

Stiglitz : For better or worse, economic-policy debates in the United States are often echoed elsewhere, regardless of whether they are relevant. Australian Prime Minister Tony Abbott's recently elected government provides a case in point.

As in many other countries, conservative governments are arguing for cutbacks in government spending, on the grounds that fiscal deficits imperil their future. In the case of Australia, however, such assertions ring particularly hollow – though that has not stopped Abbott's government from trafficking in them.

Even if one accepts the claim of the Harvard economists Carmen Reinhart and Kenneth Rogoff that very high public debt levels mean lower growth – a view that they never really established and that has subsequently been discredited – Australia is nowhere near that threshold. Its debt/GDP ratio is only a fraction of that of the US, and one of the lowest among the OECD countries.

What matters more for long-term growth are investments in the future – including crucial public investments in education, technology, and infrastructure. Such investments ensure that *all* citizens, no matter how poor their parents, can live up to their potential.

There is something deeply ironic about Abbott's reverence for the American model in defending many of his government's proposed "reforms." After all,

America's economic model has not been working for most Americans. Median income in the US is lower today than it was a quarter-century ago – not because productivity has been stagnating, but because wages have.

The Australian model has performed far better. Indeed, Australia is one of the few commodity-based economies that has not suffered from the natural-resource curse. Prosperity has been relatively widely shared. Median household income has grown at an average annual rate above 3% in the last decades – almost twice the OECD average.

To be sure, given its abundance of natural resources, Australia should have far greater equality than it does. After all, a country's natural resources should belong to all of its people, and the "rents" that they generate provide a source of revenue that could be used to reduce inequality. And taxing natural-resource rents at high rates does not cause the adverse consequences that follow from taxing savings or work (reserves of iron ore and natural gas cannot move to another country to avoid taxation). But Australia's Gini coefficient, a standard measure of inequality, is one-third higher than that of Norway, a resource-rich country that has done a particularly good job of managing its wealth for the benefit of *all* citizens.

One wonders whether Abbott and his government really understand what has happened in the US? Does he realize that since the era of deregulation and liberalization began in the late 1970s, GDP growth has slowed markedly, and that what growth has occurred has primarily benefited those at the top? Does he know that prior to these “reforms,” the US had not had a financial crisis – now a regular occurrence around the world – for a half-century, and that deregulation led to a bloated financial sector that attracted many talented young people who otherwise might have devoted their careers to more productive activities? Their financial innovations made them extremely rich but brought America and the global economy to the brink of ruin.

Australia’s public services are the envy of the world. Its health-care system delivers better outcomes than the US, at a fraction of the cost. It has an income-contingent education-loan program that permits borrowers to spread their repayments over more years if necessary, and in which, if their income turns out to be particularly low (perhaps because they chose important but low-paying jobs, say, in education or religion), the government forgives some of the debt.

The contrast with the US is striking. In the US, student debt, now in excess of \$1.2 trillion (more than all credit-card debt), is becoming a burden for graduates and the economy. America’s failed financial model for higher

education is one of the reasons that, among the advanced countries, America now has the least equality of opportunity, with the life prospects of a young American more dependent on his or her parents' income and education than in other advanced countries.

Abbott's notions about higher education also suggest that he clearly does not understand why America's best universities succeed. It is not price competition or the drive for profit that has made Harvard, Yale, or Stanford great. None of America's great universities are for-profit-institutions. They are all not-for-profit institutions, either public or supported by large endowments, contributed largely by alumni and foundations.

There is competition, but of a different sort. They strive for inclusiveness and diversity. They compete for government research grants. America's under-regulated for-profit universities excel in two dimensions: the ability to exploit young people from poor backgrounds, charging them high fees without delivering anything of value, and the ability to lobby for government money *without regulation* and to continue their exploitative practices.

Australia should be proud of its successes, from which the rest of the world can learn a great deal. It would be a shame if a misunderstanding of what has happened in

the US, combined with a strong dose of ideology,  
caused its leaders to fix what is not broken.