Imagine Seizing the Future – Where Communities are in Control

Address to the Communities in Control Conference
Melbourne, 6th June 2005

Evan Thornley

Founder and Chair of global search engine company Looksmart

*If quoting from this speech, please acknowledge that it was presented to the
2005 Communities in Control conference convened by Our Community and Centacare Catholic Family Services.

Thank you Rhonda. Let me first also acknowledge your co-convenor, **Fr Joe Caddy**, the Minister, **Senator Kay Patterson** and the Chair of Our Community, **Carol Schwartz**.

It used to be said that you don't mention politics or religion in polite company. I intend to do both!

Rhonda and Denis **asked me to imagine a future with communities in control** – which I have – but also to talk about it. I'll make **frequent references to both Economics and Morality.**

I'm hoping to both **encourage you and challenge you**.
We know that **community organisations make a huge contribution** to the nation – but we're **not always sure how to measure it.**

We know that **investing in people pays huge dividends, but can't say which investments are the best**.

We know that the **earlier we ensure a child has access to a positive, nurturing, learning environment**, the greater their life chances.

We know that **adolescents need access to non-parental role models** and sporting and community organisations are where they often find them.

Even in old age, we know that **without community involvement, our elderly experience higher incidence of dementia** and longer periods of expensive aged care.

In short, we know intuitively that **investing in people can be a very good investment. It's what economists call human capital.** But we have little capacity to measure it. It's often unclear which of these investments in people create the ***best*** results and which are a bit ordinary or even negative.

Similarly, we know that **investing in our communities is vitally important.** We know that without our sporting organisations, our health costs would rise dramatically. We know that without our Arts organisations we'd pay a higher price in intolerance and misunderstanding.

We know that **if we don't change the worst of our environmental practices, the costs in the future will be massive**. We know that neighbourhoods that are renewed and vital have lower crime and health costs.

Social capital, as it's now called, is valuable – we're just not sure how much, and which things add the most to it and which the least?

So much of what we do in **community organisations adds to our society's stock of human capital and social capital** – if you'll excuse my econocratic language – but **unless these contributions are recognised, measured and valued, we risk diminishing their role** – moving from a world where communities are in control to one where communities are at the margins.

I want to **address that threat**. But to do that requires us to challenge some of the prevailing orthodoxies of economics, morality and the community sector itself.

Specifically, **I want to challenge**:

a) an economic view that says **our current debt-funded consumption-driven economy is either preferable or sustainable** and further its underlying premise that there is a **fundamental conflict between a strong economy and a fair society**.
b) And secondly I want to **challenge a moral world view that sees the role of Government as one of playing God – to reward and punish** - and which increasingly sees the role of the **community sector as being a mechanism through which those values are given effect.**

I believe these are **both dangerous and wrong**. As a consequence, I'd like to propose an alternative perspective. It looks a bit like this:

a) Firstly, **our economy is under serious threat from a combination of imbalances**
b) Secondly, that in the modern world, far from being in conflict, there is **no path to a strong economy other than through a fair society**; and

c) Thirdly that **this perspective creates a far more central role for community organisations in both our society and our economy**, but for this to be realised will require radical changes in how Governments measure outcomes and how they structure their relationships with Community Organisations.

Most people don't need much persuading that we have **become a less fair society in the last 20 years, even if we have become, on average, a more prosperous one**. There seems to be an implied trade-off – that you can't have a strong economy if you want a fair society.

My first concern about that is that **I don't actually think the economy is anywhere near as strong as we've been told it is**. My second concern is that I believe we **can't have a strong economy without a fair society**.

So **what's wrong** with our economy? Four things. **Four really big things** - **Unemployment**, **Household Debt**, the **National Debt** and our **lack of competitive export industries**.

Let me discuss each briefly.

As many of you will know, **our real unemployment rate is not 5%**. The numbers are a fraud. If you add up the total of unemployment, disability and sole parent benefits together, there are more people now than when the official unemployment rate was much higher. This, despite over a decade of boom. We **used to have a million unemployed and 100,000 disability pensions. Now we've got half a million unemployed and 600,000 disability pensions**. We've just re-arranged the deck chairs.

