



# Preface

This paper has a simple purpose: it seeks to challenge the status quo now prevailing in the broad Australian debate about economics and politics.

We begin with the paradox that the unparalleled prosperity delivered by economic reform over the past twenty years has been accompanied by a widespread flight from economic reality.

Since continuing economic reform is necessary to achieving sustained and sustainable prosperity, we argue that the constituency for reform must be rebuilt. The obvious focus for that rebuilding lies in the implied consensus around the desire for economic growth. Only a free enterprise economy can achieve that growth; we restate the arguments for and the principles of such an economy, with the emphasis on free individual economic actors operating within a framework of necessary civil institutions.

In further sections, we examine Australia's record of growth and prosperity over the last few decades; and at possible reasons for discontentment with reform and prosperity. In the closing section we look at the now-contentious issue of globalisation and its impact both on Australia and on the poorer nations of the world. As in the rest of the paper, we conclude that there is no alternative to wider and deeper economic liberalisation.

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## Setting the Scene

### I. Background

#### Prosperity and Insecurity: the Paradox of Australia

Australia seems to be enjoying remarkably good times.

The rate of our economic growth - and by September 2000 the economy had grown for 37 successive quarters - has been well above its usual levels, and may be establishing a higher trend. Unemployment, which was stuck at an awkward level for so long, seems at last to be slowly trending downwards - perhaps to stabilize below 6.5 per cent for the first time since the mid-seventies.

While the rest of our part of the world was experiencing serious economic crisis two or three years ago, we seemed largely unaffected by our neighbours' sudden change of fortune. And as our neighbours' economies continue now to improve, we can only benefit. Few of us stop to analyse the good news, to ask whether our recent good performance is the result of good luck or good management.

But at the same time as there can be a justifiable confidence that we are at last poised to take advantage of a long-term upward swing in our fortunes, the political cycle is revealing quite a different outlook on the world.

Although the sometimes hysterical political extremes which marked the 1998 Federal election have perhaps faded, the underlying mood of a significant portion of the electorate - a mood characterized by degrees of fear and alienation - has not much changed. In received wisdom, this is one of the lessons of the 1999 Victorian State election. It underpins the 2001 WA election result which saw Pauline Hanson's One Nation Party secure almost ten per cent of the primary vote, and it is casting a long shadow over the Federal election due later this year.

This is a testing time for politicians, for the electorate, and for the future of the Australian policy debate in general.

The political context is not heartening. There is still a widespread feeling that economic reform is a threat to our security whether as individuals, as families, or as communities.

There is a widespread feeling that governments have for too long now been under the sway of faceless 'economic rationalists', and that reform has gone too far.

There is still a belief among the voters of regional, rural and outback Australia that they have been abandoned - by State and Federal governments, and by Corporate Australia - to an irreversible economic and social decline, losing both population and infrastructure.

There is, as well, a perception that the increased 'globalisation' of the world's economy is a threat to our economic and political sovereignty. This economic insecurity is often backed up by a cultural and social insecurity, a strong belief that an authentic Australia has been abandoned to modish multiculturalism, usually coupled with a strong resistance to higher levels of immigration.

This phenomenon usually expresses itself in negatives, as being 'against' this or that. Insofar as it can be expressed in positives, it would seem to be 'for' a closed economy, for instance, and overwhelmingly 'for' a return to big and intrusive government.

This is in itself a major additional paradox, since it is widely agreed by analysts that one of the sources of the phenomenon is a loss of faith in politics, in politicians and their bureaucracies, and in the political process itself.

Again, few stop to analyse this pervasive web of beliefs. Some, indeed, willingly exploit it and reinforce it.

We begin the new century, then, with a paradox firmly established at the heart of Australia's political and economic life: as the benefits of the last twenty years of economic reform become more and more apparent, as both the nation and its citizens become steadily more wealthy, the constituency for reform is smaller and less secure than it ever was.

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## Governments, Oppositions and Pressure Groups: the State of Play

This inward-looking, backward-looking resistance to economic reform was originally associated with the One Nation Party. But even a slightly more open-eyed analysis shows that it is much more than the property of one party, and has more than survived that party's mixed fortunes. As far as attitudes toward essential and continuing economic reform are concerned, there is more common ground between One Nation, the Australian Democrats, the Greens and parts of the National and Labor Parties, than there are significant differences.

In Labor's case, this arises, perhaps, from the regrettable, but typical, opportunism of opposition parties. After all, it was a series of Labor Governments from the mid-eighties to the early nineties which put in place most of the economic reforms which have served us so well at the Federal level. It may be that they would rediscover their commitment to reform in office, even though pledges already made would seem to be seriously compromising.

In the case of the Democrats, a kind of principled - or at least well-meant - populism is at work, combined with a belief in do-it-yourself economics. This arises from a profound misconception of the nature of economics, economics conceived of as the 'dismal science', as coldly rationalising, and somehow inimical to human welfare. It is evident in their attitude toward the GST: supported because of the popular feeling that the existing tax system had broken down, but amended because of a short-sighted view of its effects on the poor.

The case of the Liberal and National Parties is harder to assess. At the State level, the Coalition Government of Western Australia eased back its reform processes.

It travelled more slowly and cautiously down the road of economic reform than most States.

At the Federal level, the state of affairs is similarly mixed, though on the whole more encouraging.

The Commonwealth's fiscal restraint, in reining in its inherited budgetary excesses, has served it well, although it is showing dangerous signs of being content now to rest on four-year old laurels, and it is unclear how new election promises (as, for instance, in regional infrastructure) and new necessities (as, for instance, in defence) can be prudently funded.

It did show unusual political courage in promoting serious and necessary tax reform; but, most regrettably, that has been compromised by the Democrats in the Senate, perhaps to the point where the 'New Tax System' may not have been worth the courage and pain.

The accompanying package of business taxation reforms, while less radical, has some worthwhile features; but these may be largely outweighed by the increase in compliance costs and by the attendant difficulties encountered by the small business sector.

The Senate is, again, a constraint on the Government's evident willingness to implement further industrial relations reforms. But in other areas, the spirit of reform is weak. Competition policy, for instance, now has few advocates at the Federal level.

Perhaps more seriously, the Government's position on the major areas of passenger motor vehicle and textile, clothing and footwear protection, and on other broader issues of protection, has softened into painful timidity.

Its progress on reforming social security is interesting: reforms undertaken have emphasized reciprocal obligations, rather than simple expenditure reform, and will take some time to assess.

This is an expensive approach to welfare reform, but one which may possibly yield lasting and substantial benefits of all kinds.



The Howard Government's approach to health has had a similar emphasis on implementing long-term attitudinal change, even though it has largely shrunk from the necessary task of reforming health expenditure.

Despite the rhetoric on all sides - sometimes boastful in the Government's case, and habitually carping in the Opposition's - this is not an administration ideologically bent on small government: taxation as a proportion of domestic product is at an all-time high, and its fiscal successes have largely depended on increases in revenues rather than deep cuts in expenditure.

The Prime Minister has indeed spoken of what he takes to be the 'five pillars of reform' underpinning the Australian economy - financial deregulation, tariff reduction, labour-market reform, fiscal consolidation and tax reform - and of his long-standing, strong commitment to them.

Despite this, an impartial observer might well believe that the Government's social conservatism stands firmly in the way of a strong and determined impulse to reform more widely and deeply.

It is deeply concerned at the potential impact of further reform on families and communities - and this concern chimes precisely with its political fear of the electoral impact of such reform.

It is deeply unwilling to consider that its concerns might be best addressed by a principled advocacy of economic reform undertaken with the boldness which accompanied its tax and industrial relations changes.

Outside the party political system, a new factor has entered politics with the appearance of an international movement - first seen clearly at the Seattle World Trade Organisation meeting in 1999 - dedicated to halting and reversing the spread of

globalisation, especially by opposing key organisations such as the World Trade Organisation, International Monetary Fund and the World Bank.

A shifting alliance of anarchists, old leftists, unionists and environmentalists, it emerged into Australian politics at the Melbourne meeting of the World Economic Forum.

It is too early yet to assess the effect that this confused and confusing grouping will have on Australian (and global) politics, but it has at the least had the effect of further focusing concern about globalisation - in particular the activities of multinational corporations, and global capital flows.

It is a matter for grave concern that relatively few in public life, and outside politics, have sought to challenge this state of affairs.

The academic crusaders for economic liberalism of a generation ago are now largely silent.

The think tanks which ardently promoted reform have now moved on to other areas or have lost credibility.

And it is difficult to find more than a handful of reputable media figures willing to promote the cause.

The economic reform agenda is in danger of fading away - and with it, our chances of maximising sustained long-term prosperity.

This Chamber sees, therefore, a twofold need: a need to speak directly, strongly and continuously to the public about the necessity of economic reform; and a need to remind politicians at all levels - State and Federal, of all parties - of the need to return to reform.

We do so despite acknowledging that the climate for reform is perhaps less favourable than at any time in the last twenty or so years.

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With the exception  
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is the foundation  
on which each of  
us builds the future  
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more of it.

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## Growth, Productivity & Reform: Finding Common Ground

The starting-point of any renewed advocacy of economic reform must lie in some area of national consensus. After all, few Australian citizens have a deep philosophical or ideological commitment to economic liberalism as such.

Few are likely to be convinced by sweeping historical arguments.

While economic liberalism has indeed been the most spectacularly successful system of political economy known to man, that has about as much relevance to our day-to-day deliberations as the general theory of relativity. And while we are indeed benefiting now from reform undertaken in the recent past, those benefits are perceived, if at all, as being almost negligible at the individual level - or perhaps they are simply seen as the just desserts of rightfully lucky Australians.

On the other hand, it is important to note that very few Australians, equally, are convinced supporters of any doctrinaire brand of socialism, involving public ownership of resources, complete egalitarianism, massive redistribution of resources, and little personal economic freedom.

We believe that there is, in fact, a general and unspoken consensus on the important point of economic growth. With the exception of a very few ecological extremists, virtually all Australians realise that economic growth is the foundation on which each of us builds the future - and we want more of it.

We desire, first, the means of providing the personal goods - basics and necessities, luxuries and frivolities - that we feel we need to live a good life: from food, shelter, clothing and recreation, to a secure and comfortable retirement.

We desire, second, the means of providing the goods and services that we feel are needed by ourselves and the wider community: defence and national security, a better environment, roads and public

transport, schools, universities and hospitals, and a welfare safety net for the less fortunate.

It must be understood, too, that there is no inherent or natural limit to the private and public goods that each of us desires.

(The case of health care is proverbial: as citizens and nations get both healthier and wealthier, both personal and national demand for health care rises inexorably.)

These are strong desires; strong to the point where our attitudes are formed not by what we already have, but what we still want.

The economic growth which will enable us to meet these aspirations is attainable. Contrary to the views of the doomsayers and pessimists, it is possible for Australia's economy to sustain real, positive economic growth indefinitely, without running out of scarce resources, without destroying the environment, and without making anyone else poorer in the process.

But achieving growth requires a clear understanding of the policies necessary to achieve economic growth and the political courage to implement those policies.

## Looking for Good Government

Brief analysis shows that continued and increasing economic growth is the only way to satisfy the perpetual desire for more personal and public goods. And governments which fail to satisfy those desires in the end will quickly lose both their legitimacy and their ability to govern: that is the ultimate sanction and the ultimate political reason for taking on the hard decisions.

Beneath all of this, however, lies one irreducible and undeniable fact: the basic problem is that governments unaided do not know how to generate economic growth.

Governments, which after all consist only of politicians and bureaucrats no wiser than us, can fly by the seat of their pants. They can do all sorts of things which they think might be for the good of their country, which they think might generate economic growth.



But do-it-yourself politics, and do-it-yourself economics, in the end will not answer a nation's needs.

A government might, for instance, erect a tariff wall to prevent cheap imports; it might keep wages artificially low or high; it might pour money into what it thinks are the industries of the future; it might offer tax breaks and incentives for favoured investment; it might maintain export marketing cartels for its products; it might try to prevent individual industries, even individual factories, from declining and closing; it might try to shield companies from competition. In fact, none of these will work in the long term.

Worse, countries with such policies will find that economic outcomes will be largely determined by political processes. Being unable to discriminate between good and bad policies, creating a policy vacuum by having no consistent and predictable recourse to principle, their governments will respond to whichever political persuasion they find least resistible - whether it be from unions, or industry, or environmentalists, or any other well-organised grouping in the community.

The public interest, and the long-term interest, will come a very poor second. This is not, of course, mere theory or hypothesis: in fact it very much describes much of Australian (and other) government through the sixties, seventies and into the eighties.

A somewhat wiser government might refine its search for policies by seeking some economic advice. It might, for instance, come to understand that what drives economic growth is productivity; and it might then concentrate on policies designed as widely as possible to improve productivity.

But this cannot be achieved by government fiat.

It overlooks the basic flaw of all systems of economic policy which can be described as 'top-down': it ignores the social context in which economic activity takes place, in which economic actors play their roles.

By a steady process of elimination, then, we are left with the one system of political economy which will satisfy our needs: it is usually called economic liberalism, but in this paper we will call it 'free enterprise', which perhaps carries less excess ideological baggage.

### **The Free-Enterprise Economy**

No other economic system has proved as capable as free enterprise of providing the economic circumstances most likely to deliver a sustained high standard of living. The history of the modern West is an astonishing and unprecedented story of both wealth and freedom increasing and spreading to an extent once unimaginable.

