

Entitlement and inequality

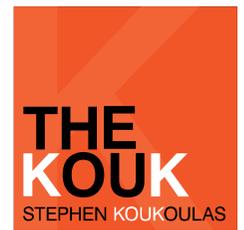
The rise of dumb economics

Communities in Control Conference

Melbourne, May 2015

Stephen Koukoulas

Market Economics

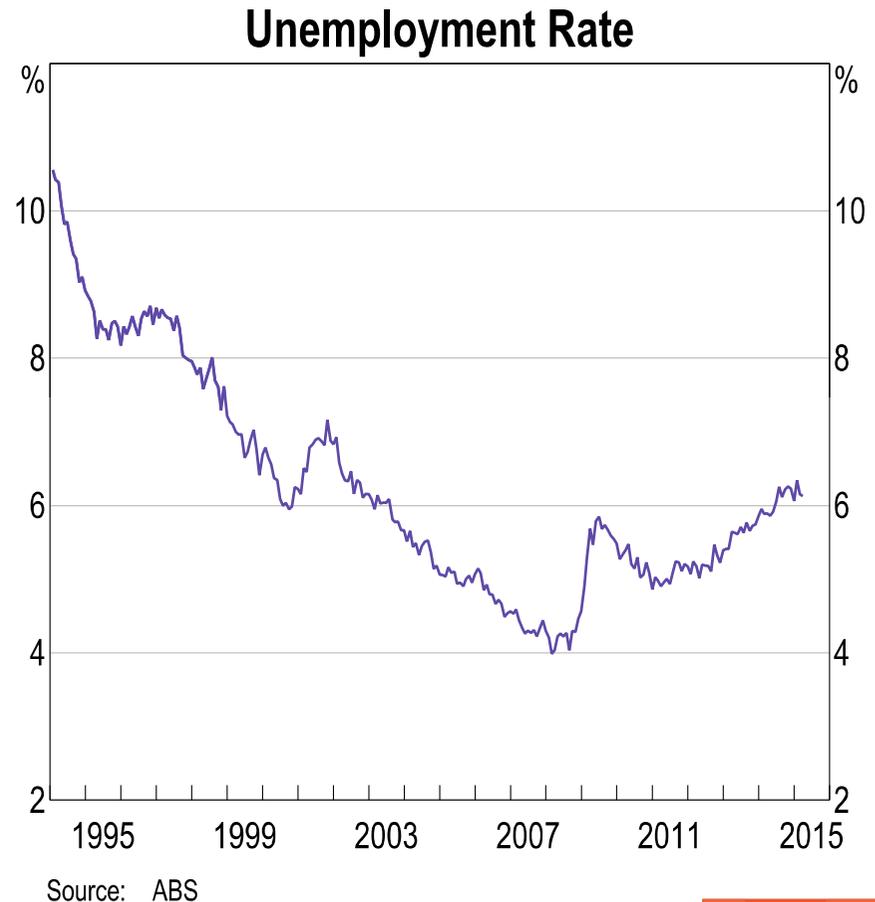


Economic management

- Objectives should always be:
 - Jobs
 - Raising living standards
 - Fairness & equity
- No point having a budget surplus if 10% unemployed?
- No point having a strong economy if all the gains are concentrated to a small fraction of society

