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RETROSPECT
The 2020 Summit: ‘The Future of the Economy’

John Foster

The Summit was much more successful than I anticipated. Despite some charges of ‘elitism’ prior to the Summit, the fact that most participants in the designated groups had expertise in the fields covered meant that rapid progress could be made in the very limited time available. And it was far from an ‘ALP love-in’, as some politicians asserted. My group on the Future of the Economy was well populated by successful and prominent figures from business, finance and industry. Each group was divided into sub-groups where most of the ‘action’ occurred. Unfortunately, it was not possible to convey all the spontaneous and informal interactions in these sub-groups to the public on television. It was in these sub-groups that the real Summit took place, where ideas were ground out in debate and discussion and ranked in accordance with their perceived importance.

The ‘Future of the Economy’ was divided into five sub-groups. Originally, there were four but a highly energetic and enthusiastic Alan Moss showed us why he had such a successful career at Macquarie Bank by using his entrepreneurial and leadership skills to form a spontaneous fifth group dedicated to ideas in the fields of education and training. The sub-group that I was involved in was the ‘Role of the Government in the Economy’, chaired by Fred Hilmer. Within that sub-group, I was involved in a sub-sub-group that focused on the taxation system and related matters. This group was the source of one of the key ideas — tax reform — and it was one in which both the Prime Minister and the Treasurer actively participated.

Tax reform is not, of course, a ‘new idea’, but the idea that we need a ‘root and branch’ (to use the PM’s terminology) review of our tax system sooner rather than later is a radical one. Twenty-three years have elapsed since the last major tax reform. The Howard Government made a promise when the GST was introduced to reform the income-tax system, but that turned out to be ‘non-core’. Little or nothing was done to simplify a system groaning with complications and inconsistencies of the kind that naturally occur as successive governments tweak the income-tax system to accommodate new policy priorities while they are unable to remove old measures for political reasons.

The other big idea that came out of my group — again not new, but a difficult nettle to grasp — was the need to resolve in a fundamental way the difficulties

1 The School of Economics, The University of Queensland, j.foster@uq.edu.au.
in harmonising regulations, taxation, public finance, credentials and a range of standards across the states. It is very odd to observe that there is now more harmonisation across EU countries with different languages and cultures than there is across Australian states. The losses of economic efficiency, productivity and international competitiveness that are involved in this disjunction are now likely to be large in a world that is increasingly characterised by highly globalised trade and production, in both goods and services. A brief conversation I had with Brendan Nelson suggested that there is bipartisan concern about this problem and widespread desire to radically improve the situation.

These are two examples of ‘big ideas’ highlighted at the Summit that will lead to considerable ongoing debate over the next few years. The recommendation to set up of a formal review of the taxation system was accepted, as will probably be the recommendation that a commission should be set up, either through COAG or outside it, to provide advice to the government as to how to fix the federal–state problem in a way that can lead to a significant increase in harmonisation.

I have focused upon ideas that came out of the group in which I was involved. Given the time available and the numbers of participants, it was not feasible to have any real interactions with people in the other nine groups. Even in the plenary sessions, participants had to sit together for organisational reasons. Realistically, it would have been difficult to have organised the groups in any other way. However, there was some irritation amongst participants about the time spent in plenary sessions listening to interviews designed for TV audiences. These could have been done in a studio setting, allowing much more time for sub-group meetings in which ideas could have been developed more fully.

It is easy to be critical of such events and, of course, the critics have duly lined up to make their negative comments. But we shouldn’t underestimate either the symbolic or practical value of the Summit. It was symbolically important because it signalled the renewed openness of government to input from the public, which many people felt had become limited in the previous government’s term. This may have been only a perception but it was one that had to be removed if the dialogue that characterises participatory democracy is to contribute to future government policy. It was of practical value because there were interactions at the Summit between people who otherwise would not have met, leading to new understandings between representatives of the private sector, the public sector and academia. Network connections have emerged that the government can use for advice and guidance in the coming years. This will provide a counterbalance against the partisan politics and lobby-group pressure that generally prevents the implementation of radical policies designed with the medium and long term in mind.
Of course, much depends upon the extent to which Kevin Rudd and his Cabinet colleagues are willing to take on the short-term risk involved in radical policy-making within a three-year electoral cycle. Hopefully, the Summit networks that now exist will encourage a bipartisan spirit to emerge on key issues and, thus, render the electoral cycle less important. In the end, even if nothing like this comes to pass, the Summit was still worthwhile because there was nothing to lose by staging it and a good prospect of gain at a time when Australians need to think very carefully about the significant threats and opportunities that lie ahead over the next two decades.
The 2020 Summit: ‘Population, Sustainability, Climate Change and Water’

Ross Guest¹

The 2020 Summit was a party. Most of us had a great time, as you do at a party. We met new and interesting people, were entertained in the Great Hall of Parliament House, and had a lovely dinner on the Saturday night. So whether you think the Summit was a success depends on whether you were expecting anything more than a party.

There were times at the 2020 Summit when I also thought it was the ALP National Conference. It did feel like a meeting of the Party faithful. There was rapturous applause whenever a speaker touched a favourite ALP hot-button issue: the Republic, aboriginal reconciliation, refugees and university funding. I support a Republic, but the groupthink reaction whenever such things were discussed was too overtly political for my liking.

I was in the group of 100 that discussed ‘population, sustainability, climate change and water’. My particular area of expertise related to this topic is population economics. So you might appreciate that I was not overcome with excitement by the following solitary sentence on population in the Final Statement of Outcomes: ‘Australia will have a population policy, and immigration program that works truly in the national interest and that is a model for the world’ [sic]. Exactly what population policy, and what immigration policy, was hardly discussed, let alone agreed upon. Hence, they didn’t appear in the final statement.

It became clear on Day 2 that the aim was to produce a Final Statement of Outcomes that represented a consensus among the group on a given topic, rather than a statement capturing the range of ideas that were discussed. It was to be a political document, and that rendered it banal and virtually meaningless. Another example from my group: ‘Further investment could be directed into research, development and deployment to enable a low emissions energy revolution.’ How it might be ‘directed’ is, of course, the crucial question. And what does a ‘low emissions energy revolution’ mean? ‘Revolution’ is a big term that needs a little unpacking for both taxpayers and consumers.

Groupthink was the dominant force when it came to discussing climate change and sustainability. I soon realised that my views, which are mainstream among

¹ Griffith Business School, Griffith University, r.guest@griffith.edu.au.
fellow economists, were contrary to the groupthink view of the other participants (there were very few economists, for better or for worse). For example, the group seemed to agree with the quip of Barry Jones (yes, the iconic Barry Jones) that trying to do something about climate change while also growing the economy was ‘like trying to be fat and thin at the same time’. I enjoyed the humour but the audience applause seemed to be more for the message. Earnest discussion ensued as to whether it really was possible for consumption to grow in future while simultaneously taking meaningful action on climate change. People who were incredibly well informed about environmental and scientific aspects of climate change — much more so than I — were apparently unaware that the Stern Report, and all other economic analyses of climate change, shows that even quite dramatic action on climate change would merely slow the growth of living standards — not throw it into reverse.

I sensed a predilection among the delegates for central planning, picking winners, and bigger government financed by new taxes. Indeed, there were about as many new taxes proposed as there were delegates at the Summit. There were to be new taxes on petrol, cars, junk food, alcohol, and even a tax on all government departments to fund the creative arts. Plus a lot of ‘tax incentives’ where some taxpayers get a benefit that is paid for by other taxpayers — tax incentives for philanthropy towards the arts, for greater use of public transport, for climate-friendly households.

There was also a lot of messing with the way we live our lives, and with the school curriculum. One group wanted to mandate that people with desk jobs get up and do 30 minutes of exercise each day. In an already crowded school curriculum, there were calls to mandate creative-arts subjects and Asian languages, despite the fact that mandating subjects like these has long been rejected by the experts in curriculum development. I thought that if anything ought to be mandatory it should be Economics 101. Indeed, whether it is suggestions about mandating subjects in the curriculum or that Australia be the world’s leading green economy, there was scarce evidence of an appreciation of opportunity cost (what subjects in the curriculum ought to be scrapped?); or comparative advantage (why should Australia be the world’s leading green economy when it has the world’s largest per-capita coal reserves?); or the implications of near-full employment (promoting green technologies at the expense of what other technologies or goods and services — medical technology? education? hospitals? police services?). It was even argued that the Summit was a cheap event because everyone paid their own travel and accommodation — invited to ‘attend in a voluntary capacity’ is the term on the official Summit website.

