

Urban myths versus the right information

IBISWorld Newsletter

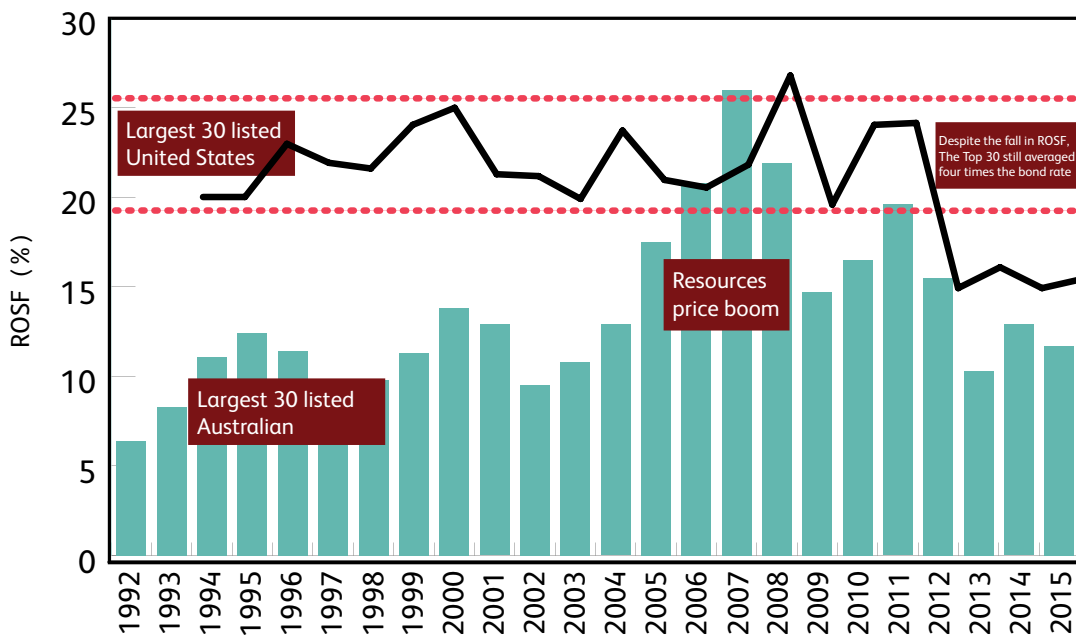
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Phil Ruthven AM, Founder IBISWorld

American corporates on the NYSE have been the world's most profitable, on a weighted-average basis, in the post-Industrial Age over the past half century. The average American company's profitability has been four times the long-term bond rate, which continued through the global financial crisis and beyond. In contrast, Australian companies' average profitability on the ASX has only been twice the 10-year bond rate, apart from during the recent short-lived mining boom.

Australia's Corporate Profitability to 2015

Return on shareholders funds (after tax)



SOURCE: IBISWorld 2016

One of the reasons for this discrepancy, perhaps the most important, has been that American corporates spend more on information than any other nation; indeed, twice the GDP share of the world's most developed nations. Evidence-based decisions beat guesswork and gut-feel.

Facts usually ruin good stories, as we know, at work and in our social life. But rumours, scuttlebutt, scandals and old wives' tales can be very believable, and we tend to believe a lot of them until they are debunked. After all, they are interesting, entertaining and often comforting.

But when leading a business or governing a nation, it is safer to make evidence-based decisions, which leads to a number of myths that should be given overdue rebuttal. So what are some of these surviving or new myths, beginning with several that are social urban myths rather than business-related fallacies?

Marriages don't last as long as they used to

Not true, the average length of a marriage has stayed around 20 years for three centuries. The fact that there are more divorces and separations these days is that we live over twice as long as people did in the early 1800s (when the average lifespan was 38 years), and have time for a trade-in, if you have a mind to. In the olden days, you got married at 18, lived another 20 years together and then went to God before you were 40, on average. There just wasn't enough time for a divorce.

Crime is on the rise, especially murders

No it isn't. Not only is the murder rate in Australia one of the world's lowest, at under two per 100,000 each year, but it has fallen to record lows over the past five years.

Speeding is the number one cause of road-based deaths

No, things like distractions, falling asleep and intoxication are. Speed is usually somewhere around the 2nd to 4th most common cause.

