

The Macro Melbourne Initiative Discussion Paper – a response

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NIEIR commends the Macro Melbourne Initiative discussion paper. In responding to the paper, the Institute does not wish to take issue with it, but instead to approach some of the same issues from a slightly different direction.

The purpose of the Macro Melbourne Initiative, as expressed in the sub-title of the discussion paper, is to develop strategic responses to disadvantage. However, the paper itself is a little less ambitious. It aims to describe disadvantage in a way which will ‘stimulate new thinking on strategic giving and point to possible strategic investments by philanthropic trusts and corporate organisations that would address disadvantage and help prevent social problems emerging’. One may add local government to the list of interested parties, but not the state or Commonwealth governments, whose policies are seen to be as much part of the problem as of its solution.

Professor Henderson’s legacy

The study is firmly in the intellectual tradition of established in Australia by Professor Henderson in his studies of poverty three to four decades ago. It equates disadvantage with poverty broadly defined, and notes the association between disadvantage and membership of disability groups – again using the word disability in a broader sense than is common today. The importance of disability groups is twofold. First, the opportunities for poverty reduction vary by group. Different policies will be appropriate for each group, particularly as regards services. Second, disability group membership provides a proximate reason for people being poor, and hence a reason why they should be assisted through public policy and not left to fend for themselves.

The disability groups mentioned in the Macro Melbourne Initiative follow much the same list as that established by Professor Henderson, though there has been some updating of euphemisms and considerable change in the relative size of the groups. Going back to Henderson’s disability groups, we find the following.

- Indigenous poverty remains as intractable as ever.
- The aged are growing in numbers and still have relatively low incomes, but in relation to the poverty line pension rates are a little more generous than they were in Henderson’s day.
- There are fewer large intact families than there were thirty years ago, and the financial position of large families has improved due to increased social security assistance.
- Recent migrants are much more strongly divided into a skilled group, who are prospering, and an unskilled, mainly refugee group, who face considerable difficulties in establishing themselves in Australia.

- The transition from childhood to adulthood has not become any easier, and significant numbers of young people are poor.
- The number of single parent families has increased, and there is still a high incidence of poverty among them.
- The closure of the large mental health institutions has increased the number of people with disabilities living in the community. To this group may be added the many who have acquired physical and mental disabilities due to prolonged unemployment.
- The number of unemployed workers has burgeoned. This group tends to have low cognitive and/or social skills, and overlaps with a new group of working poor, whose earnings are low and precarious.

In summary, compared to the post-war era of full employment, much more trouble is being caused by unemployment and underemployment. It is much harder for people with low skill and/or social, physical or mental incapacity to obtain work, and when they do it usually brings low wages. On the other hand, large families are no longer a major disability group.

Disadvantaged aspirationalists?

Though the Macro Melbourne Initiative for the most part equates disadvantage with poverty, there has been a tendency to add two further disability groups to the list. Both of these are groups whose incomes place them well above the poverty line however updated, but who are in trouble despite this.

- People whose financial affairs are in disarray due to over-indebtedness (usually on mortgage) and/or addictive spending (such as heavy gambling or expensive recreational drugs). Let us call these the financially over-committed. The perceived needs of this group have received considerable political attention.
- A group which is less obviously in trouble – indeed, which is often held up for public admiration – comprises workaholics who devote such long hours to paid work that other aspects of their lives suffer. Sometimes the consequences are borne solely by the workaholic – he reaches retirement age and realises that he's never lived. They become more serious when they are borne by others, particularly the workaholic's small children. In Henderson's time it was believed a neglected childhood was usually the result of poverty, but it is now argued that in addition to children neglected due to the stresses of poverty there is a troubling number of rich families in which workaholic parents fail to provide a stable and loving home. This group is likely to have considerable overlap with the financially over-committed.

There is prima facie evidence for growth in the number of households falling in both these groups. Household indebtedness in relation to incomes has risen to unprecedented levels, as has the proportion of the workforce working longer than standard hours and the proportion of married women in paid work. There has been a revival of pawnbroking and marginal moneylending. Much less is known about the significance of these phenomena, including

- What has been the relative importance of home purchase, purchase of other consumer durables, education expenses and purchase of current consumables in the generation of over-indebtedness?
- What are the associations between over-indebtedness and marital instability?
- What scope is there for households to manage over-indebtedness?

