

Submission 3 - Gilbert Holmes

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Committee Secretary

Joint Standing Committee on Treaties

Parliament House, Canberra

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To whom it may concern,

RE: Trans-Pacific Partnership

I have a background in social and environmental activism and a long-standing interest in political and economic theory. In recent years, I have pursued that interest through formal study and am now only three subjects short of having dual bachelor degrees in economics and arts (political science) from the University of Queensland.

I am concerned that the TPP is deeply flawed in its conception and that its implementation would push Australia and the world in an undesirable direction.

In terms of the flawed conception, I am mostly concerned here with the theoretical framework that suggests that the appropriate socio-economic model for our global society is based on a system of open, competitive markets and free-trade. In short, it is toward some fundamentally flawed concepts of economic theory that proponents of the TPP look in support of their program. We can also look toward one obvious flaw in the practical aspect of the TPP's conception. This is the widespread influence of those who stand to benefit the most from the TPP (big corporations) over the political processes involved in the creation of the proposed treaty. Here we can see a vicious cycle with this 'rent-seeking' influencing the construction of the proposed treaty, which itself if implemented would be likely to further entrench both the relative wealth and political influence of big-money.

Thankfully for the sake of brevity we can look at both of these aspects to the TPP's flawed conception by a consideration of the former. In this context, well-constructed economic theory and policy will trend toward inhibiting the development of powerful and socially-predatory private interests within the socio-economic system in the first place. By turning to theory, we can also deconstruct the argument that competitive markets and free-trade lead to prosperity and welfare improvements for the less well-off within society. Indeed, while 'neo-liberal' economics has been globally dominant for in excess of thirty years, during which time economic inequality has increased dramatically, millions continue to die globally every year from starvation and

preventable diseases. Surely within this high-tech, supposedly democratic, post-Enlightenment society we can manage to devise and employ economic theory that prioritises the development of sustainable, welfare-supporting capacity within the society without having to progressively sell ourselves to the big end of town in the foolish hope that they will manage the process for us!

In terms of specific economic theory, I want to begin by critiquing two foundational liberal/capitalist economic concepts; the competitive equilibrium and free-trade.

In both of these contexts, the starting point for my critique is that neither of these theories place a value on interdependence within a society or community. This has profound and very destructive implications. While the same principles do apply more broadly, perhaps it is best in trying to understand the potential that exists for this currently undervalued interdependence, to begin by considering society in the more localized context, at the neighbourhood or town scale. At this scale we can readily imagine that people could potentially benefit from sharing both consumable resources (such as washing machines, mini-theatres and swimming pools) and productive assets (such as orchards and a chicken run). Many opportunities potentially also exist within communities for locally focused and privately owned micro and small businesses. To the extent that people stand to gain (benefit minus cost) from these opportunities, we can say that a community can gain a direct economic benefit from local interdependence.