I’m afraid I saw the Summit as having the disadvantages of a large annual conference without the advantages, such as the ability to explore topics in depth.
in small groups. It was impossible to subject any ideas to proper analysis and lengthy debate. It’s not that good ideas did not emerge — they did. But they were invariably old ideas, and were not subjected to scrutiny.

Was there a net national benefit from the Summit? I doubt it. There was definitely net political benefit for the Government — it gave the impression that the Government was listening and it was a worthwhile investment in galvanising support from opinion-makers and community leaders.

It would be churlish not to add that the organisers worked incredibly hard and did a fantastic job on what must have been a logistical Rubik’s cube.
The 2020 Summit: ‘The Productivity Agenda’

Joshua Gans

The meta-idea behind the 2020 Summit is something that resonates with most people. The Summit was trying to solve the question of how to come up with policy ideas whose impact will go well beyond the next election cycle. The need to achieve this reflected a national anxiety that we were not doing right by our next generation. We needed to work out ways of thinking above current political pressures, and committing to a conference focused on this seemed like a good start.

Whether it be explicit or implicit, this is why many of us so invited to participate pitched up to Parliament House on the weekend of the 19th and 20th April 2008. It is why we did so enthusiastically, despite a lack of organisation and structure to the entire event. And it is why we worked hard, knowing full well that the federal government probably had its own agenda that it would drive to see emerge from the Summit.

In retrospect, however, that meta-idea was lost in the Summit flurry. Perhaps it was an unwillingness to find fault with the political process or because that political process interfered with many participants coming with their own immediate agendas. In any case, there was a missed opportunity to focus solely on the future. This is something we need to learn from. After all, the notion that resonates — standing above political time horizons — has not been diminished. So here is what I learned from the entire exercise.

We know very little and have agreed upon even less about how we formulate long-term policy in Australia. Put simply, we have no national capability of making policy decisions beyond the short term and we need to work out ways of building this up. It is the need for this capability and ideas of how to develop it that should have been the Summit’s agenda.

An example: the discussions regarding innovation. Everyone agreed we needed more of it, and we were below par. There was even agreement as to what might drive innovation — principally, increasing connections between the right people, both at home and abroad. But the discussion steered towards specific programs we might have — say, databases to identify expats living overseas or ‘alumni’ who have been educated here — rather than what institutions we might need to carry forward that agenda. This is not to say those specific ideas were
not good ones: they were just very limited. The focus was on trees rather than the forest, with the goal being a list of a set of trees we might choose to plant.

There were some places where a longer-term focus was recognised: changing the structure of the federation to allow for greater coordination; working out ways of opening up information access without violating privacy rights; and continual calls for policy changes that could be implemented at little or no cost. Of course, this last — while admirable — was sometimes misunderstood by non-economist Summiteers as ‘funded proposals’, including one that would tax superannuation fund investments at 1 per cent!

Moreover, some ideas did emerge that would have generated a capability in making long-term policy decisions. For instance, there was a call for evidence-based policy evaluation. This came from a number of sources, including economist Andrew Leigh. He proposed that social and economic policy interventions be subject to randomised trials in much the same way medical interventions are. This would reveal which policies are effective and provide a ‘gold standard’ in evaluating the costs and benefits of an intervention. Putting such evaluation into policy in a systematic way (much like we did for ‘competitive neutrality’ in the late 1980s) would help us eliminate short-term, political reactions and focus on long-term outcomes.

But these ideas, while attracting approving nods, did not make it into the ‘official’ Summit reports (at least not at the time I write this). And I wonder if there is something else going on: a fear of learning? Are our policy-makers scared that they might find out just how little value certain social and economic programs add? Or the magnitude of benefit of the ones they have chosen not to fund? Is it the case that hard data on performance after the fact might never be forthcoming because there is no demand for that data? Is that the reason why so much data collected by governments is still inaccessible to independent researchers? And if all that is the case, what was something like the 2020 Summit really going to achieve?

While my angst over these fundamental questions of openness still remains after the Summit, the fact that the government did put on such an event and gather such a crowd is a positive step. That crowd, from many diverse areas, got to know each other and shared their common interest in wanting to make things better. The government did get some ideas. But, perhaps most importantly, it will be held to account by those who spent considerable energy in trying to make things better. In the relative disorganisation of the Summit agenda and process, they have formed a coalition of the ‘best, brightest and now restless’ who will not want to let things just be. It will be up to the government how it chooses to engage with that coalition.
The 2020 Summit: ‘The Future of Governance’

Anne Twomey

The 2020 Summit was a mixed success. On one level it successfully encouraged the discussion of Australia’s future, as well as supporting the propositions that ideas matter, that the community may contribute to government, and that change may be positive, rather than something to be feared. It also produced a great deal of public engagement through local, school and youth summits, public submissions and public nominations for participation in the summit. Televising the full proceedings on ABC2 permitted many people to feel involved in the Summit from their own homes. As a public education and participation process, it could therefore be judged a success.

If, however, the purpose of the Summit was to harness the ideas of the ‘best and the brightest’ and develop practical proposals, then its success is more doubtful.

There are a number of reasons for this.

The composition of the Summit

The Summit was not composed of the ‘best and the brightest’, despite the propaganda to the contrary. It comprised an eclectic mix of people who fell broadly into two groups: on one hand, academics and experts; and, on the other, people with community or ‘on the ground’ experience. Both groups had valuable ideas to bring to the table. As one academic remarked to me, the people from the community group were not only more enthusiastic but far more creative, as they were neither boxed into long-held positions, nor burdened by familiarity with failures of the past.

To bring out the best from each group the Summit should have been run differently. If it had been solely a Summit of experts, then the discussion could have commenced at a high level, with no need to address the fundamentals or background. It would have been more focused and more likely to produce well-reasoned and practical (albeit predictable) proposals.

If the Summit had solely comprised representatives of community groups and members of the general public, it could have been structured so that participants became informed of the issues, either in advance through briefing papers or through short presentations at the Summit. Once a common level of understanding had been achieved, participants could have drawn upon their

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1 The Sydney Law School, The University of Sydney, a.twomey@usyd.edu.au.
own experiences and knowledge to develop the ideas that were sought. This is the approach taken in ‘deliberative polls’ and ‘citizens’ assemblies’.

Either approach would have been likely to have been effective. However, the combination of these two different groups produced much frustration. There simply was not sufficient time or opportunity for explanations to be given as to why some proposals were impractical or would probably be ineffective. Nor was there sufficient time for people to be persuaded to shake off entrenched views and prejudices.

**The number of Summit participants**

The number of participants, 1002, was simply too great to be manageable. While it allowed a wide variety of people to be invited, it meant that many of those invited had precious little chance to be heard. The participants were broken into groups of 100, each dealing with one of 10 listed subject areas. Some of these groups covered extremely wide areas, such as ‘Population, sustainability, climate change, water and the future of our cities’.

These groups of 100 were still too large to allow genuine debate. The likelihood of being called upon to speak was low, with many people not getting a chance to speak at all. Given the fact that, if chosen, one was unlikely to be chosen to speak again, there was pressure on each speaker to raise their single-most-important concern, leaving no real opportunity to respond to other speakers and develop a meaningful debate.

It was therefore understandable that each group of 100 then broke into sub-groups of around 25, where there was a greater opportunity to discuss and be heard. The consequence, however, was that anyone who had ideas concerning matters being discussed by other groups had little chance of having those ideas heard.

Overall, it would probably have been better if there had been 300 participants broken up into 10 groups of 30. This would have allowed greater participation and a more sensible debate.

**The imbalance between presentation and substance**

The primary focus of the Summit appeared to be presentation rather than the development of substance. Both presentation and substance are important, but even more important is maintaining the appropriate balance between the two. While substance becomes irrelevant if it is not able to be communicated effectively, the first priority must be the actual generation of the substance. At the Summit presentation reigned supreme and substance played second fiddle. This was manifest in the structure of the Summit and its reporting.

