Free markets have improved the daily lives of Australia’s poor, writes Julie Novak

In October every year a group of non-profits and social reformers commemorate ‘Anti-Poverty Week’, to raise awareness of poverty in Australia.
LIFE UNDER CAPITALISM

This year Tim Costello labelled Australia as ‘a land of paradox, and one of the enduring paradoxes is the persistence of poverty, social exclusion and marginalisation for many Australians despite the country’s unprecedented wealth and our undoubted progress in many other areas.’ Costello is wrong. There has never been a better time to be poor. That unprecedented wealth is lifting the lives of poor people as much as it is rich people.

In an important paper, published by the Cato Institute in 2009, Will Wilkinson illustrated how the dissemination of cheaper goods accessible by the masses, which could only be consumed by rich people previously, can dramatically improve the economic welfare of poorer people over time.

As a consequence of market forces at work, Wilkinson stated that ‘over time, the everyday experience of consumption among the less fortunate has become in many ways more like that of their wealthier compatriots. This is a huge egalitarian triumph.’

The extent of ownership of appliances and electronic goods is widespread, suggesting that many householders, even amongst lower income brackets, enjoy similar conveniences to those found in rich households.

According to Australian Bureau of Statistics data on energy use, 99.9 per cent of households in Australia had a refrigerator, and 97.6 per cent had a washing machine, in 2011. It is estimated that 73.1 per cent of all households have a cooling system in either an air conditioner or evaporate cooler.

As for entertainment systems, 99.1 per cent of households had a television. The ABS estimated that 60.9 per cent of Australian households had a laptop computer, while 54.6 per cent had a desktop computer.

Reinforcing the fact of widespread accessibility to products that improve living standards, the effective cost of purchasing a product today is much lower than it was to purchase the same type of product in previous decades.
American economists Steven Horwitz and Donald Boudreaux have estimated the number of hours of labour, at the average earnings, required to purchase products at different points in time, and their methodology is employed here for Australian circumstances.

Consider the case of a colour television, introduced in Australia in 1967 and with colour programs broadcast on a full time basis since early 1975.

In October 1976, the *Australian Women’s Weekly* magazine advertised a Sharp 63 centimetre (26 inch) colour TV for $719.

A 63 centimetre colour TV (a GVA LED TV, to be exact) was advertised by The Good Guys retail chain in early October 2013 for $279.

In 1976 it would have taken an employee on average weekly total earnings 195 hours to acquire enough income to buy the Sharp TV. In 2013, purchasing the LED TV would take only ten hours of work at the much higher average earnings. In effective labour time, the cost of a TV fell by 95 per cent between 1976 and 2013.

The table (page 16) provides similar information for a wide array of convenience products now found in just about every Australian home—such as fridges, microwaves, and vacuum cleaners—all pointing to the dramatic improvement in living standards for those on average incomes.

Some additional examples serve to illustrate the point that Australians are able to purchase goods and services with far less toil expended than previously.

In 1988 (470 hours of work). Today, one can buy a small, unlocked Samsung phone for $39 (one hour).

In 1983, a person could purchase a Microbee desktop personal computer, equipped with 16 kilobytes of RAM, for $449 from a Canberra based retailer. Just in time for Christmas 2013, someone could buy a Hewlett Packard Intel Premium notebook, with 4 gigabytes (or 67,108,864 kilobytes) of RAM, for $487.
Impressive reductions in the amount of time required to purchase consumer products are also evident when using measures more synonymous with low income earners, such as minimum wages or ‘poverty line’ incomes. This suggests that, more than ever before, even the poor have easy access to goods that were once accessible only to the rich.

As impressive as the declining amount of labour effort required to obtain these kinds of goods, and reductions in real prices attached to them, may be, these factors understate, perhaps vastly so, the entire amount of consumer benefits obtained by their production. This is because numerous products, even the seemingly most elementary of kinds, have improved enormously by way of their quality attributes. For example, a colour television today is not only much more lightweight than models of yesteryear, but provides for greatly improved picture and sound quality, built in DVD players, and even internet access.

The question which arises from this discussion is: how does the market process ensure that numerous kinds of goods and services come more easily within the reach of all, over the course of time?

The simple answer is that entrepreneurs will readily embrace cost efficiencies, product and process innovations, technological developments, worldwide supply chain networks, and other improvements, so that greater economic value is provided for their customers.

