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978-0-521-69943-3 - How to Argue with an Economist, Second Edition: Reopening Political Debate in Australia

Lindy Edwards

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How to Argue with an Economist

Second Edition

This fascinating book reflects on how economics is central to our lives, and how ‘economic rationalism’ has become the lens through which all Australian public life is viewed. It explains how this economic worldview overlooks important social issues, and how it transforms Australian culture.

In this second edition, Lindy Edwards further explores its continued influence on Australian culture. She argues that recent debates about industrial relations revolve around values, and the re-making of Australia’s industrial relations system reflects a transformation in policymakers’ worldviews and priorities.

How to Argue with an Economist equips a general audience to participate in these debates, exposing their pitfalls and values and making the issues accessible to everyone. These debates are about more than economics; they are about Australian society and culture in the generations to come.

Dr Lindy Edwards is Research Fellow at the Australian National University. She has worked as an economic adviser in the Department of Prime Minister and Cabinet, a political staffer, and a press gallery journalist.

Praise for the first edition

“This excellent book deserves to be widely read ... it sympathetically and seriously engages both economists and their critics ... combines passionate argument with generosity and fairmindedness.”

Paul Oslington, University of New South Wales

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Reopening political debate in Australia

LINDY EDWARDS



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Preface to the Second Edition

For political watchers interested in how our economy shapes our nation, its culture and values, the Howard years will go down as the great Australian drift.

Five years ago in the lead-up to the 2001 election I painted a picture of two political parties grappling for a vision. They were flailing around in the dark looking for a way to take Australia forward. There was a policy vacuum as a great chasm had opened up between the worldview of Canberra's policy elite and the electorate. There was a standoff between those who believed free markets were the only way forward and a wider public who simply did not share that view. It was not an argument, as the policy elites insisted, between the educated and the uneducated. It was a debate about values and worldviews.

The divide had begun with the economic reform era. A consensus emerged among the Canberra policy elite about how to reform the Australian economy. It was to slash tariffs, dismantle centralised wage fixing and float the currency. As the rhetoric of competition, free markets and efficiency rained down, it was not just economic policy that was being asked to change. The nation's old economic system, known as the Australian Settlement, had been the foundation of Australian culture. It was the basis of our unique egalitarian ethos, the cornerstone of the 'she'll be right' attitude, and what some call mateship. The essence of our culture was on the line, and many Australians did not want to see it slip away.

The divide sprang from a genuine battle of ideas. The principles of the reform era stemmed initially from a group of bureaucrats inspired by a branch of economics. The ideas spilled out of the bureaucracy and were embraced by policy elites, including both the

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major political parties. As the ideas spread they slipped from the social science of economics into the ideology of economic rationalism. A Canberra consensus emerged embracing a fully fledged worldview. At the same time the far-flung corners of the nation were still immersed in the attitudes of the Australian Settlement. They held onto fundamentally different views about the social dynamics of the nation. It was not a divide about technicalities or expertise, but about our fundamental beliefs about how our society works.

Five years ago John Howard was straddling the divide. He was caught between the views in the public service briefings and those he encountered on talkback radio. Howard supported free market reform but knew the electorate would not tolerate it. Ever the political pragmatist he side-stepped the debate. He meandered through his first terms in office before hitting on a new social agenda. He pushed into the culture wars and asserted a conservative sense of Australian identity. He kick-started rhetoric about the 'real Australians' and made theatre of cracking down on minorities and the disadvantaged. In the name of defending 'the Great Aussie Battler' he went to war against the 'Aboriginal industry', 'dole bludgers' and refugees he dubbed 'queue jumpers'.

In the years since, these underlying dynamics have remained the same. At the foundations, the policy stalemate has lingered on. Neither the government nor the opposition has a vision for economic reform that resonates with the electorate. The Howard government has inched slowly towards free markets, with the electorate recoiling at every step. To diffuse the conflict Howard has continued his strategy of distraction. He has managed the newspaper headlines by focusing on cultural identity and fuelling people's fears. The targets of the fear campaigns have changed. The stakes are higher and the strategies are more direct. But the basic political dynamic remains.

