

# Growth fetishism and public policy

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In an oft-quoted speech Robert F. Kennedy said that GNP “measures neither our wit nor our courage; neither our wisdom nor our learning; neither our compassion nor our devotion to our country; it measures everything in short, except that which makes life worthwhile”. It is a sentiment widely shared, even among political leaders. Which Australian politician, for example, said this?

If Australia continues to grow at 4 per cent per annum for the next 20 years my kids are going to be nominally twice as wealthy as they are now, but I know they are not going to be twice as happy. One of the questions that is not put in the political process by either side of politics, let alone answered is: Towards what are we striving to grow?

This observation – so resonant of Kennedy’s – was made by none other than Brendan Nelson, now the leader of the Opposition but at the time a back-bencher. Dr Nelson was posing the most fundamental challenge to the whole basis of politics in Australia. Yet I’d be surprised if he made a similar comment now. The noble sentiments about the true value of living usually become an embarrassment once politicians get an opportunity to act on them.

Perhaps the political leader to argue an alternative approach most consistently has been David Cameron, the Tory leader in Britain. Two years ago he addressed an important conference in which he said he wanted to “set out a new political agenda”, one that reflects the *zeitgeist* and the “aspirations of our age”.

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It's time we admitted that there's more to life than money, and it's time we focused not just on GDP, but on GWB — general well-being. Well-being can't be measured by money or traded in markets. It can't be required by law or delivered by government. It's about the beauty of our surroundings, the quality of our culture, and above all the strength of our relationships.<sup>2</sup>

Calling up one of the traditional themes of conservatism, Cameron talked about the importance of making commitments, the “deep satisfaction which comes from belonging to someone and to some place” and how modern globalised consumer culture ultimately seems unsatisfying. Anticipating his critics, including those from his own party, he said:

The traditional response of the right — that government can't do much about all this and shouldn't try — is inadequate. ... It's vital to create a space in the national conversation which stands firmly between regulation and indifference.<sup>3</sup>

Much of Cameron's speech could have been cut and pasted from my 2003 book *Growth Fetish* which, because it challenges the sanctity of the market, has been characterized by free-market devotees as being on the wacky green-left fringe. Unlike the commentators on the right, Cameron has been taking to heart the vast accumulation of evidence that the single-minded preoccupation with economic growth is not the best way to improve the wellbeing of Britons, and that too much is sacrificed to the god of growth.

We know there is a deep unease in the Australian community about the spread of materialism and consumerism. A survey at the end of 2004 found that 75 per cent of us believe that “too many Australians are focused on work and making money and not enough on family and community”,<sup>4</sup> and another in 2006 found that more than three-quarters believe that a government's prime objective should be achieving the greatest

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<sup>2</sup> <http://www.guardian.co.uk/politics/2006/may/22/conservatives.davidcameron>

<sup>3</sup> He added: “Why should we choose between the intolerant impulse to right every supposed wrong by passing new laws and the coldly amoral refusal even to take a view on the actions of others?”

<sup>4</sup> Clive Hamilton and Richard Denniss, *Affluenza*, Allen & Unwin, Sydney, 2005, pp. 146-7

happiness of the people, not the greatest wealth.<sup>5</sup> These attitudes represent a profound challenge to the privileged position governments give to economic growth.

## **The 2020 Summit**

I wish some of this fresh thinking and desire to tap into the *zeitgeist* had been present at the 2020 Summit earlier this month. In my view, the summit was an excellent idea whose value was eroded by the predominance of the usual suspects from interest groups who saw it as another opportunity to push their barrows. If I were Mr Rudd I would have been disappointed at the timidity of the recommendations. Although it was reassuring to see the summit report acknowledge that “[f]or some people, there are realms of activities markets should not enter”, the event was dominated by the same old economic thinking.

Growth fetishism infected most of the discussions at the summit. We only need to look at the order in which the recommendations were reported, with the productivity stream and the economy stream naturally at the top. Echoing John Howard’s early claim that achieving a four per cent GDP growth rate would be the measure of his government’s success, the summit concluded that our goal should be: “Increasing GDP per capita so that Australia is among the top 5 countries in the world on this measure, with strong, stable economic growth.”