We need a big population to compete in a globalising world

No, we don't. Some 18 of the world's 20 highest standard of living countries have a population lower than Australia's 24 million, and most are less than a third of our population. Only the US and Germany are more populous countries in the top 20.

Australia's population is getting to the limit of our carrying capacity

That's good for a laugh right around the world, especially in high-density Asia. Our population is so thin we could only just touch hand-to-hand around the coastline. Indonesia's population, on a fraction of our land, could do so 11 deep, and China with only a slightly bigger land mass than us could be 52 deep. On our present growth rate, we will have a population of over 40 million in 2050, and over 75 million by 2100, and still have one of the world's lowest population densities.

Immigrants take our jobs

No they don't. They more often take jobs we don't like. And if a migrant family arrives, they create demand for more jobs than they can fill for at least five years, in terms of the necessary infrastructure and annual consumption expenditure.

Australia will run out of workers due to ageing

No we won't. Being too young a population, as we were in the 19th century, was a worse problem; and to get enough workers to support the population, we needed children to start work at under 15 years of age, often as young as 11 to 13. As this century unfolds, working beyond 65 and up to 75 or more – often in a part-time or casual basis – is realistic for a workforce that emphasises brains, not brawn. And the only way to wear the brain out is to stop using it.

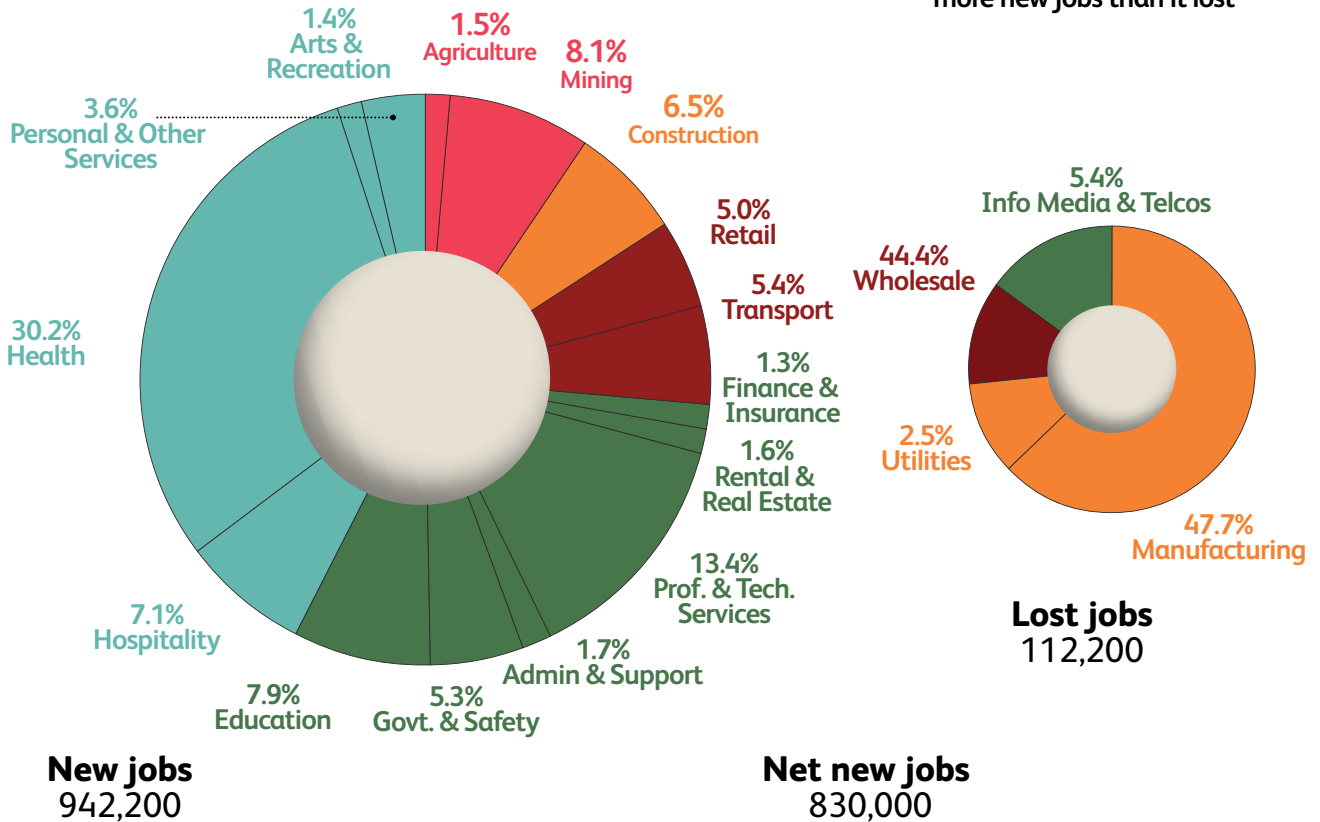
There won't be enough jobs due to technology, robots and artificial intelligence