On the structure side, too little time in the two days was dedicated to substantive debate of the issues. While the opening and closing sessions were
justifiable, there were also two so-called plenary sessions of the full group of 1002 which in reality were ‘chat shows’ performed for television. These were a complete waste of the time of the participants, who were press-ganged into constituting an audience. Even if these spectacles were regarded as essential to the public involvement aspect of the Summit, there was no need for a captive audience of 1002 people who could have spent their time far more productively. Even the most charitable would be hard-pressed to describe these sessions as public education. For the most part, they wallowed in the shallows of the superficial and puerile. When the chat show host asked his guests ‘What do you find embarrassing about Australia?’, one prominent Minister sitting in my row muttered ‘this’ and led a walk out, which I gratefully joined.

No doubt some participants enjoyed the chat shows and were happy to indulge in celebrity spotting. Others, however, felt used. Having given up their time for the purpose of contributing their expertise and ideas, they instead found themselves allocated the part of a television audience in a public-relations exercise. This squandering of goodwill was unnecessary. It was also an own-goal for a government fighting against claims that the Summit was nothing but a superficial talk-fest.

The other major problem arising from the focus on presentation concerned the use of facilitators and the translation of Summit recommendations into a more ‘presentable’ form. Whenever the sub-groups produced substantive recommendations that were then put to the larger groups of 100, the wording of the recommendations was stripped of substance by the facilitators so that the recommendations were meaningless and incomprehensible to the larger group. As a consequence, the plenary sessions of the groups of 100 descended into confusion and ambiguity, with members of each sub-group trying to explain what they had really decided. Many recommendations were lost in the resulting chaos.

At one stage the Governance group facilitator said that what was being proposed had to be reduced to a T-shirt slogan by 4pm. He was only half joking. The professional facilitators were working under the imperative of having to produce a slick and neat presentation by an extremely tight deadline. However, in many cases they had no expertise in the subject matter and their stripping of detail from proposals rendered them little more than vague platitudes, frustrating the participants.

Even worse was the fact that the final recommendations of the Governance group — fought out in a frantic and chaotic final session — were not correctly incorporated in the report presented to the Prime Minister. For example, the report listed as one of the top ideas of the Governance group: ‘Introduce an Australian republic, via a two-stage process, with Stage 1 ending ties with the
UK while retaining the Governor-General’s titles and powers for five years. Stage 2: Identifying new models after extensive and broad consultation.’

In fact, the Governance group decided that first a plebiscite should be held on the question of whether or not Australia should become a republic and that if this were successful, then there should be a process of public consultation and involvement to determine what model for a republic would be later put to the people in a referendum. This discrepancy is not one of emphasis or interpretation, but substance. It arose because the focus of the facilitators in the limited time available was on the presentation to be given in the final session, not the text of the report.

The mantra at the Summit was (and continues to be) not to worry, because everything has been taken down and will be recorded in the final report. However, as those focused on presentation well know, the crucial point was when the media reported the outcome of the Summit to the public immediately after it concluded. The public record has now been written. No matter how many corrections or complete reports are later issued, the public perception of what occurred has already been created, and will not be shifted.

What worked well

Having made these criticisms, it should be said that there were a number of things that were done very well at the 2020 Summit. The reduction of costs was very cleverly arranged. By making the Summit a prestigious event and asking that participants volunteer their time and pay their own way for the honour of attending the Summit, the financial and administrative burdens of running such an event were significantly reduced. Similarly, the facilitators, scribes and guides were all induced to attend as volunteers.

The system of public nomination of participants was also clever as it increased public interest and involvement in the event. The only problem with the system was that some of the people with the greatest expertise would not contemplate self-nomination. This meant that they were either left out, or nominated without their knowledge, as occurred in the case of at least one former High Court judge, who ultimately declined to attend.

The idea of setting up a database for participants where they could communicate about issues in advance of the Summit was also sensible. Much discussion has continued post-Summit by way of email. The instruction that participants write 100 words setting out one idea, and another 100 words on a subject about which they had changed their minds in the last decade smacked of the psychological manipulation well beloved of management consultants. (At least participants were not asked to explain what type of fruit they would like to be.) In any event, the website was so badly organized that it was too difficult to find in advance the statements made by other members of one’s group. Every
participant was given their own webpage and, instead of organizing them according to groups and in alphabetical order of surname (which would appear logical), the 1000 or so different pages were arranged by the alphabetical order of a person’s title. Hence under ‘A’ one found Associate Professors, ‘D’ gave us Doctors, ‘P’ was for Professors, but the biggest category was ‘M’ for Mrs Ms and Mr. I suspect most people probably gave up looking after the letter A. I certainly did. Public submissions were also accessible from a website, which listed each one next to the column intriguingly headed ‘possible profanity’. No doubt those marked as potentially profane were the first and only ones read.

Despite the website glitches, the mechanical organisation of the event was certainly done superbly, including the organisation of facilities, the catering and the movement of such a large number of people about the building. Given the short period of time between the announcement and the holding of the Summit, this aspect of the organisation was very impressive indeed.

The lessons

Some participants found the Summit ‘inspiring’, and have suggested to me that the criticisms aired above are born of unrealistic expectations of what could be achieved in one weekend. But I have attended a number of deliberative conventions that considered change in Australia’s system of governance. Some were composed solely of experts; others of members of the general public. All took place in a limited time, over a day or a weekend. Many were run by the Constitutional Centenary Foundation; others by governments. All were better structured, better managed, and better focused on developing substantive proposals, while giving all participants a fair chance to have their say.

The primary lesson is that if a similar exercise were to be undertaken again, such as the constitutional convention recommended by the Governance group, then much more thought would need to be given to the detail well in advance of even announcing the proposal. My impression of the 2020 Summit is that officials were caught on the hop with the proposal and that more attention was given to the logistics (which worked well) and the presentational aspects (which went too far), than to giving the participants a reasonable opportunity to produce the ‘ideas’ which were ultimately the objective of the Summit.

Matters that would need to be considered if a constitutional convention were to be held include:

- the number of participants;
- the composition of the convention (for example, experts or the broader public);
- how participants are chosen (for example, election or appointment, by what method and by whom) and who, if anyone, they represent;
- the involvement of politicians;
• the purpose of the convention (for example, public education, the development of broad principles or the formulation of substantive reform proposals);
• how the structure of the convention supports its purpose and the type of participants chosen;
• the duration of the convention;
• how the convention is to be informed (for example, research, papers, or speakers);
• the opportunity for participants to discuss matters with each other in advance and to communicate back to the public (for example, an adjournment during a longer convention);
• the use of facilitators and whether they should have expertise in the subject matter under discussion; and
• the extent to which the convention establishes or controls its own rules and agenda or is directed in the matters that it is to consider.

Conclusion
The 2020 Summit was enormously important from a symbolic point of view. It marked the beginning of a new government with a willingness to discuss the long term, encourage ideas and permit community involvement. It not only opened the doors to Parliament House but also opened the windows of government to let in the fresh air.

Whether more comes of the Summit than symbolism remains to be seen.
2020 Summit: ‘An Australian on Mars by 2020’

Bruce Chapman

My guess is that 100 per cent of participants in the 2020 Summit, including myself, didn’t really know what to make of it beforehand. My guess is that 70 per cent of participants in the 2020 Summit, including myself, didn’t know what to make of it during the summit weekend. My guess is that a large minority of participants in the 2020 Summit, including myself, still don’t really know what to make of it.

Beforehand

When the summit was announced, the first issue concerned how best to get yourself invited. I knew that as a slightly post-middle-aged pink male I did not have the best demographics, so I would have to try some cunning tricks. The direct approach seemed a little tacky (‘Hi Glyn, I was just in your office and wondered how the selections were going for the summit?’) but there was some potential to be had in that we were required to propose some referees, and I had agreed to play this role for four colleagues. Judicious use of refereeing language would ensure that I could free up three or four of these places for my application.

I planned a few highly supportive and subtly damning responses to the refereeing invitation. For example: ‘Professor A is a brilliant economic theorist and has extraordinary talents in the use of mathematical lemmas and differential equations that are bound to be useful to an informed policy discussion with laypeople and the media.’