And, on the much more sensitive issue of workaholics:

- In how many households is the priority given to paid work having negative effects on children? (We must acknowledge that there is lively debate on employer responsibility for the wellbeing of employees' children, and on the effectiveness and adequacy of child care services. Employers who wish to attract skilled personnel are beginning to emphasise work/life balance, and if they succeed in attracting the best employees the number of workaholics may decline among workers whose skills give them bargaining power in the deregulated labour market.)

Answers to these questions would assist in determining the significance of the two 'aspirational' disability groups, and would also assist in addressing their needs. Since they are not poor, raising incomes further is unlikely to provide much of a solution. It is more likely that their problems can be addressed through better management of resources, particularly time: efficiency in consumption, if you like, as distinct from the present emphasis on efficiency in production. In this context at least some poor people have much to contribute, since in the face of limited resources they are shining examples of good household management.

Economic rationalism and the political incorrectness of poverty

Mention of efficiency in production introduces a further major change since Henderson's time: the rise of economic rationalism, which has mounted a head-on challenge to Henderson's strategy of using redistribution to direct portion of the benefits of economic growth to the abolition of poverty. Put baldly, the economic rationalists claim that economic growth cannot occur without free play for market incentives, including the incentive to work provided by the threat of poverty.

Though it can be traced back to nineteenth century British utilitarianism and developments in economic theory in Britain and continental Europe a hundred years ago, the current main source of economic rationalist ideology is the USA. Its prominence in Australia has been assisted by American ownership of the media, and much of its attractiveness arises from the perception of the USA as the world's most powerful and (more contestably) richest country. The Macro Melbourne study does not, however, deal with this big picture; instead it considers economic rationalism by discussing the definition and measurement of disadvantage, as reflected in the debates over poverty measurement of the past three decades. These debates arose because economic rationalists, who extol free markets and deprecate both government intervention and taxation, wished to counter the argument that poor people should be assisted by social security payments and government-financed services. What better way to counter than with the argument that poverty is voluntary, the result of individual choice? They also

argue that much poverty is bearable because it is temporary, and that poverty can even be attractive because poor people now are better off materially than the average citizen was a couple of generations ago.

It is a very small step from these arguments to the age-old discussion of whether poverty is deserved or not; which logically also entails whether riches are deserved or not. Questions of the deservedness of riches and poverty have been the stuff of religious debate for millennia, with each religious system developing its own sophisticated account. However, these accounts have limited influence in Australian public debate, since Australia prides itself on being a secular country. Instead, with the adoption by the Commonwealth and, by and large, the state governments of economic rationalism as their guiding ideology, the view that whatever the market delivers is optimal has gained great currency. Religious people and philosophers, and indeed some economists, point out that economic rationalism has very shallow foundations as a moral theory, but that does not prevent its being used to justify two very dubious propositions: all riches which individuals gain by competition in the market-place are deserved, and equally all poverty suffered by individuals due to unsuccessful competition in the market-place is likewise deserved. Add inheritance (Australia abolished death duties, remember?) and we have a position very much like the fatalistic acceptance of extremes of riches and poverty which was once claimed to be characteristic of Eastern peoples.

The economic rationalists' stress on individual responsibility for poverty has an undeniable plausibility, at least in some cases. Charity workers have long known that people who aren't good money managers can easily get themselves into financial difficulties, and that addiction, whether to alcohol, drugs or gambling, makes money management impossible. Direct financial assistance to such people can be problematic. The economic rationalists, living as they do in a world of incentives, go further and argue that people should never receive something for nothing, for to give is to encourage laziness and dependence on handouts. The traditional reply to this is that people can find themselves members of disability groups through no fault of their own, or through understandable fault (there, but for the grace of God, go I). This reply, and the benefits of adjusting assistance to the needs and opportunities of people in their disability groups, accounts for the prominence of such groups in social policy.

Moving outside the traditional disability groups, what is to be said about people who are in financial hardship due to over-commitment? The economic rationalist answer is that over-commitment is the result of free choice to borrow and buy, and that indebted people should work harder and meet their commitments. However, what if over-commitment results from people succumbing to the blandishments of sophisticated advertising to spend and to borrow, much of it cleverly designed to exploit common psychological weaknesses, and none of it countered by equally-persuasive advertising in favour of saving? This possibility strikes at a founding assumption of economic rationalism, which is that consumer desires are autonomous, and consumers accordingly know when to stop. Economic growth, which economic rationalism claims to maximise, is a poor bargain if in the process of pursuing it we develop insatiable desires, and so make ourselves miserable.