In such a system, the production, distribution, pricing and consumption of goods and services are primarily determined by the choices of individuals, whether acting alone or as corporate entities.

Entrepreneurship, innovation and consumer choice ensure that scarce resources are continually employed in a manner which most effectively matches the changing wants and needs of society.

Competition ensures that goods and services are delivered as efficiently as possible, and provides a perpetual spur for innovation and improvements in quality, quantity and efficiency.

Resources are directed toward their most effective uses. Individuals are free to use their income and wealth in any way that they like: to choose to spend, save or give it away, as they prefer.

This is not to deny a role for government in the production and distribution of goods and services.

Governments should ensure the provision of public goods which the private sector would not deliver unprompted or would not deliver efficiently.

They have a role as regulators or service providers in markets which are unlikely to function efficiently in isolation, such as natural monopolies.

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It is also worth stressing what a free enterprise economy does *not* do, and countering some of the unfounded criticisms levelled at it.

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Governments in richer societies also ensure that a minimum standard of living is available for all their citizens, however contentious the determination of that minimum standard might be.

Some activities of government clearly enhance people's quality of life beyond what a market system alone might provide.

But the benefits which they deliver do not constitute an argument against free markets, except perhaps against the most blinkered libertarianism.

In fact, the provision of public goods and a social safety net requires that governments have the resources which only a prosperous market-oriented economy can deliver.

It is also worth stressing what a free enterprise economy does *not* do, and countering some of the unfounded criticisms levelled at it.

It does not, as its critics sometimes claim, put the interests of businesses above those of consumers.

On the contrary, free market policies in general, and competition policy in particular, are above all about putting the interests of the wider community above the special and powerful interest of producers and producer groups.

It does not protect and support the interests of big business.

Rather, a competitive free market economy is the best restraint on the abuses of large and monopolistic enterprises, even the trans-national corporations so loathed by opponents of globalisation.

And it is not about connivance between businesses and politicians or bureaucrats in the name of a rationalist consensus.

In fact, more than any other economic and political system, it rejects the tax breaks, corporate welfare, 'protective' regulations and other means by which business and government might collude to support the interests of business, usually at the expense of the wider community.

## The Foundations of Free Enterprise

There are three fundamental prerequisites of a free-enterprise economy, prerequisites which form the essential civil institutions needed to make an economy work.

- freedom of contract, so that individuals and businesses are unconstrained in their choices of where, when and whether to buy and sell goods and services (including labour), and in the prices at which they do so;
- security of property rights, so that individuals are free to buy, sell and use their property as they choose, so that they cannot be arbitrarily deprived of their property and rights in it, and so that they must receive appropriate compensation if lawfully deprived (in part or in whole) of those rights - and here property is taken in its widest sense, to include not only physical property but also intellectual property and human capital; and
- a legal framework which, in addition to the usual protection from fraud, threat and violence, can be trusted to defend freedom of contract and property rights impartially.

No modern economy guarantees these fundamentals without some impairment - deliberate or negligent. In some circumstances, it is legitimate and desirable for governments to undertake economic activities or to impose laws which infringe upon basic economic freedom.

But all economies which share the desirable characteristics of high living standards, relative absence of poverty, and individual freedom are - to a greater or lesser extent - free enterprise economies dependent on these essential civil institutions. Conversely, all those economies characterised by relative or absolute economic difficulty - the countries of the former USSR are characteristic - lack some or all of this framework, often despite generous endowments of natural resources and human capital.



## The Further Role of Government

Besides providing the framework in which the fundamentals of a free enterprise economy are guaranteed, government has other active economic roles.

In particular, government must ensure that it maintains appropriate broad economic settings - particularly in fiscal and monetary policy - which do not stifle enterprise, investment and growth.

The key objectives of fiscal policy should be to:

- provide an economic framework consistent with core economic policy objectives;
- deliver sufficient revenue to finance government services and benefits, while constraining the growth of overall government spending and taxation;
- ensure the efficient and appropriate delivery of services through continuous review of the range of services undertaken by government and the efficiency with which they are implemented;
- ensure that taxation and other revenue-raising mechanisms used inflict minimal damage on economic growth and efficiency;
- ensure the provision of appropriate infrastructure, both economic and social; and
- maintain structural budget surpluses (averaged over the course of a business cycle) in order that deficits are not a drain on national savings.

The proper ends of monetary policy, again framed within the context of core economic policy objectives, should be:

- a short-term focus on preventing outbreaks of inflation;
- a strategic focus on delivering stable minimum inflation in the medium and longer term; and

- reducing currency volatility through short-term exchange-rate smoothing - except in the case of 'overshoot' or market panic, the currency should be allowed to float.

The emphasis on the limitations of monetary policy here recognises that monetary policy is not an appropriate mechanism for use in short-term economic management, and that it is not a significant factor in long-term employment trends and economic growth.

Along with these general and fundamental policy roles, government has a range of more particular tasks which together form the agenda for continuing micro-economic reform.

The more important of these are:

- promoting competition in both the private and the public sectors;
- improving the efficiency and operation of general government agencies and government business enterprises - in effect, continuing the substantial progress that has been achieved toward better and more transparent budget processes, corporatisation, and the increased use of contracting-out;
- improving the efficiency of the labour market, while setting appropriate minimum and 'safety net' regulation of the labour market;
- supporting the acquisition of human capital through education and training;
- providing a taxation system which is simple, fair and transparent;
- industry policies designed to promote competitive and efficient markets;
- reducing the regulatory burden on business, and ensuring that necessary regulations are applied in a manner which minimises the economic damage they do - wherever feasible, market-based approaches to regulation should be adopted.

Over that last decade, no institutional reform has been put in place in any State (least of all WA) which would forestall abuses of power.



The issue of free trade versus tariffs, for example, never completely disappears from the policy debate because the intuitive case for 'protection' seems so strong, even though it is wrong.

## The Quality of Government - a Brief Reminder

A decade ago, quite a few Australians (not least, Victorians and Western Australians) were deeply concerned about the quality of their State Governments. As the relevant scandals receded, so did the concerns. While minor malfeasance might from time to time be uncovered, it now fails to excite as much concern as, say, politicians' salaries or perquisites.

Yet it is important to note that over that last decade, no institutional reform has been put in place in any State (least of all WA) which would forestall any of those abuses of power.

In the present context, it is worth noting that as government's share of economic activity diminishes, so does the potential scale of general abuse of power. But paradoxically, to the extent that smaller government involves privatisation, corporatisation, contracting-out, and so on, the opportunity for abuse in fact multiplies.

There is no shortage of agendas for reform (in Western Australia, for instance, the COG reports), and detail is unnecessary here. We nevertheless put on the record our strong preference for parliamentary and bureaucratic reform which will improve openness and accountability in government at all levels.

## Economics and Politics

While advocates of the free enterprise economy believe that the state which governs least is the state which governs best, somewhere along the line compromise will be necessary. We live in a democracy, where all voters have (at least in theory) an equal say in policy. Being right is simply not enough. For better or worse, Democracies work through persuasion.

We may sometimes overlook this, and perhaps with some justification. Most reform measures are opposed before they are implemented; but then the opposition fades away and the reform becomes part of the political landscape.

(Consider that the Blair Government has barely touched any of the long series of Thatcher reforms.)

This may be taken to imply that governments should push ahead with reform despite opposition, confident that opposition will pass. But democracy will still be better off for having an existing constituency for reform.

Perhaps the essential problem - at least in the present context - is in persuading voters to accept the process described by Schumpeter as 'creative destruction' which lies at the heart of free enterprise. As businesses adapt - or fail to adapt - to the constantly changing circumstances of the free enterprise economy, the most visible effect is the loss of jobs.

This is often a statistical illusion: the media will report the closure of a large enterprise with the loss of hundreds of jobs; but the absorption of those workers in hundreds of other enterprises goes unreported.

Nevertheless, the notion that change inevitably involves loss of employment, and loss of security, is a deep-seated one.

Allied to this is the notion - perhaps now less strong than it once was - that the labour market is intrinsically and radically different from other markets, with inherent imbalances which can only be addressed through government intervention - through minimum wages, unfair dismissal laws, guaranteed maternity and paternity leave, long-service leave, and so on.

These notions are not necessarily ideological as such: in Australia, in particular, such ideas were for a long time part of the wider ethos, without reference to any particular political belief.

There is a wider problem here. Economists, once they have mastered their craft, rarely pause to consider that much of what they accept as established is deeply counter-intuitive.

The issue of free trade versus tariffs, for example, never completely disappears from the policy debate because the intuitive case for 'protection' seems so strong, even though it is wrong.



Other economic truths are dismissed because they are unpalatable rather than because they are counter-intuitive such as the fact that raising minimum wages increases unemployment.

But failure to explain (and the arguments are not usually so difficult) means that economists, and policy-makers in general, leave the field open to the advocates of 'common sense' or 'do-it-yourself' economics.

Similarly, it is 'common sense' to regard market transactions as zero-sum games; to believe, that is, that all transactions have a winner and a loser, or to believe that, because such transactions are always unequal, one person's wealth is gained only at the expense of others. And while most citizens value freedom - both in the abstract and in the particular - it is only rarely explained that the economic freedom of the individual is just as important as some abstract concept of 'liberty', and that, in fact, the two are intimately dependent on each other.

In much the same way, the relationship between economics and the civil framework is rarely explained, so that (to take the extreme example) the painful process of adjusting to market forces in countries undergoing liberalisation (such as the former USSR) appears to be due to the rigours of market economics rather than to the lack of appropriate civil institutions.

Here there is a role for leadership and education - on the part of government, but also on the part of industry. Change imposed from the top merely generates resentment of the kind already mentioned in our opening pages. This document seeks to outline a framework for business, social and economic development by explaining the reasoning which underpins CCI's policy positions.

Of necessity it is sometimes theoretical and abstract, and often politically controversial.

We accept that the reasoning used and the conclusions reached will not be universally endorsed by the wider community or even unanimously by CCI's own membership.

If it were otherwise it would make no useful contribution to policy debate.

## Economic and Social Trends and Issues

### 2. Long Term Trends

In this section, we address the problems from a different point of view, by presenting an overview of the economic evidence. The immediate answers to the prevailing doubts - is reform bad for us as a nation, as individuals? is globalisation destroying our economy? - can only come from a considered presentation of fact.

Such a presentation is an important duty, since the opponents of free enterprise proceed largely by assertion, rarely allowing a statistic to interrupt their discourse.

Our perceptions of our economic performance and progress tend to be swamped by immediate issues - the aftershocks of the Asian meltdown and their implications for international financial flows, tax reform, fuel prices, the Kyoto Protocol, the Internet and information technology and so on.

Important as these issues are now, our focus on the immediate and everyday can mean that we lose sight of the longer-term trends in our economy and society, which can take place almost unnoticed.

This is because the incremental changes from month to month or year to year are quite small and do not usually flow from any deliberate policy or historic event. Even so, their cumulative effects are momentous.

#### The Australian Picture

Taking a snapshot of Australian and Western Australian society now and in the past illustrates just how profound these changes can be.

The measures of wellbeing still most commonly associated with standard of living and quality of life are the real wages of employees, consumption, and the disposable incomes of individuals and households ('real' here means that the figures have been adjusted for inflation over the relevant time-period).

Taking a snapshot of Australian and Western Australian society now and in the past illustrates just how profound these changes can be.

## Box 1 - Household Income and Outlays

### Quarterly, Trend Series

	Real* per capita		
	Sep 75 \$	Sep 00 \$	Increase %
<b>Income</b>			
Dwelling ownership	268	657	145%
Mixed income	679	778	15%
Wages and salaries	3002	4011	34%
Property income	463	687	48%
Workers' compensation	45	67	49
Assistance benefits	330	733	122%
Insurance claims	93	173	87%
Current transfers	71	162	127%
Gross income	4923	7270	48%
<b>Uses of Income</b>			
Dwelling costs	164	362	120%
Debt interest	48	74	55%
Current tax payable	584	994	70%
Other non-discretionary	161	264	64%
Income payable	953	1689	77%
Disposable income	3970	5580	41%
Consumption spending	3062	4925	61%
Saving	653	190	-71%
Other	255	449	76%
Uses of Income	4923	7270	48%
<b>Memorandum items</b>			
Saving ratio	17.5%	3.7%	
Full-time weekly earnings	\$669.60	\$809.30	21%
Population	13.91M	19.18M	38%
Consumption deflator*	24.7	103.4	319%

\* At 1999-00 prices (including private consumption deflator). Source: A B S Cat.5206.0

Over the past 25 years, real average full-time earnings have risen by 21 per cent (Box 1).

This is much slower than growth in real per capita household disposable income (41 per cent), which was boosted by the growing contribution of non-wage income, notably government transfers, to total household income.

Much of the growth in real wages during the past 25 years occurred in the 1990s, coinciding with the improved rate of productivity growth which resulted from the economic reforms of the 1980s and 1990s.

In the late 1980s, real wages declined.

The measure of material welfare which showed the most rapid improvement in the past 25 years was real per capita household consumption, which rose by 61 per cent over the period.

Growth in the volume of per capita consumption has outstripped growth in disposable income, mainly because of a steady decline in the household savings ratio, which has fallen from 18 per cent in 1975 to 4 per cent by 2000.