That's why **we still have 1 in 6 children growing up in a jobless household**. This is before we get into the fact that **if you work 1 hour a week you're no long "unemployed**" in the official statistics.

But surely, some say, **we have skill shortages**? We have employers everywhere that can't *fill* their jobs.

Believe it or not, that's *also* true. **How? Because the skill levels and geographical locations of the unemployed don't match the jobs available.**

We have **unemployed timber workers but a shortage of mining engineers**.

We have **unemployed textile workers but a shortage of bricklayers**.

We have large pools of **unemployed people living in our urban fringes and shortages of fruit pickers in the Riverina.** Because we **haven't invested in skills and infrastructure**, we now have the <u>***splendid idiocy***</u> of high **real unemployment levels *and* skill shortages**.

We can debate the unemployment statistics if we must, but what nobody would debate is that **come the next recession, unemployment, however you measure it, will double. It always does.**

So I guess we better pray we don't have another recession. <u>Apparently</u>, we've had the **fastest growing economy** in the OECD. Curiously, **we've had the fastest growing level of consumer debt as well.**

<u>***We've had the best party on the block because we've borrowed the most money to buy the most beer.***</u>

As a nation, when we **should have been saving to invest, we have been borrowing to consume.**

People are now **spending a bigger part of their incomes paying off debt than they ever have** – even more than when we had 17% interest rates. Why? Because we've got interest rates that are 2 ½ times lower, so <u>we</u> decided to borrow 3 times as much money! That may be **OK so long as interest rates remain at 50 year lows** – but that seems unlikely.

Which brings us to our third **problem** – our **trading position and the nation's debt**.

For the rest of **Australian history** you could pretty much rely on one constant – when commodity prices were at the top, the nation ran a surplus, and when they were down, we ran a deficit.

But **now it's different**. Now we are spending $1.07 overseas for every dollar we make– but our commodity prices are at 30 year <u>highs</u>! That's right, **we're near the <u>top</u> of the price cycle and yet we are already <u>down the toilet</u> in the trade balance.**

If we had some fast growing export industries outside mining to compensate, we might get out the jam, but they are few and far between. And that's why I'm **worried about the economy. And worried about the unemployment and budgetary consequences of that** for the community sector.

And it's also why I'm a bit peeved that **we've dropped our commitment to <u>a fair society</u>** while chasing what may have been the illusion of a **<u>strong economy</u>**.

Most of the **commentary from politicians and the media these days promotes the idea that there is a conflict between the two**. I disagree.

Let me explain why **a strong economy and a fair society are actually two sides of the same coin**. You can't have one without the other.

Starting with the fairness angle – **we fall at the first hurdle if we don't have a strong economy.**

One word - Unemployment.

We **know the devastating effects unemployment has** on individuals, their families and their neighbourhoods.

Unemployment drives poor outcomes on every social indicator – health, crime, educational attainment or anything else. That alone **makes the need for a strong economy an absolute must** for anyone who's passionate about a fair society. We also **know that when economies head south, poverty increases,** funding for community organisations and the welfare safety-net get squeezed and all capital investments in schools and hospitals tend to get put on hold.

There's **nothing pretty about a bad economy – especially for disadvantaged people.**

So I **hope you will agree, a strong economy is a critical component of a creating a fair society**.

But now **perhaps a more contentious argument – that a fair society is an essential building block for a strong economy.**

The **global economy is now a team sport** – and if we don't put our strongest team on the paddock, we're letting ourselves down. That **means investing in our people rather than fighting among ourselves**.

If you **visit your local bookshop**, look at the "Business and Management" section. All the action is around topics like Branding, Intellectual Property, Knowledge Management, Human Resource Development, Innovation and such like.

It's the investments in people, their ideas and their relationships that drive value in modern capitalism. These same lessons can be applied to society and the economy as a whole.