Another test case for economic rationalism is the neglected child of workaholic parents. The ideological version of economic rationalism places high value on paid work, however long the hours and whatever the pay. Further, in the name of freedom they emphasise the value of personal choice in the labour market: if a parent chooses to work long hours, this is his or her valid choice. Unfortunately, this choice has potential to result in failure to provide children, particularly small children, with the security and love that they need, with the consequence that the children become socially, and economically, incompetent adults. When people turn out to be unemployable, perhaps this is due to their being the victims of parental, or community, neglect when they were children. Once again the autonomous individual of economic rationalism turns out to be a chimera. (One can translate this argument into economic jargon by pointing out that the costs of child neglect far outweigh the benefits of additional earnings – but the currency of such jargon is itself evidence that cost-benefit analysis has transgressed its socially-desirable bounds.)

None of these critical observations on economic rationalism denies that people respond to incentives – both gross material incentives and incentives of a more subtle social kind. Kept within its limits by people whose values and priorities do not derive from it, economic rationalism can work wonders in fulfilling needs; but adopted as a primary value system by people who allow it to generate their wants, economic rationalism can result in a downward spiral into misery.

This raises the interesting question of the role of philanthropy in a country committed to economic rationalism – particularly one in which the Corporations law insists that directors are responsible solely to shareholders. Corporate philanthropy is prohibited if the law insists that directors should maximise short-period shareholder value, but sad experience has shown that business and social capital is all too easily destroyed in the pursuit of short-term gain. The discussion of the social responsibilities of business, and of triple bottom lines, has contributed much in this area.

Whatever economic rationalists may think about directors' responsibilities, it is worth noting the mainstream view that individual decisions to be generous are legitimate exercises of choice. However, this approval of generosity is modified by advice that individuals should be careful in their giving, lest they undermine the self-reliance of the recipients of their charity. This is good advice, and the disagreements do not begin to arise until the economic rationalists claim that any interference with the pattern of market rewards constitutes an unacceptable incentive.

Despite its association with corporate social responsibility, the Macro Melbourne initiative can be interpreted as aligning philanthropy with the priorities of the prevailing ideology: there is a strong flavour of the economic rationalist pursuit of efficiency in the survey of disadvantage followed by the allocation of assistance to the groups where a little careful help can do most good. The initiative seeks to increase the efficiency of giving both in targeting and in the selection of strategic projects which will yield high returns in disadvantage allayed. However, there is an aspect to giving which is not economically rational. That occurs where the giver heeds traditional morality and does

not count the cost, and certainly does not count the benefits. There is a contradiction between the gift which expects no reward – let not your right hand know what your left hand is doing – and the economically rational mind, with its self-centredness and its obsession with a quid pro quo for every transaction. It could well be that the chief value of philanthropy lies in its witness to values other than the self-seeking values of exchange.

Yet this also shows the limits of philanthropy. It can do much to make a country liveable, but it cannot alter the fact that governments are responsible for the laws which govern economic activity. If these rules are not fair, their outcomes will not be fair either.

Starting from Henderson's disability groups and his proposition that people can be helped by redistribution, we have been led to some fairly fundamental criticisms of the prevailing ideology. Economic rationalism has also attracted criticism based on market failure, and we will now take two examples of this from the Macro Melbourne Initiative, poor accessibility and the (in)affordability of housing. The Initiative treats these as two dimensions of disadvantage, but does not make a strong connection between the two.

Accessibility and housing affordability

From a geographic point of view, accessibility is best defined as the ease with which one can reach a specific kind of destination from a specific place of origin. The usual place of origin is home, and the usual destinations are workplaces, shops, schools, health services and the like. Sometimes the nearest destination is the most important – say the nearest hospital emergency department – but more often it is important to have access to a variety of similar destinations: a variety of shops, different schools and health services. Variety of possible destinations is most important when one is looking for work: the greater the number of accessible jobs the better. Following these two approaches, accessibility is sometimes measured by distance to the nearest opportunity (this house is 200 metres from a playground; it is 500 metres from a convenience store, and so on), but it can also be measured by the number of possible destinations within a convenient travel time or distance (a house in a trendy suburb may have ten latte bars within walking distance, and, more important, is likely to have several hundred thousand potential workplaces within half an hour's drive).