Preparation

We were asked to write 100 words on our wonderful idea, and also 100 words on something in public policy we had changed our minds about in the last 10 years. In the first category I suggested that income-contingent loan mechanisms were a fantastic and innovative instrument for solving all of the world’s problems, such as for the financing of paid parental leave and drought relief, the collection of low-level criminal fines, and much more. This didn’t take 100 words so I then added that income-contingent loans would eliminate terrorism, resolve global warming, secure world peace (quite soon), and provide the key to immortality. That should get their attention.

1 Crawford School of Economics and Government, The Australian National University, bruce.chapman@anu.edu.au.
2 Professor A was chosen for the Summit.
Finding something that I had changed my mind about was harder, and I noticed that several of my colleagues responded to this question by saying ‘Nothing’. For this second category I wrote something like: ‘I used to think that income-contingent loans couldn’t solve all of the world’s problems, but now I realize that they can.’ I reckoned a bit of a consistent theme would maximize my chances of getting this up at the summit. [Editor’s Note: Professor Chapman got nothing up at the Summit.]³

At the summit

Among the thousands of words that could be written about the actual summit are: chaotic; engaging; chaotic; enlightening; chaotic; exhilarating; and chaotic. I was in the so-called Productivity Panel, which turned out to be less productive than I hoped for. This has nothing to do with my profound disappointment, indignation, resentment and bitterness about my brilliant idea, that income-contingent loans could solve all the world’s problems, being ignored. [Editor’s Note: On the contrary, his idea being ignored has everything to do with Professor Chapman’s judgment that his panel was unproductive.]

Several days before we arrived it was clear that the organisation, effort and planning differed hugely between the Panels, with the Governance Panel apparently having been manipulating, settling issues and signing agreements since the last major Labor summit of April 1983. On the contrary, members of my panel had no idea if we would even be in the same room, or where Parliament House was. It turned out that there were to be four sub-panels in the Productivity group, of about 25 people each. In other Panels, such as the Indigenous Policy group, there were around 10 sub-panels of about 10 each, and in the Economy Panel there were around five sub-panels, including a breakaway group that wanted to talk about other stuff.

What happened in the sub-panels seemed to be completely different, even within the broad groupings. It became very apparent, with 2020 hindsight [Editor’s Note: Professor Chapman stole this joke from Professor Ann McGrath], that the quality of the facilitator and the rapport between group members were both completely important to the worth of the process. In my group the facilitator seemed not to understand the area much at all, which was completely obvious because she could not see that income-contingent loans would solve all the world’s problems. Further, in this group we didn’t have rapport as such; more like antipathy, combativeness, hostility and self-promotion. Amazingly, I was the only one to focus properly on the critical idea, that income-contingent loans would solve all the world’s problems. [Editor’s Note: It has been reported by other members of this sub-panel that when it became obvious that Professor Chapman

³ Editor’s Note: The ‘Editor’s Notes’ in this contribution are not the editor’s notes.
was a fanatical self-obsessed zealot they decided to discuss issues outside his interests and expertise, and of these there were a very large number.]

What became part of the Productivity Panel’s final list of ideas was a combination of opportunity, timing and mystery. The idea that got most media attention was that HECS debts should be reduced through community work, yet I have found no-one in my Panel who remembered that this was discussed. On the ABC’s The World Today the following Monday, Warwick Smith, who co-chaired our panel with Deputy Prime Minister Julia Gillard, essentially said that indeed this idea wasn’t part of the Productivity Panel’s deliberations. Those ideas which did make it seemed to come from people being able to seize the moment with a compelling sentence (with a short and punchy justification) which was then not opposed.

**After the summit**

We all needed to recover from the turmoil and excitement which came from being included in what was in essence a very large public-policy jamboree and party. I have been in discussion with many colleagues since, and for these economists there is an emerging consensus about the Summit:

- It was invigorating to be there;
- We got most out of meeting other Australians interested in public policy from outside our fields;
- The all-inclusive sessions, with the 1002 ‘Summiteers’, many politicians and the media, were not generally a good use of time for those wanting to develop policy issues; and
- Non-economists don’t like us much because what really matters in terms of public policy are issues of fairness and equity.

I was initially quite disappointed in the absence of much informed debate and the significance placed on the snappy one-liner, but my consulting of the Shorter Oxford Dictionary has helped me come to terms with this: ‘Idea’ is defined as ‘vague belief or fancy’. [Editor’s Note: Professor Chapman’s opinion that income-contingent loans can solve all the world’s problems seems to sit quite comfortably with this definition.]

Through the haze, confusion, and general positive feel of the Summit, there were naturally some memorable moments. The best example for me from the Productivity Panel entails all the members of one sub-group being asked at the death knell to state in a few words or less their one brilliant idea. Joshua Gans of the University of Melbourne, tongue firmly in cheek, sang out: ‘Put an Australian on Mars by 2020!’ A graver economist noted that ‘would be very expensive’. Joshua retorted: ‘We don’t have to bring them back!’

Boring it wasn’t.
ANALYSIS
The Economist’s Way of Thinking About Alcohol Policy

Harry Clarke¹

Abstract
This paper assesses policy interventions in alcoholic drink markets from an economic perspective. This perspective assumes that alcohol yields consumption benefits as well as costs, and that society’s utilitarian objective is to maximise the excess of alcohol’s benefits over its costs. The economic perspective rejects the common community focus on the ‘gross cost of illness’ consequential to alcohol consumption. The economic approach to alcohol policy instead emphasises information, self-control and the external costs of consuming alcohol. For consumers with alcohol dependencies, a policy mix emphasising the role of cues and self-control is suggested.

Introduction
Australian adults drank on average 9.8 litres of ‘drinking alcohol’ (ethanol) per capita in 2004–05. Some 13.4 per cent drank at ‘risky’ levels, this percentage having grown 50 per cent over the previous 10 years (ABS 2006).² Some drinkers spent substantial resources controlling their drinking: 37 per cent of clients seeking treatment for drug dependency saw alcohol as the primary drug of concern (AIHW 2006). Finally, alcohol is (after tobacco) the second-largest cause of drug-related hospital admissions and the main cause of deaths on roads (ABS 2006).

This paper examines policy interventions in alcoholic-drink markets from an economic perspective. This approach rejects the paternalism which opposes drinking alcohol because of claimed high gross costs. Instead, it assumes that alcohol yields consumption benefits (in taste and effects) as well as costs, and that society’s utilitarian objective is to maximise the excess of its benefits over its costs.

Consuming alcohol, then, is viewed for the most part, as a social, recreational activity — a social lubricant that enhances the enjoyment of life. For most, using alcohol is an informed, rational choice with relatively harmless implications — a perspective not typically adopted by medical and public-health researchers.

¹ The Department of Economics and Finance, La Trobe University, h.clarke@latrobe.edu.au.
² For males, consumption of up to 28 standard drinks per week was ‘Low risk’, 29–42 per week ‘Risky’, and 43 or more ‘High risk’. For females, consumption of up to 14 standard drinks was ‘Low risk’, 15–28 per week ‘Risky’, and 29 or more ‘High risk’. A standard drink contains 10 grams of alcohol, so the average male drinks 980 standard drinks per year or 19 per week.
The analysis recognises, however, that alcohol consumption has important costs, particularly when consumed at high levels or in risky settings. Consumption can have harmful physical and mental health effects and can lead to anti-social, dangerous behaviour such as drink-driving and violence, particularly within the family. These costs become important to an economic liberal when they are not borne by individual consumers or when there are issues of information failure or failure of self-control.

But from an economics perspective even substantial harm caused by alcohol consumption does not, by itself, suggest alcohol use should be restricted. The presumption is that usually individuals are the best judges of their own welfare. Thus, provided the potential for harm is recognised by users, and harms are borne by users who assess them rationally by comparing benefits to costs at the margin, restrictions are redundant. The presumption is that alcohol consumption provides net benefits to most adults who make informed individual choices.

This paper provides a framework that can assess the government policies have been devised to regulate the terms under which alcohol is consumed. Medical and non-economic approaches are examined and then reasons for intervention provided. Information, self-control and externality-based policies are discussed, before final remarks are made.

**Medical and non-economic approaches**

Much community focus on alcohol consumption looks at adverse health and neuropsychiatric consequences. This ‘gross cost of illness’ approach to estimating the consequences of consumption (Godfrey 2004) focuses on the health costs of excessive drinking, whether this occurs regularly or episodically, and with related dependence issues. There is concern with social problems associated with drinking, in the workplace and home, with crime, intentional cause of injury and with drinking on inappropriate occasions such as prior to driving. Particular attention is directed to youth drinking (RACP 2005; WHO 2004).

