



Keeping In Touch - Scott Hargreaves

Dear IPA Members

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We must all stay connected if we're to get through this emergency with our freedoms and prosperity intact, and so we at the IPA are planning regular emails to members to share information and our views on what is happening and what needs to happen. We are doing this in addition to maintaining our regular podcasts, *Hey...What Did I Miss?*, and John's Friday email.

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IPA Keeping In Touch – 24 March 2020

Publish Date:

March 2020

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I'm proud to be asked to provide the first of what will be a regular series of updates, which will come from different staff members providing a range of perspectives. I am the Editor of the IPA Review – the first 2020 edition of which is in final stages of production – and also Associate Editor of *Climate Change: The Facts 2020* due for release in May this year. I have also with Dr Chris Berg co-hosted the weekly podcast, *The Looking Forward Podcast*, since the beginning of last



year. Last week's episode, 'The Patient Must Survive the Cure' was our most downloaded regular episode ever, with 6,500 downloads including over 4,000 on Facebook.

Other emails from my colleagues may contain more facts and figures than today's, which is mainly an exercise in trying to make sense of what's been going on. I'd be very pleased to hear from you on whether this has helped or hindered you in better understanding the situation.

I start with the Morrison Government's announcement on Tuesday of an 'economic' package that had as its centrepiece a doubling of the Newstart allowance for people who by definition are not engaged in productive activity – the unemployed.

Meanwhile there was a backlash on social media to the exemptions to travel bans and other restrictions which have enabled Australia's mining industry to continue to operate in remote areas – an example of 'favouritism', it was claimed.

In the UK the definition of 'non-essential' businesses that must close has just been extended by Boris Johnson to electronics stores – the ones which up until now have been doing a roaring trade in all the kit you need to work from home.

And all over the world central banks are launching into the murky world of 'quantitative easing' and non-existent interest rates.

I've been trying to arrange these factoids in my mind while my body's points of interface with the Australian economy are being closed by edict or circumstance. By points of interface I don't just mean my workplace – which continues to operate with a fluid mixture of onsite and offsite work – I mean my gym that closed last week, the shuttered hole in the wall that until yesterday provided my morning coffee, and the pub in Bank Place that was always heaving on a Friday night with office workers and market traders blowing off a week's worth of stress.

I say economy deliberately because unless we as a nation swiftly recover our idea of how wealth is actually created and capital accumulated we are not going to recover from this pandemic and recession. Instead we will just keep adding to the pile of 'temporary' government 'economic' interventions, until the actual, productive, economy is completely lost to sight.

It is impossible for ordinary citizens to second-guess every measure governments must take to manage a pandemic, but we can demand that (a) the economic costs and benefits to society of alternative measures must be considered alongside the costs and benefits to population health and (b) the economic costs must be measured in the currency of wealth creation and destruction, not the artificial constructs of bastardised Keynesianism.

To understand and communicate what is at stake we need to convey that sense of wonder that led Adam Smith and those early heroes of natural philosophy to inquire into the sources of this miraculous 'wealth of nations'.

I wish I could say that the line between those who get wealth creation and those who don't aligns with the left/right divide, as I'm as concerned about the socialist impulse that's taking wing in this



crisis as you are. But it's deeper than that.

In Adam Smith's day the source of wealth was 'obviously' land. It was the major unit of capital and clearly those who had lots of it lived better than those who didn't. Nations who launched successful wars against their neighbours could appropriate some and increase their wealth – and there was no other way for nations to prosper en masse.

In our day, even my friends in the mining and farming sectors fall into a similar trap; confusing their dominance of hard exports with a monopoly of wealth creation. In their minds they are the fountains of wealth, and the barbers, the baristas and barmaids are merely the receptacles into which it drains. My dear old Dad, a farmer of the old school, certainly thought Australia – and certainly the taxman – rode on the sheep's back.

Isn't there a sense of this in the casual use of the phrases "essential" and "non-essential" workers and industries? I say there is no such distinction because what did Smith notice if not the division of labour and the free person's natural tendency to "propensity to truck, barter, and exchange". The whole purpose is human flourishing, not an abstract 'economy'. And it is up to individuals to determine what is the good life – and the most productive use of their endowments and capabilities – for themselves.

Just today I spoke to the owner of a small business in Malvern who provides creative services that are a small but not inconsequential element in operating one of our state owned utilities, which in turn enables Victorians to work. Is that essential or non-essential? Why should anyone other than the market participants make such value judgments? If they are closed down by a 'suppression' measure (although they meet social distancing requirements as of now), the utility does not get its needed product nor the business its revenue, but its landlord will still be asking for the rent. How long can that last?

I have experienced that sense of wonder at watching wealth created down a longwall mine in Queensland, in a shearing shed in Victoria, and during the grape harvest in the Hunter Valley. And I'm also a great reader of the building directories in foyers and riding the lifts in the B-grade buildings of our capital cities, to eyeball the offices of brave people launching new businesses to service clients and market niches I to that point did not even know existed. And more latterly I've worked temporarily in a co-working space in Abbotsford, where the businesses float in the marketplace, without overheads, proving that financial capital springs from human capital; from nothing but relationships.

In the UK yesterday gyms were non-essential and electronics stores were, by inference, essential. Now both are non-essential, by government fiat. But each plays its part in the division of labour, enabling specialisation and greater application to what one is best at. I am glad that there is recognition of the social impact on the small businesspeople who own gyms, and their workers, but I wonder when will we understand they are all part of this vast interconnected economy.