In preparing this second edition I was vexed by whether to update the whole text or to add new sections at the beginning and the end. I decided to keep the original text intact. It was an insider's account at the time it was written, and I wanted to hold onto that. Adding new chapters has the effect of charting our history. I was surprised when I looked back at the first edition to see how

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Australia has changed. It is an opportunity to document the way we are moving through this nation-defining moment. As a result I have added this preface to bring the political context up to date and have added a new chapter at the end on industrial relations reform. I have touched up the final ‘Making sure she’ll be right’ chapter to bring its discussions of the future into the current context. I have also added a box about economic efficiency and income distribution in the ‘Arguing about efficiency chapter’ to clarify my arguments about markets not being efficient if they are not just.

The more things change the more they stay the same

To bring the text forward to the present day it is useful to explore how things have changed and the ways they have stayed the same. Three major shifts can be seen to have transformed Australia’s political landscape since the first edition.

A conservative Australia – Hanson and Al Qaeda

The bulk of the first edition of the book was written in the age of Pauline Hanson’s One Nation Party and growing whispers about Asian immigration. Quiet discussion was slowly building around Australia’s changing racial composition. There were early signs of a push away from the 1980s and 1990s embrace of multiculturalism and a return to ideas of a white Australia. But the discussion was covert. Critics attacked John Howard for his ‘dog whistle’ rhetoric. He used language that clearly appealed to a white Australia politics, but never said so directly. It was still not okay to attack someone directly because of their racial or cultural characteristics.

By 2006 Australian political debate had transformed. Concerns about Asian immigration had been swamped by a fear of Islam. The September 11 attacks in the USA had been whipped up into a fervor. Government campaigns warned people to be ‘alert but not alarmed’ and report ‘anything suspicious’. Government Ministers began to talk about people needing to conform to ‘Australian values’. In December 2005 when gang conflict went awry on a Sydney beach, talkback radio fuelled the fire. The Cronulla riots exploded, giving voice to racial tensions that had reached boiling point.

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The magnitude of the shift in political debate was highlighted when Pauline Hanson embraced statements made by Federal Treasurer Peter Costello. Costello made a speech about Muslim beliefs and insisted that immigrants must conform to the values of their adopted country. Hanson embraced his view, but demanded recognition that he had come around to what she had been arguing all along. She said, 'I was crucified, I was ridiculed, I was called racist' for making similar comments only a few years before.

By 2006 the then Opposition Leader Kim Beazley was trying to outdo the government's cultural conservatism. He put forward proposals demanding immigrants sign up to a statement of Australian values. Australia has shifted from a place where it was unacceptable for a political leader to overtly attack people for cultural difference to one where neither of the major political parties dare not to. These days there are very few people at the centre of politics speaking the language of tolerance, inclusion and diversity.

Economic precariousness and the long boom

A second shift since the first edition has been the sustained economic boom. In 2002, memories of the 1990 recession were still vivid. There was a sense we'd only climbed out of the downturn recently, and that we could be thrown back into that uncertainty at any moment. The Asian currency crisis of 1997 had sent policy makers and the electorate into nervous anxiety. The dip of 2001 prompted a similar flurry. The sense of vulnerability was palpable. The fear of another recession threatened. But it was not to be.

Australia has now experienced 15 years of growth. The initial climb out of recession was kicked along by a housing boom. The First Home Buyer's Grant, introduced to soften the blow of the GST (the goods and services tax), helped spark an escalation in housing prices. As home owners watched their assets grow, they splurged on the credit card to celebrate. There was consumption and credit-fuelled frenzy. Australia's private debt levels reached dizzying heights. And just as we thought we had got as far as we could on a no repayments plan, we got a further hand-up from the resources sector. Australia was plugged in to provide China with its natural

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resource needs. As China's economy leapt into the stratosphere so did we. We were spurred on for even further growth.

In 2006, the long shadow of the recession has almost vanished. Any economist knows the next recession will inevitably come. But after years of wondering whether this year might mark the end, we've started to discount doomsayers. Personal debt levels are at an all time high, and the nation's foreign debt needs breathing apparatus for the altitude. But we have come to take plentiful jobs and good times for granted. The spread of the economic spoils has been patchy. A severe drought, the persistence of long-term unemployment and the delayed take-up of young workers has meant the bounty has not been evenly shared. But while the government continues to parade around headline growth figures, these hardships are put down to personal failings. Australia has got relaxed and comfortable in a boom mentality.

