Swan's Way: a comment on Wayne Swan, "The 0.01 Per Cent: The Rising Influence of Vested Interests in Australia", in <u>The Monthly</u>, March 2012.

No one can say Wayne Swan is not an environmentalist. For there is not a single idea in his essay that is not fully recycled. Indeed, the essay as a whole is a somewhat ham-fisted attempt at recycling in Australia the "gilded age" debate that is currently underway in the US and the UK. As far as such attempts go, however, it is rather poorly implemented, in part because it is impossible to make the "gilded age" story work for Australia. The result is a rambling mishmash of errors, half-truths and selective quotations, made all the more painful by the absence of any sensible structure to the essay.

A full catalogue of the sins of omission and commission would take far too long and would hardly be worth the effort required. In any event, no mere inventory of failings could capture the essence of the work, with its shrill tone and innumerable difficulties in getting a fact or an idea straight. But having addressed in my column the main issues Swan raises, it is easy enough to highlight in this post (which should be read alongside that column) some examples of "Swan's Way".

First, take Swan's Zolaesque portrayal of the industrial revolution (an appropriate homage, perhaps, given that this is the 150th anniversary of the publication of Zola's Les Miserables). According to Swan, the British industrial revolution "left many even worse off than they had been before industrialisation." This is gross exaggeration at best, nonsense at worst. From 1821 to 1870, the period Swan seems to be referring to, real wages in Britain increased by 35 percent for farm labourers, 60 percent for workers as a whole and 100 percent for masons, while household consumption rose even more. As for Swan's claim that in industrialising Europe "to be working class often meant early death", he seems unaware of the fact that life expectancy increased by some 40 to 50 percent in the 19th century (or if aware of it, chooses to ignore it).

Second, consider Swan's point that it is possible to avoid a rising gap between income growth at the top and that at the bottom. Swan is, of course, right: it is possible to buck that trend.

But Swan stays well away from naming the four countries that from the mid-1980s on, most conspicuously did so: Portugal, Ireland, Greece and Spain, usually known as the PIGS. In those countries, the bottom 10 percent's incomes increased by about 1.7 percent more a year than those of the 10 percent at the top. They therefore contrast sharply with the rest of the OECD area and seem to correspond closely to what Swan has in mind. But little wonder Swan does not mention them, for they are now at, or beyond, bankruptcy's door.

Third, consider Swan's claim that in the US, "investment income is a strong driver of concentrated privilege" and of the growth in incomes at the top. That claim is curious, because Swan cites the OECD's "Divided We Stand: Why Inequality Keeps Rising" report as an authoritative source. Yet that report shows that taking the full period from the mid-1980s to the late 2000s, changes in income from capital actually substantially reduced the share of income accruing to the top 10 percent in the US: quite the opposite of what Swan suggests. In any event, Swan seems unaware of the fact that in Australia, the distribution of wealth is somewhat less concentrated than that of income (see Peter Whiteford, “Are the rich getting richer and the poor getting poorer?”, Inside Story, September 2011) so that the impact of changes in asset returns is quite different.

Fourth, Swan is determined to paint a “nightmare on elm street” picture of the US, essentially because he then wants to analogise Tony Abbott to the Tea Party and Gina Reinhart and co to assorted US tycoons. The results are bizarre omissions, notably in failing to compare changes in income distribution in the US to those in Europe. As I point out in column, the northern Europeans, hardly dominated by the Tea Party, have generally experienced shifts in income distribution similar to or greater than those in the US. But recognising that, and then attempting to explain it, would hardly suit Swan’s case – so he simply ignores it altogether.

Fifth, it is surely striking that Swan nowhere acknowledges the fact that it was under the Howard government that tax and transfer policies were implemented that substantially, if not entirely, offset the effect increases in the inequality of primary incomes might have had on disposable real incomes. Here too, he shows a disconcerting lack of generosity of spirit. More generally, while he notes that the Australian income distribution is substantially more equal than that in the US, he seems to misunderstand why that is so and whether it is entirely to the good. (For example, the returns to skill in Australia have declined and in some areas associated with manual work, are very low – likely reflecting distortions in the wage structure, that in turn reduce the incentives for individuals to invest in training.)

Finally, despite his essay’s length, and its frequent repetitions, Swan fails to mention any of the health warnings which should attach to data on income distribution. The sources he uses rely on different income concepts; many are not even comparable within countries over time, much less between countries. Yet he mixes them all up, without noting their manifest inconsistencies.

