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Can Fairness and Justice Survive in a Market Economy?

Address by Robert Fitzgerald AM
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It is a great joy to be here and present to you yet again in my personal capacity as I have done on a number of times before. I never cease to be amazed at your tenacity and commitment to the cause of social justice in church and society. Thank you so much, we need you more than ever. It was also lovely to be here only last month as a participant in the audience, to listen to a friend of mine, Julian Disney, talk about a contemporary issue, that of the press in Australia.

I was reflecting on the fact that I did a speech here at CCJP in June 2006,on a topic not dissimilar to what I want to talk about today The theme was that economic prosperity without justice and fairness are like fool's gold.

Yet there has been much public policy and political action since then. Not all good, yet as a nation we have fared well at least in economic terms. And I do come here with a great sense of optimism. I know in Australia it is not fashionable to be optimistic. It's fashionable to believe that Australians are for some reason incapable of managing and shaping own future. It fashionable to say that we have a weak economy, yet all the evidence is to the contrary -. we have one of the strongest economies in the world and weathered the GFC very well. It's fashionable to believe that all of our politicians and leaders lack integrity, but you and I know that many of them do have integrity, and have a good set of values and want to do good if allowed. It's very fashionable to believe that religion and faith are in decline and will disappear, and yet you and I know that history tells us that that is not going to occur and we know faith based organisations remain influential and well supported..

Whilst there are weaknesses in many aspects of our society, we should genuinely be optimistic that we are a people, richly endowed with the

necessary gifts and talents to shape our future, indeed to shape a better future, a fairer future.

This is also true globally, although there are many dark spots on the world stage. Today across the world that we do see a reduction in poverty, not in real numbers, but in terms of the overall percentage of the world's population in absolute poverty. In many developing countries, we have seen real impacts on the level of poverty with many people move out of abject disadvantage to much better circumstances. Even just to our near north in Indonesia we've seen remarkable changes in the life fortunes of many people.

There is a common reason. And that is significant lifting in economic performance in those nations and a spreading of economic advantage throughout their communities, even though there is still massive inequality with the wealthy receiving disproportionate benefits - and huge disparities between countries and regions throughout the world.

One of the reasons I wanted to talk about the market economy and whether or not we can have fairness and justice in such an economy is because I think the evidence is becoming clearer that rather than being a force for bad, it can if understood and managed well be a powerful force for good. Left unconstrained markets can do harm. They are not by nature about delivering fair or just outcomes. Nevertheless, they are essential in providing people with the ability to exercise choice, to have control over their own lives by exercising their preferences and by having producers and suppliers respond accordingly. Allowing markets to respond to consumers and allowing resources to move across the economy to sectors that maximise the best use of labour and capital is essential to maintaining a productive and prosperous economy.

Today's topic is *Can fairness and justice survive in a market economy* could lead us to the world's shortest speech because many of you would say No, it's not possible. I am not so quick to reach that conclusion. Maybe I should

have rephrased the topic *what do we need to do to ensure that fairness and justice can exist within our market economy.*

Let's start by reflecting on the international scene. CCJP has been very active in this area, promoting fair trade as one of its core principles and advocacy positions.

There was a book written not so long ago by George Soros, one of the world's most wealthy men and greatest financiers. Some have attributed him to great things and others have attributed him with sparking the Asian crisis of some time ago. The book was reviewed by a Joseph Stieglitz a world-renowned economist who said this:

> *'The world of international finance and economics is astonishing. What would seem to be basic and even obvious principles often seem contradicted. One might have thought that money could flow from rich countries to the poor countries, but year after year exactly the opposite occurs. One might have thought that the rich countries, being far more capable of bearing the risks of volatility, would largely bear those risks when they lend to the poorer nations, yet the poor are left to bear the burdens.*
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> *'Of course, no one expected that the world market economy would be fair, but at least we thought that it was efficient, yet these and other tendencies suggest that it is neither.'*

The world market based economy, has not delivered either fairness or efficiencies that we may have expected. As he says, nobody really expected a market to be fair, but they did expect it to be efficient, and in economic terms they would believe that that would lead to outcomes that enhanced the well-being of the world community. Of course there a many reasons for this including trade barriers that still exist with national protection and subsidy arrangements, lack of capital in some nations, political impediments, poor rule of law in some, and market exploitation.