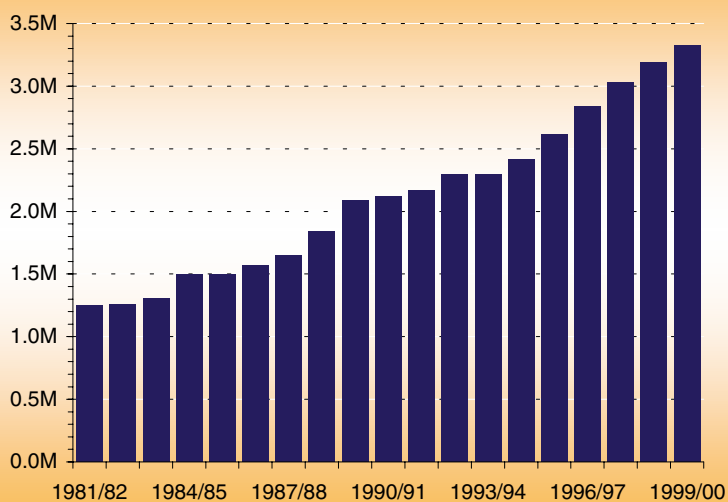
Most free enterprise economies have experienced similar growth in living standards over the longer term. The way that Australians live and spend their money has changed in tandem with these changes in material living standards.

A growing proportion of money and time is being spent on leisure and services. In less than a decade, for instance, the number of overseas trips taken by Australian residents has risen by more than 50 per cent (Box 2), a fact which reflects not only rising incomes but also the way in which air travel has become cheaper.

This - the simultaneous increase in income and decrease in the price of goods and services - is a common phenomenon, so common that we are barely aware of it.

Technology is changing the way we live as well as the way we work. Availability of equipment such as telephones, TVs, radios, cellular phones and fax machines has expanded rapidly.

## Box 2 AUSTRALIANS' OVERSEAS VISITS



Source: ABS Cat. 3401.0



The spread of computer use and Internet access has been faster still (Box 3).

Other items have become irrelevant as their technology has been superseded (e.g. telegrams, telexes, and, largely, typewriters).

Australians are not only interested in new technology, they also have the means to acquire it: Australia's penetration rates for home computers, internet access, videos, and so on, are unusually high (Box 4).

Improvements in quality of life have not, however, been confined to the widening choices of goods and services available for consumption.

Australians enjoy a far better general standard of health than the global average, and basic measures of health and wellbeing continue to improve steadily, even over relatively short timeframes of 10 or 20 years.

For example, life expectancy is rising while infant mortality has fallen (Box 5).

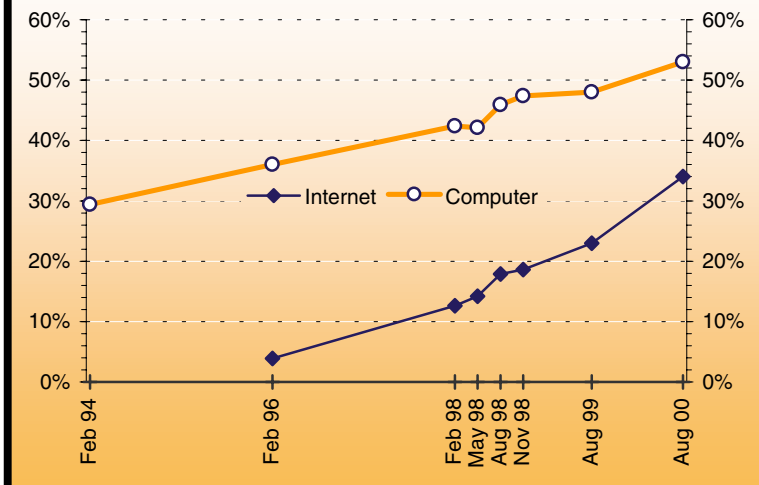
Both genders and all age groups have access to education opportunities not available to previous generations. Australian and WA data also show rising participation in both higher education (Box 6) and secondary education (although this appears to have levelled off in WA - see Box 7).

Not all broad measures of wellbeing are getting better. Apart from an improvement in homicide rates, crime is generally more prevalent (though in part this may represent more accurate reporting as well as higher crime, and is only doubtfully related to purely economic factors).

By some measures, income distributions are less equitable - although all income groups are better off, the more affluent have increased their living standards more quickly than those on middle incomes.

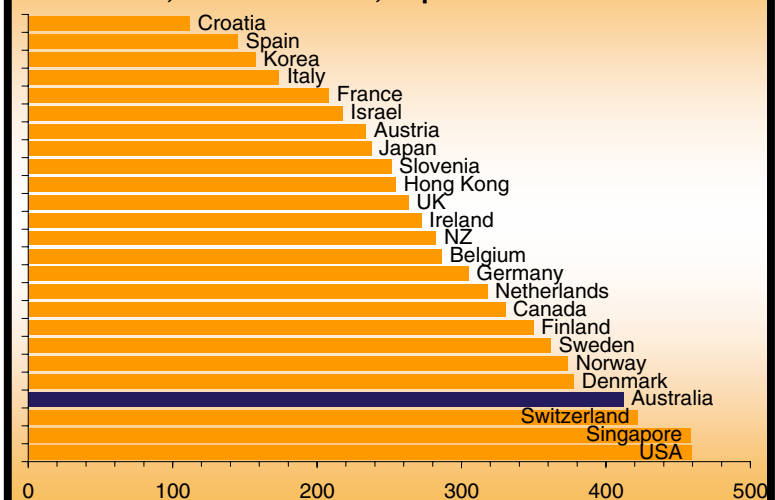
Yet more things have got better than worse, and while allowing for the subjectivity of ranking many of the measures, it seems that by and large the more important things have got better. Judging from the 'then' and 'now' data, most people would prefer to live 'now' than 'then'.

**Box 3**  
**AUSTRALIAN COMPUTER ACCESS**  
**% Households With Access**



Source: ABS Cat. 8147.0

**Box 4**  
**PERSONAL COMPUTERS, 1998**  
**Per 1,000 Households, Top 25 Countries**



Source: ITU World Telecommunication Development Report 1999

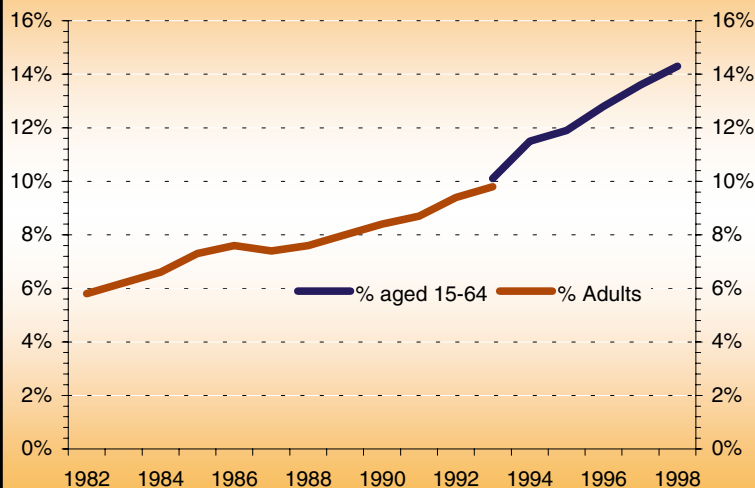
### Box 5 - Mortality and Fertility

	Australia		Developed		Developing		World	
	1975-80	1995-00	1975-00	1995-00	1975-00	1995-00	1975-80	1995-00
Fertility rate	2.1	1.9	1.9	1.6	4.7	3.1	3.9	2.8
Life expectancy <sup>1</sup>	73.4	78.3	72.2	74.5	56.7	63.6	59.7	65.6
Infant mortality <sup>2</sup>	13	6	18	9	98	62	87	57

(1) at birth, expected age at death; (2) per 1,000 births -Source: World Resources Institute 2000

### Box 6

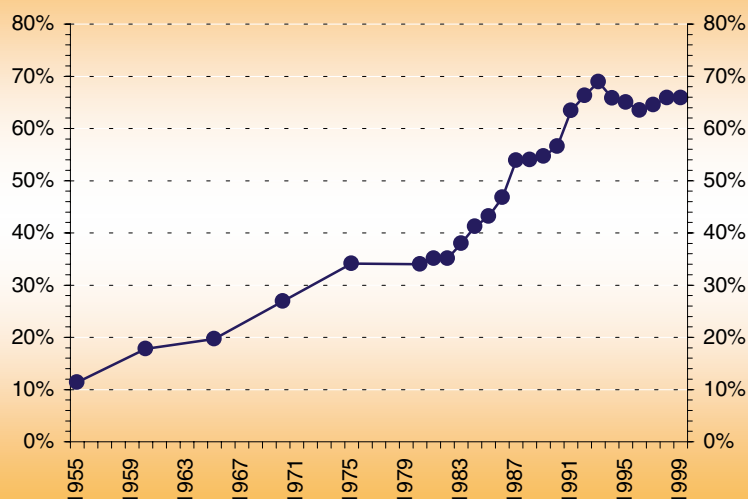
#### BACHELOR DEGREE OR HIGHER % Australian Population



Source: DEETYA 'Education Participation Rates, Australia - 1997'

### Box 7

#### WA SCHOOL RETENTION RATE Year 12 as % Year 8 Cohort



Source: Education Department of WA

## The Global Picture

If it were possible for rich countries like Australia to secure ever-improving living standards only at the cost of impoverishment and environmental degradation in poorer countries, then our material progress would be neither sustainable nor morally defensible.

The vast majority of the world's 6 billion residents have living standards well below those which Australians enjoy, and about a third of the global population still lives in absolute poverty.

Many countries have not escaped from poverty, debt, food insecurity and misery.

In a few, living standards as measured by basic standards such as life expectancy are deteriorating.

Yet on average, the global trend is improving.

The explosion of the world's population over the past 150 years<sup>1</sup> is itself an *effect* of improving living conditions.

Populations increase when births exceed deaths.

Box 5 shows that measures such as infant mortality rates are declining, while life expectancy at birth is improving.

This in turn reflects two key factors - improvements in medical knowledge, techniques and medicines, and their dissemination around the world; and improvements in material living standards, measured in some fairly basic terms such as adequate calorie consumption and access to safe drinking water.



As rich countries got richer, their birth rates fell. In most developed countries (including Australia), fertility rates have fallen below the 2.1 births per woman necessary to stabilise population. Developing countries still typically have higher fertility rates than developed ones, but in most they are declining rapidly.

The average fertility rate in developing countries has fallen from more than 6.9 births per woman in the 1950s to 3 today (Box 8). Average food consumption has increased because world food production has risen even more quickly than world population (Box 9).

Along with improvements in distribution, this has meant that many indicators of absolute hardship such as under-nourishment have also declined, not just as a percentage of the world's *growing* population, but in absolute numbers as well (Box 12).

Just as measures of hardship have declined, measures of well-being such as health (see Box 5 on page 13) and literacy (Box 10) have improved.

Not only has absolute hardship declined, the position of developing countries is improving, on average, relative to developed ones.

Over the past 30 years, economic growth in developing economies has averaged about 5 per cent per year, compared with average growth of around 3 per cent per year in advanced economies.

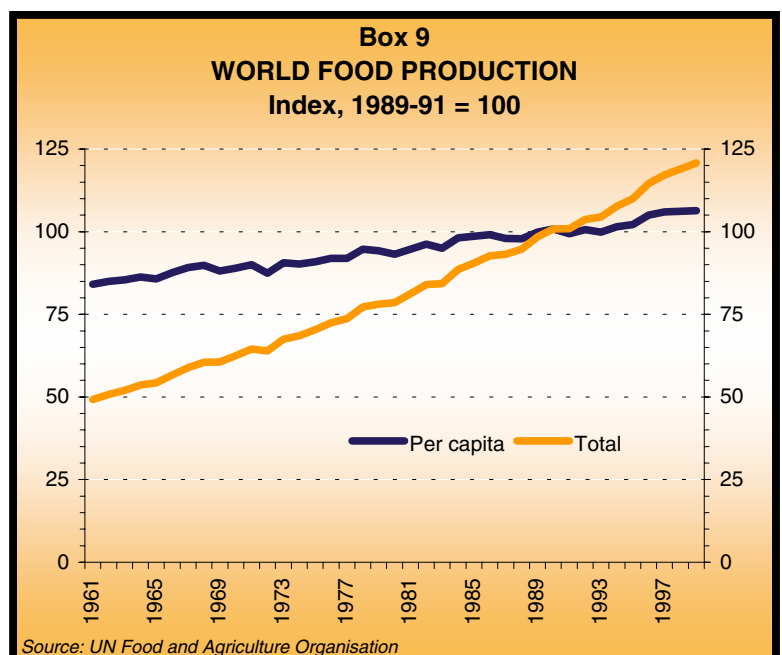
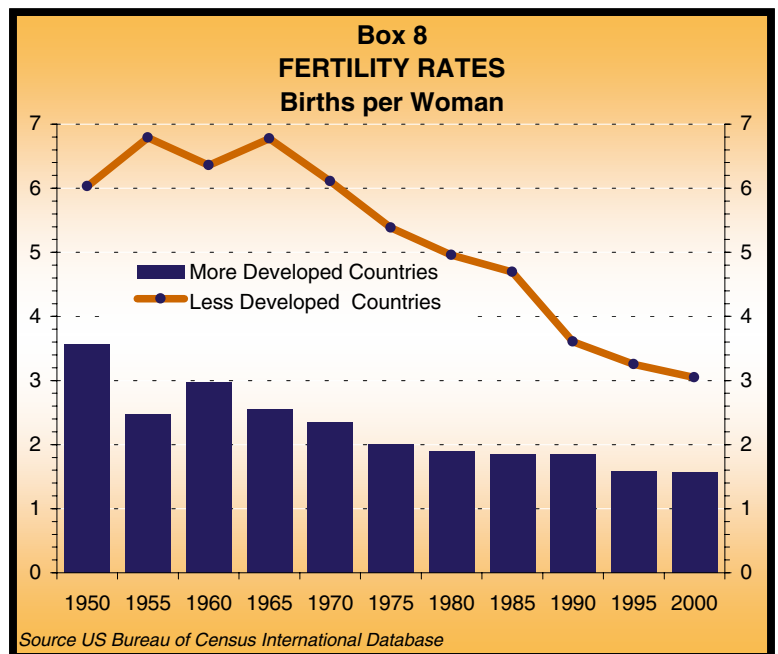
Aggregated over time, this has resulted in real growth in the developing economies of about 335 per cent since 1970, compared with growth of 150 per cent in advanced economies (Box 11).

