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Fred Argy is a proponent of a view that has dominated progressive economics and undermined progressive politics for most of the last two decades. This book sets the battlelines for debates progressive politics must have if Australia's current lurch to the right is to be challenged.

Argy's book documents an important story in Australian history. The first quarter is dedicated to a well researched and careful exposition of Australia's retreat from egalitarianism over the last twenty-five years. He documents a transition that has left Australia as one of the most unequal countries in the developed world. Australia has a greater divide between rich and poor than all bar two countries in the OECD, the United States and the United Kingdom.

Argy documents the change in philosophy that underpinned the road away from egalitarianism. For the first seventy-five years of our history Australia delivered social justice by direct intervention in the economy. Australian egalitarianism centred around delivering fair wages and a commitment to full employment. The rest of the economy was organized around accommodating these principles.

In the 1980s it was decided that the focus on justice was distorting the economy and undermining our efficiency. A free-market liberal economy would boost our economic performance. The drive to de-regulate began. Argy is a strong advocate of the reform process, and argues this did not necessarily amount to abandoning a commitment to egalitarianism.

In Argy's view, egalitarianism can still be achieved by a combination of free markets and large scale redistribution programs. He argues social justice could still be achieved by Government raising taxes, redistributing income and providing social services such as health and education. He describes how our governments did in fact do this to some degree, and how it stopped Australia from experiencing as dramatic a decline in equality as experienced in some countries making the same reforms. In Argy's view, we simply did not redistribute enough.

Argy argues that a collapse in the political commitment to equality was to blame for the shortfall in re-distribution. He points to the lack of the progressiveness of our tax system and constant prioritizing of balanced budgets over important social spending as being the heart of the problem. He argues that Australia's retreat from egalitarianism was not a necessary part of economic reform. It was, in his view, a lack of political ticker.
Yet the philosophical shift of the early 1980s is not nearly as innocuous as Argy would have us believe. What Argy overlooks is the way that it has remoulded the political landscape.

Once upon a time, the classic left-right divide was the left argued that in free markets the powerful exploit the vulnerable and the benefits accrue accordingly. The right argued that power does not exist outside Government decree and that in the market, as in life, people get what they deserve.

In recent years, we have seen this debate silenced. There has been little or no debate between the major parties about economic power and exploitation in markets. Nor has there been debate about the way that the market distributes wealth. Instead, we have seen a consensus around the drive for growth. We have been drenched in the mantra that 'rising tides lift all boats' and that good GDP figures represent the health of the society as a whole. It has been concluded that free markets deliver the ultimate social good. The debate has been silenced and the right has won.

It is progressive economists like Argy that handed this victory to the right. The coup was when progressive economists began to argue that markets deliver efficiency but not equity. The rhetoric ripped the debate in two. The natural outcome of the market was labelled 'efficiency' and an ideologically neutral social good that could be pursued by Governments of all colours. Meanwhile equity was labelled as a value laden ideological notion that should be treated as a secondary concern. In the hype of the drive to growth, issues of justice and power within markets were rendered second order concerns. They were to be debated separately, and later, if we have time.

Argy's book highlights this dynamic. Argy declares that 'most professional economists are market liberals, but this alone says nothing about their values'. He accepts that free markets deliver efficiency and that this is the first priority. He then engages with the secondary debate about redistributing wealth. The rest of Argy's book is an example of the bind in which this approach leaves him. Having established neo-liberal values as the scientific 'norm', he spends the next five chapters trying to claw egalitarianism back onto the agenda. He works hard at making arguments about why it would not be a disaster to move from the neo-liberal norm and how we can afford a little bit of egalitarianism. He argues it will not really cost too much. It will not really hamper our 'efficiency'. It will contribute to social welfare. His starting framework sets the preconditions where the neo-liberals own the whole playing field and progressives have to
work extremely hard to make meagre gains at the margins.

Argy argues that the politicians lacked the ticker. What he does not acknowledge is that economists tilted the political playing field sharply against them.

Truly progressive economics has to begin by challenging the mantra of efficiency. Efficiency has the rhetoric air of a neutral social good. If one had an efficient way of achieving a task, and an inefficient way of achieving a task it is clear that the efficient way is preferable. Efficient also sounds like concrete, technical, dare one say it, a scientific word. It sounds like the anti-thesis of ideology laden values. But we need to unmask this concept. Given the drive for efficiency has dominated Australian politics for the last 20 years, let us consider what the word actually means.

