

**Submission to the Productivity Commission**  
regarding  
**Productivity Review**  
in response to  
**Increasing Australia's future prosperity: Productivity Commission  
Discussion Paper**

**November 2016**

by

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## Introduction

In the course of its discussion paper, *Increasing Australia's future prosperity*, the Productivity Commission noted that under the Productivity Commission Act 1998, its overarching purpose is "... to improve the overall economic performance of the economy through higher productivity in the public and private sectors in order to achieve higher living standards for *all* members of the Australian community" (p.7).

In this context, the Commission was interested in ideas that focus on the broader community interest. In particular, it was "interested in new and novel ideas because there is already a strong awareness of many reform options that parties would like to see implemented. More of the same is not likely to be helpful" (p.7).

Earlier in the discussion paper the Commission also referred to "the capacity of people to... enjoy genuine leisure" (p.3).

This submission seeks to address these themes. It does not seek to be immediately practical, though it recognises that "to be practical is to do the intelligent thing, and to be unpractical is to keep blundering about" (Lonergan 1992 p.8). Rather than immediately practical, this submission proposes some ways forward in understanding what constitutes an economy. It is only in this context that the issues of productivity and its measurement and, future policies for reform will make sense. So, it deals with the prior issues that are largely ignored or presupposed in debates about economics, technology, productivity, a standard of living, welfare, equity etc.

It is not possible here to elaborate on the issues in any significant way, partly because they presuppose a paradigm shift among economists and policy-makers. So, the submission will seek to introduce some novel ways of thinking and refer the interested reader to further resources.

In this brief submission I will cover three areas:

- Housing and productivity
- Towards a new understanding of an economy, and
- How we bring about progress, innovation and reform

## Housing and productivity

Housing is an essential component of a standard of living, one which many households are finding increasingly expensive and unaffordable. Your discussion paper refers to housing only once in relation to "inflating housing prices to make us feel wealthier". While the discussion paper makes references to role of infrastructure in productivity growth, it does not advert to the impact that housing investment (or lack of it in particular sub-markets), housing processes (including construction and design), the form, tenure, costs (both of purchasing and renting) and location of housing in relation to industry and employment etc. (particularly in large urban areas) have on long-term productivity and economic growth.

The links between housing and productivity and the role that housing might play in productivity growth is one area that has yet to be adequately explored by the Productivity Commission.

For an exposition of the issues, I refer you to four recent papers, in particular the first by Maclennan et al., from the Australian Housing and Urban Research Institute (AHURI)

Maclennan, D., Ong, R. and Wood, G. (2015) *Making connections: housing, productivity and economic development*, AHURI Final Report 251, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/251>, accessed 26 August 2016

Gurran, N., Phibbs, P., Yates, J., Gilbert, C., Whitehead, C., Norris, M., McClure, K., Berry, M., Maginn, P. and Goodman, R. (2015) *Housing markets, economic productivity, and risk: international evidence and policy implications for Australia - Volume 1: Outcomes of an Investigative Panel*, AHURI Final Report 254, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/254>, accessed 26 August 2016

Gurran, N., Phibbs, P., Yates, J., Gilbert, C., Whitehead, C., Norris, M., McClure, K., Berry, M., Maginn, P., Goodman, R. and Rowley, S. (2015) *Housing markets, economic productivity, and risk: international evidence and policy implications for Australia - Volume 2: Supplementary papers*, AHURI Final Report 255, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/255>, accessed 9 December 2016

van den Nouwelant, R., Crommelin, L., Herath, S. and Randolph, B. (2016) *Housing affordability, central city economic productivity and the lower income labour market*, AHURI Final Report 261, Australian Housing and Urban Research Institute, Melbourne, <http://www.ahuri.edu.au/research/final-reports/261>, accessed 22 July 2016

## Towards a new understanding of an economy

The Productivity Commission's discussion paper for the Productivity Review is entitled *Increasing Australia's future prosperity*. A laudable goal but one which contemporary economics has shown itself to have little understanding.

For many economists, the current form of economic theory is inadequate to the task of understanding and guiding the economy. In the 1970s, Joan Robinson ends her review of modern economic theory by saying, "it is time to go back to the beginning and start again" (Robinson & Eatwell 1973, p.52), a refrain that has been repeated many times in many different forms since.

The starting point, and one which current economics does not seriously address is the question, 'what is an economy?'

In this regard, I would refer you to the work of Bernard Lonergan, a Canadian philosopher, theologian and economist. His work on economics is generally unknown among economists, yet it does provide a radically new approach.

Here I note a few points that the reader may be interested in following up in the primary works of Bernard Lonergan or in the secondary works by Philip McShane outlined below.

Some of the notable features of Lonergan's approach to understanding an economy are:

- A central issue in economics is not greed but stupidity. As illustrated in the recent Global Financial Crisis (one of history of such events), a culture of excess greed has its dire consequences. Thus, central command economies seek to control greed through regulation and liberal economies seek to control greed the 'natural' mechanisms of competing greed balancing things out. Lonergan, on the other hand, proposes a democratic economics and calls for enlightened self-regulation based upon a better understanding of how economies work. We will never be able to eradicate greed, but the more economic players understand

how an economy works, the more intelligently will most players regulate their economic activities according to the demands of the economy at that time.