This emphasis helps identify health and other cost implications of alcohol consumption but does not help much in designing policy. To what extent should consumption be restricted? What are the costs, in terms of foregone benefits, of restricting consumption?

That drinking alcohol can be risky does not, in itself, imply much about its desirability or the extent to which it should be restricted. The question is how to value associated costs and benefits. Economics does this by assigning monetary values to individual choices and to any consequent costs or benefits that spill over as externalities. Policy then seeks interventions which maximise the difference between social benefits and costs.

Drinkers maximise this difference themselves by making informed choices, provided there are no external costs or benefits. They then both maximise
individual and the social advantage. With external costs, however, free markets will not achieve this. A restriction to reduce consumption to the point where net social benefits are maximised then makes sense provided the cost of the restriction is less than the net benefits lost by not employing it, establishing a case for policy activism.

If consumers are aware of risks and costs of activities (whether drinking alcohol, smoking cigarettes, driving a car or bungy-jumping) there is no \textit{a priori} case for policy restrictions without external costs. Focusing on minimising gross health costs alone suggests extreme, prohibitive policies.

The hypothesis that people make consumption choices rationally, using sound information, can be questioned given the scale of alcohol-abuse issues. Numerous people have self-control problems with respect to alcohol. Others fail to identify harmful consequences of consumption. This provides arguments for better information and for improving decision-making skills.

\textbf{Rationales for intervention}

There are three market imperfections that create a case for restricting alcohol consumption, and a fourth, \textit{realpolitik}, reason: paternalism.

1. \textbf{Information}: Efficiency in market exchange requires that the purchaser of a product understands its characteristics. With respect to alcohol, an issue is whether consumers understand that alcohol is a neurotoxin that destroys brain cells, with few health benefits (Fillmore \textit{et al.} 2006). It is also unclear whether consumers understand the genetic and neurobiological bases for alcohol self-control problems.

The information difficulties are compounded by private-sector advertising and alcohol promotion which links consumption to sporting and social prowess. There is evidence that such advertising has significant consumption effects, particularly among adolescents, where motivations for risk-taking, novelty-seeking and peer-driven behaviour increase the probability of alcohol experimentation (Saffer and Dave 2003).\textsuperscript{3}

Finally, particular age, ethnic and socio-economic groups have poor information. The failure to provide information about the negative consequences of drinking alcohol is a market failure since information is a public good. Markets will develop to promote alcohol consumption since this benefits commercial interest, but there are diminished private incentives to provide information presenting possible negative outcomes.

On the other hand, there is evidence that some young people \textit{overestimate} risks associated with alcohol consumption — particularly risks of becoming

\textsuperscript{3} The effects on adult behaviour are less clear (Nelson 2003).
alcoholic. This overestimation leads to less drinking than would occur were risks accurately perceived (Lundborg and Lindgren 2002). The same type of finding has been observed with respect to smoking, where most overestimate risks of adverse health consequences (Viscusi 2002). To the extent that this is true, public-information campaigns that seek accurate perceptions of health costs should, paradoxically, be oriented towards calming fears of risks rather than heightening awareness of them.

2. **Self-control issues**: Alcohol consumption can be addictive and people may have problems controlling their consumption. Alcoholism is a chronic, relapsing disorder characterised by a preoccupation with obtaining alcohol and a loss of control over consumption. Self-control problems can be triggered by impulsiveness that is, in turn, generated by advertising and other cues. There are particular issues of self-control among youth, who have high impulsiveness, as well as among those with particular genetic predispositions (Goldstein 2001).

3. **Externalities**: Alcohol consumption creates private costs for individuals and social costs for those who interact with alcohol consumers and the broader community. Drink-driving is the most serious cause of traffic accidents (Phelps 1997), with 28.5 per cent of road deaths of those aged under 65 attributed to alcohol (ABS 2006). Violent behaviour by intoxicated persons is also a serious issue.

    Other alcohol-linked externalities include foetal alcohol syndrome and harms caused by drinkers to family members. Some economists ignore intra-family costs on the basis that family units are regarded as making mutual consumption decisions. This is not so with most alcohol consumption, so family costs are best regarded as a third-party impact.

    In addition, since Australia has a publicly funded national health scheme the medical costs of alcohol consumption are not only private. Above-average medical costs will be met partly from the public purse, providing a public-interest case for restrictions.

4. **Paternalism**: Although not a market-failure reason for intervention, there are moral and emotional arguments against excessive alcohol consumption. Some ‘wowsers’ oppose alcohol consumption even if well-informed consumers, without self-control problems, bear all consumption costs.

    Paternalism should result in alcohol taxes being set above externality-correcting levels. It motivates public-health campaigns to decrease consumption not because external costs are generated but because reduced consumption is the social objective.

    For policy purposes, paternalistic arguments are unhelpful because they do not take one far in developing a rationale for policy. Alcohol consumption is opposed because certain groups in the community — doctors, scientists, religious
leaders — assess it to be undesirable. However, considering paternalism as a policy motivation is useful for understanding actual government policies which can be assessed, independently of externalities, purely in terms of how well they restrict consumption.

Policy Interventions

Market-failure reasons for policy intervention suggest various policy options.

1. Information-related policies: The public sector may need to intervene to provide information about negative consequences of consuming alcohol and to restrict advertising that falsely presents optimistic consequences of consumption.

   Accurate information on negative aspects of consumption includes information on self-control issues and on genetic information that might suggest future dependency problems. Goldstein (2001: 113) argues that ‘…children of alcoholics should be advised to never touch alcohol; certainly they should be taught the special hazards that alcohol holds for them — hazards not shared by their peers’.

   A difficulty stems from disagreement over precise health consequences of consuming alcohol among those without genetic predispositions to alcoholism. The debate over possible health benefits from reducing heart disease is an instance. Health benefits claimed to arise from consuming alcohol appear to be a spurious consequence of including among non-drinkers those who have ceased drinking because of poor health (Fillmore 2006). Apart from providing known information there is a case for investing in improved information.

   As mentioned, the case for health-risk warnings is weakened if people already exaggerate risks. If particular at-risk groups or particular health concerns arise, these should be targeted rather than providing general health warnings to groups who, on average, assess risks adequately. Information targeting youth should address risks of consumption, while information targeting problem drinkers needs to address risks, problem-recognition, denial and dependency treatment.

2. Self-control policies: Problem drinkers are a sizeable sub-population whose excessive drinking is hazardous to health.

   For many heavy drinkers, alcohol is not an ordinary consumer good whose consumption can be analysed using static, rational choice models. People become addicted to alcohol in an unconscious process that eventually takes over their lives. Unless consumers set out initially to become dependent, such heavy drinkers are not ‘rational addicts’ (Becker and Murphy 1988). Heavy drinkers typically start drinking as adolescents when excessive consumption is linked to incomplete development of brain regions involved with executive control and motivation. The vulnerability to alcoholism is greatest among individuals who start consuming early in life but those with difficulties making rational choices
at any age tend to be alcohol abusers. Abusers have a higher incidence of mental disorders (depression, anxiety, ADHD and schizophrenia) than the general population and apparently use alcohol and other drugs to self-medicate (Koob and Moal 2006).

Genetic influences on propensities to consume alcohol may underlie personality traits such as impulsivity, risk-taking and stress responsivity that drive excessive consumption. Family and twin epidemiological studies suggest heritability of vulnerability to addictive diseases of 30–60 per cent (Kreek et al. 2005).

Like other addictive drugs (opioids, stimulants, nicotine, marijuana) and natural rewards (food, sex, water) alcohol produces euphoria by activating pleasure centres in the brain. Like other drugs, alcohol releases dopamine in the brain where pleasure centres that have evolved to ensure survival get ‘hijacked’. The euphoria induced by alcohol, particularly if enhanced by a genetic predisposition, encourages repeated use. Over time, alcohol disrupts brain reward circuits and can produce withdrawal and craving if consumption ceases. Such negative reinforcements alternate with positive reinforcement to drive a cycle of addiction that becomes etched into brain structures. This etching reinforces pursuit of alcohol consumption, as a surrogate for survival-related behaviour, by dominating attention and decision-making.