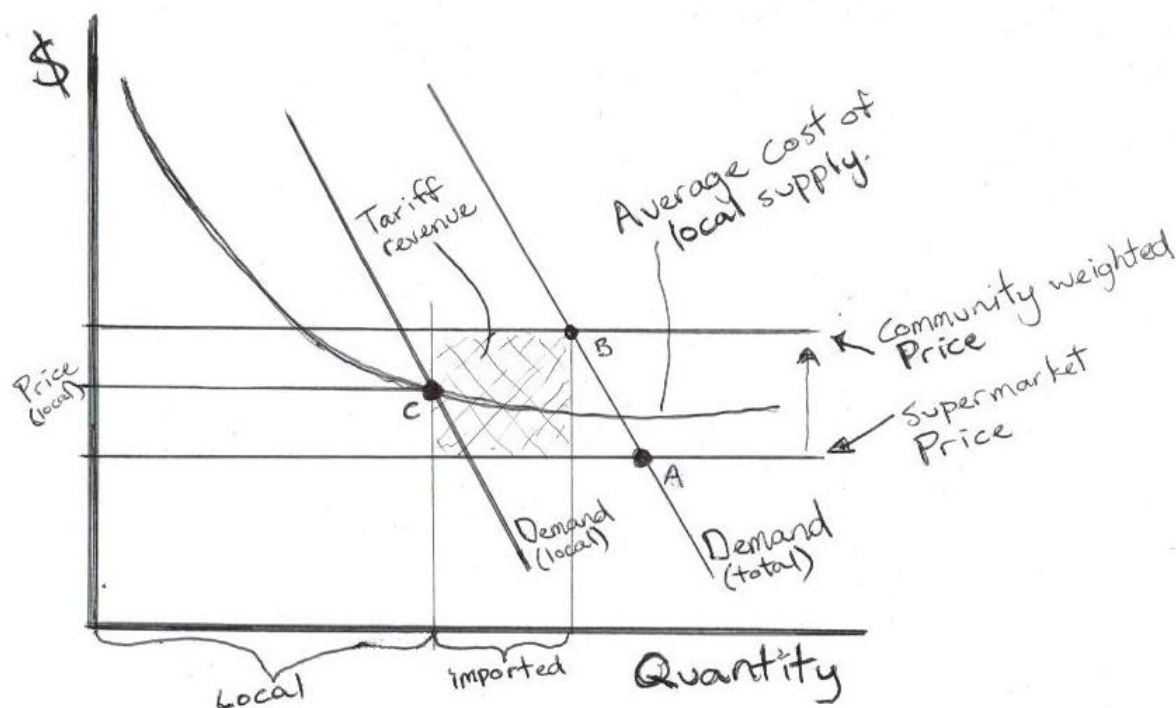
An important thing to note about economic opportunities of this kind is that they are mutually dependent on one another for their realization. Without existing administrative capacity within a neighbourhood, for example, it will be virtually impossible to establish and maintain a shared swimming pool. Without existing social networks and a culture of consumer behaviour to support it, a micro-business wanting to bake a hundred loaves of bread each day and deliver them by bicycle throughout a town will not be viable. This suggests that if, as I suggested, our existing economic theories and policies fail to value economic interdependence within communities, then we will see a negative cycle emerging with economic diversity increasingly disappearing from our communities, and with new, locally-focused cooperative or competitive business opportunities increasingly difficult to realize. Much to the shame of perhaps conservative politics especially, with their continuing embrace of neo-liberal economics, modern society has already progressed a long way down this unsustainable, anti-human and inefficient path.

While this is bad enough, in sacrificing interdependence within society, we are actually losing a lot more than the direct economic benefits that I have been discussing. There is a much more important, let's call it secondary benefit that a community can be seen to gain from interdependence, which is also being sacrificed: This relates to welfare outcomes. Our communities have the potential to play important roles in this context. A community with a diverse, vibrant and interdependent economy has the capacity to provide employment, to care for old, young and sick, to support housing needs and the provision of necessities. We might also

value in terms of our welfare a feeling of community, we might believe that a more localized pattern of production and consumption is more ecologically sustainable; we might look at engagement within community as a more direct form of democratic participation etc.

Despite its failure to-date to value these potential opportunities of community interdependence, the methods of neo-classical microeconomics actually provides us with a simple mechanism to do so. This is through Pigou's treatment of 'externalities' (things such as environmental damage associated with an item's production, but that are not taken into account in the price of that item). In this context, if we begin with a standard competitive supply and demand analysis, we can then weight-in as an externality the opportunity cost (lost potential associated with interdependence) that a community incurs if a purely competitive market is allowed to operate.

In order to illustrate this I will use the example of the market for eggs within a neighbourhood setting. In this context, the external price of eggs (purchased from the supermarket) can be represented as a horizontal line (as in not changing with respect to quantity). This is the supply 'curve'. The demand for eggs within the neighbourhood is represented by a downward sloping curve, with more eggs demanded when the price is lower. Where these two lines intersect is the competitive equilibrium (Point A). Remembering our story with interdependence, however, we can see that every time someone buys an egg from the supermarket, the community as a whole is incurring an opportunity cost. As discussed, this opportunity cost has a couple of components. In short, up to the point that people value both the direct benefits and broader welfare supporting possibilities of local egg production, an opportunity cost will be incurred by the community when a consumer ignores local production possibilities in favour of a supermarket egg.