- The interests of different economic groups are secondary to understanding what constitutes an economy, to the sets of activities required to bring about an economy. We cannot simplistically assume that businesses and other economic players as well as policy-makers know how they can achieve what they want to achieve, i.e. that there is a correspondence between their objectives and how they go about realizing these objectives; they may not understand adequately the sets of activities that bring this objective about. The role of economic theory is grasp the relationship between an objective and the sets of activities that bring this objective about. This key shift in perspective is very difficult for economists schooled in the traditional forms of economic theory.
- Economic analysis is an analysis of the processes that actually constitute an economy rather than an analysis based on an ideal with its inbuilt assumptions such as those that underlie current supply-demand analyses
- An answer to the question 'what is an economy' requires a shift from understanding all economic activity within a single framework to understanding an economy as the relationship between two modes of production: a 'basic' mode of production which produces the goods and services that enter into a community's standard of living (and accounts for that standard of living); a 'surplus' mode of production which produces the equipment used in the 'basic' mode of production. The goods/services produced through these two modes of production do not correspond with what economists refer to as consumption goods and capital goods. Rather these goods/services need to be understood functionally. For example, cars, depending upon how they are used, can emerge from the 'basic' mode of production and enter into a standard of living or, they can be used in the 'basic' or 'surplus' modes of production. The function of cars differs. (This twofold division of the economy is briefly referred to but not exploited in a systematic explanation of an economy by Michal Kalecki in an essay in which he writes of sectorizing taxation (1993 pp. 34, 35, 40).)
- These two modes of production are complemented by and distinguished from a secondary distribution function which facilitates these modes of production by providing credit or finance and which facilitates the sale of second-hand goods such as shares and real-estate (after it has already been sold once)
- By distinguishing these two modes of production, Lonergan, among other things:
  - shows the primacy of the production processes and how the flow of finance needs to adjust to these processes
  - distinguishes different meanings of 'profit' (see also McShane 2016)
  - is able to account for the natural cycles or phases of economies and, proposes ways in which we can intelligently respond, avoiding booms and busts
  - shows how changes in technology impact on the economy and how we need to intelligently adjust to these changes
  - how an economy creates wealth and a standard of living for regions, nations and the world
  - how a lack of understanding and interference in economic cycles creates inequality and the ongoing need for the welfare state (see also McShane 2014)

- Proposes the view that the purpose of an economy is leisure (not employment). Leisure is not simply entertainment but rather also includes the time and space to reflect and learn, for personal development, to participate in the arts, music and drama and to participate in social and political life of the community and the nation. It also includes the time and space for a society to research and innovate. Leisure adds to the possibilities of innovation and transformation of the economy.

Such is the shift in economic paradigm in Lonergan's writings that Shute (2010) attributes to him the discovery of the science of economics, a claim that will no doubt confound current economists with their particular understanding of what science is.

These themes, and others, are more adequately dealt with in the following primary and secondary sources.

#### **Primary source**

Lonergan, B. J. F. ([1942-1944]1998) *For a New Political Economy*, University of Toronto Press, Toronto

#### **Secondary sources**

McShane, P (1998) *Economics for Everyone: Das Jus Kapital*, Axial Press, Halifax.

McShane, P (2002) *Pastkeynes Pastmodern Economics: A Fresh Pragmatism*, Axial Press, Halifax.

McShane, P (2007) *Prehumous 1: Teaching High School Economics. A Common-Quest Manifesto* [http://www.philipmcshane.org/wp-content/themes/philip/online\\_publications/series/prehumous/prehumous-01.pdf](http://www.philipmcshane.org/wp-content/themes/philip/online_publications/series/prehumous/prehumous-01.pdf) [Accessed 9 December 2016].

McShane, P (2014) *Piketty's Plight and the Global Future: Economics for Dummies*, Axial Publishing, Vancouver – available as a Kindle book on Amazon at: [https://www.amazon.com/Pikettrys-Plight-Global-Future-Economics-ebook/dp/B01MECLTK0/ref=asap\\_bc?ie=UTF8](https://www.amazon.com/Pikettrys-Plight-Global-Future-Economics-ebook/dp/B01MECLTK0/ref=asap_bc?ie=UTF8)

McShane, P (2016) *Profit: The Stupid View of President Donald Trump*, Axial Publishing, Vancouver - available as Kindle book on Amazon at: [https://www.amazon.com/Profit-Stupid-President-Donald-Trump-ebook/dp/B01N8QKVXR/ref=asap\\_bc?ie=UTF8](https://www.amazon.com/Profit-Stupid-President-Donald-Trump-ebook/dp/B01N8QKVXR/ref=asap_bc?ie=UTF8)

Shute, M (2010) *Lonergan's Discovery of the Science of Economics*, University of Toronto Press, Toronto

Shute, M (2010) 'Two Fundamental Notions of Economic Science', *The Lonergan Review*, vol. 2, no. 1

## **How do we bring about progress, innovation and reform?**

The Commission's discussion paper is particularly interested in policy reforms that can be implemented. Further, it noted that "history is littered with the bodies of intrinsically worthy, but badly implemented policies" (p.20). It is also littered with policies that aggrandise certain interest groups at the expense of the Australian community as whole, indeed, humanity.