Of course, not all countries and regions shared this growth. Asia's developing economies on average fared relatively well, while the economies of developing African countries grew less quickly even than the advanced economies.

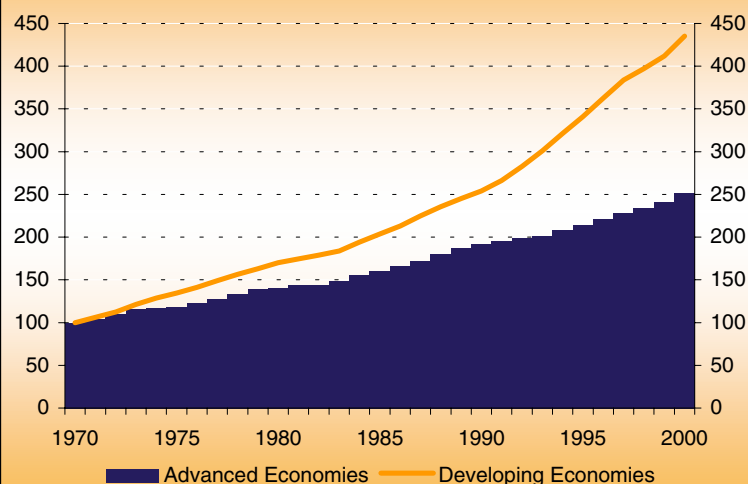
The real GDP of some economies is smaller today than it was in 1970 (for example, the Democratic Republic of the Congo and Sierra Leone).

No-one would pretend that the overall picture is uniformly good, or as good as we might wish, or even as good as might realistically have been achieved.

But the evidence is overwhelmingly clear: the lot of most of the world's residents is, on average, substantially better than it has been at any time in the past. In particular, three claims of the opponents of economic growth and globalisation do not stand up to even this brief examination.

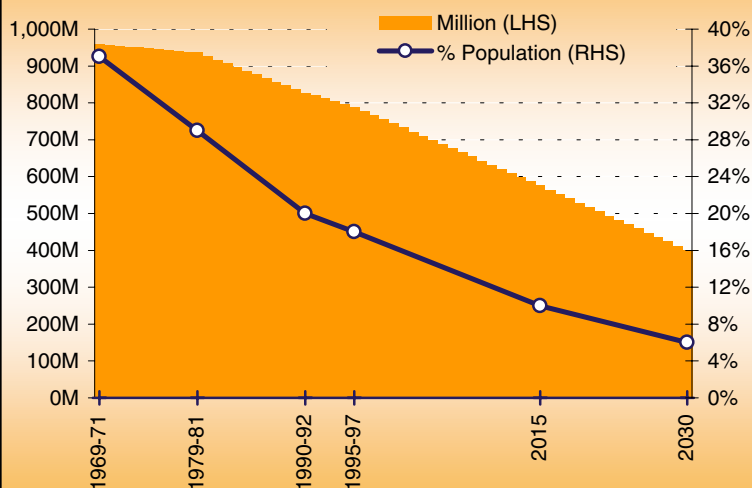


**Box 12**  
**LEVEL OF REAL GDP**  
**Index, 1970 = 100**



Source: IMFWorld Economic Outlook, September 2000

**Box 10**  
**INCIDENCE OF UNDERNOURISHMENT**  
**Developing Countries**



Source: Agriculture: Towards 2015/30, Technical Interim Report, April 2000

First, it is not true, as some opponents of globalisation and economic growth have claimed, that the gap between the advanced and developing world is widening.

In fact, developing economies are *on average* growing more quickly than advanced economies.

Although the gap between the world's poorest and richest countries may be widening, this mainly reflects the fact that the living standards of some very poor countries are static or deteriorating, while others have grown so quickly that they are no longer classified as 'developing'. In many cases, failure to achieve economic growth is caused by domestic political and economic policies or crises (such as civil war). More commonly, the causes lie in the absence of the civil institutions necessary to achieve growth.<sup>2</sup>

Second, it is not the case that population growth is spreading the world's resources more thinly.

We actually have more resources than ever before. Food production has risen faster than population, so that average per capita consumption is rising. Even though developed economies continue to grow, developing economies are growing too.

The proportion of food, energy and mineral resources used and the share of global consumption undertaken in developing countries is increasing, on average, relative to developed economies.

This leads to the third and most important point. In a free market economy, it is not true that rich countries (or people) become rich only by taking resources or wealth which by rights belong to poor countries (or people). 'Slice of the pie' theories which argue that the rich countries only get richer at the expense of the poor countries are demonstrably untrue - it is possible for all countries to enjoy economic growth. This means that eliminating global poverty is achievable, and that the best means of achieving it is to encourage economic growth.



In fact, the evidence suggests that growth in poor and rich countries is mutually reinforcing, not mutually inconsistent. Economic growth in advanced economies tends to be higher when growth in developing economies is relatively strong, and vice versa.

While soaring economic growth in Asia during the 1990s saw this relationship break down, it was true in the 1960s and 1970s for all developing economies and remained true for African developing countries into the 1990s (Box 13).

Far from competing for shares of the economic pie, everyone benefits when the size of the pie is growing, whether the engine of growth is mainly in the developing or advanced economies.

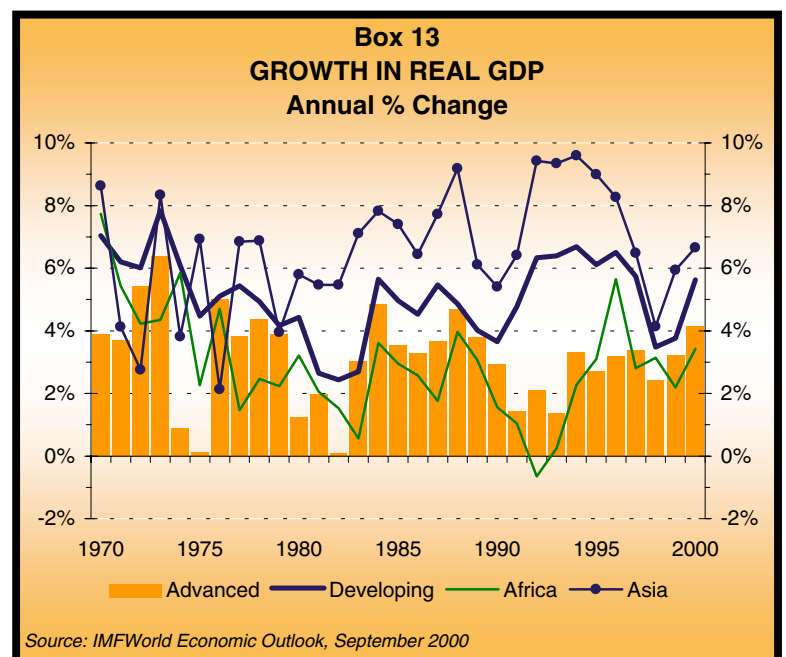
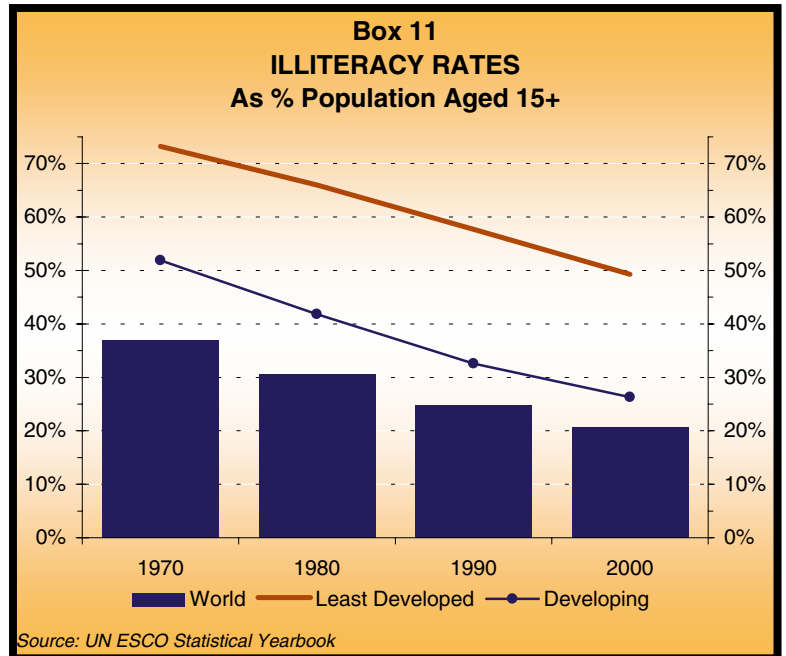
### 3. Perceptions and Reality

Yet there is a sense of dissatisfaction, of anxiety and alienation in parts of the community - here and abroad - which does not seem consistent with this generally favourable national and international picture. There are several strands to this hostility, some of which deserve to be taken seriously and addressed by policy makers, and some of which do not.

#### Better Compared with What?

Many are coming to question whether material living standards alone are a good measure of our quality of life. Social scientists, including economists, have long been interested in the relationship between happiness and wealth.

It is 25 years since what is called the Easterlin Paradox<sup>3</sup> was first described, with research results suggesting that - putting aside extremes of illness, absolute poverty and distress - people's reported happiness does not in fact bear a strong relationship to absolute living standards, but rather is more influenced by where they stand relative to others in the same society.





Unless people  
have the desire  
and vision to make  
the world a better  
place, it is unlikely  
to become one.

---

There are many reasons why this may be the case. But while the Easterlin Paradox suggests that we are not overly impressed with rising living standards, it does not mean that they we would cheerfully do without them.

We see it as perfectly natural that our material living standards - not to mention our health, life expectancy, risk of premature death through accident or illness, education and travel opportunities and access to information and communications - are so far ahead of earlier generations.

As economic historian Brad DeLong<sup>4</sup> puts it:

*Perhaps the best indicator of the extraordinary level and rate of advance of material well-being and productive potential is that we take it for granted.*

While people's relative happiness is to some degree related to their relative affluence, it would be wrong to infer that reducing differences in relative affluence would therefore increase the average level of happiness.

Rank within the hierarchy seems to count for more than degree of difference between members of the hierarchy.

Human nature means that we tend to measure our relative performance against other contemporary societies, or others in our own society, or even some ideal of how we wish the world to be.

Historical comparisons of the type in the preceding section are rare, especially over any period greater than one or two electoral cycles.

There is nothing necessarily wrong with this - unless people have the desire and vision to make the world a better place, it is unlikely to become one.

On a global scale it would take a singular lack of compassion and imagination to look at the suffering associated with acute poverty in many parts of the world and dismiss it because starvation and malnutrition, illiteracy, untreated but

curable illness and premature death are so much less prevalent than they once were.

But to overlook or dismiss the gains that have been achieved is also to lack in imagination and, potentially, compassion.

While we in the richer countries can afford to deliberate on the merits of increasing affluence, we cannot and should not assume that the issue is comparable in those countries where absolute want and poverty are still the norm.

And even in affluent societies, we should be very wary of making value judgements about whether people should want the things they apparently do want, and whether they should be permitted to pursue those wants.

As economist Ludwig von Mises<sup>5</sup> has commented:

*The immense majority strives after a greater and better supply of food, clothes, homes, and other material amenities. In calling a rise in the masses' standard of living progress and improvement, economists do not espouse a mean materialism...*

*They judge policies from the point of view of the aims men want to attain. He who disdains the fall in infant mortality and the gradual disappearance of famines and plagues may cast the first stone upon the materialism of the economists.*

The point to be observed here is that to identify the relative discontents that a free enterprise economy may generate is not to condemn that system.

Happiness is an elusive thing. Rather than attempt to use it as a yardstick, we can simply observe that in a free society we can pursue it as best we will.

We can also choose the precise degree of materialism we want, and the precise degree of non-material goods.

Standard measurements of material progress cannot - and do not pretend to - measure our entire quality of life, but they are still an indispensable measure of our potential to achieve quality.