I'd like to give **some examples** to illustrate this proposition:

i. **Early Childhood Intervention programs**
ii. **Education**
iii. **Fertility; and**
iv. **Wages.**

Since we're talking about investments, **let's briefly talk about rates of return**. With most **traditional investments** – like shares or property or bonds **– returns are usually in the range of 7-12% per annum.** So keep in mind this basic calibration: **a 5% return is a pretty <u>small</u> number, a 10% return is a pretty <u>good</u> number and anything around 15% or over is <u>*an absolute Monty*</u>**!

Now **let's think about some traditional "fair society" priorities** not, as we usually do, from the point of view of fairness and equity, <u>but rather</u> in the cold hard terms of rates of return and economics. You may be surprised by the outcomes.

James Heckman, a Nobel Prize winning economist quotes the **Perry Pre-School study, where two groups of severely disadvantaged kids in Chicago were split – one received a high quality pre-school program designed to overcome the symptoms of their disadvantage. The other group wasn't** – they were the control group.

They **followed these kids for 25 years** through to adulthood to keep track of the differences. The **results were startling**.

Perry study participants **out-flanked their control group peers across the board**. They were:

- Much **more likely to complete high school on time** (66 v 45%);
- Over 4 **times more likely to earn a decent income** (29 v 7% incomes over $2,000 per month);
- Nearly 3 **times more likely to own their own homes** (36 v 13%);
- More than twice **as likely to never be a welfare recipient** (41 v 20%); and
- Almost **half as likely to be arrested** (2.4 v 4.6%).

So this is a **great result for creating a fairer society** – at least, if you were lucky enough to get access to the program.

But let's **look at the economics of the outcomes** – that's what's really startling. When you measure the benefits of higher incomes and lower costs, the **investment in these kids resulted in a rate of return of about 16%**. 16%!

Remember what we said about property, shares and bonds returning 7-12%? Remember we said 15% and above was a Monty in anyone's language? So here we are … **investing … in under-privileged kids – and generating a return of 16% per annum. Now that looks like a fair society and a strong economy to me.**

Now let's look at education.

Gary Becker, another Nobel Prize winning economist first published a book called Human Capital in 1964. He quotes studies that show the **rate of return on an individual's investment in education varied from 16 to 28% per annum for completing High School and between 12 and 15% for University**.

Again, these are outstanding returns on investment in anyone's language. 5% if you put it in the bank, 7-12% for shares or property and **12-28% if you invest in education!**

Mark Blaug from the University of London quotes from several studies into the economics of education. The rates of return ***to society*** from investments in education were estimated to be **between 7% to 20% in one study and 11-37% in another.** Another bonanza!

Now I'd like to **read you a rather long quote from an eminent economist that highlights the importance of investing in everyone's education** – not just for a privileged few. At the end I'll tell you who said this and you may be surprised:

"…for the past twenty years the real incomes of skilled, especially highly skilled, workers have risen more than the average of all workers, whereas real wage rate increases for lesser-skilled workers have been below average, indeed virtually nonexistent. This difference in wage trends suggests that… we have developed a ***shortage*** of highly skilled workers and ***a surplus*** of lesser-skilled workers….

"[This has] the potential to hamper the adjustment flexibility of our economy overall. …

"…[We] have placed much greater emphasis on the need to provide equality of opportunity than on equality of outcomes. But equal opportunity requires equal access to knowledge. … [We] need to pursue ***equal access to knowledge*** to ensure that our economic system works ***at maximum efficiency*** and is perceived as just in its distribution of rewards."

In other words, **this economist is saying that by leaving people behind, by not investing in the education and training of as many as possible, we are *limiting the growth and flexibility of our economy***.

So who is this economic advocate for a fairer society? None other than the **Chairman of the US Federal Reserve** – the equivalent of our Reserve Bank – **Alan Greenspan.**

I **hope that blizzard of numbers and Nobel Prize winners was compelling**.

Let me try a different example that's just common sense.
We are **constantly reminded that our declining fertility levels and consequent ageing population is a recipe for economic hard times**.

But while Peter Costello is smugly suggesting "one for the husband, one for the wife and one for the nation", let's have a quick **think about why people are not doing that**.

