

Pre-conditions for Prosperity

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Purpose of this Presentation

To discover the preconditions for “economic prosperity”.

Definitions

“Prosperity”

Sustainable material sufficiency, distributed equitably.

“Economic rationalism”

(Australian equivalent of “neoliberalism” – international term).

A fusion of neoclassical economics and pro-business political ideology.

“GDP”

(Gross domestic product)

Tallies goods and services traded in markets. A flow, not asset account, does not track depletion. More consumption, the better. Government is tallied only as cost, GDP assumes it adds nothing of value.

Foundations

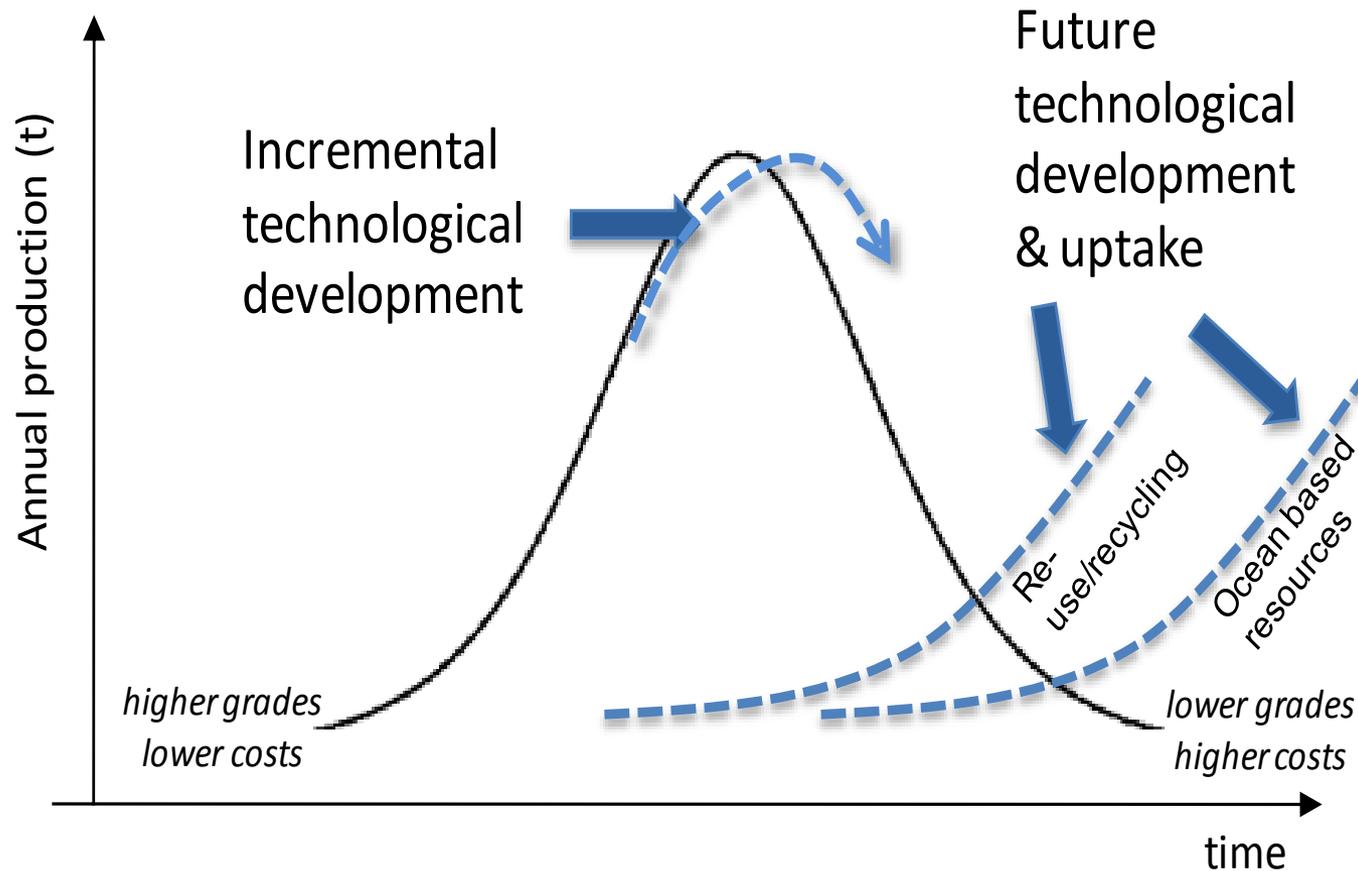
Five more-or-less unarguable observations on which to ground an analysis.