Accessibility and public transport

In this context, it does not make much sense to speak, as the study does, of the accessibility of public transport. Public transport is not a destination in itself; it is a means of transport. Because public transport inevitably involves walking and waiting, it is necessarily slower than motoring for all trips bar those where motoring is slowed by severe congestion and parking difficulties. When one measures accessibility by counting potential destinations which can be reached within a given time, the walking and public transport version is inevitably less. It reduces even further if the streets are not perceived as safe for pedestrians. At the limit, nothing is accessible by walking or public transport

to people who are so fearful of getting mugged that they are unwilling to venture beyond the front gate without the protection of a car.

Setting aside such cases of fear, the continuing importance of walking and public transport derives from the following.

- There are people who cannot, or should not, drive. Such people are disadvantaged if they are unable to access important destinations by walking and public transport.
- Motoring is costly, though for decades its cost has fallen relative to average earnings and relative to the social security pension, and it has for many years been included on the list of Australian necessities. However, with indications that fuel costs are beginning to rise, households which can access employment and services by walking and public transport are likely to be increasingly advantaged.
- Walking is healthy. Households are advantaged when they can access destinations on foot, with or without a little help from public transport. By contrast, motoring is dangerous.
- En masse, motor vehicles cause congestion. The public costs of providing roadspace to ease congestion are considerable, as are the public costs of providing car parks. In addition, experience has shown that it is very difficult to build major activity centres served solely by motor vehicles. An important argument for public transport is that it can support activity centres which are larger and more diversified, yet more compact, than the typical suburban shopping mall, technology park or campus university.

Accessibility from residential areas to various kinds of destination can be enhanced by the following means.

- Shifting to faster transport. The obvious way is by buying a car, but even if one sticks with public transport improvements are possible through more frequent, more direct and more connective services.
- Making sure destinations are near residential areas. The retail sector has been adept at this, though it tends to assume that the only worthwhile customers are those who travel by car.
- Conversely, making sure homes are near destinations.

A particular problem area has been the relationship between residential areas and employment opportunities. In the 1950s and 1960s Melbourne added both housing and jobs to its outer suburbs. Many of the jobs were in manufacturing and warehousing, attracted to the outer suburbs by low-cost land and good truck roads. The resulting jobs were accessible only by car, but provided valued work opportunities within acceptable time distance for many outer suburban residents. From about 1975 the trend reversed. The emphasis on the knowledge economy resulted in job growth in the CBD and the inner suburbs. Despite the effort to decentralise universities, no significant knowledge hubs have been created in the middle or outer suburbs – a failure which is perhaps related to the policy, noticeable particularly at Commonwealth level, that public investment in transport should concentrate on roads with public transport reduced to a ‘social service minimum’ level. This prevented its being used in the promotion of employment centres.

The result was that the difference in job accessibility between the outer and inner suburbs became more acute.

Housing affordability

The failure of urban strategy to spread accessibility was exacerbated by the deregulated financial sector, which in the 1990s found itself with unlimited funds for lending on residential mortgages. The banks borrowed overseas in Australian dollars at rates which compensated the lenders for the risk of devaluation and were accordingly high by world standards. They were on-lent to Australian households plus a profit margin. Households borrowed willingly, in part responding to advertising but also because the rates seemed low to people who had been paying two-digit interest rates less than a decade before. One result of this debt-financed demand, which underlay the economic growth of the late 1990s, was a house construction boom. As usual, this extended the perimeter of Melbourne, but with a difference: poor accessibility to jobs from the outer suburbs directed much of this boom into redeveloping the inner and middle suburbs. The result was a classic land boom.

The Macro Melbourne Initiative has much to say on housing affordability, but does not trace the reduction in affordability to the land boom. Indeed, the affordability of housing as such has improved, since productivity improvements in house construction have reduced the cost of the built component of housing. The increases in house size which were a public response to this reduction in cost contributed a little to the rise in house prices, but the main component was the cost of land. As always when there is a rise in the price of an asset in widespread ownership, there was a complex pattern of capital gains, all at the expense of new entrants to the market. Economic rationalists conveniently forget that the nineteenth-century economists on whom they rely for their theorems about the optimality of markets confidently asserted that landowners do not deserve the capital gains they receive from changes in accessibility patterns.