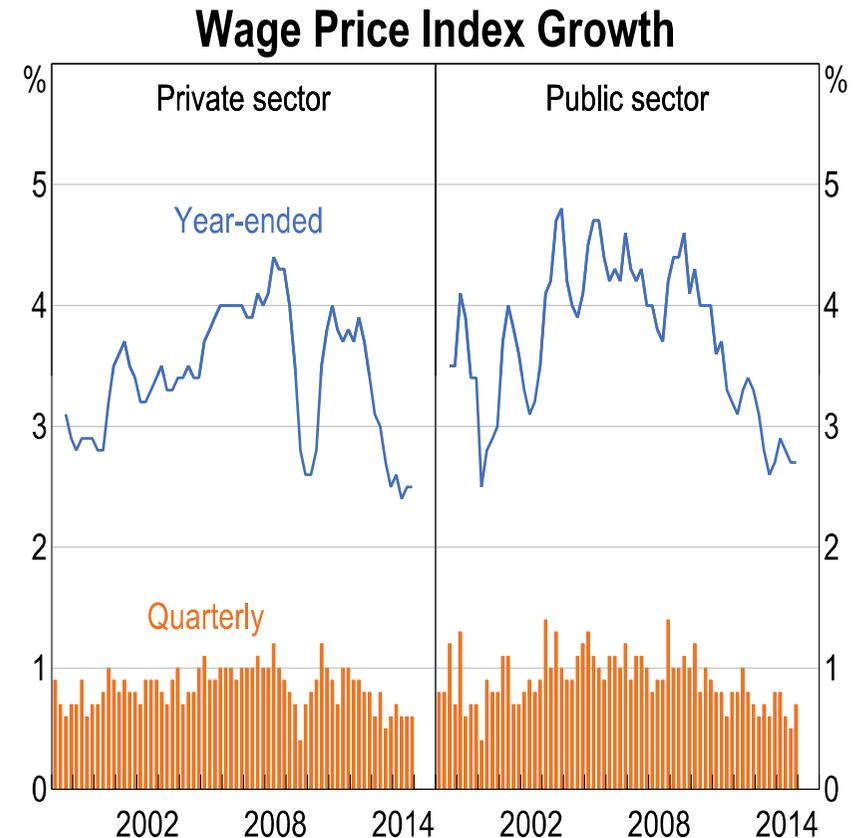
Unemployment – the creeping problem

- The unemployment rate has been above 6% for a year – budget forecasts have it staying at or above 6% for two more years
- Australia got used to 4 or 5% for the decade from 2003 to 2013 – even with GFC
- The level of unemployment is a policy choice
- 6% equals 760,000 people



Wages growth weak as unemployment rises

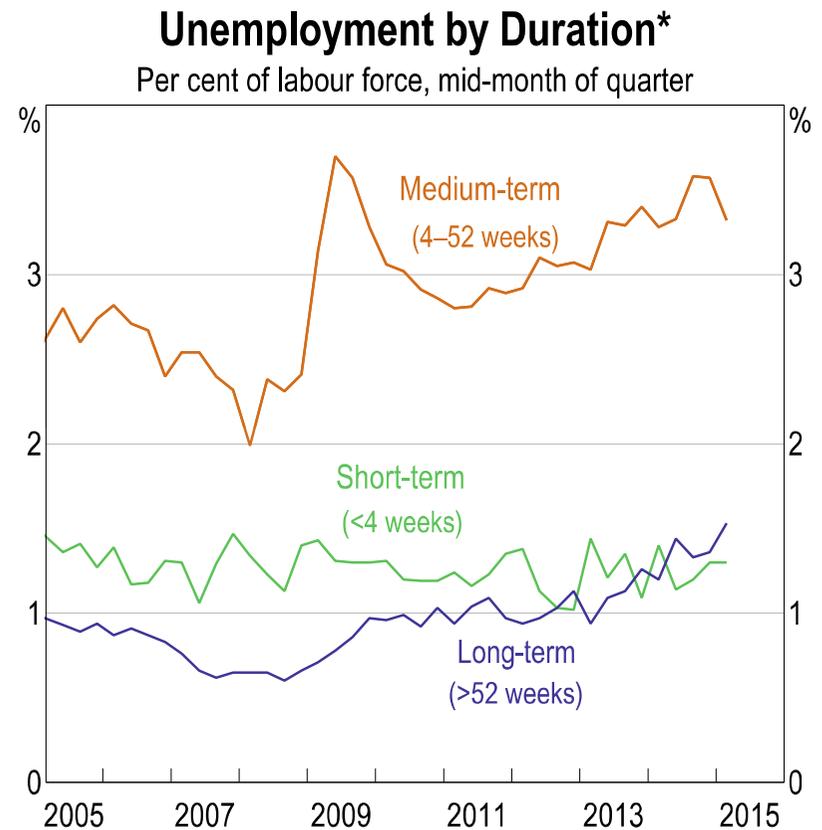
- With jobs hard to get, governments being tight, wages growth has fallen to record lows
- This is a problem: when wages growth = inflation it means spending can only pick up via more debt or people running down their savings
- Depressed wages growth is one reason why consumer sentiment remains in the doldrums