## Sustainability

Yet another source of concern arises among those who acknowledge that the gains in material living standards are real, but argue that they are not sustainable.

By this argument the planet cannot sustain its current population of 6 billion (projected to rise to about 9 billion in the next 50 years<sup>6</sup>) even at current average living standards, let alone bring all people up to the living standards currently enjoyed in the richer countries.

Environmental stress and the limits of finite resources will not permit it.

This belief leads to some awkward conclusions. In Australia, for instance, there are those who advocate a dramatic reduction in our population<sup>7</sup> - perhaps down to 5 or 8 million - even though this is clearly unattainable.

Among environmental radicals it leads to the misanthropic view most extremely expressed by those who believe that mankind is a cancer on the face of the earth.

Even among respected scholars, it can breed fairly repugnant arguments, such as the 'lifeboat ethics' of Garrett Hardin,<sup>8</sup> who argues that, in a world of finite resources and over-population, it is wrong to help the poor.

It hardly needs saying that these and other such attitudes involve some very significant moral problems.

Against this pessimism, many economists argue - from both history and theory - that we can in fact continue to raise living standards in both rich and poor countries without hitting insurmountable constraints either from lack of resources or from an over-burdened environment.

The argument from history is simple: many resources are now cheaper in real terms than ever they were.

This is brought sharply into focus when we think back to the famously fallacious Club of Rome predictions of 1972 (Box 14), or, more recently, the well-known wager between Julian Simon and Paul Ehrlich (Box 15).

### Box 14 - Predicted Exhaustion of Selected Minerals

Commodity	Date
Copper -----	1993
Gold -----	1981
Lead -----	1993
Mercury -----	1985
Natural Gas -----	1994
Petroleum -----	1992
Silver -----	1985
Time -----	1987

Source: "The Limits to Growth", Club of Rome, 1972.

But in a free economy, processes are always at work which will guarantee such an outcome. Competition ensures that efficiency in the use of resources is paramount.

If the value of production is determined by using fewer resources in more valuable ways, then it literally becomes possible to produce more with less. Innovation is crucial here.

The clarity of the pricing mechanism in a freely-functioning economy means that if resources do become scarce then their price will rise, and both producers and consumers will have increasing incentives to find new alternatives. Innovators will have increasing incentives to devise those alternatives.

This process is so natural that we overlook it, despite the evidence before our eyes in the everyday world, where our cars, information processing, and domestic technology (heating, cooling, washing, lighting and so on) are hugely more efficient and less wasteful of resources than ever before.

Leading growth theorist Paul Romer<sup>9</sup> uses a cooking analogy in his comment:

*Every generation has perceived the limits to growth that finite resources and undesirable side effects would pose if no new recipes or ideas were discovered. And every generation has underestimated the potential for finding new recipes and ideas. We consistently fail to grasp how many ideas remain to be discovered.*

The clarity of the pricing mechanism in a freely-functioning economy means that if resources do become scarce then their price will rise.

## Box 15 - The Simon v Ehrlich Bet

Ecologist Paul Ehrlich has been one of the most prominent environmental doomsayers, regularly foretelling widespread famine and ecological collapse. His statements have included:

*"The battle to feed humanity is over. In the 1970s, the world will undergo famines. Hundreds of millions of people are going to starve to death in spite of any crash programs embarked upon now. Population control is the only answer."*  
- *The Population Bomb* (1968)

*"If I were a gambler, I would take even money that England will not exist in the year 2000."* (1970 lecture to British biologists)

It was this latter statement which reportedly inspired economist Julian Simon to offer a challenge to Ehrlich and other pessimists.

If they were right, and unsustainable economic practices and population growth mean that agricultural and mineral commodities were getting scarcer, then their prices should rise relative to other goods and services.

But if the optimists were right, their prices should fall relative to the general price level.

So Simon issued a challenge:

*"I'll put my money where my mouth is. This is a public offer to stake \$10,000, in separate transactions of \$1,000 or \$100 each, on my belief that the cost of non-government-controlled raw materials (including grain and oil) will not rise in the long run. If you will pay me the current market price of \$1000 or \$100 worth of any standard mineral or other extractive product you name, and specify any date more than a year away, I will contract to pay you the then-current market price of the material. How about it, doomsayers and catastrophists? First come, first served."* - *Population Matters* (1970).

Ehrlich's reply was to accept "Simon's astonishing offer before other greedy people jump in".

Paul Ehrlich and his colleagues specified as their basket of commodities \$200 each of copper, nickel, tin, chromium, and tungsten at September 1980 prices. In October 1990, Ehrlich posted a cheque to Julian Simon for \$576.07.

Every one of the commodities chosen had declined in price relative to the general price trend. Indeed, the value of the total basket had fallen in absolute, not just relative, terms.

*The difficulty is the same one we have with compounding. Possibilities do not add up. They multiply.*

What is important is that - rather than trying to manipulate the supply of declining resources - we do nothing to impede the progress of innovation.

## Australian Reality Gap

Finally, the relativism which the Easterlin Paradox illuminates is made worse by the fact that people tend not only to measure their own success compared to their contemporaries rather than their own history.

Many also appear to be unreasonably pessimistic and dismissive of the gains which have been achieved.

## Poverty

In western societies this pessimism is evidenced in the large number of people who assume that 'the rich are getting richer while the poor are getting poorer' even when this is not, in fact, the case (Box 16).

A series of articles in *The Australian* newspaper during June 2000 highlighted this gap between perceptions and reality.

Under the heading "Advance Australia Where?", the series was based partly on research commissioned from Professor Ann Harding, director of the National Centre for Social and Economic Modelling.

She found, among other things, that from 1982 to 1996-97 those on the lowest incomes had enjoyed the fastest growth in real living standards (Box 17), and that nationally there was no increase in inequality.

But the rich had also enjoyed relatively rapid growth in real incomes, while in dollar terms this percentage growth translated into much bigger increases than at the middle or bottom.

Middle income ranges also enjoyed real growth, though less rapid than at the bottom or top of the range.

This presumably justified the title of the article she contributed to the series, "Swill time for those at the top".



Harding's research also raised concerns about growing regional disparities in income and about the relative numerical (not income) decline of the middle class (even though, as another article<sup>10</sup> in the same series suggested, this arose mainly because of people escaping middle income groups for higher incomes).

But the picture was not so unambiguously bleak and inequitable as the title of her contribution or the contents of others' contributions implies.

Is there really anything so wrong about the middle class moving from middle to upper income bands? Or even the rich getting richer, if the poor are getting richer too?

### Insecurity

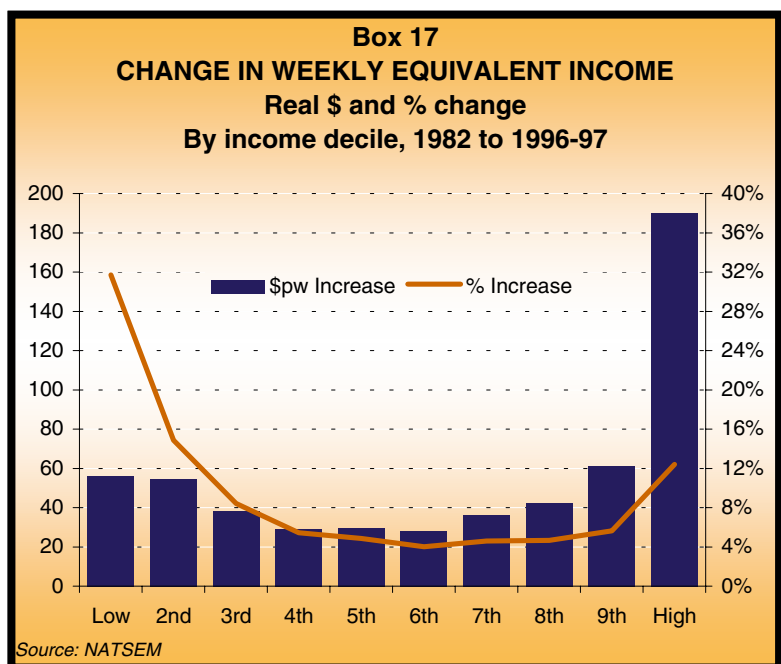
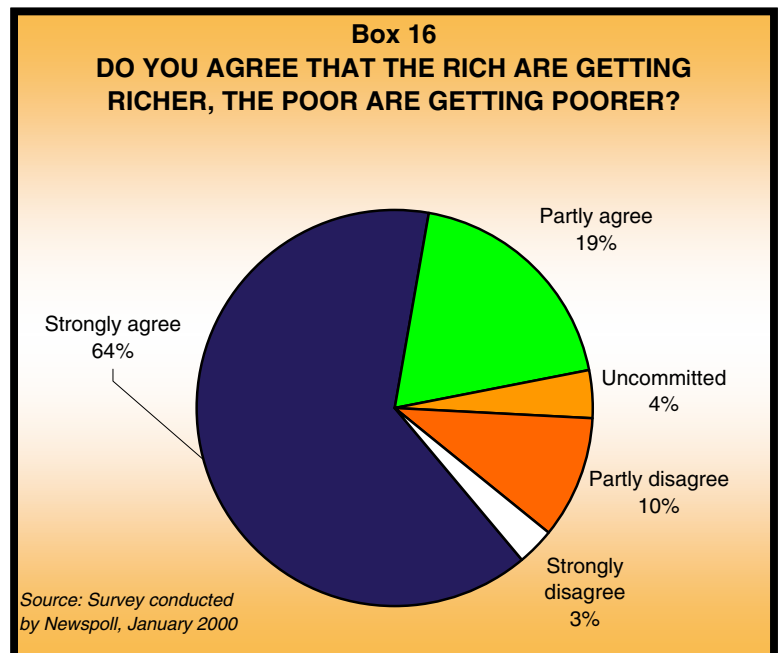
A second important area where perceptions and reality sometimes differ markedly is the sense that competition, globalisation and economic change undermine security and stability, especially in the labour market.

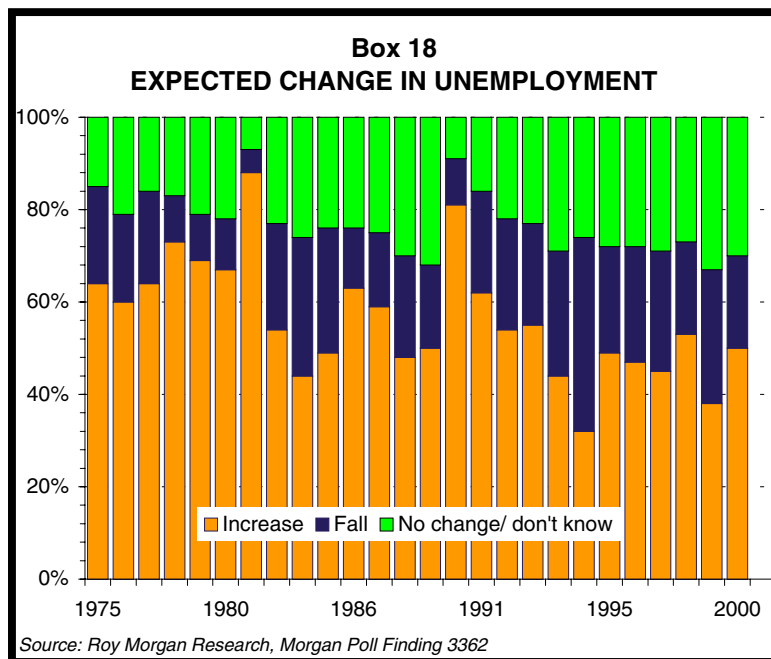
This feeling that a globalised and competitive economy promotes insecurity is at heart nostalgic, looking back to a golden age of stability and security which in reality never existed.

Pessimism about the job market is deep-rooted, and not just in the popular imagination.

The ACIRRT<sup>11</sup>, has argued that job insecurity is a function of workplace change resulting from labour market deregulation, out-sourcing and downsizing, and the growing trend to part-time, temporary and contract employment.

In fact, people are almost always pessimistic about the labour market.





Roy Morgan Research has been polling Australians about their expectations of the unemployment outlook for 25 years.

In that time, the number of people expecting unemployment to fall has never exceeded 42 per cent, and typically only about 20 per cent expect unemployment to decrease (Box 18).

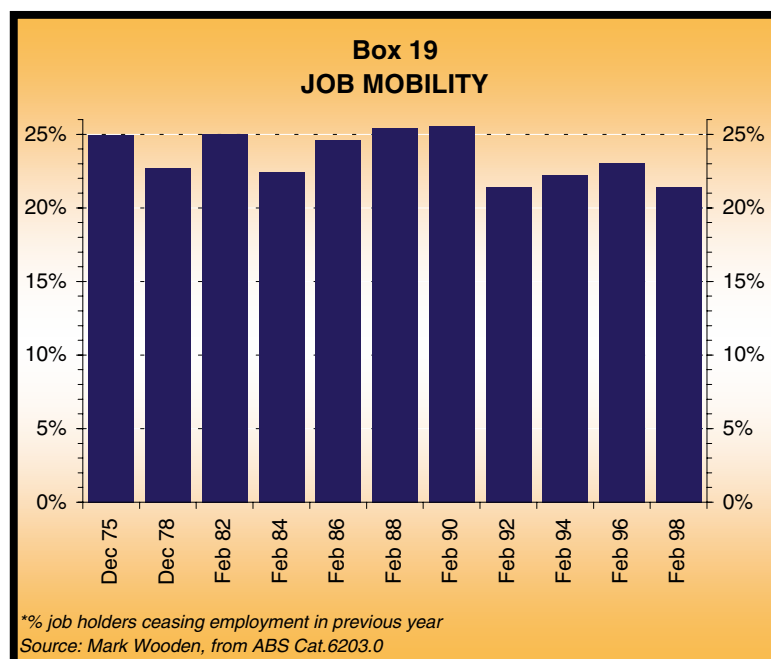
The perception of increased insecurity has recently been challenged by Australian labour-market economist Mark Wooden.