No one ever challenges these sorts of statements; they are regarded as self-evidently true. Yet the evidence to sustain the view that national wellbeing is best achieved by high GDP growth cannot be found. Aiming to be among the five richest countries in the world is a form of cargo cultism; we will have succeeded if we beat 195 other countries in the GDP stakes. The association between high money incomes and success as a nation was also reflected in the summit’s claim that

Australia should be the best place in the world to live and do business. This will require urgent action to increase economic capacity.

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<sup>5</sup> Clive Hamilton and Emma Rush, ‘The Attitudes of Australians to Happiness and Social Well-being’, Australia Institute, September 2006

The assumptions that there can be only one best place to live in the world and that increasing economic capacity is the way to create such a place strike me as being, respectively, banal and unsupportable. Do they mean that, within Australia, the richest five suburbs are the best place to live?

The summit resolved that our children must be drafted from an early age into playing their part in our national obsession. Thus the best and brightest in the productivity stream declared: “We’ll know that we’re on the right track when productivity is maximised by ...[c]hildren’s development being at the heart of the productivity agenda”. Even before they reach school, it seems, we must begin to train our children to become cogs in the growth machine. I think most parents would prefer their children to be well-rounded, emotionally capable and creative human beings, rather than occupying the heart of the nation’s productivity agenda.

Even the creativity stream fell into the economy trap: “We will aim to double cultural output by 2020”, it concluded, as if the quantity of artistic product trumps its ability to stir our passions or let us see into the human condition. The government was urged to “recognise the centrality of the arts and creativity to the whole economy”. What if the arts made no contribution to the economy, or were a drain on it? Would we axe them as an indulgence and turn our artists, poets and dancers into more productive workers? It is a sign of the power of the growth fetish that its natural enemy, the artistic community, believes it must prostitute the arts to attain public funding.

What about the environment? I believe that in his oral summary the chair of the sustainability stream, Roger Beale, made an interesting commentary on the inadequacy of GDP and the priority given to the narrowly economic. None of those ideas found their way into the published report on the summit. Indeed, reflecting the official subordinate status of the environment the report declared that “[e]nvironmental considerations will be fully integrated into economic decision making in Australia”. I look forward to the day when a government assures us that economic considerations will be fully integrated into environmental decision-making in Australia.

Like the Hawke Government in 1983, the new Labor Government wants to prove that it can be as economically hairy-chested as the conservatives. Memories of the intemperance of the Whitlam Government still haunt Parliament House. The whiff of inflation has stoked Labor fears of an economy out of control, so ideas like that expressed by David Cameron are anathema. Perhaps sensing this, the best and brightest mounted no challenge to the ethical or philosophical foundations of policy making in Australia.

There was one very large group of Australians who were wholly excluded from the summit, whose voice was not heard but only occasionally reflected in the comments of those who were present. I refer to the future generations of Australians. Perhaps not surprisingly, since the summit was asked to look only 12 years into the future, it was the wellbeing of current generation that occupied the summitters' attention. Usually in policy debates it is assumed that future generations will look after themselves, but if one adopts a different ethical standpoint — one that treats the earth as a treasure temporarily vouchsafed to our custody — then the damage done by growth fetishism is harder to ignore.

One big idea that I would like to have seen emerge from the 2020 Summit is the appointment of an Ombudsman for Future Generations. Future generations have no voice in decision-making yet their interests are often profoundly affected. Over the last 10-15 years, climate change policy in Canberra has been conducted as if only the wealth of those now alive matters. The role of the Ombudsman for Future Generations would be to represent the interests of who will inherit the planet in public decision-making processes. The Ombudsman's office could make submissions to important inquiries and investigate complaints from citizens about public and private decisions that might have a major impact on unborn generations. It could alert the community to how our actions, both public and private, could affect generations to come. Creating an Ombudsman for Future Generations would be a visionary step for the Rudd Government; it would lengthen our time horizons, shifting our consciousness away from the short-termism and selfishness that have for too long bedevilled private and public thinking in this country.