Source: ABS

Long term unemployment is on the rise

- With the overall unemployment rate edging up, the bulk of rise is in long-term unemployment
- The economy needs to grow faster, but it is vital that the training and skills of those longer-term unemployment are enhanced
- Long term unemployment, if allowed to continue, is socially and economically destructive

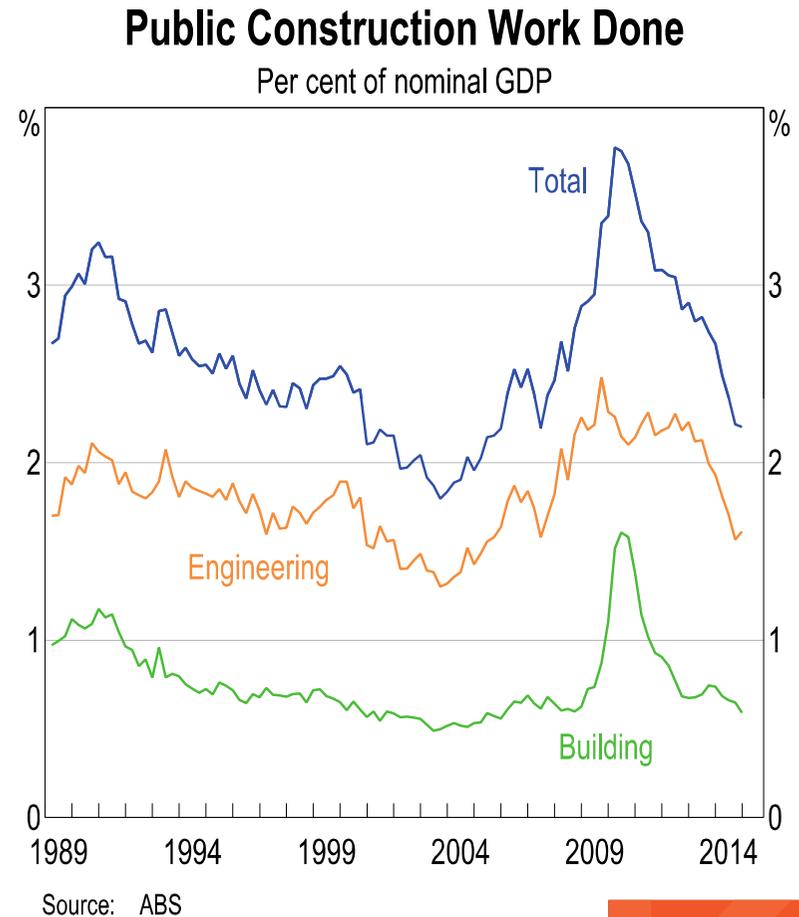


* Seasonally adjusted using ABS seasonal factors for aggregate unemployment rate

Sources: ABS; RBA

Infrastructure spending from government

- All agree that governments need to invest in infrastructure not only to cope with growing population, but to maintain existing facilities
- The infrastructure stimulus during the GFC was huge. The recent track record, despite the rhetoric, is disappointing
- Infrastructure is also about fairness – good public transport, hospitals, schools, workplaces where people can afford to live



Funding infrastructure is so cheap!