Problem drinkers come to drink too much and face difficulties limiting consumption during particular episodes, with the first drink leading to uncontrolled drinking. Moreover, these compulsions can be long-term. Environmental cues associated with alcohol (people, places, advertisements) can trigger intense cravings among those addicted which cause relapse into use even after protracted abstinence.

Consumers in this cue-driven environment make consumption decisions with limited rationality and foresight. Policies for improving self-control include helping to demonstrate that alcoholism can be a consequence of recurrent drinking and desensitising and limiting exposure to cues. There can also be attempts to improve self-control by promoting ‘personal rules’ or heuristics to control behaviour. Since problems with alcohol consumption primarily stem from excessive consumption, ‘personal rules’ relating to the number of ‘standard drinks’ consumed per week, numbers of alcohol-free days or, in some cases, pursuit of total abstinence are useful information policies.

Self-control can also be improved by supply restrictions such as limiting the availability of alcohol outlets, trading hours and promotion of advertising that might trigger cues to drink. Unfortunately, such policies increase ‘user costs’ of consumption that impact on all consumers.
Supply-control measures on alcohol outlets and on opening hours will limit external costs of alcohol consumption (Donnelly et al. 2006) and, by limiting cues, promote individual abilities to control drinking. By keeping away from cues and knowing that, beyond a certain time, drinking is impossible, people with self-control problems can be helped to formulate personal rules which limit drinking.

Restrictions on advertising help curb drinking among abstaining problem drinkers subject to cues. Indeed, as with smoking, there is a case for limiting cues in the media that elicit consumption.

For age and ethnic groups prone to excessive consumption because of self-control problems, there can be a case for consumption bans. Minimum-age laws and restrictions of alcohol availability to particular ethnicities, such as Australian aborigines, are controversial policies. Anderson and Wild (2007), however, supported such interventions resulting in the Northern Territory Emergency Response by the Howard Government in 2007. Aboriginal people are often alcohol-abstinent; but, those who do drink, often consume more than 13 standard drinks per episode (ABS 1994) and are therefore an ‘at-risk’ group.

With respect to drink-driving issues, the installation of ignition interlock devices can improve the judgment and self-control of drinkers in their ability to safely drive after consuming alcohol (ICADTS 2002).

Finally, treatment options emerge as a way of addressing excessive use. A substantial literature shows that local GPs can be effective in providing early interventions to caution people concerning alcohol problems (Johansson 2002). Promoting a variety of behavioural and cognitive therapies makes sense, as do traditional routes to control such as Alcoholics Anonymous. Given the social costs of alcoholism, there is a case for subsidising such services on the basis of their cost-effectiveness.

For problem drinkers, treatment options include pharmacotherapies using drugs such as naltrexone (Volpicelli et al. 1992). Naltrexone reduces recurrent daily drinking, diminishes alcohol-induced cravings and even reduces cravings after a ‘priming’ drink. It therefore limits the tendencies to lose control. The drug acomprosate suppresses cravings and relapse problems and can be used with naltrexone (Rösner 2008). With external costs, there is again a case for subsidising pharmacotherapies.

3. Externality policies: Economists focus on externalities as the primary source of social costs in relation to substance abuse. The standard prescription is to levy a tax internalising the external costs.

Externalities such as drink-driving-induced accidents cannot be dealt with by a consumption tax since this externality stems from the combined activities of drinking and driving. Moreover, the probability of an accident, given a certain
level of alcohol consumption, falls with age (Phelps 1997: 516). A driver aged 20+ who has consumed six standard drinks and then drives has 12-times the chance of a fatal crash than a similarly-aged sober driver. For a driver aged 16–19, the risk increases to 100-times that of a similarly-aged driver. Inevitably, highway patrols and booze buses must detect drink-driving, with the driver then being penalised, rather than employing taxes on consumption. It makes sense to impose stringent restrictions on alcohol consumption by young drivers.

It is only if certain alcohol-related externalities are related to overall population alcohol consumption — the ‘population health’ view (Young 1998) — that simple uniform tax policies make sense.

In Figure 1 the market demand for alcohol (q litres) is illustrated with the marginal production cost c(q). The area under the demand curve measures private benefits from drinking. Social marginal costs of consumption are also illustrated. These comprise the private marginal costs borne by consumers and the external social costs generated, including health and traffic accident costs borne by the community as well as dollar costs of violence and anti-social behaviour to others. As drawn, there are no external benefits associated with alcohol consumption at low consumption levels and external marginal costs are low. As market consumption increases, external costs rise at an increasing rate. Without taxes, consumers operate where private marginal benefits equal private marginal costs — they consume q₂ and pay price p₂. Because social costs exceed marginal benefits over the range q₁ to q₂, this consumption imposes net social costs or deadweight losses (DWLs) equal to area ABC.⁴

The standard economic prescription to remove these costs is to levy a Pigovian tax t which, assuming competition, raises the alcohol price to p₁, leaving consumption where marginal private benefits equal marginal social costs at q₁.

Determining this tax requires assessing the scale of the unpaid-for social costs, how these are linked to consumption and the elasticity of demand for alcohol. The more responsive demand is, the smaller the tax can be. Selvanathan et al. (2004) provide elasticity estimates of −0.3, −0.4 and −1.3 for Australian beer, wine and spirit consumption, respectively. For alcoholic beverages as a whole, the estimated elasticity is −0.6, suggesting that a 10 per cent tax induces 6 per cent less consumption.⁵

If social costs are related to the alcohol content of drinks, this tax should reflect this by being a volumetric tax related to the alcohol content of particular drinks.

⁴ Firms will produce where price equals marginal cost if they are competitive. With monopoly power, price exceeds costs, creating deadweight losses but reducing external costs perhaps significantly (Nelson 2003).

⁵ A distinction is drawn between short- and long-run elasticities. The latter account for effects of current consumption on future behaviour. One issue is whether forward-looking behaviour is rational. Baltagi (2007) surveys recent literature.
types of alcoholic beverages, not an \textit{ad valorem} excise levied on the \textit{value} of the product sold. Alcohol products in Australia are taxed approximately volumetrically, although spirits are subject to twice the charge on alcohol content than beer, and wine is subject to \textit{ad valorem} duty (Commonwealth of Australia 2005: chapter 5). In 2004–05, $5.1 billion was collected as excise and customs duty (AIHW 2007). For years where comparable data is available, these revenues greatly exceed gross health and even costs attributable to traffic accidents (Collins & Lapsley 2002: 62–65).

**Figure 1: External costs of alcohol consumption**

This economic approach to taxation does \textit{not} focus on the gross costs of consumption, \textit{GC} — the total medical and other costs attributable to alcohol. In the figure, these are the area \(0q_2BE\). Nor does it focus on non-internalised net costs less benefits (NC) of alcohol — the medical and other costs not borne by alcohol consumers less consumption benefits, given by area ECB. Instead, the economic approach recognises that alcohol consumption yields benefits to consumers, given by the area under the demand curve. Thus a tax-inclusive price is sought that maximises the net social advantage — benefits derived less \textit{all} costs, whether internalised or not.

Indeed \(\text{DWLs} << \text{NC} << \text{GC}\) where \(<<\) means ‘is much less than’. Thus setting tax \(t\) eliminates society’s deadweight losses and reduces, but does not eliminate, net and gross costs of consumption.
Note that optimal tax revenues, $tq_1$, exceed non-internalised social costs EAF because social marginal costs increase strongly as consumption levels increase. Therefore, evidence showing that alcohol consumers pay more taxes than are imposed in external costs does not support the conclusion that taxes are ‘too high’ as claimed by, for example, Heien (1995) using ‘reparationist logic’. It is only if non-internalised, marginal external costs were constant, so private and social marginal cost curves are parallel, that tax revenues should coincide with unpaid external costs to achieve social optimality. But social damages are, most plausibly, strongly increasing in alcohol consumption. Thus taxes ideally should exceed damages, rather than merely compensating society for damages done.

Empirically the social costs of alcohol consumption must be computed net of external benefits. People who die from alcohol consumption create a social benefit in terms of reduced costs of aged care and reduced costs of treating other diseases that would have impacted on mortality if alcohol consumption was curtailed. If there are external benefits from alcohol’s ability to catalyse social interactions which help create social capital, these too should be netted out.