## Population growth

I notice that the summit – or at least its report – squibbed on the population question, noting only that there was disagreement. For a long time policy makers and political leaders have refused to take a clear-eyed look at the implications of population growth, and have been blinded by unfounded arguments, mostly from business, in favour of endless growth.

We saw a display of this a month ago in response to the latest news about the housing shortage in Australia, which is causing serious difficulty for poorer households in particular. Yet our leaders are unwilling to consider, let alone mention, what is one of the most important pressures giving rise to the shortage – the rapid growth of population fuelled mainly by the record high levels of immigration. According to Bob Birrell, immigration accounts for 40-50 per cent of the growth in the number of households.

Net immigration to Australia has grown to the unprecedented level of 177,000 per annum when we include the surge in temporary entrants, who must also live somewhere. This is easily the highest level we have ever had. Net migration has exceeded 100,000 people for 12 of the last 20 years<sup>6</sup> and Labor appears ready to increase levels above the extraordinary highs of the Howard years.

Instead of thinking about the causes of high levels of demand for housing, the focus is solely on how to increase the supply. This has given rise to the crazy argument, dreamed up by the Housing Industry Association, that we need to import 15,000 more people — builders — to solve the shortage. Of course, the first question that must be asked is: Where are these additional people going to live?

In the same week that everyone was wringing their hands about the housing shortage, the Victorian Premier was talking up projections that the rapid growth of Melbourne's population would see it become larger than Sydney in a couple of decades. To be bigger than Sydney is a source of state pride. Others asked: Why stop at Sydney, why not

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<sup>6</sup> Ross Gittins, 'An inconvenient truth about rising immigration', *Sydney Morning Herald*, 3 March 2008

Bangkok or Mexico City? Once again the population blind spot appears; the refusal to consider the implications of quantity for quality.

Another serious problem facing the country that is being exacerbated by population growth, but no one dare mention, is climate change. A few years ago Hal Turton and I modeled the effect of high versus low immigration scenarios on expected growth of Australia's greenhouse gas emissions. The greenhouse gases of the average immigrant to Australia are about double those that would have been generated had that person not migrated. Compared to a policy of zero net immigration, high immigration (at 140,000 per annum) saw our emissions increase by an additional 16 per cent or 65 million tonnes by 2020.

Yet as the Government looks down the barrel of major emission cuts between now and 2020, and even bigger cuts beyond that, no one in government will mention population growth, one of the major causes of the rapid expansion of Australia's emissions. A respectable argument could be made that the benefits of high immigration outweigh the additional costs associated with more rapid deterioration of the environment. But no one will officially concede that there is a downside to high immigration.

In his interim report on climate change policy Ross Garnaut acknowledges the fact that population growth, in both fast-growing developing countries like China and mature economies like Australia, will mean higher rates of growth of greenhouse gas emissions. This will require more stringent, and more costly, programs to reduce emissions to the absolute levels required to minimize the chances of dangerous climate change.

However, Garnaut seems to accept that the rate of population growth cannot be one of the policy levers to be pulled to reduce emissions. I suspect he thinks it is simply not politically palatable so there is no point in talking about it. It is strange that population growth should be excluded from discussion of environmental policy and housing affordability, because it is certainly part of the debate when it comes to the ageing of the population. But then the answer is said to be higher population growth. It seems that the population lever can be pulled but only in one direction.

## **Work and leisure**

Apart from environment, nowhere has growth fetishism influenced policy making more than in the labour market. For 100 years to the beginning of the 1980s falling working hours were regarded as a sign of social progress. The union movement and Labor Governments regarded the 44-hour week, the 40-hour week, and then the 37½ hour week as historic victories. We were happy to take part of our greater productivity in higher incomes and part in more leisure.