For the uninitiated, the basic premise of economics is that as a society we have a limited pot of resources. The economic challenge is to work out how to allocate those resources so as to bring about maximum human welfare. Free marketeers argue that the market solves this problem spontaneously. When you and I go out into the market we are prepared to pay a high price for things we value highly, and not much for the things we do not value. Meanwhile profit-maximizing businesses will target their business at producing things that get a high price, but are cheap to make. The result is that the market targets our resources to producing the things we value most and use least resources.

It is a model of a democracy of consumption. Citizens cast their vote on how our resources should be used, and the pinnacle of efficiency is achieved when our resources are targeted so as to bring about the greatest possible level of human well-being. Or, at least the greatest level of well-being available under the given income distribution.

Economics’ most stunning oversight is that it is a democracy on a sliding income scale. Those with a lot of money have a big vote, and the poor are almost silenced. Consider splitting $500,000 of annual income between 10 people. Consider what the market would provide if one person got $400,000 and the remaining $100,000 was split between the other nine. An efficient market would provide an extravagant home, a fabulous car and exceptional food and clothes for the wealthy person - and basic survival rations for the other nine. But if the income were split evenly, giving them $50,000 a year, the way that the money would be spent would change and the market would deliver quite different products. There would be a drop in orders for Mercedes and fancy meals, but medium range food, housing, fridges and televisions would boom. The distribution of resources will
reflect the distribution of income. What counts as an 'efficient' distribution of resources will change when the income distribution changes.

Now consider that 20 percent of Australians own 65 percent of Australia's wealth. In effect, an efficient economy is one that allocates resources in accordance with the will of the wealthy. Suddenly the inconsistency between efficiency and egalitarianism is clear. Efficiency is about the wealthy having control over how resources are allocated. Egalitarianism is about citizens having equal power in a society.

If you consider yourself progressive and this sounds radical to you - reflect on how far to the right we have moved.

If we are going to re-open the way to new progressive politics we need to challenge this value laden definition of efficiency. The way forward is to establish an approach to efficiency which is consistent with egalitarian values. One approach could be, in lay terms, that if the market is to be a democracy of consumption, people must have about the same number of dollars with which to vote. Only by giving people an equal say in how resources are distributed do we have any chance of allocating them to the greatest benefit.

A technical foundation for this approach can be found by digging around in the lost gems of the past. As Nicholas Gruen has pointed out to me, before the methodological upheaval of the 1930s, a central focus of the 'marginal revolution' was to maximise the satisfaction of human wants. During this period the diminishing marginal utility of income was commonplace in economics. The diminishing marginal utility of income has inescapably egalitarian implications. Roughly speaking, if everyone gets the same initial pleasure from having some money (the difference between having nothing and something being huge) and then faces diminishing returns to income, we are going to be more likely to achieve a higher level of total welfare with a relatively equal income distribution. Approaching efficiency in this way will dramatically alter what are deemed to be 'efficient' social outcomes. Policies that raise concerns for egalitarianism will also register as being 'inefficient' and will be more broadly recognised as being to the detriment of society as a whole.

Both approaches to efficiency claim to be seeking to increase total utility in the face of scarce resources. However, neo-classical economics is seeking pareto optimal efficiency where the condition for an improvement is to increase total utility without making anyone worse off. As a result, it is bound to the existing distribution of resources. By contrast, the traditional approach is one of maximizing total utility.
Fred Argy is a first-class advocate of the view he represents. His meticulously researched book will be a valuable reference for anyone interested in economic reform and social justice issues, but rather than accepting his philosophical framework I would recommend readers see the book as establishing the battlelines for the debates that need to be had.

An Example of the Efficiency vs Egalitarian Quandary

The bind Argy finds himself in is highlighted if you think about reforming the telecommunications market. Imagine the two options on the table are the universal provision of services and user pays. Under universal services, everybody receives the same clutch of services, but under user pays we would expect some people to be having their single landline phone cut off because they cannot afford to pay the bill, while others will have a couple of landlines, a mobile and an internet connection. Some of the difference between the two will reflect a difference in people's preferences on what they want to consume, but most of it will represent the income distribution. When we ask Argy which of the two ways of distributing telecommunications is best, he will tell us that view is a 'value neutral' scientific assessment about 'efficiency'. He will argue that to decide to maintain universal services on equity grounds is a political judgement about values, and that this must be taken into account as a secondary step. Argy is an egalitarian and will argue for the importance of that secondary step, but all the goodwill in his proposed second step does not undo the damage.

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Lindy Edwards is the author of How to Argue with an Economist: Re-opening Political Debate in Australia, (Cambridge Uni Press) and is a fellow of the non-partisan public policy think tank OzProspect.

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