The Australian

Swan's attack on wealthy a bit rich

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- From: **The Australian**
- March 05, 2012 12:00AM

WHATEVER Wayne Swan's strengths may be, a sense of irony is not among them. Were it, he might have hesitated to publish in The Monthly, the brainchild and mouthpiece of developer Morry Schwartz, an essay excoriating tycoons for investing in the media. But then again, The Monthly hews to the Left; and what Swan really objects to is not tycoons as such, but those who dare to disagree with him.

Yet an irony bypass is hardly the only weakness Swan's essay evinces. Riddled with inaccuracies, it is notable mainly for demonstrating that indignation is no substitute for analysis. But however flagrant its errors (some of the major ones are set out on my blog), they cannot in themselves allow one to dismiss Swan's central claim.

That claim is twofold: that "across the developed world", "the Reagan-Thatcher revolution" shaped a society where "the winners take all"; and that a cause and consequence of that trend is "the rising influence of vested interests", exemplified in this country by Clive Palmer, Andrew Forrest and Gina Rinehart, whose power now threatens our democracy.

It is indisputable that in most industrial countries, incomes have increased more rapidly at the top of the income distribution than at the bottom. And if by "the Reagan-Thatcher revolution" Swan means opening economies to competition, it is true that removing barriers to trade and innovation created opportunities for many but losses for others. It is nonsense, however, to portray this as a process of immiseration, much less one driven by a global cabal of the super-rich.

Consider six countries that are far from being mindlessly Reaganite: Denmark, Finland, Germany, The Netherlands, Norway and Sweden. From the mid-1980s to the late 2000s, the incomes of the top 10 per cent in these countries increased by 2.1 per cent annually, while those of the bottom 10 per cent increased by only 0.7 per cent a year.

That happened precisely because those countries underwent far-reaching structural change, increasing the rewards to skill and creating losers as well as winners. Structural change, however, was certainly not a zero-sum game at "working people's" expense. Rather, it allowed sustained economic growth, reducing unemployment and lifting real incomes by nearly 50 per cent.

Exactly the same applies to the US, which Swan portrays as capitalism at its most demonic. His lurid prose conjures images of a gulf between rich and poor widening like a river in flood. In reality, while the difference in annual income growth of the top and bottom deciles in the six countries I just referred to was 1.4 per cent, in the US it was, yes, also exactly 1.4 per cent.

As for Australia, the gap in annual income growth of the top and bottom deciles was, at 1.5 per cent, slightly greater than in the US.

But with our economy's transformation raising household disposable incomes by 3.5 per cent annually, the real incomes of the poorest 10 per cent more than doubled during the period, an increase unparalleled in our postwar history.

That should be good news for those committed to "standing up for the workers", as Swan claims to do. Yet Swan ignores altogether the vast lifting of ships that came from market-oriented reform. Rather, having asserted that "the Reagan-Thatcher revolution" is driving the huddled masses to brutalism, he focuses on the rich: those at the very top of the income distribution.

It is true that, as Swan emphasises, the top 1 per cent's income share in the US increased by half from 1990 to 2007.

But Swan does not mention that in the other advanced economies that experienced significant structural change, the top

1 per cent's income share increased an average 75 per cent. Much less does he note that it was in those bastions of heartless capitalism -- Denmark, Sweden, Finland and Norway -- that the greatest rise by far occurred.

Why that happened is controversial. But it is clear that rapid structural change, and very high returns to those who seized its opportunities, have been important factors.

Such entrepreneurship should be a cause for celebration, as should the fact that world has more Bill Gates. But while Swan voices no objections to the fortunes paid to performers such as Cate Blanchett and Peter Garrett, he is revolted by the wealth Palmer, Forrest and Rinehart earned investing in large-scale mining developments when the China boom was little more than a vague possibility.

That the nation's Treasurer would hold such a view is dismal. Plainly, Swan does not have it in him to recognise that mining is Australia's Silicon Valley, much less to give credit where credit is due. Nor does the harm that such an ad hominem attack by one of the country's most powerful politicians could do to Palmer, Forrest and Rinehart's ventures trouble him. For Swan cannot abide that they have resisted his policies, and have the means to make their opposition known.

Theirs, he thunders, are mere vested interests; their views "unacceptable" obstacles to the "national interest" he presumably embodies; and their interventions a "poison" inconceivable in the Queensland of his childhood and that risks bringing Australian democracy to its knees.

That anyone could have experienced the Queensland of Vince Gair, Joh Bjelke-Petersen and Jack Egerton without encountering the power of vested interests is startling. But having thus misunderstood the past, it is not surprising Swan seems incapable of understanding the present and, notably, of grasping the nature of democracy.

For a virtue of democracy is precisely that it allows the expression and testing of competing interests. And with our economy's reshaping bringing new interests to the fore, we should welcome their contribution to the policy debate. But it is also crucial that their views, like those of others, be subjected to the independent, transparent and rigorous scrutiny that has consistently proven the best bulwark against sectional interests and that underpinned microeconomic reform.

Yet that is where we have most markedly gone backwards. No government has done more than Gillard and Swan's to undermine longstanding public processes of policy assessment, while making backroom deals central to its modus operandi. Nor has any government done more to entrench the narrow interest group on which it relies, the unions, or been as unaccountable in dispensing taxpayers' money to its favoured constituents.

That, not Rinehart's wealth, is the danger our democracy faces. For Rinehart's wealth is exposed to the disciplines and vicissitudes of world markets; poor governance, in contrast, is perpetuated by the coercive powers of the state.

As for Rinehart's media investment, Swan should commend it, exactly as he should commend Schwartz's. We need more Rineharts and Schwartzes, and the feistier and more fearless they are, the better. But to balance them, we also need a democracy that is in the open; not one shut behind Swan's door.

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