Well, let's see:

- we've got **housing affordability for young people at it's worst levels in 20 years**;
- they've got **huge and rising HECS debts** which they didn't use to have; and
- if the women dare contemplate the fact that **50% of marriages end in divorce and that this is more likely than not to plunge her and her children into poverty** and, increasingly, into **becoming the objects of blame** by people like Costello …

Well **I just can't figure out why people aren't getting to having "one for the nation"! Can you?**

Finally, let's talk wages. Some would have you believe that high wage levels hamper international competitiveness. Yet **Austrade's Chief Economist, Tim Harcout tells us that manufacturing exporters pay 40% higher wages** than companies focused on the domestic market**.**

So the **people that are the <u>most</u> internationally competitive are paying the <u>higher</u> wages, not the lower**. They have to play smart to compete in the global A-grade. It seems **that <u>far from being a barrier</u> to international competitiveness, higher wages are a <u>consequence</u> of it.**

I hope that many of you will agree that this **conflict between a strong economy and a fair society is false**. So **why do so many believe it**? I think it's because this falsehood is perpetrated with two very effective tools – a **punitive morality code and a *dodgy* accounting system!**

Let me take you through each!

It **used to be said that the conservative side of politics was interested in wealth creation and the progressive side only in wealth distribution**. Maybe that was true once.

If so, **it certainly isn't now**. Given what we've just discussed about the greatest wealth being generated by investing in the greatest number of people, this **old debate has been turned upside-down.**

The fairness position is the one concerned with maximising wealth by investing in the maximum number of people to the maximum extent. The **debate over distribution is now the province of conservatives – particularly when it involves debates about public versus private provision.**

Rather than worrying about our team's capacity to compete in the global A-grade by skilling up all our players to the maximum of their ability**, this position is all about fighting among ourselves as to how we'll distribute the spoils – even if it's at the expense of the team's success.**

Why would you do that? Well let me tell you it has **nothing to do with economics.**

It has **a lot to do with a world view that uses a punitive morality** as an excuse for redistribution.

If I can convince people that *you are a bad person*, then I can convince them to take resources away from you and give them to me – *if I am a good person*.

Take money from those evil single mums and give it to us good, hard-working 6-figure salary types. Take money from those evil, slovenly under-resourced schools and give it to these well-funded over-resourced schools that people clearly want more.

All the better if you can find the one or two percent of people in any group that really aren't pulling their weight. And sadly there will always be a few. Because then you can **highlight that tiny minority to vilify the *entire* group**.

That **creates a climate where we can redistribute away from them all**.

For example, **sadly, when official unemployment does start to rise again, we'll have a resurgence of blaming the unemployed for their plight**.

You know the routine: they say "these people are unemployed because they're bludgers – their own immorality has put them there" and then they'll parade some unfortunate illustrative example on tabloid TV.

The funny thing about the immorality of unemployment is that **we seem to have sudden outbreaks of mass immorality at almost exactly the same time as we have slow downs in our economy**. You can pretty much set your watch by it.

Don't get me wrong, there will **always be a few people who aren't serious about wanting a job**, no matter how good the economy is – but it's probably less than 1%. It's just **that the number of them doesn't change – changes in unemployment are a result of the economy, *not epidemics of immorality*.**

So you can see the usefulness of this punitive morality code in covering the tracks of redistribution in the guise of "what's good for the economy". Morality is used as a smokescreen to justify redistribution. **It's not about the size of the pie, it's about grabbing a bigger piece of it - even at the expense of the economy as a whole.**

Of course no-one has a monopoly on morality. At the **Brotherhood of St Laurence, we see morality in working to give everyone a chance at maximising their potential** – perhaps that's what Christ meant when he offered "life and life more abundantly". The **morality of punishment and reward seems strangely out of place to us.**

Not content with morality as a shield, let's **also look at the inadequacies of accounting and economics** to show how we can also fiddle the books to argue for redistribution rather than wealth creation.

I want to talk **about something economists rather politely call "externalities**". These are things that definitely have value, but which we either find difficult to measure or choose to leave out. Some are good, some are bad.