The result of this double failure – a failure of accessibility planning compounded by macroeconomic policies focused on the short-run – is now ensconced in household balance sheets across Melbourne. Some households have achieved capital gains, which they can potentially cash in by retirement migration to some place where housing is cheaper – though demand from people leaving Sydney and Melbourne has raised house values in many of the favoured destinations. Other households have achieved high debt to income ratios, making them vulnerable to even the slightest increase in interest rates or decline in earnings. Again, were there to be a downwards correction in the urban land market, some of these households will find themselves with negative net worth. Their best hope is for a burst of inflation, such as benefited the post-war generation of home-buyers. Needless to say, inflation is not in fashion at the moment, though it is quite probable that Australia will suffer from it as its dollar slides in value in order to correct the balance of payments deficit.

Given present imbalances, a relatively benign macroeconomic scenario would be one in which nominal Melbourne urban land values are maintained while inflation reduces real

household indebtedness. Household consumption is likely to be restrained while people save to repay their debts, but overseas demand, from people seeking property ownership in what remains a liveable city, could partially substitute. A much less pleasant scenario would have interest rates rising, which could lead to a classic recession complete with non-performing loans and the resulting financial institution instability.

From the point of view of young people seeking affordable housing, the second of these scenarios would have the benefit of undoing some of the 1990s increase in land prices. For a while this would be offset by higher interest rates – there could even be a return to the 1980s housing affordability problem, which arose out of deposit gaps and high repayments in the early years of borrowing. Higher unemployment would also make life unpleasant, but the eventual result would be land prices no longer out of kilter with household incomes. The alternative is more of a ‘soft landing’ scenario, where the necessary realignment of prices takes longer. Over this longer period there would be more scope for government policy on urban development to start affecting relative accessibility, with possible reductions in the location rents so prominent in the recent land boom.

The examples of accessibility and house affordability both contain elements of market failure. The inability of the land market to carry out strategic town planning complements the tendency of financial markets to create financial assets and liabilities which are out of kilter with the underlying ‘real’ position. Both land and financial markets perform well in the allocation of resources at the micro-economic level, but both can generate unexpected trouble at the macro-economic level.

Conclusion

The Macro Melbourne Initiative comes 23 years after the Commonwealth adopted broadly economic rationalist policies. During that period Australia has experienced two bursts of economic growth, punctuated by a severe recession. This growth has redistributed rather than alleviated poverty, and has generated at least two new discontents: the discontent arising from over-commitment, and the more subtle danger of workaholicism. Despite these discontents, economic rationalist policies are being pursued with vigour, in the belief that they guarantee steady economic growth. A more sober judgement is that the trade cycle is too fundamental a feature of capitalist economies to be so easily vanquished. We may have had a decade of continuous economic growth, but there are signs in the balance sheets that it cannot go on for ever.

Even if the trade cycle stays its hand, in the 25 years to 2030 the Melbourne Community Foundation is likely to have no shortage of disadvantages to address. These include both the traditional disadvantages of poverty and the newer discontents which have arisen where economic rationalism has exceeded its boundaries. The Macro Melbourne Initiative is to be commended for charting the territory.

Notes

I wish to thank Alice de Jonge of the Department of Business Law and Taxation, Monash University, for commenting on a draft of this paper.

The list of disability groups in this paper was taken from Professor Henderson's 1975 report *Poverty in Australia*. Criticism of economic rationalism has a long pedigree. Useful texts from the 1960s and 1970s include Staffan Burenstaum Linder, *The Harried Leisure Class*; Paul Scitovsky, *The Joyless Economy*, and Fred Hirsch, *The Social Limits to Growth*. R.W.Fevre's *The Demoralisation of Western Culture* is a more recent and takes a philosophical approach. Some of these ideas were taken up by Clive Hamilton in his *Affluenza* and his recent *Quarterly Essay*. I picked the examples of accessibility and housing affordability to take advantage of the research studies I have been involved in over the past three decades; some of the work is reported in a little book called *Beyond Walking Distance*.