Foundation 1: There is no accepted measure of economic prosperity.

There is a measure of economic growth, *change in real GDP per capita per time period*. But growth is an accelerating not an arithmetic progression. Cannot continue indefinitely on a finite planet.

Foundation 2: Rich sources of raw materials are limited

See typical production trajectory for a non-renewable:



Source: *Peak Minerals in Australia: A Review of Changing Impacts and Benefits, 2010*

Foundation 2 *(cont.)* Rich sources of raw materials are limited

- Global oil probably peaked in 2006 and is now in irreversible decline.
- **Australia' s production of oil peaked in 2000; now import 50%.**
- On current trends coal will peak around 2020. (Martin Ferguson's 200 years is political spin).
- Peak gas 2035.
- Platinum mines in Africa are driving deeper.
- Peak uranium 2030 (without expansion).
- Worldwide, ore grades are falling and energy inputs rising: productivity of Australian mining declined by 25% from 2000-2006.

“Emerging concerns about peak minerals are not alarmist” – *Ian Lambert, Geoscience Australia, 2010* (re Australia).

Foundation 3: The global biophysical environment is in crisis

Climate change is only one indicator of impeccably documented environmental distress.

The 2005 *Millennium Ecosystem Assessment* - >1360 experts and multilateral institutions:

“At the heart of this assessment is a stark warning. Human activity is putting such strain on the natural functions of earth that the ability of the planet’s ecosystems to sustain future generations can no longer be taken for granted.”

This authoritative global account is more-or-less uncontested.

Even if climate warnings lacked all substance, environmental reasons for changing course are overwhelming – natural systems are collapsing on all sides: fisheries, groundwater, soil erosion, weeds...

Foundation 4: Public institutions underpin market activity

Markets are a construct of the society in which they operate. They coordinate within bounds set by statute, community norms and the biophysical environment.

Markets are underpinned by **government functions:**

- **corporations law, contract law, land registry**
- **physical infrastructure**
- **diplomacy**
- **health care**
- **workplace regulation**
- **(especially) universal education.**

These are invisible because they work well most of the time. Language of “government intervention” is rubbish, as if government were an alien interfering force.

Foundation 5: Our national parliament lacks scientific literacy

Field of Study of Parliamentarians' Qualifications 2008

Broad Field	No. Qualifications	%
Natural and physical sciences	11	3.2
Information technology	2	0.6
Engineering and related technologies	5	1.4
Architecture and building		
Agriculture, environmental studies	3	0.9
Health	11	3.1
Education	24	6.9
Management, commerce, economics	69	19.9
Society and culture (94 generic, 91 law)	206	59.5
Creative arts	3	0.9
Food, hospitality, personal services	1	0.3
Trade and certificate	11	3.1
Total (180 MHRs + Snters/226, 1 July 2008)	346	99.8

Analytical tools

To derive useful strategies from evidence – to guide future policy – a coherent theory is required: with explanatory and predictive power.

In the next three slides I will argue that *mainstream* (neoclassical) economics cannot serve this purpose.

Economics Primer I

Economics is grounded on four invalid assumptions:

- People are rationally self-interested
- Societies can be modelled upwards by aggregating choices of individuals
- Markets reach equilibrium if only governments get out of the way
- Natural, manufactured, human and financial capital are interchangeable.

Conclusion: If any one of its assumptions is invalid, a theory collapses. Mainstream economics is inadequate to explain the pre-conditions of prosperity.