For example, let's **imagine a company pumps devastating pollution into a river for 50 years** - **destroying the river and its environment - without ever paying a cent in costs**.

The **company's books may say it's a profitable enterprise**, but if the lost value of the river, the agriculture on that land around it, the increased health costs to other river users and such were included, the real economics of this business <u>may be a very large loss</u>.

But by "externalising" these costs – **by keeping them off its books – this company has created what economists call "negative externalities" and managed to show a profit.**

What is the cost of a bank or post office closing in a rural town ? Is it more than the redundancy payments ? Who bears those extra costs ? This is a discussion about externalities.

Now **not all externalities are negative**. When a pre-school program delivers the sort of **benefits we saw in the Perry study before, then it's created massive positive externalities.** Huge economic benefits that it doesn't keep for itself or count in its accounts. But those benefits are no less real just because they're not counted or accounted for.

Let me also say, lest I <u>***inadvertently***</u> feed any anti-business sentiment in the room, that there are many many positive externalities that also flow from many businesses – the most obvious, but certainly not the only one, being <u>***the creation of new jobs***</u> – which has value much greater than simply what those people are paid.

There are massive positive externalities in job creation that businesses **should** get credit for **but don't**.

So what we have here is just **poor accounting** - leading to poor economics. Curiously enough, **many of the uncounted positive externalities** – like the valuable and vital role of volunteers in many of your organisations or the value of creating jobs – **are those parts that make up a fair society**.

Now **externalities are gradually being rooted out and accounted for** by economists. But the job is far from complete. That's where **new solutions like carbon credits trading come from** – attempts to capture the real costs and benefits within the one set of accounts.

But **until we are more accurate in measuring the benefits** of civil society and the problems created elsewhere in society, **we will be far from accurate in measuring and then promoting the fastest levels of economic growth** and the strongest wealth creation.

So there you have it – two clever tools to help justify redistribution in the name of "a strong economy" that actually have nothing to do with a strong economy – a punitive morality code and a dodgy accounting system**.**

We have to see through both these devices if we want clarity about what really creates a fair society and consequentially, a truly strong economy.

So if you share my concerns about how we should see our economy and what our guiding values should be, then let me **suggest some concrete things you can do to move us in another direction.**

Perhaps the **most challenging** thing for most of us is to try to find **ways to measure the impact of what we do – of what works and what doesn't**. Because despite everything I've said, all social spending is not a social investment. Some works, some doesn't.

In my ideal world, major Government bodies like the ABS will ultimately have a larger role in creating tools to help us do this systematically – while other organs of Government will have a correspondingly smaller role!

But in the mean time, **we owe it to ourselves to try to find ways of measuring what's working and what isn't**.

Keeping track of the people we work with, **seeing if their lives are better off than those we haven't helped**, measuring one approach versus another and **benchmarking with sister organisations** are all ways of **getting some way down the path of measuring both the costs and the returns of our investments** in people and our communities and working to constantly improve them.

Perhaps as important is just a way of thinking – of **always asking "is what we're doing making long-term differences in people's lives** and if so, how **could we quantify it** ***and how can we measure which parts of what we do are most effective*** ***and which are the least*** ?".

That's a big part of your role at the centre of an investing society.

There are few people left in the community sector who haven't signed on for the notion that **financial responsibility is a basic requirement to make an ongoing contribution.**

Both for your own organisation, and for the wider society, I **hope that I've added to that further today, with a view about why we should care about the economy** and it's capacity to assist us in delivering a fair society.

But for many community sector organisations, particularly in the welfare sector, there is **pressure in a different direction** – that is the increasing **tendency to become the service delivery arm of Government.**

This creates very **significant threats to your independence**. It **sets community organisations in competition with each other – often creating a margin squeezing exercise** that means that other operations or even bequests *become cross-subsidisers of Government programs*!

It gets harder to exit when the terms become unfair because of concerns about what happens to your staff.

Some **others see an opportunity to make substantial profits from their Government operations**, but often **do so by applying the Government's punitive moral agenda to the greatest extent**.