Howard – From 'bumbling and visionless' to 'master statesman'

A final shift since the first edition is the transformation of the polling landscape. The first edition highlighted the volatility in the electorate. The voters had punished Keating with a resounding rejection in the 1996 election. Howard was thrust into office without an identifiable agenda. He meandered through his first term in office. He clung to gun control in the wake of the Port Arthur massacre to allow him to sneak back in 1998. In 2001, the electorate was in uproar over the introduction of the GST and looked set to eject Howard in the upcoming election. It was only as September 11 exploded into the world's consciousness that there was a sharp reversal in the polls.

In the years since, we've witnessed John Howard's elevation from 'visionless also-ran' to 'master statesman' and political strategist extraordinaire. Far from being volatile, the Howard government's hold on power seems impregnable. To political watchers on all sides of politics there has been growing belief that the top job is Howard's for as long as he wants it.

Howard's domination has been achieved through a masterful mixing of wealth and fear. As the economy has grown people's

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homes have expanded and television screens have widened. Australians have experienced a period of great wealth and are clinging to their comforts. But they have embraced a precarious safety as they have become fearful of what lies beyond the McMansion's gates. Those who have dared stick their head up have been assaulted with the politics of fear. Howard has alternated between the left jab of economic collapse and rising interest rates and the right jab of the terrorist threat. Punch-drunk and frightened most Australians have withdrawn into their heavily mortgaged homes.

Howard has become the leader who makes Australians feel safe. In the 2004 election he campaigned on 'trust' despite a number of scandals that exposed the slogan to ridicule. He knew that trust was a deeper issue. The boom of the 1950s and 1960s had created a confident, experimental generation that wanted to change the world. The boom of the 1990s–2000s created an inwardly focused generation of consumers, fearful of the world that lies outside. Australia has become a society that self-medicates its anxiety with retail therapy. And Howard has become its patron saint.

The continuities

These transformations make the Australia of 2002 feel a world away. Yet lingering beneath the surface there is also enormous continuity.

In June 1999, Prime Minister John Howard was quoted as stating that he did not believe greater government intervention in the economy was the way forward, but that the electorate would not tolerate government withdrawing. In 2006 he reiterated his commitment to free markets, declaring Margaret Thatcher and Ronald Regan to be his heroes, but continued to concede that the electorate does not support further free market reforms. He has been hamstrung by the schism. The last five years of his government reflect a political paralysis.

Economic policy has been largely in a holding pattern. Howard has had a few tilts at economic reform, but each has seen the electorate recoil. The GST and industrial relations both saw Howard nosedive in the polls. The government had to back down on the Snowy Hydro and postpone the sale of Medibank. They faced

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strong opposition to the sale of Telstra. The electorate's distaste is clear. But Howard still believes in free market policies, and inches towards them.

Labor has not offered a new injection of ideas either. Labor has been politically out-maneuvered in a way that has pilloried its political fortunes. The 1990 recession has hung like a lead necktie on each succeeding Labor leader. Their overwhelming failure in the public's eyes is that they are seen as having caused the 1990 recession. Their lack of economic credibility has made it hard to innovate and suggest alternate economic approaches. They have not dared err from the government's line for fear of being targeted as economic cowboys.

It has been a devastating shackle for the party. Their commitment to economic social justice built the bridge between their working class and latte socialist constituencies. They have not been prepared to campaign on the one issue that unites their supporters. As a result, they have fallen prey to divide and conquer tactics. Howard has systematically exploited the values divides between Labor constituencies. In the absence of being able to advocate its core values, the Labor Party has collapsed in a crisis of identity. To all and sundry it is no longer clear what they stand for.

For Australia, this has meant that there has been a policy drift for more than a decade. Economic settings have inched in the same directions as the reform era. But they have done so ever so slowly. There have been more privatisations, the slow and half-hearted continuation of competition policy, and the definitive end of the wage arbitration system through new workplace laws. Yet, to a remarkable degree the policy drift has meandered on.

Economic challenges on the horizon

The long boom has buffered any impetus for an economic re-think. If the economy had been in the doldrums there would have been more pressure for action. Governments would have needed to sell economic ideas that appealed to the electorate. They would have been forced to tackle the divide head on. So far the trappings of prosperity have enabled the debate to be shuffled to the back-burner. But that may be about to change.