There are several reservations concerning this standard tax prescription.

(i) The approach optimises the overall social advantage but has distinct effects on different community groups. Taxes levied are inevitably uniform — they do not vary by consumer. If a minority of alcohol consumers has very inelastic demands because of self-control issues then their consumption would need to be constrained by high taxes if it is to be curtailed. Such taxes would impose heavy DWLs on those consuming at moderate levels, who impose low social costs. Some 74 per cent of Australians aged 14 years and above consumed alcohol in quantities considered ‘low risk’ to health but paid hefty alcohol taxes (AIHW 2005). Setting lower taxes, however, to cater for those imposing low social costs, leaves the behaviour of those with inelastic demands who impose large social costs largely unchanged while significantly reducing their real incomes. If heavy consumers have low incomes, this raises equity issues. While gainers from efficient taxes can, in principle, compensate losers, this compensation is difficult to engineer in practice.

Such distributional issues constrain policy. Indeed, some argue that ‘a tax on alcohol would reduce consumption indiscriminately…and therefore reduce the satisfaction experienced by millions of sensible drinkers without necessarily reducing the harm caused by a few excessive drinkers’ (Littlefield 1986: 274).

High taxes may encourage the decision to quit entirely but, given an alcoholic’s compulsion to not stop at one drink, will not markedly reduce the intensity of drinking during particular consumption episodes. In their favour, high taxes have major effects in restricting alcohol consumption among adolescents (Saffer and Dave 2003).
The question of whether low levels of drinking are harmful — or even beneficial — is controversial. In assessing workforce costs, Pidd et al. (2006) used self-reported measures of alcohol-related absenteeism to estimate 2.7 million workdays were lost due to alcohol use in 2001, costing $437 million. Self-reported measures of illness or injury absenteeism to determine absenteeism attributable to alcohol use resulted in an estimate of 7.4 million workdays lost, costing $1.2 billion. Low-risk drinkers and infrequent or occasional risky and high-risk drinkers accounted for 49–66 per cent of this absenteeism. This estimated cost of alcohol-related absenteeism is far greater than previously reported and the high incidence of costs by low-risk drinkers and those who infrequently drink heavily was unexpected.

One approach to addressing concerns that external costs are concentrated among a narrow group of high-consumption users is to levy moderate taxes but to penalise intensively socially costly actions associated with high alcohol consumption. Drink-driving and alcohol-related assault should be intensively penalised as activities in themselves. Thus, the intoxicated person who walks home from the pub and ‘sleeps it off’ is not taxed prohibitively; but if the same person drives home or assaults a family member, then stringent penalties obtain. Alcohol taxes in this event capture non-extreme social costs while particular laws seek to capture externality costs.

(ii) Using volumetric taxes to penalise low-value, high-alcohol products creates incentives for unfavourable substitutions towards other intoxicants. A widespread intoxicant in Aboriginal communities is sniffed petrol, so there are incentives to shift towards this if low-cost high-alcohol beverages become more expensive. This is a ‘second-best’ constraint on alcohol taxes that reflects the existence of untaxed substitute intoxicants.

Whether alcohol taxes will induce substitution towards alternative drugs depends on whether alcohol and the drugs are substitutes — Cameron et al. (2001) suggest cannabis and alcohol are substitutes — or complements. Williams et al. (2004) suggest alcohol and cannabis are complements, so increasing the price of alcohol will reduce cannabis consumption.

Attempts to tax alcohol-induced social costs efficiently require that close-substitute intoxicants also be taxed or regulated efficiently. Policy design must account for such cross-market interactions.

(iii) Measures of consumer gain from alcohol consumption given by the area under a demand curve are exaggerated if there are self-control problems. These can be dealt with by adjusting downward benefit measures to account for compulsive consumption: the technique is used for gambling addictions (Productivity Commission 1999).
Finally, apart from implementation difficulties some have argued that there is a case for hypothecating a proportion of alcohol taxes to targeted alcohol treatment and information programs (RACP 2005). The motivation is that such revenues reflect social costs that alcohol creates. This is not true with the social costs we have envisaged, which increase more than proportionately with total consumption so optimal tax revenues exceed non-internalised costs. Hypothecation is unsound anyway since desired investment depends on program effectiveness, not only the damages alcohol inflicts. To take an extreme case, if such programs had low effectiveness then little should be allocated even if social costs are large. The function of taxes on alcohol is primarily to signal the social costs consumers are imposing at the margin. Their revenue-yielding function is secondary.

Final comments

The economic approach to alcohol policy focuses on the external costs of consuming alcohol, not gross costs. It recognises that alcohol provides benefits to consumers and supposes that internalised costs of use borne by non-dependent consumers are irrelevant from society’s viewpoint. This is based on the utilitarian precept that consumers should bear the full costs of their consumption and that, given this, society should maximise net social benefits.

This approach provides a guide to policy design with secure utilitarian foundations. Information should be provided to consumers so they assess consumption costs accurately, including genetic information and self-control problems that can develop. Self-control difficulties can be addressed with appropriate policies for treatment and by adjusting measures of benefits from consumption. With such adjustments, alcohol pricing forces prices of alcohol to full social cost (Godfrey 2004)).

Despite these reasons for adopting the economic approach it has, in fact, been applied only rather seldom. The main studies are for the US — Manning et al. (1989), Pogue & Sgontz (1989), Heien & Pittman (1993) — and New Zealand (Barker (2002). Anderson and Braumberg (2006: 68–9), in reviewing these, comment on the difficulties of implementing them given problems of defining externalities and of recognising the private component of health costs with a public health system:

...externality studies...omit any consideration of the broad range of costs borne by the individual drinker, and are more useful when conducted alongside rather than in place of more common social cost studies. This is particularly true given two contentious results of the assumptions in many externality studies — first, that any harm within the household (such as to the drinker’s partner, or children) is counted as a private cost;
and second, that drinkers are both fully rational and fully informed of the risks when they decide to drink.

This criticism rejects the liberal ethic underlying the economic approach. The claim that intra-family harm should be included as a private cost was rejected above because families do not make drinking decisions; individuals do. The argument that groups of non-drinkers can best judge what a consumer should consume is not always correct. Policies can be designed which address the needs of problem drinkers while meeting liberal precepts and standards of economic efficiency for most drinkers. To a liberal, paternalism is a questionable overall basis for public policy.

Finally, it can be questioned whether this analysis applies to illicit substances such as heroin or ‘ice’. A distinctive feature of these substances is that their consumption is socially costly even at low initial levels, suggesting a case for outright prohibition rather than regulation by taxes. With respect to activities such as gambling and food consumption, which can be behaviourally addictive and, in the case of foods, can lead to obesity problems, our analysis has value. Taxes on gambling (Productivity Commission 1999) and ‘fat taxes’ on foods (Jacobson and Brownell 2000) restrict consumption and can be pursued with policies to address self-control issues.

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Argument
The First Two Decisions of the Australian Fair Pay Commission: A Critique

Philip Lewis

Abstract

The Australian Fair Pay Commission (AFPC) was established by the Howard government under the controversial WorkChoices legislation. It was heralded by its supporters as a major improvement on the previous system of safety-net wage cases under the Industrial Relations Commission and universally condemned by the union movement and Labor. Others questioned whether a minimum wage was needed at all or even whether it was a major impediment to labour-market adjustment. The AFPC’s first and subsequent decisions were, therefore, looked on with interest by the media, academics, politicians and vested interests. This paper provides a critique of the AFPC’s first decisions and suggests how the process of arriving at a minimum wage could be improved.

Background

Australia had, until fairly recently, a system of wage determination, and of industrial relations more generally, that had only one or two counterparts in the rest of the industrialised world. Although this system underwent considerable change under the Hawke/Keating governments and this continued under the Coalition administration, a major distinguishing feature of the Australian system remained the role played by a range of arbitration and conciliation tribunals, the dominant institution being the Australian Industrial Relations Commission (AIRC), although it formerly had other titles. These tribunals set the minimum rates of pay and the conditions of work of employees set out in awards. However, by 2005 only about 20 per cent of Australian workers relied on awards for their pay determination. National awards took as their benchmark the so-called safety-net increases determined by the National Wage Case decisions of the AIRC. These decisions were made after an exhaustive process of written submissions by employer groups, unions, government bodies and other interest groups, with evidence and cross-examination taking place in an adversarial court-like setting lasting several months.