The harder you punish the unemployed, the more corners you cut in Aged Care, the more money you make. Then you can bid for more and more Government work and build your market share. It sure **builds your empire, but where does it leave your commitment to community**?

And **when you become dependent, where does that leave your independence?**

Thirdly, we **must speak up loudly about efforts to silence dissent**. For a marketplace in ideas to be effective, **there's got to be a diversity of views**.

For a civil society to operate there's **got to be <u>*a fabric of institutions that keep each other honest*</u>**.

Government, Media, Companies, Churches, Universities, Courts, Unions and Community Organisations are all vital to a functioning democracy. But **what we are currently witnessing is a systematic effort to quieten any dissent across a staggering range of organisations**.

We have threats to the ability of community organisations to voice dissent without losing their **tax-free status**, we have threats of **corporate defamation actions against environmental and consumer organisations**, we have a massive **attack on the Union movement**, we have the Board of the ABC being stacked with opinionated partisans, we have **funding for student organisations decimated** and we will shortly have even further **consolidation of corporate media ownership**.

The **first priority is for unity among the community sector** – a clear understanding that an attack on one is an attack on all – at least when it comes to the ability to speak out.

Changing our understanding of economics, questioning our moral frameworks and making practical changes to our approach to running community organisations are all part of the shift to a world where communities are in control.

I **like to imagine what our country will look like if we take these issues seriously.** If we have a vision of an investing society – or in Maslowian terms, a self-actualised nation.

One that is:

i. Fully invested in **early childhood development**
ii. Fully invested in **education and training**
iii. **Fully invested in creating and retaining vibrant, healthy communities**
iv. **Export-oriented** and globally competitive
v. Focussed first on **creating the wealth** that education and technology can bring, **rather than fighting among ourselves about distributing** the proceeds.

I think it's **possible to imagine that alternative future**.

I **can imagine a world where we understand and fully value the benefits of investing in our people**. Where we have ways of measuring what works and what doesn't, so we can **focus our social spending on the most effective investments in our people.**

Where the **local school becomes not a minimalist educational facility** offering an ever diminishing range of options to an ever-diminishing group of students, but rather where it **becomes the centre of its community.**

Where the school facilities are shared by a wide range of community organisations and where they return the favour by offering a wide range of extra-curricular activities to the kids.

Where those parents can now enjoy their kids getting a 9-5 education with the richness of experiences found in the more expensive private schools and the **community sees the school as the nerve centre of it's commitment to it's young people** and the meeting place for all.

I **can imagine a world where economic externalities – positive and negative – are fully accounted for** and valued**. A world not of triple-bottom-line, but a single bottom line** – but that single bottom line correctly attributes all social costs and social benefits.

Where **social credits can be created and distributed by an efficient market** – the logical extension of the carbon credits experiment that's now starting.

Where **corporations and community organisations can then deal directly with each other if they wish**, without the need for Government intermediation, **and can deal among themselves to ensure the most efficient distribution of social benefits** and the full accounting for social costs.

This is **not a world that opposes markets, it's one that uses them to the full**. It's not a world that's opposed to financial accountability, it's one that's committed to the full and accurate accounting for all the value that is created and destroyed.

This is **not a world that spends on fairness with no thought for tomorrow** – it's one that understands the critical role of fairness in creating a strong economy and knits the two together in a single bottom line economy.

It's a world where the best practise community organisations can prove the value of their contribution and be recognised for it. It **separates real long-term outcomes from short-term feel-goods**.

It's a world that focuses first on **maximising wealth and economic value and that distributes it fairly because the value is created by investments in the people themselves**.

It's **a world that rejects a punitive morality that is an excuse for redistribution** and replaces it with an inclusive morality that **sees human potential as the thing to maximise**. It treats the ***tiny*** number who refuse to help themself as the exception not the rule.

It’s a **world where communities are in control** – they are vibrant and connected at the local level, they are **valued and funded through an efficient market at the national level** and we set the example for the rest of the world to follow at the global level.

It’s a world where the strongest economy is driven by the fairest society.

I **hope today’s discussion has shone some light on the central role that each of you can play** in creating that world.

Thank you