Yet all that changed in the 1980s; the old ideas about what constituted progress were wiped away; someone put a minus sign in front of progress. Working hours began to increase and continued to rise until plateauing in the early 2000s, by which point Australians were working some of the longest hours in the OECD. Instead of celebrating shorter hours, we began to be told that we should work longer and harder because it increased economic growth. Wanting to work less signaled a lack of commitment; opting for more leisure became an indulgence. We had a duty first to the Economy.

There is no doubt that longer hours boost GDP growth, which is a simple product of the increase in hours worked and growth in labour productivity. What few asked was whether they were making us any better off.

For a decade as Treasurer Peter Costello delivered budget speeches in which he said we must increase productivity to get the economy to grow faster, and he introduced measures designed to get people to work more. High income earners were given tax cuts because, he said, excessive marginal tax rates discouraged them from working. In truth, high income earners work longer and harder than most others and, while they often complain about how much they are taxed, reducing their taxes would have no effect on their working hours whatever. It's a hangover from the absurdities of supply side economics.

At the other end of the labour market, people outside the workforce were tempted with carrots or beaten with sticks to get them to do their moral and patriotic duty.

The fact that Australians work among the longest hours in the industrialized world, that working hours increased from the early 1980s, and the economy was close to being fully employed anyway, did nothing to puncture the Government's determination to get us to work more.

But why would we want to work more? Hadn't we always striven for more time to devote to the things that mattered more? It must be admitted that the neoliberal assault on labour market regulation came at a time when Australians were overtaken by affluenza, an ever-expanding desire to earn more and spend more, even if it meant going into debt and sacrificing health and relationships.

Yet in deregulating the labour market governments made it more difficult for individual workers to negotiate a better trade-off between work and leisure. And they introduced tax and welfare measures designed to induce us to work more, despite the accumulation of evidence that showed that long hours of work are linked to lifestyle illnesses such as obesity and cardiovascular disease, as well as certain psychological disorders including sleep disturbance, substance abuse, depression and anxiety.<sup>7</sup>

And, to take up David Cameron's main theme, long and unsociable hours damage our personal relationships. When asked, the children of parents who work long hours say they would prefer to have less money in the household and more time with their absentee parent.<sup>8</sup> (A couple of years ago Macquarie Bank organized a weekend retreat for its senior executives and their sons. Fathers and sons were encouraged to bond by wearing same-coloured bandanas. One unkind person suggested that this was so the sons would recognize their fathers.) This is why Australians, having put up with labour market deregulation for years, reacted so strongly against Workchoices; they could see that removing entitlements to leave and work-time flexibility would affect their families and their social lives and they felt they had sacrificed too much already.

The working hours' debate uncovers the folly of international comparisons of GDP. In essence, aspiring to be at the top of the GDP 'league table' — favoured by participants at

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<sup>7</sup> See *Affluenza*, pp. 92-3

<sup>8</sup> See *Affluenza*, p. 98

the 2020 Summit —means sacrificing well-being to growth. Money is put before happiness. Why? Compare the USA and France. In the United States, France's lower GDP per capita is often taken to be a sign of the flaws in the country's political system and Gallic moral failure. They won't fight and they won't work.

The GDP per capita of the average French person is 29 per cent lower than that of the average American (in 2001). Yet labour productivity (GDP per hour worked) in France is five per cent higher than in the United States.<sup>9</sup> The difference is explained mainly by shorter working hours and longer holidays in France (although the higher level of unemployment is also part of the explanation).<sup>10</sup>

Having shorter working hours is a choice. People accept lower incomes in order to enjoy more leisure. Until the 1980s this would have been regarded as the civilized choice; now it is regarded as a sign of decadence. Australia can be among the richest five nations on earth if we sacrifice more of our leisure, more time devoted to the community and more time with friends and loved ones. Winning the world economic race would be a pyrrhic victory indeed.

David Cameron is an unusual conservative leader because he understands that radically deregulated labour markets and the relentless pressure to consume are the enemies of 'family values'. He recognizes the contradiction between expressing concern about work-family balance and bringing down budgets and making laws designed to get us to work harder.