His analysis of trends in job mobility found that, while job insecurity increased during and after the recession in the early 1990s, it has since declined (Box 19).

The chances of losing a job, and the average duration of employment, are no different now from what they were 20 years ago.

Wooden concludes that “despite widespread claims to the contrary, employment today is no less secure or less stable than it was 20 ago.”<sup>12</sup>

His conclusion is supported by evidence from Roy Morgan Research, which shows that the percentage of respondents surveyed who saw their job as secure, and the percentage reporting a ‘chance of unemployment’, have fluctuated with labour market conditions and, with the improvement in unemployment over the 1990s, have returned to the same levels reported in 1975 (Box 20).





## 4. The Globalisation Backlash

Switching focus from the national to the global, the gap between perception and reality becomes wider and, potentially, even more damaging.

The new calls for trade restrictions have a somewhat different flavour from the protectionism of the past. Calls for 'fair trade not free trade', for 'reciprocity' ('I'll cut my tariffs if you cut yours'), 'managed trade' and so on have emerged which pay at least passing lip service to the idea that trade might actually be a good idea.

These calls are one strand of an increasingly strident backlash against globalisation and trans-national businesses which has seen vocal and sometimes violent protests at meetings of international organisations such as the World Bank and International Monetary Fund.

The breakdown of the 1999 World Trade Organisation negotiations in Seattle was due to more complex and serious causes than the confused and diverse protests which it attracted.

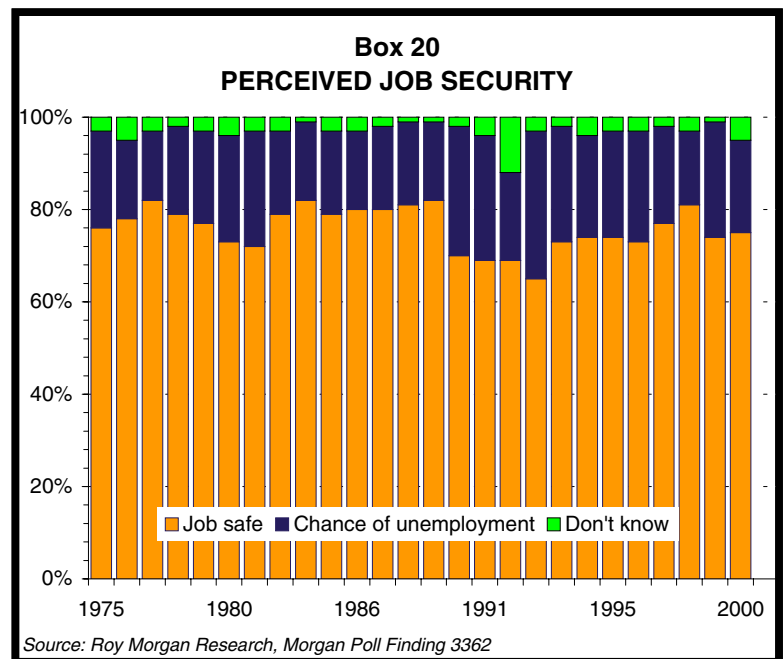
But the demonstrators reflected a growing sentiment which is contributing to a weakening of the political will for trade and tariff reform in some advanced economies, including Australia.

Unlike the trade deregulation talks in Seattle, this lack of political will in the face of popular protest may have been a real contributor to the failure of moves towards clearer rules for international investment through the OECD's Multilateral Agreement on Investment.

### Globalisation Defined

Globalisation is a social, political, technological and cultural, as well as an economic phenomenon.

All of these dimensions are inextricably linked.



It is characterised by world economic integration through:

- trade in goods
- trade in services
- freer movement of (some) individuals
- access to technology, knowledge and ideas
- access to information and communication
- direct investment
- financial flows

### Globalisation Issues

#### Is it Irreversible?

Both proponents and opponents of globalisation often paint it as an unstoppable juggernaut transforming economies and societies around the world whether they wish it or not.

Unfortunately, this is not the case.

There is no inevitability about trade barriers continuing to diminish, or the increased involvement of the third world in global trade and the prosperity it brings, or further improvements in the exchange of technology and ideas.

History demonstrates that it is quite possible for governments to institute policies which, cumulatively, reverse a trend to increased international trade and globalisation. It happened in the 1930s, (Box 21), and was associated with a sharp reduction in international trade which helped to turn a global recession into global depression, setting the stage for World War II.

That was why the international community put such emphasis on an orderly and rules-based international trading regime in the War's aftermath.

Similarly, Australian exports relative to GDP have only recently approached the levels typically recorded at the beginning of the twentieth century, and are still below the peak reached at the time of the Korean War (Box 22).

A single large economy such as the USA, or a series of smaller economies acting in tandem or in succession, could feasibly precipitate a reversal in globalisation, although Australia's government or citizens acting in isolation could not.

It is ironic that support for further globalisation is waning in rich countries at precisely the time when more and more underdeveloped and developing countries are seeking to capitalise on the benefits of globalisation, for example by joining organisations like the World Trade Organisation<sup>13</sup>.

#### Does Isolation Work?

Much of the push for freer trade is now coming from the world's poorer nations because it is increasingly clear that this is their best chance to escape poverty.

We know from recent history that countries which have escaped into emerging or newly industrialised status have done so through increased trade and foreign investment, and a focus on exports.<sup>14</sup>

We also know what has happened to countries which have chosen or been forced to isolate their economies and societies from the wider world.

In fact, economic isolation of one kind or another gives us a rare opportunity to witness economic 'experiments' usually not available to economists.

Governments may choose isolation: the case of North Korea, and the comparison with South Korea, is ample demonstration of the huge costs to the citizens' welfare inflicted by a closed economy.

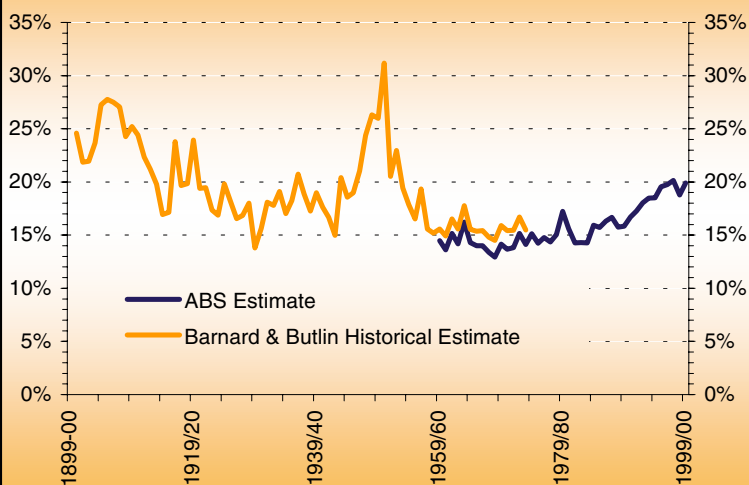
But economic isolation is not always voluntary, and involuntary isolation also provides evidence of the effects of diminished trade, an experiment allowing 'before and after' comparisons.

#### Box 21 - Long-Term Estimates of Exports as % GDP

	Australia	UK	Germany	USA	World
1890	15.7%	27.3%	15.9%	5.6%	6.0%
1913	21.0%	29.8%	19.9%	6.1%	9.0%
1960	13.0%	15.3%	14.5%	3.4%	8.0%
1970	11.5%	16.5%	16.5%	4.1%	10.0%
1990	13.4%	20.6%	24.0%	8.0%	13.0%

Source: Feenstra (1998), *Integration of Trade and Disintegration of Production*, *Journal of Economic Perspectives* Vol 12 No 3

#### Box 22 EXPORTS AS % GDP Australian Long-Term Trend



Source: RBA Preliminary Annual Database, ABS Cat.5402.0



The evidence shows that effective trade embargoes (many are token, and have little effect) impose a huge toll of human misery. A recent UNICEF study of infant mortality in Iraq found that:

*... if the substantial reduction in the under-five mortality rate during the 1980s had continued through the 1990s, there would have been half a million fewer deaths of children under-five in the country as a whole during the eight year period 1991 to 1998.*<sup>15</sup>

Commenting on these findings, UNICEF Executive Director Carol Bellamy said that:

*Even if not all suffering in Iraq can be imputed to external factors, especially sanctions, the Iraqi people would not be undergoing such deprivations in the absence of the prolonged measures imposed by the Security Council and the effects of war.*<sup>16</sup>

Not all alternative models are so extreme.

Countries like India - which tried to home-grow industry behind high tariff walls, building industries on 'import substitution' rather than focusing on building exports and competing with imports - found that without a competitive spur and an inflow of foreign investment and know-how, the industries they created were out of date and inefficient compared to leading edge industries elsewhere.

They found that economic development was left to the mercy of shifting political and bureaucratic influence.

Some very poor countries have an overhang of debt incurred in the creation of major infrastructure projects which development theories once advocated as the 'big bang' necessary to initiate rapid economic growth, but which also failed.

In summary, some of the world's poorest people have suffered from the application of isolationist development theories and from the penalties applied by governments from the democratic (India) through the involuntary (Cuba and Iraq) to the totalitarian (North Korea) which have proven terribly harmful to the citizens of the countries concerned.

If an embargo is indeed an effective punishment, which denies the embargoed country the benefits of free trade, why should we deny those same benefits to countries we wish to help?

In academic and development circles, and increasingly in the broader community concerned with poverty eradication, a new consensus emerged in the 1980s and 1990s that growth-in-isolation models did not work.

Pope John Paul II addresses this issue in *Centesimus Annus*:

*Even in recent years it was thought that the poorest countries would develop by isolating themselves from the world market and by depending only on their own resources.*

*Recent experience has shown that countries which did this have suffered stagnation and recession, while the countries which experienced development were those which succeeded in taking part in the general interrelated economic activities at the international level.*<sup>17</sup>

Openness is necessary, if not always sufficient, for a country to achieve economic growth. Research by the World Bank shows that economic growth is necessary for a country to escape from poverty:

*...we conclude that the basic policy package of private property rights, fiscal discipline, macro stability, and openness to trade increases the income of the poor to the same extent that it increases the income of the other households in society.*

*This is not some process of 'trickle-down', which suggests a sequencing in which the rich get richer first and eventually benefits trickle down to the poor.*

*The evidence, to the contrary, is that private property rights, stability, and openness directly create a good environment for poor households to increase their production and income.*<sup>18</sup>

This consensus among the international policy 'elite' is now being challenged by a diverse range of groups, concentrated in the richer economies which are expressing vehement objections to globalisation.

Some of the world's poorest people have suffered from the application of isolationist development theories.

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It is a bitter irony that many of these opponents of freer trade believe, or at least claim to believe, that it is not in the interests of people in the world's poorer countries, at a time when the governments of many of those poor countries are increasingly keen to gather for their citizens the benefits which globalisation brings.

## Criticisms of Globalisation

Many of these opponents have reasonable and valid arguments suggesting reform of international institutions. Some call for more transparency in the processes and policies of organisations such as the International Monetary Fund or for improvements in the efficiency of aid and assistance delivered, for example, through the World Bank. Others call for reform of the international financial 'architecture' to make a repeat of the 1997 and 1998 currency crises less likely, or for the World Trade Organisation to give greater weight to the interests of poorer countries.

But others want to stop globalisation, international investment flows, private and public international lending and development aid, and North-South trade completely.

It is a bitter irony that many of these opponents of freer trade believe, or at least claim to believe, that it is not in the interests of people in the world's poorer countries, at a time when the governments of many of those poor countries are increasingly keen to gather for their citizens the benefits which globalisation brings.

It is why Mexico's former President Zedillo commented following another round of protests that:

*... forces from the extreme left, the extreme right, environmentalist groups, trade unions of developed countries and some self-appointed representatives of civil society, are gathering around a common endeavour: to save the people of developing countries from ... development<sup>19</sup>*

A retreat into protectionism would hurt people in poor countries and in rich ones. It would hurt residents of rich countries forced to pay higher prices for a smaller choice of goods in order to support a small number of protected businesses.

And, characteristically, in the rich countries such hurt would be felt more by the poor than the rich. It would close the door for poorer countries on the only proven

escape route from poverty which the world has yet discovered.

And it would do so in the name of a range of theories which, for all their new angles and new age proponents, perpetuate fallacies about trade which have been known to be wrong for over 200 years:

- that trade is a zero-sum game in which we must lose out if other people win;
- that imports are inherently bad while exports are good;
- that only the rich gain from economic growth;
- that competition from poorer countries will push down rich countries' wages and conditions in a 'race to the bottom';
- that the total number of jobs in all industries must be falling if international competition causes jobs in some industries and businesses to decline.