Yes, there will be. We are good at creating jobs. Over the past five years we have created eight times more jobs than we have lost. Yes, eight times! There are millions of jobs in the making to replace those lost through new technologies and digital disruption, to be added to our current 12 million jobs.

Australia's New & Lost Jobs

By industry, five years to June 2016, share of total basis

The nation created 8 times more new jobs than it lost

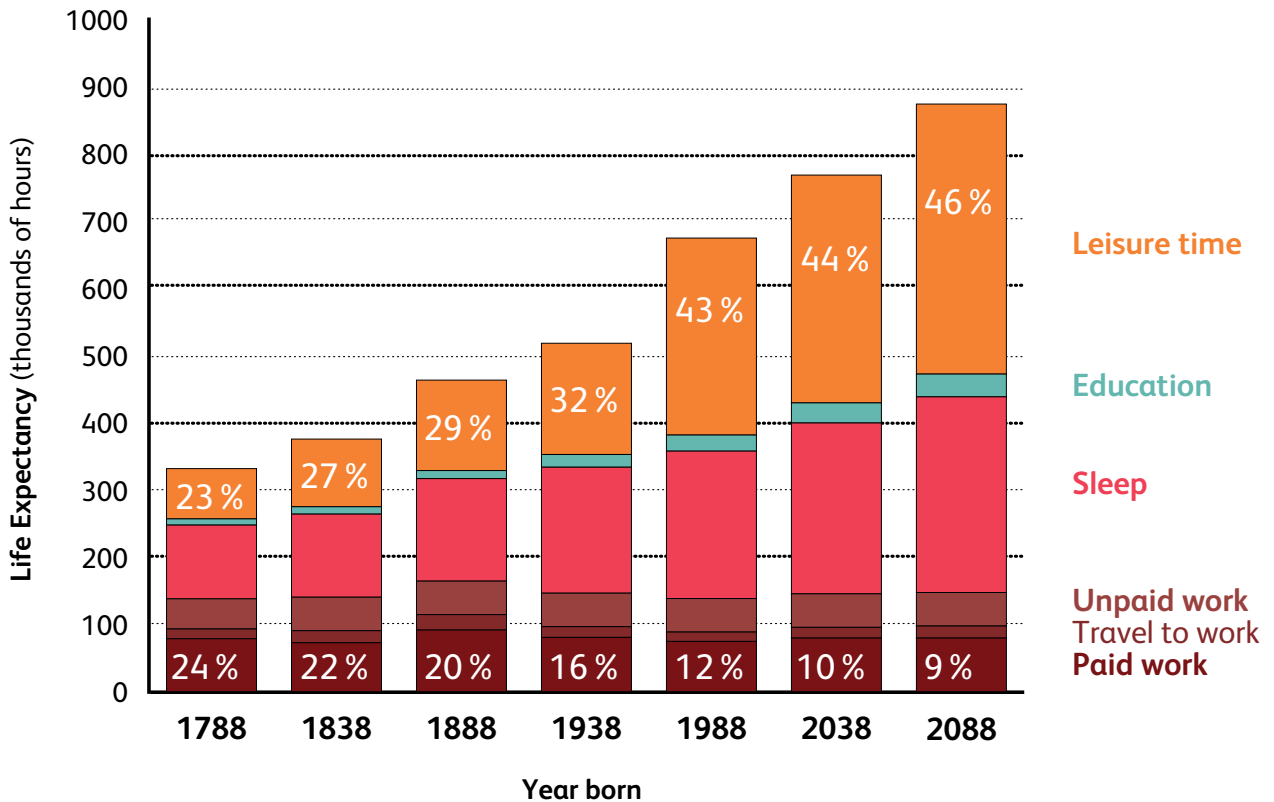


SOURCE: ABS, IBISWorld 2016

We are now working harder and with not enough time to scratch ourselves

Not true. For males in the year 1800, it used to be a 65-hour week for 25 years, starting at 13 years of age to complete 80,000 hours of paid work, only to die at an average age of 38. Now it is still 80,000 work hours in a lifetime, but at a pace of less than half those hours per week and for longer (more than 50 years); remembering we now have two months off a year through vacations, public holidays and sick leave. We have more discretionary and leisure time than at any time in history.