Using Pigou's method, this opportunity cost to the community is then weighted into the supply and demand model. This pushes up the supply curve with the opportunity cost added onto the price of the supermarket egg. At this stage, the quantity of eggs purchased has decreased from the competitive equilibrium (moving back to Point B). The additional price that is paid for each egg is collected as a Pigouvian tax, and all things being equal, this revenue will be used to compensate the neighbourhood for the opportunity cost that it has incurred.

Another effect of the increased price of supermarket eggs is that it will make locally produced eggs relatively cheaper and therefore more desirable to the neighbourhood egg consumers. This local supply cost is drawn as downward sloping and convex, with the average cost of neighbourhood egg production being quite high for a small number of eggs, but dropping off as more eggs are produced due to economies of scale. The last thing that I have done with this graphical analysis is to break the total demand for eggs into the demand for local eggs and the demand for supermarket eggs. Those purchasing the locally produced eggs will pay the 'local equilibrium price', where local demand is equal to the local supply cost for that quantity of eggs (point C). Those purchasing the supermarket eggs will pay the opportunity cost or community weighted price, and the Pigouvian tax will be collected on those purchases.

This argument is actually entirely in agreement with mainstream neo-classical economic theory. Within those methods, consumers' preferences are not fixed and it is entirely legitimate via this standard that consumers may wish to place a value on local economic activity or on community interdependence as a whole. Despite this, and notwithstanding the simplicity of the concepts, the

potential for the application of Pigou's technique in this manner has not to my knowledge been described previously. I can think of only one good reason for this oversight. This is that the method described leads to conclusions that directly challenge some of the central concepts of liberal/capitalist economic theory; most specifically for the purpose of this submission, the doctrine of free-trade.

The idea of free-trade is based primarily on Ricardo's theory of comparative advantage. Using comparative advantage, each region will be best-off (and total production will be at its highest) if they are able to specialize in the production of what they are relatively best at producing and trade freely with one another for everything else. In the above analysis, however, this specialization and trade will involve communities incurring opportunity costs associated with decreased interdependence. In other words, at the risk of sounding simplistic, free-trade is not free.

The supply and demand analysis above offers the apparently uncontroversial suggestion that: up to the value of the local economic opportunities associated with any product, a community will actually be better off paying more for a locally sourced product. While the statement may appear obvious to the trained economist, the implications appear to repel the mind. This implication is that the most efficient outcome for the society will be attained when a system of trade tariffs is set up that supports the desired degree (determined by benefits minus costs) of economic interdependence within communities down to the neighbourhood scale. (The realization of this outcome would also have to be supported by appropriate institutions and governance mechanisms etc.) In the above example concerning eggs, applied in this way the Pigouvian tax is actually a form of trade tariff.

I am an advocate of a balanced centralized/decentralized socio-political order tiered from the small neighbourhood to the global scale, with a more directly democratic system of government tiered upward from local scales, and with a balanced cooperative/competitive economic system. Within this framework, 'communities' of various scales would tend to have relatively diverse economic systems leading toward a reasonable degree of local self-reliance. (Across border trade would still be an important part of the economy of this system, with trade potentially supporting socially optimal outcomes when the benefits of trade exceed the value of fairly-calculated local opportunities.) As suggested above, it is my belief that this outcome actually represents not only a more sustainable and democratic approach to the organization of society, but is actually more efficient than even the best outcomes described within liberal capitalism's fool's-dream of steady economic growth within a highly privatized and competitive market system.

I am aware that my brief expose here of untested economic theory is unlikely to convince many people of my methods and conclusions. With this in mind, perhaps the most important take-home-message from this submission is that the theory on which the TPP is founded is deeply contestable. We can choose our future and it certainly does not need to be organized in the

interests of free-market capitalism. Again, if we add to these theoretical concerns that the creation of the TPP has been heavily influenced by the rent-seeking behaviour of big-money, we have very good reason to be concerned about the proposed treaty.

I urge you not to not support the implementation of the TPP.

Yours sincerely,

Gilbert Holmes

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