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The economic storm clouds are brewing. While the headline growth rates are strong, the story on the ground is increasingly patchy. The bubble boom was fuelled by consumer debt and there are few emerging industries to pay the bills. For the moment the official numbers are being held up by the Western Australian and Queensland resources sectors. But things have started to falter in the south-eastern states. Droughts, interest rate rises and petrol prices are putting households under pressure. The over-indulged credit cards and mortgages are getting harder to manage. Bankruptcies are on the rise.

The economy is also still burdened by the fallout of the reform era. Much has been made of the escalating fortunes of the rich. But it is the picture at the bottom end that is most disturbing. The economic restructuring between the 1970s and 2000 saw the proportion of working-aged men in full-time jobs drop a stunning 20%, from about 87% to only 67%. Some of these men are in education, others in part-time work, but many have ended up on some form of welfare. When all the different types of benefits are combined, nearly 20% of working-age Australians rely on government benefits. The years of growth have made remarkably little inroads into what has become an entrenched underclass.

As the boom crumbles the major parties will be sent scurrying for solutions. They will need to put together an economic strategy that appeals to the public. Ideas about the economy will burst back onto the political agenda. The challenge will be to put together a vision that addresses the major problems of our times, while still acknowledging the role of our economy in shaping our culture and values.

It is not enough for an economy to deliver headline growth statistics. The aggregate numbers are only part of the picture. Sitting below the numbers are communities, businesses and workplaces. Economic relationships make up the bulk of our social relationships. The jobs we do, where we work and how we relate make up the essence of our day-to-day lives. The economy is not separate from the social system. It is an integral part of a culture and a way of life.

The Australian Settlement was one of the cornerstones of Australian culture. The Settlement was not perfect. Nonetheless, as

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an economic strategy it shaped our view of the world. We lived in a society where the community made decisions about how they wanted to live and set about organising an economy that could deliver it. It embodied our belief that we can come together and collectively manage ourselves. It was a manifestation of our assumption that we can author our own communities.

The Settlement also underpinned our unique blend of individualism and egalitarianism. The ethos of ensuring no one fell too far behind contributed a sense of we are all in this together. The collective commitment to equality (at least amongst white men) created a culture in which people saw one another as allies. It built a culture of social trust. It has generated a sense of safety that permeates our communities so completely we only acknowledge it when we quip that ‘she’ll be right’.

The era of market reform challenged that culture. We had years of being bombarded with rhetoric of government relinquishing control to the market. We were told that governments are slow, cumbersome and ineffective, and that free markets do a better job. That democratic government could not withstand the global forces of capital flows. That government is weak and inefficient relative to the mighty power of the market. The message was loud and clear. We did not have control over our collective lives anymore.

We were also told to relinquish the ethos of egalitarianism. The commitment to full employment and arbitrated wage fixing was abandoned. As Australia transformed from one of the most equal societies in the western world to one of the least, we faced changing our national character. As high-income earners race ahead while large chunks of the population languish as long-term unemployed, it changes our relationships to one another. As some become comfortable in a world of abundance while others skip from one low-paid casual job to another, it undermines our shared experience. Social solidarity is threatened and we risk becoming a different people.

As Australia comes out of the long boom we will have to re-imagine ourselves. We will have a choice about whether we find new ways forward that hold on to the old ideals of the Australian Settlement. Or whether we continue with the directions of the reform era and accept the cultural change that will bring.

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We will be re-thinking our future in a new context. The post-September 11 era has seen the re-birth of the strong state. Federal governments have stepped forward and re-taken their place as protector of the nation. It remains to be seen whether that will extend to protecting communities from other global forces. We will also be facing new challenges, many of which are also confronting others around the world. There will be the response to climate change as the international community moves to cut carbon emissions. The technological revolution has also created economic schisms in many advanced democracies. It has rendered the unskilled unemployable while the highly skilled have raced on to higher and higher wages. Australia will have a choice about whether we import other countries' solutions to these problems. Or whether we dream up some of our own that are more in line with our traditions.

As we undertake this new journey understanding economic rationalist ideas will be as important as ever. There will be a national debate to be had about the role of markets and our ability to shape and constrain them. It will be essential to understand both the strengths of free market ideas and the values and beliefs behind them. My intention in writing this book was to equip people to participate in such debates no matter which side you are on. I hope you find it a lively introduction to some of the major philosophical and political debates of our time.