## **Middle-class welfare**

One of the most doleful consequences of growth fetishism in government, combined with affluenza in the public, is how it has distorted spending and taxing priorities. In particular, in recent years we have seen an extraordinary proliferation of spending programs and tax changes that are best described as middle-class welfare. They are designed to respond politically to the widespread perception of middle-class grievance.

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<sup>9</sup> See Ken Henry, 'Strategies for Nation Building in the 21<sup>st</sup> Century', Institute for Public Administration in Australia, October 2004, p. 13.

<sup>10</sup> See Paul Krugman, 'French Family Values', *New York Times*, July 29, 2005.

Middle-class Australians are “doing it tough”, we are told over and over. They are finding it increasingly difficult to maintain a decent standard of living. Mortgage stress is biting hard with recent rises in interest rates, and belts are being tightened, a situation not helped by rising prices of petrol and groceries. This is the impression of the state of the middle class according to popular discussion, media reports and political oratory. Both sides of politics deploy the rhetoric of “struggling families” and “battlers”, presumably because they want to communicate that they can feel the pain of “ordinary families”.

A paper released by the Australia Institute last October tested the various claims about middle-class distress against the data.<sup>11</sup> How much pain is the middle class really experiencing? When we think of the typical Australian family we do not think of young singles, childless couples, empty nesters or retirees. A truer picture of the economic well-being of the typical Australian family is given by looking at the incomes of those households comprised of a couple with at least one dependent child and headed by someone of prime working age. These households account for 41 per cent of the population.

In 2005 the median disposable income of all households was just over \$48,000. In contrast, the median disposable income of the typical Australian family was just over \$69,000, 43 per cent higher. The average income for these households was almost \$77,000. The standard of living afforded by a disposable income close to \$70,000 is comfortable by any measure and conflicts with the widespread view of struggling families.

As for mortgage stress, in fact very few middle-class households suffer from any form of mortgage stress. Defining ‘middle class’ as those households with disposable incomes between the 30<sup>th</sup> and the 80<sup>th</sup> percentiles, nearly two-thirds (63 per cent) of middle-class households do not have mortgages at all. Of those who do, 4 in 10 have mortgages under \$100,000 and 8 in 10 under \$200,000. Taken as a whole, only eight per cent of middle-class households have mortgages exceeding \$200,000.

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<sup>11</sup> Clive Hamilton, Christian Downie and Yi-Hua Lu, *The State of the Australian Middle Class*, Discussion Paper Number 98, Australia Institute, Canberra, October 2007.

The data show that few typical Australian families are struggling financially; in fact, most have done very well. How can the difference between the perception of middle-class distress and their real financial health be explained? Three factors may be at work.

Firstly, the constant reinforcement of the message of middle-class distress may persuade Australians that this describes their own situation irrespective of their real financial position.

Second, there is considerable evidence that middle-class Australians focus not on what they have but on the gap between what they have and what they want, creating a sense of material deprivation in a time of plenty. This not only prevents people from appreciating their good fortune but induces government to provide welfare to households that are not in need.

Third, middle-class Australians may be displacing anxieties about other things — moral decline, pressure to succeed and fears about world affairs — onto financial concerns. In other words, when middle-class Australians believe they are struggling, it may be that they are struggling with things other than their finances.

Although free-market devotees often share my disdain for middle-class welfare, they exploit and fuel the sense of grievance in the community in other ways. Last week, as it does every year, conservative think tank the Centre for Independent Studies announced that 22<sup>nd</sup> April is ‘Tax Freedom Day’, the 113<sup>th</sup> day from the start of the year on which we “stop working for the government” and “start working for our selves”.<sup>12</sup> I can think of no better way, other than allowing the wealthy to get away with evading their fair share of tax, of undermining public confidence in the tax system and encouraging the view that taxation is an illegitimate impost imposed by a greedy and alien government. It encourages tax-avoidance. But if, like the people at the CIS, you endorse Mrs Thatcher’s famous dictum that “there is no such thing as society”, then there can be no such thing as anti-social behaviour.