Work and Leisure Over Time



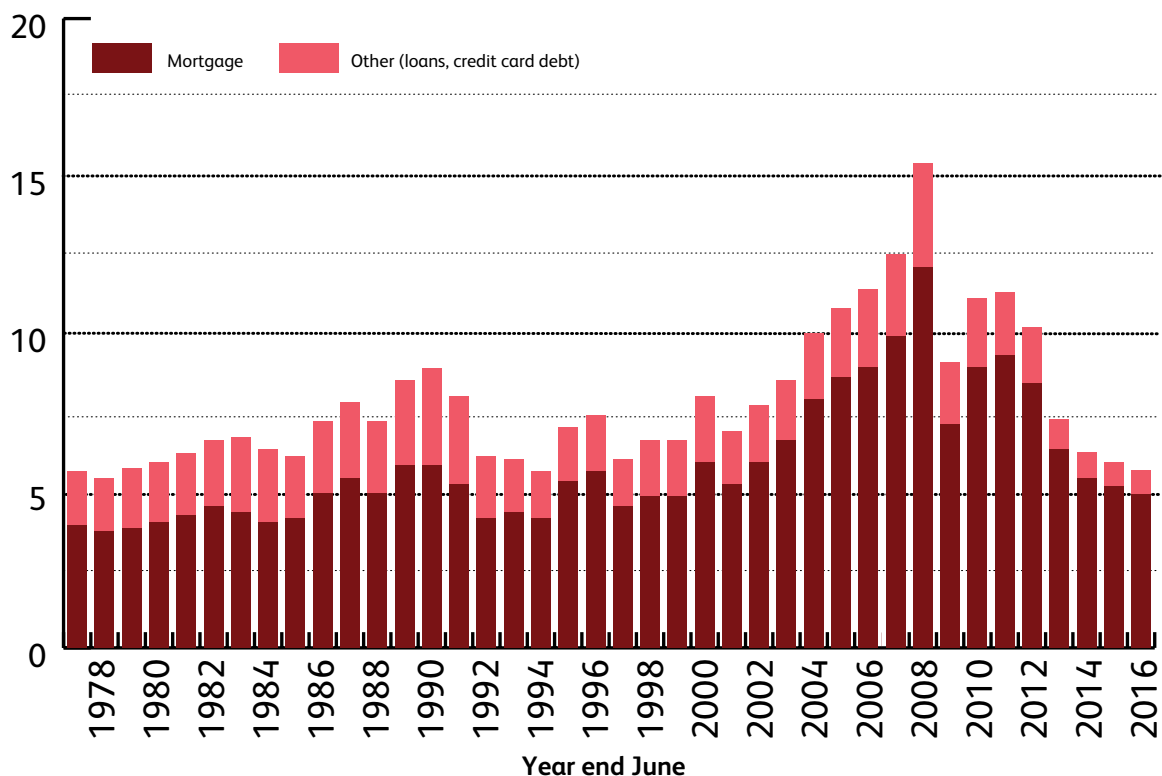
SOURCE: IBISWORLD 2016

Housing is now dangerously unaffordable.

It always was unaffordable for the newlyweds and the poor, so what's new? Interestingly, the debt servicing ratio (interest payments as a share of disposable income) for mortgage and other debt is currently at the lowest rate in four decades.

Household Debt Servicing Ratio

Percent of household disposable income, to F2016



SOURCE: ABS, IBISWorld 2016

The rich are getting richer and the poor getting poorer

No they aren't; there has been hardly any change since the beginning of our new century here in Australia.

We are too-highly taxed

No we aren't. This is one of the most pernicious lies being trundled out by both sides of politics in Australia: blatant scare-mongering and politicking. We are actually one of the lowest taxed developed nations at 28% of GDP. The average among develop countries is around 37% and many nations are nudging 50% of GDP.

