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## The economics of Ross Gittins

Alex Robson & Sinclair Davidson

The popular press often has a difficult relationship with the economics profession. The sober and respected economist Paul Krugman has a regular column in the *New York Times* which is so error-ridden that one commentator has branded him 'America's Looniest Liberal Pundit'.

Similarly, much 'economic analysis' in the Australian press has little relationship to economic thought. This is not to argue that the Australian media is bereft of good writing in the field, but it is peppered with arguments which do little for the profession or public debate in this country. This article looks at one particular writer, Ross Gittins, as typical of this phenomenon.

Ross Gittins is the economics editor for the *Sydney Morning Herald*, and a columnist for *The Age*. On Saturdays, he often writes a calm exposé of an eco-

nomic issue. On Wednesdays, he is angry, pugnacious, dismissive and opinionated. There is, of course, nothing wrong with being opinionated—we all are. But the guise of opinion cannot excuse flawed analyses and erroneous conclusions.

### Anti-Economist and Anti-Consumer?

Gittins' pet hate is anyone who is a mainstream economist. According to him, 'economic rationalists' have taken 'economic theory and raised it to the status of a faith-based religion'.

Those economists who argue for greater economic freedom, less regulation, and lower taxes often bear the brunt of his sarcasm and innuendo. Recently, Gittins said of the entire profession:

Economists' susceptibility to calls for lower taxes arises not from strong empirical evidence, but from the individualist bias of neo-classical economics and the fact that leading business, bureaucratic and media economists are themselves highly paid.

Putting his conspiracy theory aside, there is one aspect of free markets that

Gittins finds particularly infuriating:

Though some choice is obviously better than none, I think choice isn't all it's cracked up to be. In fact, I'm starting to think choice is one of the great cons of consumer capitalism... For a start, consumers often find the choices they're presented with quite confusing. You're being asked to compare an apple with an orange.

One immediately conjures up images of consumers at their local Coles or Woolworths (if they manage to successfully traverse this choice...), completely inert in the fruit & vegetable section, unsuccessfully trying to cope with the infinitely painful trauma of choosing between an apple and an orange.

The contention that individuals cannot act purposefully because there are 'too many' choices is far from being a minor point. Once we abandon the view that individuals are rational and know what is in their own best interests, and believe instead that they cannot choose between something as straightforward as apples and oranges, consumer sovereignty would seem to have little or no place. For some—in

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cluding Gittins—state paternalism and bureaucratic interference become more legitimate. In Gittins' world, it is unclear who should be making choices for consumers if consumers can't do so themselves—presumably these are things best left to government?

For Gittins, any amount of policy mischief is permissible. Looking at income taxation and the work/leisure trade-off in an April 2005 article, he concludes (after reading about a study of the banana consumption habits of vervet monkeys) that envious, status-seeking Australians work too hard and earn too much for their own good, and that higher taxes should be used to force them to work less.

And what are the ultimate consequences of too much choice? For Gittins, the answer is obvious: 'I have a theory that so much choice is making us greedy.'

The reader is left wondering about the evidence supporting this 'theory'. As Gittins himself admits in an earlier article in which he opposed extended trading hours:

I know of no evidence that consumer spending has been growing faster than the economy generally since the advent of weekend trading a decade or more ago.

Although he dislikes mainstream economists, Gittins prides himself as an economics educator. He grew up in a family of teachers, and his forthcoming book 'provides bite-sized, easy-to-follow explanations of the key issues in economics and macroeconomics that shape our world'.

A cursory inspection of Gittins' articles reveals numerous contradictions. Last year he argued that higher income taxes were good because they would force people to work less and so avoid the problem of 'workaholism'. One month later he said the exact opposite and said that lower taxes would induce people to work fewer hours.

Mesmerised by a combination of the prevailing anti-government political ideology and their wal-

lets, economists have forgotten the elementary truth that while the substitution effect from a tax cut encourages increased income-earning, the income effect discourages it.

It's thus a completely empirical question as to which effect outweighs the other.... I bet many economists have forgotten—and don't want to be reminded—that **there's no convincing empirical evidence of the substitution effect dominating the income effect in the case of primary earners.** (emphasis added)

But just over six months later, he again reverses his position to tell us that taxes should rise:

You'd think that as our time has become more valuable over the years—as hourly wage rates have risen so much in real terms—we'd be using the extra money to allow us to work fewer hours. But it hasn't worked out that way. **Indeed, for many of us the number of hours we work has increased even as hourly wage rates have risen.** (emphasis added)

A least one of his arguments must be wrong—higher income taxes either make people work more or they make people work less—it can't be both.

Gittins is in difficulty when using demand-and-supply analysis to assess the effects of policy. His examination of the NSW vendor tax begins with the standard taunting:

Never assume that because someone can run a business successfully they must know a lot about how the economy works. The safest assumption is that any high-sounding economic argument mounted by a businessperson or lobby group is just something they've latched onto because it suits their pocketbook. Whether the supposedly economic argument makes sense they just as likely don't know—and they certainly don't care.

Several paragraphs of Gittins lecturing

about demand-and-supply diagrams follow. But he gets it wrong. Taxing a good drives a wedge between the prices that buyers pay (the tax-inclusive price) and the prices that sellers receive (the net-of-tax price). Consumers pay more, producers get less and fewer transactions occur. Removing a tax leads to consumers paying less, and producers getting more.

But Gittins tells us that removing a vendor tax will result in a fall in prices received by sellers. This, he says, justifies his prior claims that businessmen and real estate professionals are economically illiterate and—you guessed it—'irrational'.

### Conclusion

Journalists such as Ross Gittins are largely to blame for the public perception that economics is not objective and is ultimately merely a matter of one's ideology, politics or class. This perception is wrong. There are objective laws in economics. One cannot interpret the world very well without a knowledge of such basic principles, and one should not write an opinion article concerning tax policy while suffering from such ignorance. We leave the reader with the following warning, paraphrasing something we recently read in a Sydney newspaper:

Never assume that because someone is an economics editor for a major newspaper they must know a lot about how the economy works. The safest assumption is that any high-sounding economic argument mounted by a journalist is just something they've latched onto because it suits their pocketbook. Whether the supposedly economic argument makes sense they just as likely don't know—and they certainly don't care.

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