To these fallacies, a new one has been added: that 'exploitation' by trans-national companies causes poverty in developing countries.

In fact, most economic studies have found that transnationals pay more than local industry - with a typical 'wage premium' of about 10 per cent.<sup>20</sup>

The specific economic arguments which refute these claims can be found in any basic economics text. But in reality, not much of the current debate is about economics.

It was observed earlier in this section that globalisation is not inevitable.

The more radical opponents of globalisation cannot present a persuasive economic case which demonstrates that growth is bad for the poor or that growth is best achieved through isolationism.

But by appealing to both our ethical sense and to our self-interest, they can win the political debate in richer countries whose real living standards are not greatly diminished by protectionism against third world exports.



## Ethics and Economics

There is indeed an ethical issue here, but not the one put forward by these radicals.

The citizens of rich societies have no right to impoverish the citizens of poor ones simply to salve their consciences - as, for instance, by reacting to TV footage of a third-world child-labour sweatshop by agreeing with demands that it be shut down, or that we boycott its Western owner.

Issues of conscience are far more subtle and difficult than that, and thinking clearly about them is a prime duty.

As Mike Moore, the Director-General of the World Trade Organisation has said:

*There is this contradiction between good people in wealthy countries who on Sunday at church give money to help out those who have suffered famine and flood, but on Monday sign a petition stopping the opportunity of workers in those same sad lands to sell what they create.<sup>21</sup>*

Anti-Slavery International argues that western companies should not give in to demands to discontinue child labour in developing countries in order to make western consumers feel better:

*Dismissing children (or not employing them in the first place) is tantamount to sentencing them to starvation.<sup>22</sup>*

Similar concerns have been voiced by UNICEF, which argues:

*While international commitment and pressure are important, boycotts and other sweeping measures can only affect export sectors, which are relatively small exploiters of child labour. Such measures are also blunt instruments with long-term consequences that can actually harm rather than help the children involved.<sup>23</sup>*

The same report found hard evidence that such international pressure could backfire:

*The Harkin Bill, which was introduced into the US Congress in 1992 with the laudable aim of prohibiting the import of products made by children under 15, is a case in point. As of September 1996, the Bill had yet to find its way onto the statute books.*

*But the mere threat of such a measure panicked the garment industry of Bangladesh, 60 per cent of whose products - some \$900 million in value - were exported to the US in 1994. Child workers, most of them girls, were summarily dismissed from the garment factories. A study sponsored by international organisations took the unusual step of tracing some of these children to see what happened to them after their dismissal. Some were found working in more hazardous situations, in unsafe work-shops where they were paid less, or in prostitution.*

This ethical dimension of the trade debate has been addressed by economist Paul Krugman. This section ends with his forceful response to critics of his support of freer trade with a strong challenge to their assumed moral superiority:

*You may say that the wretched of the earth should not be forced to serve as hewers of wood, drawers of water, and sewers of sneakers for the affluent. But what is the alternative? Should they be helped with foreign aid? Maybe - although the historical record of regions like southern Italy suggests that such aid has a tendency to promote perpetual dependence. Anyway, there isn't the slightest prospect of significant aid materializing. Should their own governments provide more social justice? Of course - but they won't, or at least not because we tell them to. And as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard - that is, the fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items.*

*In short, my correspondents are not entitled to their self-righteousness. They have not thought the matter through. And when the hopes of hundreds of millions are at stake, thinking things through is not just good intellectual practice. It is a moral duty.<sup>24</sup>*

In the face of so much easy compassion, this is not an easy position to defend. But it is one that opponents of globalisation must come to terms with.

The citizens of rich societies have no right to impoverish the citizens of poor ones simply to salve their consciences.



Economic freedoms and democracy and political freedoms go hand in hand, with a very close correlation between degrees of political and economic freedom around the world.

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## 5. Economic and Political Freedom

Many opponents of free enterprise at home and abroad argue that the market system has no ethical basis, and that its outcomes are therefore morally indefensible.

This, again, is too important a matter to be allowed to go by default.

In a free market economy the production, distribution, pricing and consumption of goods and services are primarily determined by the choices of individuals, whether acting alone or as corporate entities.

Entrepreneurship, innovation and consumer choice ensure that scarce resources are continually employed in a manner which most effectively matches the changing wants and needs of society.

Competition ensures that goods and services are delivered as efficiently as possible, and provides a perpetual spur for innovation and improvements in quality, quantity and efficiency.

Resources are directed toward their most effective uses. What many find difficult to accept is that out of self-interest, the common good emerges.

But the free market economy is called 'free' for good reason - its foundation is the capacity of individuals to determine and act according to their own priorities and interests.

### Economic Freedom and Prosperity

As we have said before, three economic freedoms are of core importance:

- freedom of contract, so that individuals and businesses are unconstrained in their choices of where, when and whether to buy and sell goods and services (including labour), and in the prices at which they do so;

- security of property rights, so that individuals are free to buy, sell and use their property as they choose, so that they cannot be arbitrarily deprived of their property and rights in it, and so that they must receive appropriate compensation if lawfully deprived (in part or in whole) of those rights (and here property is taken in its widest sense, to include not only real property but also intellectual property and human capital);
- a legal framework which, in addition to the usual protection from fraud, threat and violence, can be trusted to defend impartially freedom of contract and property rights.

Secure property rights and the freedom to trade and exchange ensure an efficient allocation of outcomes.

Admittedly, there are occasions when markets fail, and on some of these occasions government can fruitfully intervene.

But generally, the essential contribution of free markets to economic growth is supported not only by the overwhelming majority of economists but also the overwhelming weight of evidence.

As Professor Jagdish Bhagwati<sup>25</sup> puts it:

*From the viewpoint of recent historical experience, particularly in the postwar period, it is not difficult to assert that economic freedom is likely to have a favourable effect on economic prosperity, for the simple reason that the last fifty years of international experience more or less confirms the fact that wherever governments used markets more and engaged in more open policies in foreign trade and investment, indeed in more economic freedom of different kinds, their countries have tended to prosper. By contrast, those countries that turned inward and had extensive regulations of all kinds on domestic economic decision-making in production, investment and innovation, are the countries that have really not done too well ...*



Research by the Cato Institute (and many others) confirms the close relationship between freedom and prosperity (Box 23).

Its *Economic Freedom of the World: 2000 Annual Report* ranks 123 countries in terms of the consistency of their governments' policies with free market principles, and compared them with quality of life measures. It concluded that:

*There are astounding differences in economic and social outcomes between nations that are more economically free and those that are less free. Life expectancy is 20 years longer for people in the 24 most free countries (the top fifth) than in the 24 least free countries (the bottom fifth). Average income per person in the top fifth was \$18,000 in 1997, compared to less than \$2,000 for the bottom fifth.*

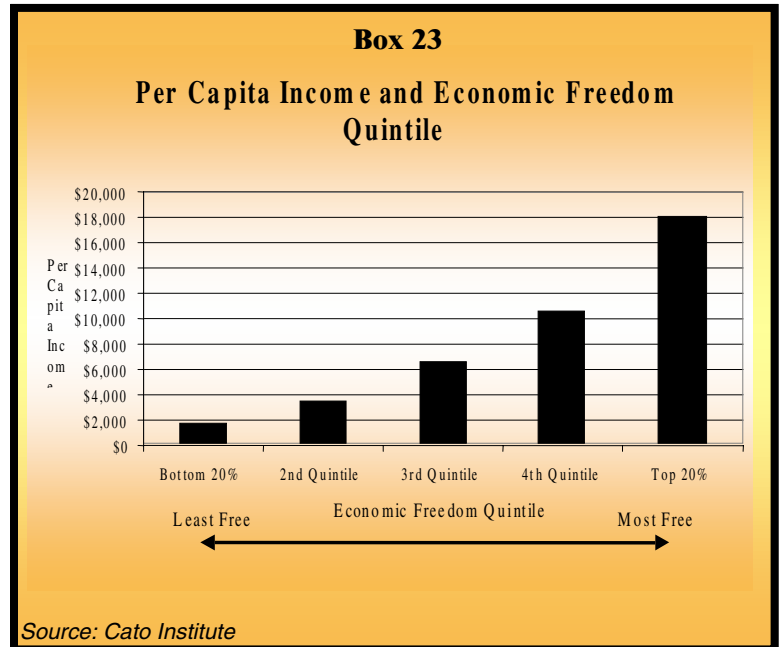
## Democracy and Economic and Political Freedom

Economic and political freedoms are mutually reinforcing. The speech by Professor Bhagwati, cited above, identified five ways in which freedom to act in the economic sphere and the prosperity which economic freedom generates both reinforce democracy.

First, absolute poverty and the inability to find sustenance undermines people's capacity to organise and express dissent. The second reason is related: the ability to earn a living independently of government reduces dependency and also government's capacity to buy off or scare off dissent, as does the very prosperity which free markets engender.

Third, free markets improved the quality of democracy. They create the resources to provide public health, education, infrastructure and so on to groups most at risk of marginalisation - women, the poor, the disabled, and ethnic minorities.

These things are valuable in their own right, and they also allow more comprehensive and meaningful political and social participation by everyone in society.



Fourth, social and political rights are best underscored by economic freedoms. Economic opportunities make it easier for individuals to exercise their civil and political rights, for example by changing jobs or leaving home.

Finally:

*... the absence of economic freedom is an ally of corruption. True, corruption has many fathers. But the most fertile and fecund father is what Indians call a "permit raj", i.e., an economic regime where governments demand that permits be procured to produce, to import, to invest, to innovate, to do almost anything! It needs no particular gifts to see that such an economic regime leads to cataclysmic levels of corruption; as it did in South Asia.*

*It also corrupts even democratic and quasi-democratic regimes into "crony capitalism" as in some segments of the economy in Indonesia.*

Economic freedoms and democracy and political freedoms go hand in hand, with a very close correlation between degrees of political and economic freedom around the world.

A free market system founded on individual choice ensures that we alone suffer the consequences of our follies, and that we do not suffer the consequences of others.

## Criticisms of the Free Market

Economists generally concentrate on the capacity of markets to meet people's needs and wants.

They sometimes make utilitarian value judgements about people's capacity to meet those needs and wants - for example, arguing in favour of redistribution policies on the basis that a dollar's worth of extra income is worth more to a poor person than to a rich one.

But they seldom make value judgements about the validity of those wants - whether trivial or profound, venal or altruistic doesn't enter their equations.

This 'value free' aspect of free market economics has been the target of some of its fiercest critics.

Defenders of markets typically respond, if they respond at all, with pragmatism - free markets may not be moral, but they deliver better outcomes than any of the alternatives.

As Winston Churchill put it:

*The inherent vice of capitalism is the unequal sharing of blessings; the inherent virtue of socialism is the equal sharing of miseries.*

But it is possible to mount a philosophical and even ethical defence of the free market system.

We have already looked at the intimate relationship between economic and political freedom; further criticisms of the market system are examined in detail below.<sup>26</sup>

## Selfish, Unrealistic and Anti-Community

Modern economics is based on models assuming that individuals act in reasoned and informed self-interest.

Its very foundations have therefore come under fire on the basis that it assumes human behaviour which is at best atomistic, competitive, selfish and materialistic and at worst sociopathic.

It is true that economists would do well to bear in mind that all of their theories are underpinned by simplified assumptions about human behaviour (although even elementary economics sometimes accommodates variations on these assumptions - most school students of economics are introduced to the unusual demand curves for prestige goods, for example). And it is true that, in economics as in other social sciences, empirical evidence in support of various theories is scarcer and harder to interpret than in most of the physical sciences, because social scientists cannot repeatedly conduct controlled experiments.

But self-interest is more widely defined than mere material gratification. It can and does include abstract, cultural, educational, family, community and altruistic objectives.

While some economists have taken the discipline's principles into wider fields,<sup>27</sup> few would ever pretend that they have a comprehensive model of all human behaviour, rather than a simplified but nonetheless powerful and useful model of people's economic (and, sometimes, social) behaviour.

Nor does the competitive nature of free markets mean that social relationships and co-operation are undermined. On the contrary, free markets are fundamentally co-operative institutions in which individuals voluntarily collaborate to form organisations such as businesses, and employment and supplier-client relationships, in order to meet each other's wants and needs to mutual benefit.<sup>28</sup>

## Real Values

Where people are free to make their own decisions about work, leisure, consumption, assistance to the poor and so on, then important or core human values may be sacrificed for the venal or trivial.

The outrage ignited by Kerry Packer's spectacular gambling losses at the Las Vegas gaming tables in July 2000 revealed a wide spectrum of people who clearly thought his money could and should have been better spent.<sup>29</sup>



Ludicrous consumer fads like pet rocks, and invidious social trends such as the tendency to work longer hours at the expense of family and leisure, elicit calls for human resources and activity to be directed to higher values.

But this begs the questions of who is to judge what those higher values are, how they are to enforce that judgement, and in what circumstances.

Imposing a maximum working week, for instance, might move some individuals nearer to optimal family and leisure time, but it could deprive others of the capacity to earn enough to support their family.

Governments and regulators do not necessarily possess superior wisdom in determining which goods are necessary and which trivial - they might prohibit the ownership of pet rocks, but they might make it compulsory.

Further, what one person views as trivial, another might deem essential.

A free market system founded on individual choice ensures that we alone suffer the consequences of our follies, and that we do not suffer the consequences of others'.