However, all of these issues pale in insignificance relative to the essay’s overall incoherence. What is it exactly that Swan believes? “Rewards”, he says, “should be proportionate to effort”: as judged by who? One W. Swan? What is it that makes “effort”, rather than ability and the market value of the outcome, the relevant criterion? Are we back to an especially crude version of Marx’s labour theory of value (Marx recognized the importance of ability, while Swan does not)? And more generally, what precisely is it that Swan objects to in the wealth that has been made by Gina Reinhart, Andrew Forrest and Clive Palmer, as compared to (say) that of Morry Schwartz? None of these questions are addressed in Swan’s essay, much less answered.

As for Swan’s theory of democracy, it hardly bears scrutiny. He seems to believe it is entirely appropriate for the unions to engage in public campaigns, but not for Andrew Forrest to do so. In reality, the essence of democracy is the open expression and testing of competing interests. Indeed, it was the replacement of passion, which “takes no account of the future”, by competing and independent interests, that alone can prevent “great and sudden arbitrary actions of the sovereign”, that Montesquieu saw as the supreme benefit of a free commercial society. And Tocqueville warned that the danger democracy faced was precisely that “men of substance” would shun involvement in public affairs for the sake of pursuing their private fortunes, leaving the running of the state to hapless mediocrities who (having little better to do) would seek to perpetuate their rule: he clearly knew a thing or two.

But all that, it seems, is beyond Wayne’s world. Which is a shame, for his essay comes over as spiteful and poorly informed. Perhaps the best that can be said for it is that it is an interesting tribute to one K Rudd, whose famous essay was published in the same periodical exactly three years ago. Could W Swan be preparing to share his former leader’s fate? If so, his essay is a fitting first step.

Sources:

The income distribution data used in the column comes from the OECD and is available at http://dx.doi.org/10.1787/888932537370 or from the OECD’s report “Divided We Stand: Why Inequality Keeps Rising”, which is available at http://www.oecd.org/document/51/0,3746,en_2649_33933_49147827_1_1_1_1,00.html.

Also very useful is the 2008 OECD report “Growing Unequal? Income Distribution and Poverty in OECD Countries”, which is available at http://www.oecd.org/document/4/0,3343,en_2649_33933_41460917_1_1_1_1,00.html. And for Australia, an excellent survey is Peter Whiteford, “Are the rich getting richer and the poor getting poorer?”, Inside Story, September 2011, available at http://inside.org.au/are-the-rich-getting-richer-and-the-poor-getting-poorer/.

For the growth of wages in the industrial revolution, the best source is Robert C. Allen “The Great Divergence in European Wages and Prices from the Middle Ages to the First World War” in *Explorations in Economic History* 38, 411-447 (2001). Also indispensable, and containing an extensive discussion of consumption trends, is Jan De Vries “The Industrious Revolution: Consumer Behavior and the Household Economy, 1650 to the Present”, Cambridge University Press, 2008. Mortality and life expectancy data for the period of the industrial revolution can be found in Massimo Livi Bacci “A concise history of world population”, Wiley-Blackwell, 2001, as well as in James C. Riley “Rising Life Expectancy: A Global History”, Cambridge University Press, 2001.

As for the economics of inequality more generally, an outstandingly interesting book on the subject is Branko Milanović “The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality”, Basic Books, 2010. It is every bit as idiosyncratic as the title promises but also remarkable in its scope, consistently amusing and understandable, and written by one of the leading experts in the field. In short, a must read. Also highly recommended is Jeffrey G. Williamson “Did British Capitalism Breed Inequality?”, Economic History Series, McGraw Hill Professional, 2006.

Montesquieu’s view of the role of interests, and more generally, the evolution of beliefs about the appropriate role of interests in government, is the subject of a fascinating book by Albert O. Hirschman “The Passions and the Interests:

political arguments for capitalism before its triumph”, Princeton University Press, 1977.

Finally, Swan refers to the Financial Times as “the champion of the free market”. Plainly, he never reads it, for if he did, he would know that since the departure of its great postwar editor, Sir Gordon Newton, who edited the FT from 1950 to 1972, the paper has pretty substantially changed its spots. Nowhere was that clearer than in its strident campaign for the UK to join the Euro, immortalized in the paper's Lex column on January 8, 2001, on the subject of Greek entry to the eurozone: "With Greece now trading in euros," wrote Lex, "few will mourn the death of the drachma. Membership of the eurozone offers the prospect of long-term economic stability." Enough said.