Domestically, some would argue the same. At the end of my 2006 speech I used a quote from two people: Peter Dawkins and Paul Kelly. Peter Dawkins is an economist and Paul Kelly is the well-known journalist and author. They wrote an article called *Hard heads and Soft hearts* which said

> *'Too much of our national debate [that's the Australian debate] reflects a rear vision culture. It is still a battle between economic reformers and sentimentalist traditionalists imprisoned by a nostalgically old Australia and its egalitarian edifices. That is not the debate that Australia needs now. It has become a means of avoiding the real issues.*
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> *'Our belief is that Australia can succeed as a prosperous economy and a successful society where our political commitment to democracy, inclusion and egalitarianism is upheld. The key is to find new techniques to realise these long cherished values.'*

That is the conversation we now need to have.

It is a conversation that should be about prosperity in both economic and social terms. It is one that should acknowledge the importance of the inclusion of all people, especially those at the margin, in the social, economic and cultural life of our nation.. It is one that should acknowledge egalitarianism, a tradition that was part of the Australian psyche, even if not always in practice. And it is one that should embrace participatory democratic processes as a means to achieving those goals.

Surprisingly to some, since 2006 I think we have entered into that conversation and we are seeing progress. And one of the signs of this has been the increasing work around and acceptance of the notions contained in the national and international well-being research and frameworks. Traditionally a nation's well-being has been measured only by measuring increases in living standards, that is increases in the gross domestic product per head of population.

Trying to measure the well-being of Australia, or any nation, just by gross domestic product changes is an important but insufficient means. At the end of the day, it is important that we see the living standards of our nation grow, and the way we measure that is through the GDP, but everybody knows that that is not what we, as citizens, would believe measures our collective well-being.

What are the things that we regard as important?

In one of the studies the Commission did into the not-for-profit sector, we had to work out how we measured the impact of the contribution of not-for-profits. We looked at international and national research about indicators of well-being. There are six domains that we've looked at and believe are important for well-being. They're unsurprising but very important, if they are going to shape public policy.

- Consumption, i.e. the ability to acquire goods and services
- Connectedness to others
- Engaged in meaningful activity.
- Sense of self, i.e. about how you see yourself, the self-respect you have and the respect that you are given by other people.
- Sense of safety, i.e. both the safety in the physical environment,(this is particularly important for older Australians), and also a sense of safety within society generally, not just one's physical surroundings.
- The ability to influence or have influence over one's own life. In other words, it's the ability to make choices and to take risks..

If you want to do a survey of a workplace, there are a number of factors that are important to people's happiness or satisfaction, but two of those are the ability to have influence over the work you do and the ability to have choices in the workplace. That is true in our lives. All of us want to have some level of say and influence in our lives.

Why is this concept really important? Because it is also an economic concept. Fundamental to a market economy are two things. The first is that choice exercised by consumers , is the driving force of economic activity and second, that to exercise choice a competitive market must exist whereby the forces of supply and demand interplay to set prices and allocate resources. Economists believe that a competitive market is the best way to achieve greatest economy wide efficiencies, enhanced productivity and reveal the true choices and preferences of people.

If I were to say to you, Do you want a controlled economy where the state says how you can spend, what you can spend, where you can spend -you would reject that. The extreme forms of communism and socialism had those elements in varying forms. The government not the market set the terms by which you lived.

On the other hand, a totally free or unconstrained market, if it ever existed, however does not pretend to be equitable, does not take care of those unable to access the market or have sufficient skills or capacity to make informed choices.

Choice however is fundamental to economic and social well-being. How then do we use this knowledge to our advantage in public policy terms.

We all want choice; however, there are some problems with choice. Firstly, people don't always have the level of knowledge and skills or capacity to be able to make those choices, and so we need to put in place measures to ensure that people do, in fact, have real choice.

The second is that too much choice is no choice, but then the economists have an answer for that. So, for example, how many of you changed your telecommunications provider? How many of you sit there on the internet and go through and say, *gee, I'll be $1.20 better off a week if I change provider*? Very few of you. In fact, I'll tell you how many in a minute. How many of you go through the electricity bills and do the same? Well, the truth is, only about 10% of the market actually moves. The 10% – maybe a little bit more,

maybe a little bit less – change telecommunications providers, electricity providers, change their superannuation fund.

Some people say, well, that goes to show that people don't want choice - not at all. This group, called 'the marginal consumers" do the work for the rest of us.As long as this 10% is doing all of that, each of us benefits.