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<sup>12</sup> <http://www.cis.org.au>

In response I nominate 12<sup>th</sup> September, the 113<sup>th</sup> day from the end of the year, as Public Benevolence Day, the day on which we finally stop working solely for our own self-interest and begin paying taxes to support the public good. If taxation is the price we pay for living in a civilized society then this year we will begin to invest in civilisation on 12<sup>th</sup> September.

## **Alternatives**

It is important to stress that, contrary to the usual caricatures, critics such as me are not anti-growth. We simply take the position that there is far too much emphasis on promoting economic growth over other things that affect our well-being. The argument is not that we should allow the economy to decline but that promoting growth should receive less emphasis.

Those who become upset when anyone challenges the pre-eminence of GDP like to reply that those who criticise growth fetishism want us all to don hair shirts and live in caves. It is a well-known debating trick to claim that if you criticize white you must favour black or, in this case, the only choice we face is a luxury mansion or a dingy cave.

One of the common responses to criticisms of growth fetishism and government emphasis on maximizing growth is that, while GDP is imperfect, it is a good proxy for the things that do influence our wellbeing. After flirting with the idea that perhaps GDP is not all it's cracked up to be, this is the position Ken Henry has taken.<sup>13</sup> One can't blame him really, given the unwillingness of our political leaders to confront the issue.

The problem with this comforting argument is that it assumes there is no trade-off between pursuing GDP growth and the other factors that affect our wellbeing. Yet there clearly are trade-offs. There are very obvious ones: we could undoubtedly increase our GDP growth rate, at least for a time, by allowing factory owners to employ children and set them to work for 60 hours a week. That would place children at the heart of the

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<sup>13</sup> Ken Henry, 'Strategies for Nation Building in the 21<sup>st</sup> Century', Institute for Public Administration in Australia, October 2004

productivity agenda. We could increase GDP growth by rezoning Hyde Park in Sydney and allowing Meriton to cover it with apartment buildings.

These are extreme examples, but in fact over the last decade or two federal governments have made many decisions that promote GDP growth while damaging other aspects of our wellbeing. I have already mentioned changes to workplace laws. The Howard Government refused to ratify the Kyoto Protocol or introduce any serious measures to cut Australia's greenhouse gas emissions because, it said, economic growth would suffer, and they could find economic modelers to prove it.

Although the Rudd Government has ratified Kyoto and will take measures to cut emissions, it argues that doing so will not harm growth. Drawing on the Stern Report, it argues that failing to cut emissions would harm our long-term growth prospects. The weighing of evidence is different but the growth imperative still prevails.

This reassuring belief also informed the 2020 Summit, which concluded that our ambition should be “to dramatically decrease our ecological footprint while continuing to grow our economy”. But what if sharply cutting emissions would cause economic growth to be much lower? Would we then abandon efforts to deal with global warming? In truth, if attempting to avoid dangerous climate change required a large economic sacrifice and substantial changes in lifestyles then I believe we would not do it; we would find reasons to convince ourselves that it was unnecessary. In fact, I think this is the most likely outcome and the world will suffer the most severe consequences.

This was brought home to me last year when the Australia Institute released a report, replicating results for Europe, that showed that with the continuing rapid growth of air travel and the absence of alternatives to kerosene as a fuel, aviation will account for 50-100 per cent of Australia's greenhouse gas emissions budget by the middle of the century. The aviation industry declared the report an outrage and the Opposition spokesperson, now the Minister, attacked it as an assault on the right of working families to take holidays. Needless to say, none of the critics actually considered the numbers in the report, which were in fact very conservative. It is just unthinkable that anyone should question the growth of the aviation industry or the expansion of airports.

Yet if we are to tackle climate change, which is without doubt the most severe threat facing Australia and the world, we must think the unthinkable. We must entertain the possibility that the words of Robert Kennedy, David Cameron and Brendan Nelson express a profound truth — that there is more to life than economic growth; that some things should not be sacrificed to the Economy; that we need to return to a more balanced notion of social progress — and accept that these ideas are not merely an invitation for whimsical reflection on how life could be in a perfect world, but provide a guide as to how we must act.