And somehow in all of this discussion of essential and non-essential, the organs of government are exempt. Because hospitals, because science, and so on. I say yes to hospitals (many of which

are private) and yes to science (which came along before governments got interested) and all those looking for a cure, but in Canberra and especially the Labor States the public sector headcount and the wages have been rising faster than in the private sector for the last decade. Why not put that into reverse? Workers in factories are stood down, but not one employee in the Department of Business. Workers in tourism businesses are stood down, but not one in Tourism Australia. If not now, when?

So, yes, maybe there is case to (very temporarily) limit or restrict operations of the café, the restaurant, the gym, the barber and the electronic store to manage a pandemic, but we must understand the value destruction inherent in such measures. An operating business is an asset created through acts of wealth creation (trade) and patient accumulation of capital through deferred gratification. After the crisis the economy does not reset to where it was. There is no 'snap' in the manner of Avengers' Endgame that magically restores to life all that was lost.

Some might say that of course our decision makers understand this, but I am not convinced. Decisions are being made by government officials and agencies which have long been out of touch with the economy and the sources of wealth creation. This can be seen in the changed occupational profile of our elected politicians, as farmers, businesspeople and the union leaders who rose from the shop floor are replaced by the parties' nomenklaturas sourced from the assembly line of our similarly out of touch universities.

I hope, I really hope, that from the crisis our decision makers will finally understand that there is a difference between GDP and wealth. Last year on our podcast (Looking Forward) Chris Berg and I cast aspersions on Jacinda Ardern wellbeing budget in New Zealand, and her criticisms of the 'single-minded' obsession with economic growth. If only, we said! We should be more single-minded. Clearly Ardern is staying true to her values, as in the last 48 hours she seems to have little compunction shutting down her country's economy, producing neither wealth nor happiness.

I am doubly worried about the situation here because we have two levels of government. Far from being a check on each other, protecting the liberties of the people under constitutional government, they are competing Leviathans each with the power to lock us in our homes and shutdown our ability to earn a living. The formation of a National Cabinet was promised to deliver consistency and coordination, but last Sunday in my own state of Victoria Daniel Andrews promised to go far beyond the federal government and lock down all but the most 'essential' industries (those being pretty much anything other than hospitals and public utilities). He was pulled back from the brink on Sunday night but as I write there is real fear that he will follow the lead of Wellington, not Canberra. Whether his motivation is a genuine misguided belief that shorter sharper harder will bring forward a smaller peak in this pandemic, or whether it is a perfidious desire to create a 'Hurricane Katrina' narrative of delay and inaction by Scott Morrison, is impossible to say – I have no window to his soul. But what I do know is that whatever the motivation he cannot and does not measure the true cost of such decisions, and it will not be him and the political class and the organs of government that will bear that cost.

To achieve economic growth as we have year after year is a miracle because GDP is what is known as a 'flow' variable. It is a measure of the value added in a year. It is not like building, say,



a pyramid, where every year you add another ten feet of stone on top of what you laid before. To have achieved growth means that you added just as much value as you did last year, and then some, which is a miracle. Those who crowed over Australia's avoidance of a technical recession over the past two decades may finally have cause to reflect on their complacency. A flow like GDP is contrasted with a 'stock' like the value of buildings and factories, or share prices, which represent a valuation of the capacity to create wealth in the future.

Before this war began, so called experts could state without fear of contradiction (except by the IPA!) that all Australia needed to do to achieve clean energy was invest \$100 billion in solar and wind farms, replacing existing generators. It was not understood by decision-makers that we would not be taking the capital embodied in those generators and magically transforming it into windmills. No, what was to happen (and is happening) is that we destroy the capital in the form of coal fired generators, and then divert from the flow of wealth created every year enough new capital to build windfarms and solar plants. Truly windfarms are the pyramids of the age, built just to prove our rulers have the power to divert such a massive proportion of the productive capacity of the economy every year into objects which embody value destruction (all for the promise of rewards in the afterlife).

As I look around the world I fasten on any decision that looks like it reveals an understanding of what is at stake. This is not just macro measures, such as resisting calls to shut everything down, now, but also micro measures such as those in the UK and Denmark which favour wage subsidies to businesses so they can keep workers on the books, as opposed to further welfare measures to pick them up after they've been laid off. To criticise such measures as 'bailouts' ignore that businesses are primary engines of wealth creation, and the greatest such engines known in the history of the world. When the distress of companies is not due to malinvestment, inefficiency, or avaricious management, but rather to government measures, then the morality of a so-called bailout is a vastly different proposition to those we saw in the financial sector during the GFC.

I know our leaders have many tough decisions before them, and I don't envy them. But looking around I don't know whether my first prayer is for them or for the rest of us. Some say this is not the time for ideology because we must just be pragmatic, do what works. If we're not being told that we're all socialists now (as if governments aren't a thing contemplated in liberal theory), then we're being told it is the time for Big State Conservatives to take charge. At the IPA we say no, no, no: Ideas matter more than ever because if the politicians do not understand the sources of wealth on which the whole great edifice of government sits, then the decisions will be those which do not work. Our leaders will be the new Pharaohs, sitting atop the pyramids of their stupidity.

Thank you for your support. I would welcome your feedback – just email me straight back.

Kind regards Scott