So in a sense, it's not that everybody is actively exercising choice; it is that some people are actively exercising choice which provides benefits to us.

.How should we apply this knowledge in our public policy making.

If we just take welfare support and services for a moment. I think for a very long time we had a form of welfare that was not enhancing of people's well-being. Indeed, if we look at many of the practices that we're engaged in, we retained and sustained people in poverty and disadvantage, and we never really thought about giving them choice.

I remember in Vinnies we used to have meetings with the other charities such as the Salvation Army and the Red Cross and we would talk about 'my poor'. We owned them. And government and charities were in total control.

Today we do not accept that such an approach is an appropriate way of dealing with people in disadvantaged circumstances. Today we look to build people's capacity and capabilities. We talk about giving them greater choice , empowering people so that they may have the capacity to influence and shape their own lives. They must have the courage and tools to make choices and to take risks. Education has long been regarded as critical to allowing people to move out poverty and disadvantage. At its core, education is about building capacities and capabilities, to allow people to have the means and skills by which they can shape and influence their life's outcomes.

Let us look a couple of practical examples where the notions of choice and the use of the market may help in social policy settings..

When we did the aged care enquiry recently, we had to work out what sort of system we would want in the future to meet both increasing demand and the expectations of a new ageing population. This year 1 million Australians receive aged care. In 2050, 3.6 million Australians will receive aged care, 3 million of those will receive it in the home. Only 600,000 will receive services in residential aged care facilities (nursing homes)

How do we create a system that meets the needs and the aspirations of that age group? Future ageing generations, particularly the Baby Boomers, are used to being consumers, used to demanding services and used to markets providing competition and choice. They simply they will not accept the current aged care system . They will not accept it because it doesn't have sufficient choice and flexibility in it. They will not accept it because it's not responsive to their changing needs and aspirations. Moreover, the current system will collapse under its own weight if we don't do something different.

So the aged care system going forward, must be one that enables the locus of power or control to shift to the aging person, the consumer, and away from providers and governments. And so, without going into the details, we need to move from a rationed model to an entitlement model with greater decision making in the hands of the ageing person and their carer.

To do that, we have to design a system by which the needs of individuals are assessed on an ongoing basis and based on that assessment provided with an entitlement that they can take to any service provider of their choice. Further they must be able to change service providers and move in and out of the aged care system as their needs go up and down. At the moment we have a system that if you enter you never leave it. Why? Because the financial incentives for the providers are that you stay in it and you get worse, not better. For the consumer, they are fearful that if they leave it they'll never get back into it; so this is a system of entrapment, not a system of entitlement or choice.

When you look at what is proposed some would say, that it is purely driven by economists- it's an economic model. But in truth we started by looking at

the aged care system from a well-being focus, not an economic focus. We started looking at not only the needs but aspirations of ageing Australians and what was important to them. And choice and the power to have greater influence mattered a great deal. But choice and competition also motivates providers to deliver better and more responsive services.

Lo and behold we came up with a model that actually does both. It enhances the economic efficiency of the aged care system and it enhances choice and consumer well-being.

What are the dangers? The dangers are not everybody can exercise that choice, so you have to have an intermediary layer of supports: case managers, care co-ordinators, brokers. You have to ensure that there are sufficient services in what they call 'thin markets' – for example, in regional areas, in indigenous communities, in remote areas- so you do have to have block funded services. You do have to have supports for particular types of groups within the community who have particular needs and specialist services eg ageing homeless persons. And government subsidies for low income or wealth consumers are essential.

Let's look at disability. The Commission has also recommended a new National Disability Insurance Scheme. What's at the heart of the National Disability Insurance Scheme is a need to overcome a catastrophic failure to provide adequate services for people without profound disabilities on a consistent, reliable and timely manner. Unlike the aged care system where there is a system, in the disability area there is virtually no effective system, in some parts of Australia. So what do we do?

To change the system we need to move control and influence to the person with a disability and or their carer. Fundamental is that the money will flow to the consumer, who will then be able to use it to obtain services relevant to their assessed needs. In that system there may be the possibility that the entitlement actually gets cashed out and that the person with the disability and/or their carers can actually take that money to purchase a range of

services. For most it will be an individualised entitlement that they can take to a provider of their choice.

Again, that is moving the power from providers and government to the consumer, to the person with the disability - providing them with the financial means to be able to access the services they need and want. What it does is motivate and change the whole service provider system by creating a competitive market driven by consumers' preferences.