Economics Primer II

Special assumptions of “comparative advantage” :

- Immobility of capital across borders – now demonstrably false
- Full employment at both sides of the trade – false for most countries
- No unbalanced accumulation of debt – now demonstrably false

All three now invalid: no theory to support universal free trade.

Neither is there a body of *evidence* to support (Australia’s position has ~worsened after every free-trade agreement).

Free trade reduces costs to consumers but is careless of fate of producers

Free trade in services and investment kneecaps a transition to an advanced economy, as any intellectual property or profit centre can be captured and expatriated.

Economics Primer III

Markets deliver goods and services from those who can produce most cheaply to those with greatest purchasing power.

Because:

- Economies of scale mean that costs of supply are least in large centres
- Markets take no account of *resource efficiency* such as fuel consumption, only efficiency by *price*

Therefore:

- **Markets bleed economic activity away from the periphery to the centre** – from a town to a regional centre, from there to the capital, to overseas.

Proximate Preconditions

In the next two slides, I have switched from the global or national canvas to the local.

For viability, a business needs the following preconditions:

- Customers with discretionary income
- Raw materials or supplies
- Skills to convert or package the raw materials into a product
- Information about materials, the process, regulatory requirements, markets, weather...
- A distribution system or logistics chain
- Fair, enforced trading rules.

Preconditions of proximate preconditions

- Customers with discretionary income:
 - ❖ general economic vigour in the district
 - ❖ **measures to ensure equality so that the poor enter the market**
- Raw materials or supplies:
 - ❖ goods and services fashioned by other producers
 - ❖ **raw materials and energy out of the earth**
- Skills to convert or package the raw materials to a product:
 - ❖ operatives who learn on the job
 - ❖ **operatives who come with education.**

Preconditions of proximate preconditions

- Information about materials, the process, regulatory requirements, the market, the weather...:
 - ❖ commercial media, the internet, word of mouth
 - ❖ **public media, libraries, research organisations, government centres**
- A distribution system or logistics chain:
 - ❖ transport companies, component suppliers
 - ❖ **infrastructure e.g. transport and communications**
- Fair, enforced trading rules:
 - ❖ community norms of good conduct
 - ❖ **regulations.**

(Includes protection from ruthless global trade – nothing fair about competition with a country playing by different rules).

Preconditions of preconditions of preconditions

To nourish the public institutions identified above:

1. Healthy public institutions depend critically upon *competent non-partisan policy analysis* grounded in an ethic of public interest.
2. In turn, policy analysis depends critically upon a broadly educated public service, with *multi-disciplinary insights*, fortified with deep understanding of the history of public administration.

Detailed conclusions

1. In a mixed economy like Australia's, sustainable prosperity depends on deeply inter-dependent private initiative and **healthy public institutions**.
2. In most cases, the public institutions come first – infrastructure comes before transport. Every private capacity *has roots* in public institutions.
3. Scaling upwards from local enterprise to State and national scale, need for collective action is even stronger (because of economies of scale).
4. Given individual entrepreneurialism, if we simply *nourish the roots*, people will develop enterprises that suit local circumstances.
5. But even big projects need public institutions.

Detailed conclusions (cont.)

6. Although the evidence is not presented here, our public institutions are being *systematically starved* by budget cuts.

Closure of sources of public memory such as district offices, Australian Learning and Teaching Council and Land & Water Australia does immense damage to preconditions for prosperity.

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

Summary conclusions

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

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

Perennial budget tightness destroys innovation by departments.

Restructures, voluntary early retirement, contract employment, and politicisation are laying waste to the roots of sustainable prosperity.

Rhetorical question for discussion

Our nation is fortunate to have inherited largely corruption-free, technically expert and partisan-neutral public services. But these are at risk.

Shall we respect and nurture our public services as the facilitators of prosperity?

Or will we give oxygen to the rapidly ascendant anti-government crowd who sneer at “faceless bureaucrats” who labour in the public interest to keep markets operating so that business critics can ply their trade?

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