We need to cut costs to balance the budget

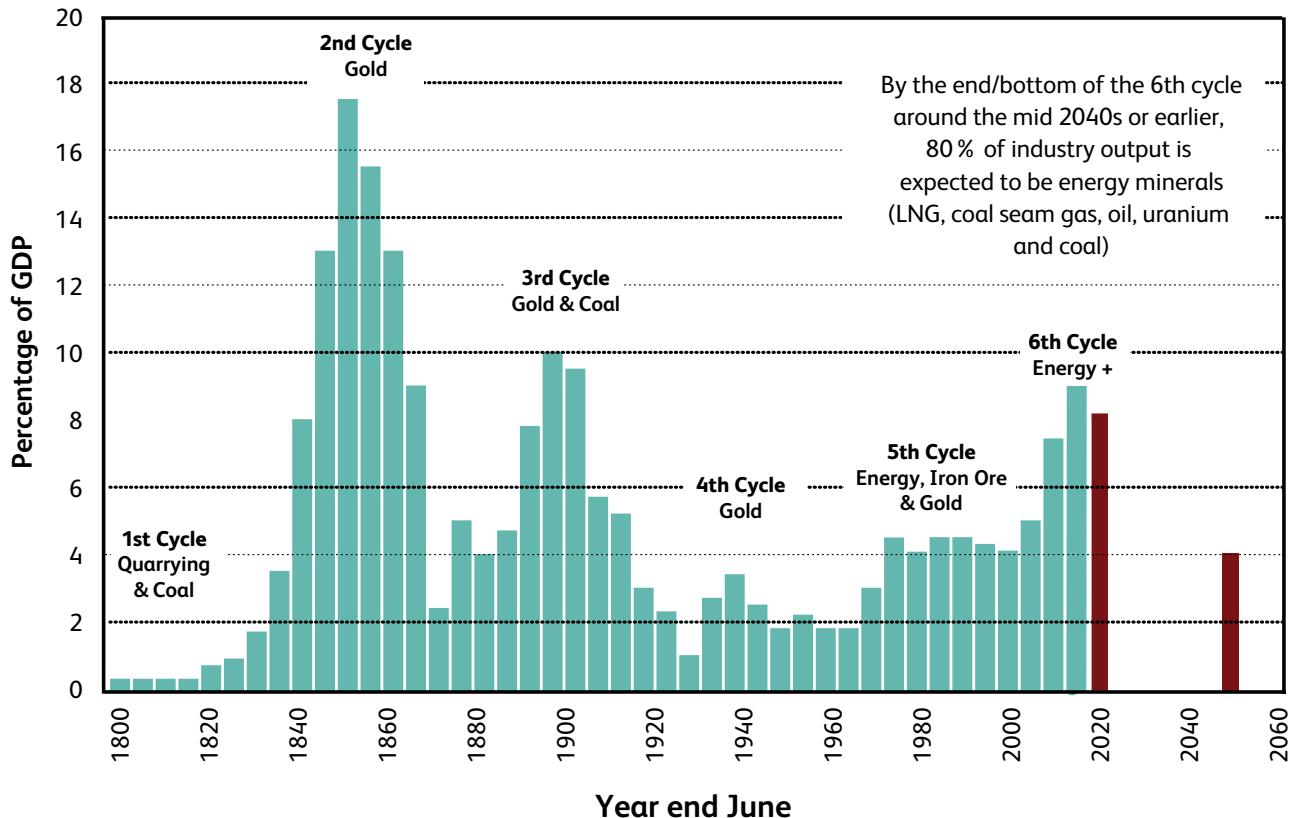
Yes, let's regress back to the days when there was no or inadequate support for single mums, the unemployed, the elderly, the disabled or other disadvantaged citizens. Let's not stop till we get back to the 'good old days' when taxes were much lower and may the devil take the hindmost in terms of the people left behind. I don't think so. But, yes, we should get better value for our taxes than we do. One-fifth of our GDP is produced by governments, and that sector's productivity has been negative for decades.

The greatest mining boom in our history is now over

First, it isn't our greatest boom: that was in the 1850s, when the industry reached almost 18% of our GDP – led by gold – versus the current one at just over half that share. And the boom isn't over; production volumes are still growing and may do so well into the 2020s, but boom prices are over.