One of the most notable achievements of Bernard Lonergan is his discovery of the key to how we bring about progress, innovation and reform. If we consider the process of moving from our current situation through to implementing something new, we can discover eight stages in that process, each of which is characterised by particular type of question. Descriptively (rather than

explanatorily) these are: an empirical question, a definitional or theoretical question, an historical question, an evaluative/critical question, a transformative/visionary question, a policy question, a strategic question and a practical question. The first four stages regard the past; the second four stages look forward to the future.

If we are to make progress, innovate and reform, then we need to find new answers to each of these questions. The questions with their respective answers are inter-related, ongoing and cumulative. An answer to one question contributes to the next.

Answering each question requires a method, a way of answering the question. Lonergan, thus, went on to propose that, instead of a division of labour with specialties based on data or subjects or disciplines (as we have now), we develop a division of labour based on these different methods and thus on how we make progress. In this way, we are continually oriented towards the implementation of progress. Thus, we develop functional specialties based upon these methods: Research, Interpretation, History, Dialectics, Foundations, Policies, Systematics and Communications. These methods can then deal with the complexities of issues at different stages of the process of moving from where we are now to implementing something new, such that what we implement will be practical.

Functional Collaboration, as this division of labour is known, is a new understanding and doing of science based upon the questions we ask and the methods we use to answer those questions. Lonergan made his discovery in the context of theology. However, other people have explored Functional Collaboration in other contexts, as outlined in the references below.

Lonergan B J F ([1972]1990) *Method in theology*, University of Toronto Press, Toronto.

McNelis S (2014) *Making Progress in Housing: A Framework for Collaborative Research*, Routledge, Abingdon

McShane P (2005) *The Origins and Goals of Functional Specialization*,  
[http://www.philipmcshane.org/wp-content/themes/philip/online\\_publications/series/quodlibets/quod-17.pdf](http://www.philipmcshane.org/wp-content/themes/philip/online_publications/series/quodlibets/quod-17.pdf)

McShane P (2007) Lonergan's Standard Model of Effective Global Enquiry  
<http://www.philipmcshane.org/lonergans-standard-model-of-effective-global-enquiry/>

McShane P (2013) *Futurology Express* Axial Publishing, Vancouver

Quinn T J (2012) Invitation to Functional Collaboration: Dynamics of Progress in the Sciences, Technologies, and Arts. *Journal of Macrodynamical Analysis*, Volume 7, pp. 94-122,  
<http://journals.library.mun.ca/ojs/index.php/jmda/article/download/362/234>

Shute M (2013) 'Functional Collaboration as the Implementation of 'Lonergan's Method': Part 1: For What Problem is Functional Collaboration the Solution?', *Divyadaan: Journal of Philosophy & Education*, vol. 24, no. 1: 1-34. (also available at:  
<http://journals.library.mun.ca/ojs/index.php/jmda/article/download/1639/1244>)

Shute M (2013) 'Functional Collaboration as the Implementation of Lonergan's Method: Part 2: How Might We Implement Functional Collaboration?', *Divyadaan: Journal of Philosophy & Education*, vol. 24, no. 2: 159-190 (also available at:  
<http://journals.library.mun.ca/ojs/index.php/jmda/article/download/1625/1247>)

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- Lonergan, B J F ([1957]1992) *Insight: a study of human understanding*, University of Toronto Press, Toronto
- McShane, P (2014) *Piketty's Plight and the Global Future: Economics for Dummies*, Axial Publishing, Vancouver – available as a Kindle book on Amazon at: [https://www.amazon.com/Pikettrys-Plight-Global-Future-Economics-ebook/dp/B01MECLTK0/ref=asap\\_bc?ie=UTF8](https://www.amazon.com/Pikettrys-Plight-Global-Future-Economics-ebook/dp/B01MECLTK0/ref=asap_bc?ie=UTF8)
- McShane, P (2016) *Profit: The Stupid View of President Donald Trump*, Axial Publishing, Vancouver - available as Kindle book on Amazon at: [https://www.amazon.com/Profit-Stupid-President-Donald-Trump-ebook/dp/B01N8QKVXR/ref=asap\\_bc?ie=UTF8](https://www.amazon.com/Profit-Stupid-President-Donald-Trump-ebook/dp/B01N8QKVXR/ref=asap_bc?ie=UTF8)
- Robinson J and Eatwell J (1973) *An Introduction to Modern Economics*, London, McGraw Hill
- Shute, M (2010) *Lonergan's Discovery of the Science of Economics*, University of Toronto Press, Toronto