Today](#), which is widely used in introductory Economic units. His latest book, *Work, Leisure and the Environment*, explores the work-life balance and its adverse affect on the environment. Tim was appointed the Head of School in December 2006. He is the Professional Membership Coordinator for The Economic Society of Australia (QLD).

Research interests

- Environmental economics
- Applied microeconomics
- Macroeconomics
- The Australian economy