This perennial process of the private sector delivering cheaper and better things will continue, for as long as the stifling hands of government—with their tendency towards higher taxes, restrictive regulations, and wasteful spending—do not smother the basic incentive of market suppliers to please their consumer base.

Across the Western world, there is worrying evidence that governments’ stifling hand is tightening its grip on many markets—such as education, health, and housing—leading to an unnatural economic tendency toward higher costs and poorer services not attuned to customers’ basic needs for cheaper and better goods.

The role of governments in diluting the value proposition provided by hampered markets is an important problem that needs redress, and in urgent fashion through reforms that roll back the size and scope of the public sector.

Despite all the obstacles thrown up by big government, the market economy keeps making products cheaper, better, and more accessible for everyone right across the income spectrum.  

### AFFORDABILITY OF SELECTED GOODS, 1970s & 2013

<table>
<thead>
<tr>
<th>Item</th>
<th>1970s</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colour TV (63cm)</td>
<td>$719 (1976)</td>
<td>194.9</td>
</tr>
<tr>
<td>Refrigerator (280L)</td>
<td>$279 (1975)</td>
<td>86.4</td>
</tr>
<tr>
<td>Vacuum cleaner (1,500/1,600w)</td>
<td>$99.95 (1977)</td>
<td>23.9</td>
</tr>
<tr>
<td>Microwave (700w)</td>
<td>$415 (1979)</td>
<td>83.8</td>
</tr>
<tr>
<td>Toaster (4 slice)</td>
<td>$23.75 (1975)</td>
<td>7.4</td>
</tr>
<tr>
<td>Kettle (1.7/2L)</td>
<td>$9.25 (1975)</td>
<td>2.9</td>
</tr>
</tbody>
</table>

(a) 1,500 watt vacuum cleaner. (b) 1,600 watt vacuum cleaner. (c) 2 litre kettle. (d) 1.7 litre kettle.

1970s sources: television (Australian Women’s Weekly, 13 October 1976); refrigerator (Canberra Times, 12 February 1975); vacuum cleaner (Canberra Times, 8 September 1977); microwave (Canberra Times, 18 August 1979); toaster (Canberra Times, 7 May 1975); kettle (Canberra Times, 6 May 1975).

2013 source: The Good Guys online catalogue.

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Despite the unambiguous gains in living standards among developed countries over the last three decades, several economists have recently speculated that our future economic outlook may decidedly be less rosy.

In a paper written last year with the ominous title ‘Is US Economic Growth Over?’, economist Robert Gordon argues the modern era of growth of prosperity—brought on by past waves of innovation that delivered the likes of steam engines, electricity and air conditioning—may be coming to an end.

Although the stream of innovations has continued, particularly in the form of computers and telecommunication technologies, Gordon argues that these have not delivered productivity gains of the same magnitude as previous innovations during the first two industrial revolution waves.

Gordon is particularly scathing about the productivity potential of recent technologies, such as the iPhone and iPad: invention since 2000 has centred on entertainment and communication devices that are smaller, smarter, and more capable, but do not fundamentally change labour productivity or the standard of living in the way that electric light, motor cars, or indoor plumbing changed it.

Another economist, Tyler Cowen, has also been characterised, perhaps unfairly, as a future growth pessimist of sorts, by virtue of hislengthily titled 2011 Kindle single *The Great Stagnation: How America Ate All the Low Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better.*

Observing stagnant median incomes in the United States since 1973, Cowen attributes this trend to the exhaustion of easily gained opportunities for growth and development: the scarcity of free and unused lands, the dissipation of the gains from innovation waves from 1880 to 1940, and fewer opportunities to find smart, motivated children to educate.

Both economists point to distracting features of the likes of Facebook and Twitter, but this tends to undersell the profound pro-productivity gains secured by computing and the internet more generally.

Never before have production and consumption processes been interlinked by such a pervasive, general purpose technology in which economic exchanges proceed with the swift click of a mouse.

If there is one view upon which Gordon and Cowen share, it is the danger of larger government, which inhibits growth in the long run.

In the end, new growth opportunities spurred on by market entrepreneurship and innovation, both foreseen and unforeseen, should ensure that our children and grandchildren enjoy the benefits of higher living standards in the years and decades to come.

But to ensure that this aspiration for our future becomes the reality of tomorrow, we have no option but to hold the leviathan of government at bay.