

On national ordinal goals

*This short paper discusses the use of national goals such as being among the top five economies and whether they are consistent with the orthodox economic view of an open economy. Goals of this type have been included in the National Digital Economy Strategy. It is not a fully referenced document and is intended to inform policy discussions.*¹

Context

The National Digital Economy Strategy (tagged #au20) released by Senator Conroy on 31 May 2011 adopted the structure of a “plan” by incorporating eight specific goals. The first two of these were specified as having Australia rank among the “first five OECD countries” in proportion of households that connect to broadband at home and the proportion of businesses using “online opportunities”.

It is not unusual for Government targets to be specified in this way. In this paper the overarching idea of being the best or one of the best global economies will be discussed and related to standard orthodox theory. This will be followed by a brief discussion on whether sub-goals at excelling within a facet of the overall economic goal and how they relate to economic theory.

National Economy Ordinal Goals

We are all used to the pursuit of ordinal goals. We see it especially in sports where individual competitors or teams strive to be first or the best. We even see cases where competitors are clear that they have more modest goals, to “medal”, to make the finals, or to make the second week of a major tennis tournament or the weekend of a golf tournament.

These aren’t the only goals competitors will state. Sometimes it will be a cardinal goal, be that a World Record a personal best or a specific time/height/weight/distance etc. target.

An example of the use of ordinal goals was advanced by the Business Council of Australia in a pre-budget submission in 2007. They wrote;

*Occupying a top five position among the world’s major economies is a highly achievable objective and one we need to strive for if we are to preserve prosperity into the long term and make sure this period of growth is not a one-off.*²

This kind of goal is usually accompanied by language that exhorts Australia to pursue certain economic activities – skills development, infrastructure, micro-economic reform – because of their contribution when we “compete with countries” either globally or in our region.

This discussion creates an interesting concept, that other nations and their economies are our competitors. That means we are each somehow trying to extract, grow or make the same things to sell into different markets.

This model is completely at odds with the theory of global trade. In that theory we are exposed to the concepts of “comparative advantage” and that each economy should focus on what it is most capable of doing and trade its surplus, which is a win-win for both economies.

Of course, it is not as simple as the theory states. Once the transaction costs of trade (including transport) are included it can make sense to locally produce things that others can domestically produce more cheaply.

The value of the trade structure is that each country is better off than it was before. Their relative well-being ultimately depends on their “endowments” to begin with.

The choice of ordinal goals not only works against theory, but also against what are probably more wide ranging goals.

Is preference to grow the GDP per citizen in Australia over a goal of growing the GDP per citizen of the population of Africa? Stated like that few people would say yes, but yet that is the way these ordinal goals are constructed.

Ordinal sub-goals

Ordinal sub-goals might be argued to be something different. In the trade context they might be better understood as “creating comparative advantage” for the nation.

Certainly goals on broadband use look to be of this nature. However, they are still open to the equity consideration – why should giving another Australian broadband, who mightn’t have expressed a wish for it, constitute a more worthy goal than providing clean water to an African village?

They are also open to charges of ineffectiveness – after all, standard theory would have us believe in a theory of diminishing marginal returns. The country with the most broadband use may well be the one that has pushed well past the point at which the marginal benefit justifies the marginal cost.

The theory of comparative advantage also suggests that different economies should have different ordinal sub-goals. The best strategy may be to make your existing strength even stronger rather than to develop a new capability.

Conclusion

Ordinal goals and sub-goals in public policy appeal to the national ambition and draw on analogies from sporting and other contests.

They are not consistent with the economic theory of open trading economies, nor with any standards of equity.

They should be avoided and replaced by quantified cardinal goals that are related back to the overall structure of the local, regional and global economies.

¹ Paper prepared by David Havyatt. This is the first version of the paper and was published on 6 June 2011.

² Business Council of Australia Media Release “BCA Budget Submission Outlines ‘Top Five’ Economy Target for Australia by 2012” 6 February 2007 Available at <http://www.bca.com.au/Content/100939.aspx>

About DigEcon Research

Purpose

DigEcon Research is a stand alone research body. Ultimately, its pursuit is policy research, the focus of which is the meaning and significance of the Digital Economy. This policy research encompasses both economic and social research.

Researching the significance of the Digital Economy

The concept generally referred to as the Digital Economy is frequently discussed but there is little shared meaning in the term. A key definitional issue is whether the Digital Economy is something yet to happen or in which we are now embedded.

DigEcon Research focuses on the analysis of social and economic change rather than an analysis of a notionally static "Digital Economy". Analysis of the change as it occurs should highlight those areas where there is genuine policy choice rather than merely a need to adapt policy to changes that have already occurred.

Before Thomas Kuhn popularised the idea of "paradigms" J.K.Galbraith railed against the "conventional wisdom". There is no denying that what Kuhn called "normal science" or the repeated application of existing theory to new problems results in most practical developments. It is equally true that the application of existing theory to problems they were not designed for results in, at best, vacuous solutions and, at worst, wildly dangerous outcomes.

The Digital Economy challenges the fundamental concepts of neo-classical economics. It also challenges most of the precepts of how societies are organised. In this context policy research needs to focus on what is different, not on what is the same. The Digital Economy is not just a matter of means of production but about the fundamental structures of social organisation.

Work program

This research is designed both to inform policy makers and to assist those who would seek to influence policy makers or to make business decisions. DigEcon Research however does not provide strategy recommendations nor undertake policy advocacy on behalf of any party.

A key element of the research will relate to the direct regulation of the converging industries of telecommunications, media, consumer electronics and information technology. However, the agenda encompasses the wider economic and social policy issues.

The scope of the research agenda will ultimately depend upon the researchers who wish to participate in what is more an idea than an entity.

In the crowded Australian research field there are a number of "bodies" that share some of the objectives of DigEcon Research. DigEcon Research aspires to contribute to the work of these and any other researchers in the field.