
REVIEWS

Bridging the Disconnect in Australian Politics

*Peter Dawkins and Paul Kelly (eds), **Hard Heads and Soft Hearts: A New Reform Agenda for Australia**, Allen & Unwin, Crows Nest, 2003.*

*Reviewed by **Ron Duncan***

Hard Heads and Soft Hearts is a compilation of opinions from some of the 80 papers presented to the *Towards Opportunity and Prosperity* Conference held in Melbourne in April 2002 and in articles written for *The Australian* newspaper in a lead up to the Conference. The Conference was organised by the Melbourne Institute of Applied Economic and Social Research of the University of Melbourne and *The Australian*. The publication was edited by Peter Dawkins, Director of the Melbourne Institute of Applied Economic and Social Research and Paul Kelly, Editor-at-Large, *The Australian*.

According to its editors, the aim of the conference discussion and the lead-up articles was ‘... to end the disconnect in Australian politics ... between our political dialogue and our real needs ... and to identify broadly agreed principles for a new and different reform agenda.’ (p. 3) One might ask whether the Conference did end the disconnect; whether a broadly agreed set of principles resulted; and what are they? Moreover, what are the major areas of disagreement remaining?

It cannot be seen from the book whether there was any meeting of minds of those attending the Conference. The book only presents the views expressed in the papers. There is no reporting of any discussion and its outcome. Nor was there a broadly agreed set of principles for future reform. The editors present their views of what these principles should be. These follow what is described as the ‘hard heads, soft hearts’ approach, which is essentially the continuation of reforms to improve resource allocation, productivity, and economic growth, while providing the opportunities for all in society to share in economic growth. While this may be a new concept in discussion of economic policy in Australia, these ideas have been at the forefront of thinking about how to approach development in poor countries for the past several years. Strategies for overcoming poverty in developing countries are now largely concerned with identifying and overcoming the obstacles to poor people participating in economic growth; which essentially means removing the obstacles to them gaining employment and control over income-earning assets. These constraints usually take the form of poor access to education, health, and markets, and insecure title to land. Dawkins and Kelly’s conclusions are basically the same: continue with economic reform while

improving policies in education, health, work and family, and ageing and retirement, to promote employment, especially for jobless households.

The book is divided into two main parts: the first presents views on the performance of the Australian economy in recent decades, largely involving discussion of past economic reforms and their impact on income distribution. The second part presents discussion of various important policy issues such as unemployment, education, health, population, work and family, and the environment.

In the first part there is general agreement among the discussants that productivity has increased since 1990 and that this increase has been largely due to the economic reforms of the 1980s. There is some concern that income inequality has increased, although this finding is disputed and there is no discussion of whether any increase in inequality may be due to faster increase in incomes at the top end, rather than no increase or a decline in incomes toward the bottom. There is widely agreed and valid concern about joblessness within low-income households, especially households with children. Ross Garnaut of The Australian National University makes the point that Australian society will not accept growth without equity and says that the emphasis must be on employment expansion. He and others push the case for tax credits and restraint of minimum wages as a means of overcoming the effective marginal tax rate 'trap' that has bedevilled welfare policy in Australia for three decades or so. I do not see any conflict between economic growth and equity viewed in this way. In fact, international evidence shows that economic growth that is not distorted by the creation of privileged positions — such as through import substitution policies, or through policies associated with the exploitation of natural resources or control over fixed resources such as radio, TV or telecommunications that privilege the few — is the best means of reducing poverty and increases incomes in much the same proportion from the top to the bottom of the income distribution.

Ken Henry, Secretary, Department of the Treasury, is another contributor to the first part of the book. He makes the case for concentrating on absolute poverty (defined according to the individual's 'capability of community participation', which will differ by country) rather than on income inequality. I agree wholeheartedly with this sentiment. Indeed, there is almost an obsession with income inequality among economists. Unfortunately, the 'politics of envy' is a game that some politicians are eager to play, taking advantage of the fact that individuals are too prone to judge their standard of living in relative terms. Economists would be much better employed arguing that income inequality is not something that should be of great concern if it comes about through individual effort rather than through government favours. Australia's measure of income inequality would worsen if Bill Gates moved his business here, but it would be hard to argue that we would be worse off. We should worry about absolute poverty, and that means worrying about how to create jobs.