Mining Industry Life Cycle

Value added share of GDP (current price basis)



SOURCE: ABS, IBISWorld 2016

We need to make material things to create basic wealth

No we don't. A wealth creating industry is one that produces products that customers and the market want and are prepared to pay for, regardless of if these products are goods or services. Agriculture, mining, manufacturing and construction are all service industries anyway. Humans didn't create the raw materials on which they are based; God did and they are free. No one has ever been game to take credit for creating our natural resources, least of all economists and our Bureau of Statistics. The term 'goods industry' is a historical construct used to separate tangible from intangible products.

The economy and its wealth is built on value-adding, so wealth creation has only ever been the result of labour, depreciation of capital, indirect taxes and profit going into a product, not God-given free raw materials.

Agriculture these days creates just 2% of our GDP, and manufacturing less than 6%. In 1960, these two industries accounted for 38%, not 8%! Yet we have a standard of living nearly three times higher than at the end of the Industrial Age in the mid-1960s. If anything, it is our 'service' industries propping up some of the 'goods' industries in this new century.

Nuclear is the world's most dangerous energy ever used

Wood probably kills more people per kW of energy produced (logging, chopping, asphyxiation, fire). Nuclear energy almost certainly has been the safest energy source on the basis of deaths per kW of energy.

Australia could become the food bowl of Asia

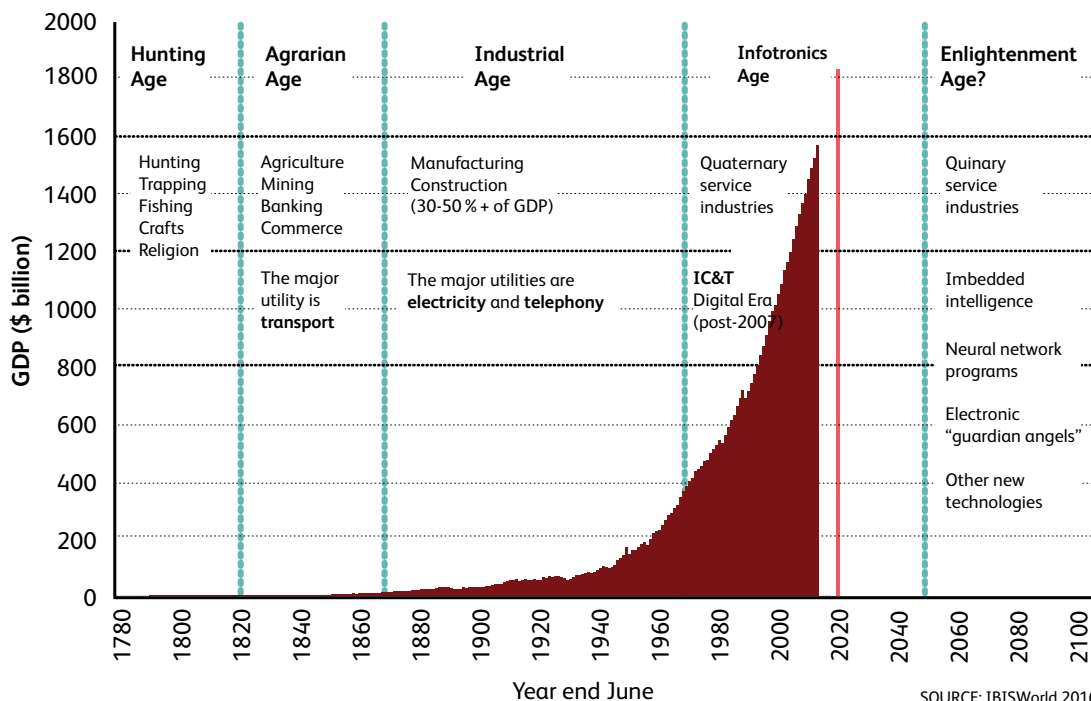
If only, but we don't have enough water. That said, we will probably increase our output fivefold this century as we did in the 20th century, but that will only be enough to feed 5% of Asia's population at the end of the 21st century.

But despite these myths, are things really getting better?

You bet. Just look at our progress in the chart.

Australia's Ages of Economic Progress

GDP at F2016 constant prices, 1788-2016 onwards



And the best is yet to come.



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