Of course, in the reformed disability system, exactly the same things have to be put in place as for the aged care reforms: appropriate intermediaries, care co-ordinators, case management, and supports for carers. You also have to ensure that there are adequate, sustainable services for people with disabilities in remote areas, indigenous communities, and in certain particular groups or needs .Safeguards are essential.

These are not free unconstrained markets. These are regulated or mixed markets underpinned by safeguards and protections, quality assurance regimes and constant government oversight. The fairness comes from the way in which the markets are shaped and safeguards built in. But we used good economic principles, consumer choice and market competition, to achieve both sound economic and well-being outcomes.

In Australia we do, recognise that markets do need to be regulated; hence we do have very strong rules governing corporate governance, consumer protection and competition laws, financial prudential regulations, environmental protections etc. In a sense there is no such thing as a free market in our nation, nor anywhere else really. We also recognise that market based solutions are not appropriate in all circumstances and for all groups or needs. We do recognise the need for safeguards and safety nets

The question is, are we doing an adequate enough job? Are they working well enough to ensure a degree of fairness in our market economy and our society more broadly?

I don't think markets ever create justice. They can be made to be fair but just- I don't think so. To have a just society other things are necessary. What is now critically important in Australia, is the reassertion of the importance of societal relationships.- that is what is at the essence the of social capital and social inclusion.

In 2003 the Productivity Commission produced a report called *Social Capital – reviewing the concept and its policy implications*. What is now absolutely clear to me is that we need to increase the strength and capacity of our society based on relationships of trust and reciprocity. The World Bank says that social capital of society includes the institutions, the relationships, the attitudes and the values that govern interactions of a people and contribute to economic and social development.

Social capital, however, is not simply the sum of the institutions that underpin society. It is the glue that holds them together. It includes the shared values of the social conduct, experienced in personal relationships. Trust and a common sense of civic responsibility make societies more than just a collection of individuals.

To those of us from faith-based organisations but also from a social justice perspective, our job is not to try to tear down or diminish the importance of economics or of markets. It is to try to shape them or the enabling context in the most appropriate way possible. It is to say that they exist within a society and must operate based upon the foundations of that society - personal relationships, a common sense of civic responsibility, societal trust.

Societal trust is not the trust that I have in a particular person because I know her. Societal trust is a trust that you have in the unencountered institution or person. That is, it's the trust you have in the people and institutions you have never met or dealt with. But they are critical to our individual and community wide welfare.

So today, are Australians' trust in its institutions, its parliaments, its legislature, its churches its business sector stronger or weaker, or

strengthening or weakening? Is Australian societal trust in neighbours, those who come to our shores as refugees or migrants, weakening or strengthening? If they're weakening, then the society and its economy will start to fracture and falter. Let there be no doubt the strength of our economy is interdependent with the strength of our society.

Further, as part of the strengthening of our society we need to embrace the commitment to social inclusion,

If we are going to have a robust society, will we be able to change the psyche away from the individual to that of the community? Are we going to be able to embrace the notion of a society in which we include all individuals of whatever means, race, culture or circumstance in the opportunities created by our economic and social prosperity?

We're finding out that markets don't do that. Markets are not inclusive. Markets are about the players in the market, and if you're outside the market nobody cares, but societies must care.

So let me conclude a by quoting George Soros:

> *'We must abandon the unthinking pursuit of narrow self-interest and give some thought to the future of humanity. We need a reassertion of morality amid our amoral preoccupations. It would be naive to expect a change in human nature, but humans are capable of transcending the pursuit of narrow self-interest. Indeed, they can not live without some sense of morality. It is market fundamentalism which holds that the social good is best served by allowing people to pursue their self-interest without any thought for the social good, the two being identical. That is a perversion of human nature.'*

You know, what he could have been writing about is the notion of the common good, and the common good is that which underpins Catholic social teaching and social justice. It should also underpin our nation's quest for economic and social prosperity and well-being.

About Robert Fitzgerald

Robert is an Adjunct Professor at the Australian Catholic University and Commissioner, Productivity Commission. Prior to being appointed to the Commission, Robert was the Community and Disability Services Commissioner and Deputy Ombudsman in NSW.

Robert practiced as a commercial lawyer in NSW for over 20 years and was extensively involved in public policy. For over 30 years he has also been involved in a voluntary capacity in numerous community services. He is currently a Director of The Benevolent Society and Foyer Foundation. Robert serves on a number of university advisory boards