Henry also argues for more flexible labour markets and effective education and training programs. However, there is no consideration of tax policy — a Treasury brief — and whether enough is being done to make sure that Australia

has an internationally-competitive taxation policy. The Treasury's 'closed market' philosophy towards taxation policy should be challenged. Later in the book John Freebairn of The University of Melbourne makes the case for an internationally-competitive tax regime in a world of highly mobile capital and skilled labour. He suggests this would mean lower marginal income tax rates and lower taxes on capital and more emphasis on the GST and payroll taxes. He points out that more capital and skilled labour would combine with unskilled labour to give higher productivity and, by implication, more jobs for the unemployed. The editors pick up the point in their final 'Way Forward' chapter, but only mention lowering the top marginal income tax rate and suggest that it may be something worth doing in the longer term. But surely the focus should be on taxation of capital.

Missing from the book is discussion of Australia's welfare programs, particularly the composition of welfare recipients. In order to discuss the importance of job creation to poor households, or the importance of pre-school and primary education for poor households with children, or the importance of reforms to the health system for the disadvantaged and the elderly, it is desirable to have a breakdown of the whole welfare distribution system by household characteristics and by form of entitlement. This would also help in discussing the balance between helping the disadvantaged through removing disincentives to the demand for and supply of labour in order to reduce joblessness and helping people directly through income redistribution policies. Unfortunately, Australia seems to have gone mainly down the latter path. Public crowding out of family welfare responsibilities appears to have been the curse of the high-income countries in the past century. Poor countries cannot do this. They have to concentrate on economic growth to overcome poverty.

The chapter on education is largely taken up with discussion of policy towards universities from Bruce Chapman and Peter Karmel from The Australian National University and Alan Gilbert from The University of Melbourne, whose views are well known. While there should be concern about equality of opportunity for students from lower-income families to enter universities, surely the bigger problems that have to be tackled are the difficulties with early education that lead to children from disadvantaged homes not having developed the skills that would enable them to enter and flourish in universities or TAFEs. The point is made by the editors that childbearing is increasingly being assumed by poorer households. Thus policies dealing with pre-primary and early primary education, so critically important to the development of literacy and numeracy skills, have to come to grips with this growing problem area.

Chapters 7 and 9 focus on Population Policy and Ageing and Retirement. Peter McDonald, of the Demography Program at The Australian National University, provides some projections of Australia's population under various assumptions about the fertility rate, life expectancy and immigration numbers. His favoured projection is a population peaking at 25-28 million by around 2050, assuming a fertility rate of 1.65 and migration averaging 80,000 per year. McDonald sees it as unlikely that Australia's fertility rate will fall below 1.4

because 'policy support' would kick in. Based on the tendency for demographers to under-forecast the decline in the fertility, the experience of other Western countries, and the unlikelihood that policy can affect the fertility rate, my guess is that McDonald's favoured projection is too high. The fertility rate could fall even further than McDonald's 'Low' scenario rate of 1.4, resulting in a lower peak in population around 2030.

Ross Guest of Griffith University and Ian McDonald of The University of Melbourne provided results of a modelling exercise that projects that future living standards would be largely unaffected by changes in fertility rates and immigration. They conclude that population policy should not be concerned with this issue. Ross Garnaut and Glenn Withers of The Australian National University in separate papers argue for a population policy that encourages population growth, particularly through immigration, because of its positive economic growth effects. The differences between their judgements and those of Guest and McDonald appear to rest on differences in assumptions about productivity growth, investment, and ability to retain young, skilled people. In the first part of the book Garnaut had also made the point that the rapid ageing of Australia's population will reduce the disadvantages of low-skilled labour and, by implication, increase job opportunities among the lower-income households. In what must have been one of the more entertaining papers at the Conference, Withers demolishes the arguments that NSW Premier Bob Carr has made for restricting immigration to avoid adversely affecting the environment of the Sydney region.