It is a damage limitation system which recognises human imperfectability.

## Welfare and the Environment

A third criticism of the free market is that it entails a 'race to the bottom' in environmental or welfare provisions and standards.

Countries must abandon such standards or suffer at best a loss of competitiveness and at worst the withdrawal of footloose international capital controlled by trans-national corporations.

There is little evidence to support this claim. Globalisation has proceeded steadily for decades and Australia has become a more enthusiastic participant since the 1980s, reducing tariff and other barriers to trade and investment.

International investment is an increasingly important share of domestic capital formation.

Yet during the 1990s welfare payments reached record levels as a percentage of GDP, of government spending or of household income.

Government tax revenues as a share of GDP were higher in 1998-99 than ever before. Other OECD countries have similarly seen government spending and benefit payments rise relative to GDP, while export reliance has also typically increased (Box 24).

If tax receipts and welfare payments are being squeezed by globalisation, one would expect to see some evidence. In fact, there is no reason to expect even in theory that a government would choose free trade policy to the detriment of its general citizenry unless it was excessively concerned with the interests of a small minority.

But free trade benefits the community at large at the cost of formerly protected interests, which is why governments characterised by patronage and cronyism (whether of the left or the right) tend to be protectionist and interventionist.

Likewise, there is little evidence to suggest that globalisation and free trade undermine countries' environmental standards.

We have already seen how economic efficiency and innovation work to conserve resources, including the environment.

Again, in Australia and most developed (and many developing) economies, tighter environmental standards are proceeding hand-in-hand with openness to foreign trade.

In fact, capital may be often deterred from locating in countries with poor environmental standards, not attracted to them. Industries which prefer clean water and inputs and a safer environment will look elsewhere.

If tax receipts and welfare payments are being squeezed by globalisation, one would expect to see some evidence.

There is no reason to expect any government to participate in a 'race' to adopt inequitable or inefficient policies unless they are acting on behalf of narrow economic interests rather than safeguarding the interests of the general population.

When we look around the world, it is obvious that such crony capitalism (and crony socialism) is more commonly associated with trade protectionism and interventionism than with free trade policies.

If a government is prepared to sacrifice the interests of domestic consumers by offering increased tariffs to protect profits or employment in particular industries, no one should be surprised if it is also inclined to sacrifice the interests of the general public on environmental and other issues in order to promote its patrons and friends in particular firms or sectors of industry.

#### Box 24 - Exports and Government Revenue as % GDP 1970 to 2000

##### Exports

##### Receipts of Government

	1970	1980	1990	2000		1970	1980	1990	2000
USA .....	5.5% .....	10.0% .....	9.6% .....	11.1% .....		27.6% .....	28.7% .....	29.3% .....	31.6% .....
Japan .....	10.8% .....	13.7% .....	10.7% .....	11.2% .....		20.6% .....	27.6% .....	34.2% .....	32.2% .....
Germany .....	21.9% .....	27.3% .....	33.1% .....	33.3% .....		37.4% .....	43.7% .....	41.8% .....	44.4% .....
France .....	15.1% .....	20.4% .....	21.3% .....	28.9% .....		39.2% .....	45.5% .....	47.4% .....	49.8% .....
UK .....	22.3% .....	27.1% .....	24.0% .....	26.8% .....		n/a .....	n/a .....	40.4% .....	41.2% .....
Italy .....	16.1% .....	21.4% .....	19.7% .....	28.6% .....		28.8% .....	33.5% .....	42.1% .....	46.6% .....
Canada .....	22.3% .....	28.0% .....	25.9% .....	46.0% .....		33.4% .....	35.0% .....	40.1% .....	40.3% .....
Australia .....	14.0% .....	16.5% .....	16.2% .....	21.4% .....		24.9% .....	29.7% .....	31.8% .....	32.3% .....
Austria .....	28.7% .....	35.5% .....	39.5% .....	49.0% .....		39.1% .....	45.5% .....	46.1% .....	47.2% .....
Belgium .....	52.4% .....	58.2% .....	71.3% .....	86.9% .....		37.3% .....	43.9% .....	44.1% .....	46.6% .....
Denmark .....	28.3% .....	33.3% .....	35.8% .....	38.6% .....		n/a .....	n/a .....	52.5% .....	54.0% .....
Finland .....	24.5% .....	32.2% .....	22.7% .....	40.8% .....		33.7% .....	40.0% .....	49.6% .....	48.8% .....
Greece .....	8.8% .....	18.1% .....	18.7% .....	21.8% .....		23.1% .....	27.0% .....	31.7% .....	42.7% .....
Iceland .....	47.0% .....	34.4% .....	33.9% .....	33.3% .....		n/a .....	n/a .....	35.8% .....	40.9% .....
Ireland .....	34.5% .....	46.2% .....	57.0% .....	91.6% .....		n/a .....	35.9% .....	36.7% .....	33.2% .....
Korea .....	13.6% .....	32.8% .....	29.1% .....	48.4% .....		16.8% .....	19.3% .....	21.8% .....	27.4% .....
Netherlands .....	47.0% .....	55.3% .....	58.6% .....	67.8% .....		35.6% .....	46.2% .....	43.7% .....	43.1% .....
New Zealand .....	23.4% .....	30.8% .....	27.2% .....	35.6% .....		n/a .....	n/a .....	44.0% .....	41.2% .....
Norway .....	37.3% .....	43.3% .....	40.6% .....	47.6% .....		40.0% .....	49.3% .....	52.3% .....	54.7% .....
Spain .....	12.5% .....	14.8% .....	16.1% .....	30.0% .....		22.0% .....	29.4% .....	37.2% .....	38.2% .....
Sweden .....	25.1% .....	29.7% .....	30.1% .....	46.2% .....		46.1% .....	53.0% .....	59.8% .....	57.3% .....
Turkey .....	4.4% .....	5.4% .....	13.3% .....	24.3% .....		n/a .....	17.4% .....	14.6% .....	21.6% .....

*Excludes countries with less than 20 years' data available.*

*Source: OECD Economic Outlook, December 2000.*



## 6. Conclusion

A free market economy underpinned by law and respect for property rights provides the environment most conducive to a high and rising quality of life in all senses of the term.

This is true whether quality of life is narrowly defined as the opportunity to consume goods and services, or more broadly described to encompass our capacity to achieve our social, cultural and educational aspirations. Innovation and co-operation will continue to deliver improvements in living standards without placing unsustainable pressure on scarce resources and the environment.

Economic freedom is inextricably linked to political freedom, democracy and the rule of law.

From the corruption, cronyism and nepotism<sup>30</sup> identified as a significant factor in the magnitude of the East Asian crisis, through the red tape and economic stagnation of India's 'permit raj', to the pork-barrelling and deceptions of 'WA Inc', actively interventionist and discriminating governments almost always have the effect, and sometimes have the intent, of damaging the interests of the wider community in order to promote the interest of the few.

There is no evidence that globalisation and free market economic policies are responsible for the evils usually blamed on them - rising poverty and inequality, declining incomes for those already at the bottom of the economic ladder, the destruction of jobs leading to rising unemployment, environmental destruction, a reduced capacity for government to raise taxes or spend on welfare, reduced 'empowerment' of individuals.

In fact, the evidence suggests that most of these measures of welfare are getting better, not worse. The poor are getting richer (though so are the rich).

Real incomes are rising at all levels of the income spectrum.

Environmental quality as measured by factors such as air and water pollution are improving in Australia and most other developed economies around the world. Unemployment is falling, and employment is rising. In the late 1990s, taxes as a share of GDP hit record levels. So did benefit payments.

Even when the social and economic phenomena blamed on globalisation are real - and rising wage inequality probably is - there is usually precious little evidence linking the effect to globalisation and the free market.

The damage threatened by these misconceptions in rich countries like Australia is real enough, but it pales into insignificance compared to the pain which an end to globalisation and the freeing of markets could inflict on people who are already desperately poor.

Globalisation and the associated increase in flows of trade, investment and ideas represents the best means for poor and developing countries to escape poverty.

This does not mean that there is no need or scope to reform and improve the institutions such as the International Monetary Fund and World Bank which have oversight of aspects of the global economy.

But it does mean that those calling for a reversal of the trend to globalisation and freer trade are absolutely wrong to assert that the policies they advocate will benefit the poor.

*We cannot absolutely prove that those are in error who tell us that society has reached a turning point, that we have seen our best days. But so said all who came before us, and with just as much apparent reason. ... On what principle is it that, when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?*<sup>31</sup>

- Thomas Macaulay, Whig politician, essayist and historian, (1830).

Globalisation and the associated increase in flows of trade, investment and ideas represents the best means for poor and developing countries to escape poverty.



## Endnotes

- 1 The global population rose from (an estimated) less than one billion in 1800 to about 1.5 billion in 1900, 2.5 billion by 1950 and 6 billion today.
- 2 Those interested in pursuing this matter may now consult Hernando de Soto, *The Mystery of Capital*, London, 2000.
- 3 Richard Easterlin, 'Will Raising the Incomes Of All Increase the Happiness Of All?', *Journal of Economic Behaviour and Organization*, Vol. 27, No. 1, 1974, page 35.
- 4 From J. Bradford DeLong, *Cornucopia: The Pace of Economic Growth in the Twentieth Century*, 1999–00, a draft chapter of his forthcoming book, *The Economic History of the Twentieth Century: Slouching Towards Utopia?* found at <http://econ161.berkeley.edu/TCEH..>
- 5 Ludwig von Mises, *Human Action*, 1996 edition, page 191.
- 6 United Nations, *World Population Prospects: The 1998 Revision*.
- 7 For example, prominent biologist Tim Flannery argues in *The Future Eaters* that Australia's sustainable population is 8–12 million.
- 8 Garrett Hardin, 'Life Boat Ethics: the Case Against Helping the Poor', *Psychology Today*, September 1974, pages 38–43, 124–126.
- 9 Paul Romer, *Economic Growth*, in *The Fortune Encyclopaedia of Economics*, ed. David R. Henderson, New York, Time-Warner Books, 1993.
- 10 Alan Wood, 'Envy perverts search for equity', *The Australian*, 20 June 2000.
- 11 Australian Centre for Industrial Relations Research and Training, *Australia At Work*, 1999.
- 12 Mark Wooden, *Job Insecurity and Job Instability: Getting the Facts Straight*, BCA Papers Vol. 1 No. 1, May 1999, Business Council of Australia
- 13 The World Trade Organisation currently has 136 members, up from 78 when it was founded in 1995, while 32 more have applied to join.
- 14 This is not to say that a full program of economic liberalisation is a necessary prerequisite of strong growth. Fierce debate is still going on about whether state-directed industrial growth such as was achieved in Singapore is a better or more effective model than the free market liberalism of Hong Kong, for example. But all of the newly industrialised (South Korea, Singapore, Hong Kong, Taiwan) and rapidly industrialising (Indonesia, Malaysia) economies share an export focus and a degree of openness to foreign direct investment.
- 15 Child and Maternal Mortality Survey, Preliminary Report, UNICEF, August 1999.
- 16 Press release, *Iraq surveys show 'humanitarian emergency'*, 12 August 1999, from website <http://www.unicef.org/newsline/99pr29.htm..>
- 17 Pope John Paul II, *Centesimus Annus*, May 1991.
- 18 David Dollar and Aart Kraay, 'Growth is Good for the Poor', World Bank Development Research Group, March 2000.



- 19 Remarks at the World Economic Forum Annual Meeting, January 2000, Davos, Switzerland.
- 20 Found, for example, by Ann Harrison of Columbia Business School.
- 21 Statement by Mike Moore at President Clinton's lunch, WTO Seattle Ministerial Conference, 1 December 1999 (<http://www.wto.org/english/news>).
- 22 Anti-Slavery International, 'Child Labour: The Way Business Can Help Children', 1996.
- 23 UNICEF Report, *The State of the World's Children*, 1997.
- 24 Paul Krugman, 'In Praise of Cheap Labor: Bad jobs at bad wages are better than no jobs at all', *Slate* (online) magazine, March 1997.
- 25 Jagdish Bhagwati, 'Economic Freedom: Prosperity and Social Progress', Keynote Speech delivered to the Conference on Economic Freedom and Development in Tokyo, June 17-18 1999.
- 26 This discussion draws heavily on Tibor R. Machan, 'In Defense of Property Rights and Capitalism', *Ideas on Liberty*, Vol. 43, No. 6, June 1993.
- 27 For example, Nobel prize winner Gary S Becker's work on the economics of families and of crime.
- 28 For a simple, thought-provoking essay on the capacity of free markets to induce infinitely complex, mutually beneficial co-operation, see the classic 'I, Pencil', written in 1958 by Leonard E Read, (available on the Foundation for Economic Education's website at [www.fee.org/about/ipencil.html](http://www.fee.org/about/ipencil.html)).
- 29 Sydney Morning Herald 'Latham says Packer morally obliged not to blow \$34m', 1 September 2000.
- 30 The association of these factors and their significance in the context of the worst crisis, in Indonesia, led this phrase to be contracted for convenience to the acronym 'KKN'.
- 31 Lord Macaulay, 'Southey's Colloquies on Society'. Literary Essays Contributed to the Edinburgh Review. Oxford University Press. 1913. Library of Economics and Liberty. (First published 1830) <<http://www.econlib.org/library/Essays/macS1.html>>.