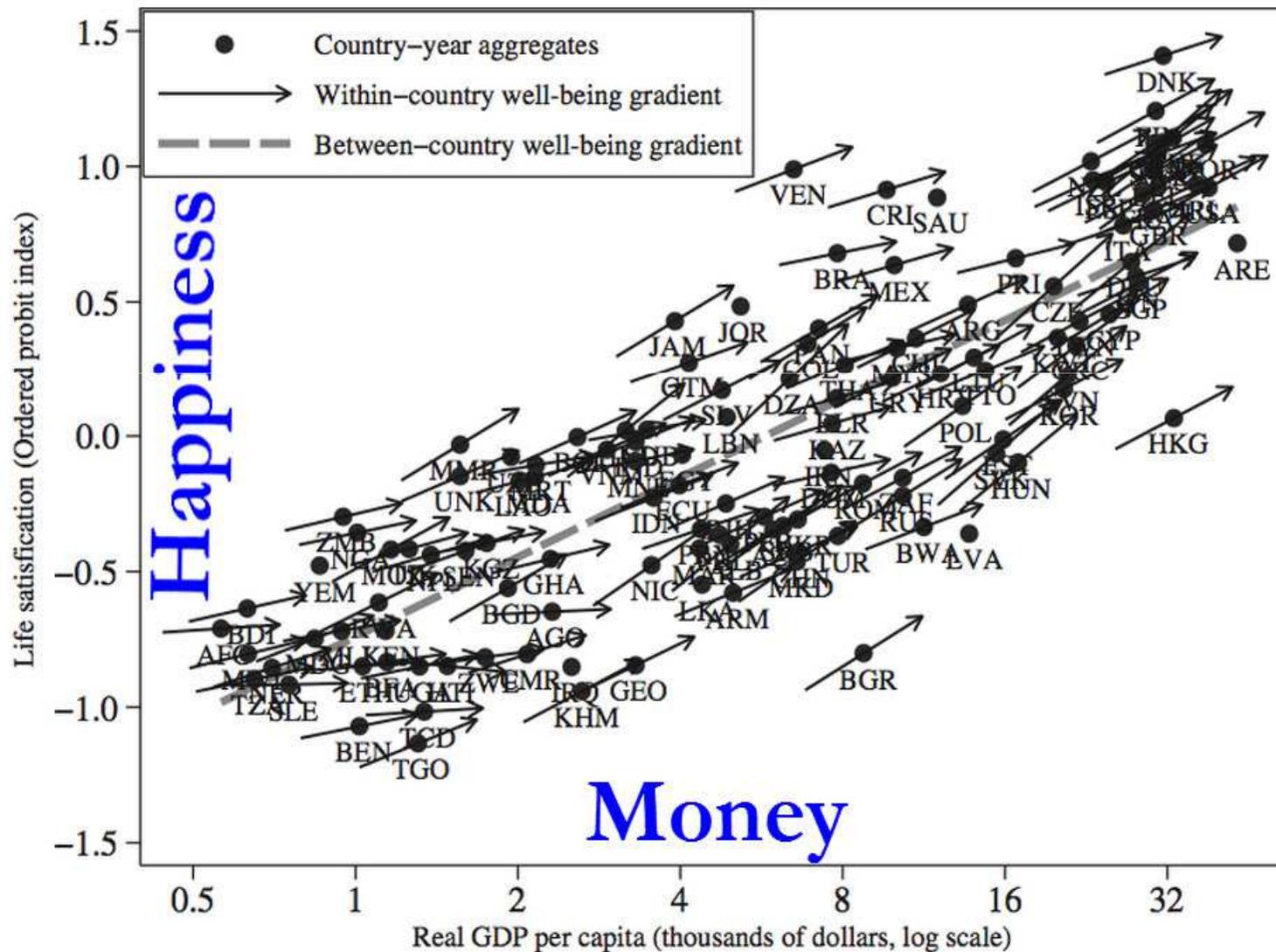
- Infrastructure is expensive & usually takes a long time to build
- Not only does it add to the efficiency of an economy when done well (trains, trams, NBN, roads, airports), but when it is being built, it creates jobs
- Interest rates remain near record lows. The cost of government borrowing can be locked in and effectively eliminate one of the risks associated with new infrastructure projects - cost

10-year Australian Government Bond Yield



Source: RBA

Well-being / happiness – it's about money



Equality is good for economic growth

- Apologies to French economist Thomas Picketty, but I will paraphrase his famous theory on inequality & economic growth in the following example:
- Give an extra \$1 billion each to 10 billionaires – what happens?
- Give an extra \$1,000 each to 1 million low income earners – what happens?
- The bottom line is that income inequality hinders economic growth