The book has an unusual format. Each chapter has an introduction by the editors outlining the views expressed by the various presenters whose papers are summarised in the chapter; followed by the summaries and several short boxes highlighting points made by others who had made presentations or written articles for *The Australian*. Then the editors draw conclusions from the foregoing material. The format is repetitive and very disjointed, although one becomes used to the style after a while. The use of large numbers of boxes allows the highlighting of many points of view and is probably an effective device for avoiding the adverse visual effect of large blocks of quotations.

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Passion for Liberal Economic Reform

John Hyde, Dry: In Defence of Economic Freedom, Institute of Public Affairs, Melbourne, November 2002.

Reviewed by Rob Albon

This is a very important and timely book, that will be of interest to any student (in the broadest sense) of Australian economic policy making, past or present. It is particularly apposite that this book comes at a time when many aspects of real economic reform have stalled, amidst a fair amount of real or imagined 'reform fatigue' and a balance of political forces not conducive to radical change. In some ways, the situation is not dissimilar to that in which John Hyde and the other Liberal 'Dries' in the Federal Parliament found themselves some twenty five years ago. For those wanting liberal reform, this book will be an inspiration and a source of ideas about how to get things happening. Unwittingly, it also contains a few good ideas for those seeking to resist that reform.

The book begins with some background chapters setting the scene. These cover the role of dry philosophy; post-war Australian economic and political history from Chifley to Whitlam (and featuring the part played by another liberal farmer, Bert Kelly); the role of the think-tanks (with a big emphasis on the Institute of Public Affairs and the Centre for Independent Studies); and what was happening outside Australia (for example, through GATT/WTO; Thatcherism and in New Zealand). There is a very good chapter on the decline of industry protection ('From Tariff Board to Productivity Commission').

Then we get the accounts of the different governments from Hyde's time in Parliament and beyond. These cover Hyde's frustration at the lost opportunities in the Fraser years; his delight in the (somewhat unexpected) achievements of Hawke's governments; the near success of *Fightback!* (and its contrast with Keating's *One Nation*); a cameo on the 'Kennett Revolution' in Victoria, and a not particularly glowing account of the 'Howard Years' (and the Opposition). The book ends with a chapter on backlash and a very short one on the importance of what we say and do now for the future.

Different readers will take different things from this book, but there are three things that stand out for me:

Most important, is the inspiration and hope that comes from this book. Back in the early eighties the current circumstances and the outlook were rather bleak — a serious recession; a drought; heavily-protected industry; inefficient infrastructure; costly work practices; etc. and no reform in sight. To everyone's surprise, this dark period was followed by a long period of intense and broadly well-considered economic reform.

Second, the book stands as a reminder of where Australia would probably be if that reform program had not eventuated. While some people ask when we are going to see the gain from the pain, it is fairly clear that the productivity surge of the 1990s (and those forty odd quarters of continual economic growth) would not have occurred without the enabling reforms that preceded it. And — in spite of some claims to the contrary — this was achieved without any widening of the gap between rich and poor.

Third, there is the man, John Hyde, a farmer with a passion for ideas and the humanitarian liberal cause, and basically a ‘good bloke’. Because he was prepared to think outside the square John Hyde was criticised — and vilified — both from within and without the Liberal Party. As former Labor Finance Minister Peter Walsh reminds us in the Foreword, Hyde was even labelled a ‘fascist’. While Walsh earnestly sets the record straight on this, I have my own recollections of Hyde’s moderation. For example, he was invited to The Australian National University *circa* 1980 to address economics students, and he took us through the main arguments for government intervention with a clear focus on justification resting on the standard market failures and demonstration of the government being able to do better. The lecture went very well, but later John was somewhat bemused by the experience after gaining the impression that many of his audience found him too interventionist!

The Dries are an important part of Australia’s post-war economic experience, and it is great to see their role so skilfully and knowingly explicated.

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The Editors congratulate Rob Albon on his award of a Centenary Medal for ‘services to Australian Society through the advancement of economic, social and political issues’.