

Productivity key to economy



DOLLARS AND SENSE
DAVID FRENCH

MANY of you are feeling worse off, and from politicians to not-for-profits there is no shortage of people wanting you to believe just that.

What these people want you to believe is that the fat-cats at the top of the tree are raking in all the money, while the average person gets less and less.

It's a sell easily justified when set against the earnings of highly paid corporate executives and tech billionaires seemingly being minted every day. But is inequality in the West really increasing?

A feature in the recent edition of *The Economist Magazine* reviewed a range of research, and came to the conclusion that inequality was in fact not increasing.

In Britain for example, the share of after-tax income of the top one per cent is no higher than it was 25 years ago. In Europe, the ratio of post-tax income for the top 10 per cent of earners compared with the bottom 50 per cent has also, over the same period, hardly changed. And based on new research, in the US, after adjusting for taxes (money taken from those with means) and transfers (money given to others), income equality has also hardly changed at all.

There are however some truths, but they are not about inequality, they are about economic stagnation.

Wages are stuck in a rut, and despite the crystal ball gazing of the RBA, that is unlikely to change.

In capital cities real estate prices are through the roof (even allowing for the recent downturn). Rates and taxes



EASY SELL: Despite beliefs to the contrary, David French says the gap between rich and poor isn't actually growing.

Picture: istock

have taken on a life of their own, and regulation has become a by-word for prestige and six-figure salaries, gained through negatively targeting the workings of business.

In my view, the source of this stagnation lies in the 9/11 terror attacks, and their coincidence with a range of other economic factors. 9/11 set the West on its backside.

More and more money poured into the associated war effort, and into protective measures such as airport screening and anti-counter terrorism measures.

Just last week I saw large concrete blocks placed at Melbourne's Southern Cross Station. These measures might help protect our society (the value for money proposition is not yet apparent), but they do not assist long-term economic

growth.

Further, the fear of the enemy leads to mistrust, which is never any good for progress.

And if 9/11 wasn't enough, the GFC set in not long after and destroyed wealth by the truckload – many individuals and business are still recovering.

Overlaid, we have the baby-boomer generation which is now beginning to retire, much of their wealth resting in superannuation.

Compare that to the booms in two income families, white-goods, and motor vehicles of the 1970s and 1980s and you can see the demographic impact. What we have then is a shrinking economic pie, sauced with a populace fearful and disinclined to spend.

It's the worst of all circumstances, because when the pie

shrinks, everybody begins fighting over it. That's what is going on right in front of your eyes.

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There's no shortage of people who will tell you they have the answers. Regulators for instance have almost no accountability for their spending or results. Their “glasshouses” pronouncements make business disinclined to invest, and have recently led to a partial freezing in bank lending, and

dysfunction in the market for professional indemnity insurance.

The mantra that everybody is a victim means that almost any complaint in any area is not only given a hearing, but is found in favour of the complainant without even cursory checking of the facts.

The insistence on perfection undermines business, costs jobs and destroys entrepreneurial activity in which the seeds of economic renewal are to be found.

People, many of whom are affected by industry restructuring and layoffs, don't understand the detail. They do however have an inkling that something is not right; consequently they show disdain for the middle ground and vote in mavericks such as Donald Trump and Boris Johnson.

The left may criticise, but it's entirely rational.

The people claiming increased inequality are wrong, and their solutions disingenuous. What they are really about is increased influence of the socialist left (known as neo-Marxism).

They do that through a divisive doctrine which says that we should forget all we have learnt, because the only individual that can determine the correct viewpoint is the individual themselves (because everybody else is acting from their own position of power).

It's nonsense, but you should be very awake to the determination of these “progressives” and the influence they have already had. In economics, Thomas Piketty enjoyed great reach in peddling issues of unfairness, and notwithstanding millennia of people buying, selling and otherwise trading, Richard Thaler won a Nobel prize for basically saying that people cannot think for themselves and that it does not pay to trust anyone.

The shrinking pie is having serious real-world repercussions – stagnant wages are one thing, but ultra-low interest rates are another. Official interest rates will soon fall to (more or less) zero without any impact on economic growth.

At that point, the RBA will begin printing money (Quantitative Easing). Such an initiative will underpin asset prices, which is good for our clients, but it diminishes the value of work (because asset prices rise, while pay rates are stagnant).

Take whatever side you like, but there is only one answer to this dysfunctional time in Western economies, and that is productivity. That means putting the market to work, less regulation, and freeing of labour markets.

Australia could lead in that. If it doesn't, we are stuck with this for 30 years.

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