With the passing of the WorkChoices legislation in 2006 the role of the AIRC in setting minimum wages, and the subsequent changes to national awards, passed to the newly created Australian Fair Pay Commission (AFPC). The five

1 Centre for Labour Market Research, University of Canberra, phil.lewis@canberra.edu.au
commissioners, including the chair, Professor Ian Harper, were appointed by the government and differed from the AIRC Commissioners, many of whom had had extensive experience in the court room of the AIRC in their role as union or employer advocates. AFPC decisions were to be made on the basis of legislation alone, not based on arbitration between multiple parties, through a review process rather than a court-like process. Perhaps most importantly the AFPC had to consider in its reviews the capacity of the unemployed and low paid to obtain and remain in employment, something which could not be considered by the AIRC.

The AFPC was heralded by its supporters as a major improvement on the previous system of Safety Net wage cases under the AIRC, but it was universally condemned by the union movement and Labor; and some economists questioned whether a minimum wage was needed at all or even whether it was a major impediment to labour-market adjustment.

In its first decision in October 2006, the AFPC handed down a two-tiered increase, with an immediate adjustment to the minimum wage of $27.36 and a lesser increase for awards above $700 per week. And while it did cover a period of 18 months since the previous Safety Net adjustment by the AIRC, and therefore on an annual basis could be seen as equivalent to an increase of $18.24 (or 3.8 per cent) for each year, employers were taken by surprise in regard to the size of the increase granted. In its second decision, in July 2007, the AFPC increased the standard Federal Minimum Wage and all pay scales up to $700 a week by $10.26 per week and all pay scales paying $700 and above a week by $5.32 per week. Both increases applied from the first pay date on or after 1 October 2007. Taken together, the AFPC’s 2006 and 2007 increases delivered an additional $37.62 per week to Australia’s lowest-paid workers.

What was of note was that the two increases over the respective period since the previous Safety Net adjustments were, in percentage terms, almost identical to the movement in the Consumer Price Index (CPI) over the same period (the increase in the minimum wage between April 2003 and October 2007 was 7.8 per cent compared to a rise in the CPI between March 2003 and September of 7.3 per cent). It therefore had for employers an ominous look of having been an increase based on the underlying, but un-stated, concept of wage indexation.

The concern therefore was that a process of wage adjustment was being introduced which, for all the gloss of it being economically based, was in reality a continuation of centralised wage fixation (AIRC 2005) under a different name. No principles were being introduced that would provide an upper limit on the level of increase. Indeed, as discussed below, the AFPC, in its interpretation of the legislation, introduced virtually no principles at all, and the appearance of a system of an ad hoc decision-making process based on the personal views of the five commissioners was the essence of the new system.
Of even greater concern was the absence of any evidence that the AFPC considered the capacity of the unemployed and low-paid to obtain and remain in employment, despite the legislative requirement that it do so. Given this neglect, the paper now turns to unemployment, and the impact of minimum wages on employment. The sections that follow argue the need for greater consideration of the jobless in minimum-wage decisions, the need for a better framework in reaching these decisions and, finally, some thoughts on how the new federal government might improve on the current arrangements.

Is there an unemployment problem?

Figure 1 shows the history of the unemployment rate in Australia since the 1960s. Clearly, the historical average until the mid 1970s was about 2 per cent but rose almost continuously until the early 1980s.

Figure 1: Unemployment Rate (%), 1960–2007

Source: Australian Bureau of Statistics, Labour Force, cat no 6203.0, 6202.0

Since the early 1990s over 15 years of extraordinary economic growth (by OECD standards) have been accompanied by a decline in the unemployment rate to about 4.3 per cent in June 2007 (when the AFPC was considering its second decision) or 472 000 people.2

At a time when the unemployment rate is the lowest for over 30 years it would be tempting to conclude that joblessness is no longer a problem in

2 It may be observed that while macroeconomic policy can cause significant increases in unemployment, as witnessed by ‘the recession we had to have’ in the late 1980s, it is evident from a lengthy spell of remarkable economic growth that unemployment is not going to be solved by macroeconomic policy alone, nor should it be expected to.
Australia. However, as I hope to demonstrate by examining a broader range of statistics than simply the unemployment rate, this is far from the case.

The shortcomings of the unemployment rate as an estimate of excess supply of labour are well known to labour economists but not widely understood by the community as a whole or even among those regarded as informed commentators. For instance, in the ABS Labour Force Survey, from which the unemployment estimates are derived, it is only necessary to have worked for one hour in the survey week to be classified as employed. In order to be classified as unemployed, respondents must pass a number of tests regarding their readiness for work and their efforts to actively seek work.

There are a number of other measures which shed light on the extent of under-utilisation of labour. One of these is the underemployed, those who are either part-time workers who want (and are available for) more hours of work than they currently have; or full-time workers who worked part-time hours during the reference week for economic reasons. In September 2006, when the AFPC was considering its first decision, the number of underemployed was put at 544,600, raising the labour force under-utilisation rate to 9.8 per cent compared to an unemployment rate of 4.8 per cent (ABS 2006).

Another measure is the marginally attached, who want work but do not satisfy the strict availability criteria. They are those who were actively looking for work, but not available at the time of the survey or were available to start work but did not believe they could find a job. Another definition of marginal attachment used by the ABS relates to those who are looking for work, available for work or would look for work if they could. In September 2006, the number of such people stood at 274,000.

While the unemployment rate has fallen significantly over the 1990s and 2000s, the underemployment rate actually rose (from 5 per cent in 1993 to over 6 per cent in 2006), while there has been little change in the marginally attached. Adding the underemployed and the marginally attached more than doubles the official number of unemployed to about 1.3 million.

The number of those on social security payments is another possible indicator of unemployment. The ABS bases its estimates of the unemployed according to individual responses to survey questions. However, eligibility for social security payments is determined by an individual’s awareness of, and the ability to convince Centrelink of, eligibility for benefits. Figure 2 shows how the number receiving certain categories of benefit (namely, sole-parent, disability and unemployment benefit) changed over time. There are some interesting features of these data in respect of the number of recipients at any given time and with respect to trends over time.
The number of people on unemployment benefit tracks roughly the ABS unemployment estimates shown in Figure 1. However, in every year the number of people receiving unemployment benefits exceeded the number unemployed. The number of people receiving single-parent pensions more than doubled over the 20 years up to 2000, and continued to rise by 2005. Perhaps most interesting is the rise in people on disability pensions in inverse relation to those on unemployment benefit. There appears to have been a movement from unemployment benefits to pensions which, while reducing the figures for those on unemployment benefits, is costly for government since pensions are indexed to male total average weekly earnings while unemployment benefits are indexed to the Consumer Price Index.

In summary the extent of the unemployment problem is somewhere between 500,000 (the Labour Force Survey) and 1.7 million people (those on benefits).

Further, significant changes have occurred in the composition of employment since the 1980s. Perhaps the most significant impact has been on employment of males. Table 1 shows the annualised rate (not compounded) of growth in employment between 1981 and 2007.
The major trend in the Australian labour market is that the demand for full-time workers, particularly males, has not kept pace with supply. There has been a substitution of females, particularly part-time females, for full-time males. For particular groups, the changes in demand have been particularly noticeable. For instance, a full-time job for anyone 15–20 years old is now an exception rather than the rule and employment prospects are poor for many displaced older males (Lewis 2002).

The economics of unemployment and the minimum wage

The starting point here is the standard neoclassical analysis. The clue to understanding the minimum wage debate is the nature of the labour market in determining the overall level of employment and unemployment. The standard textbook treatment shows that if average wages are held at a minimum above the equilibrium wage then labour supply exceeds labour demand, resulting in unemployment. There is considerable empirical research on the labour market in Australia and the effect of rises in average wages on employment (see, for instance, Lewis and Seltzer 1996; Bernie and Downes 1999; Lewis and MacDonald 2002). This research indicates that a 10 per cent increase in average wages reduces employment by about 8 per cent. Thus, moderation in average wages increases employment and, with the usual caveat that all other things are equal, unemployment will fall.

One of the major factors in the fall in the unemployment rate since the mid 1980s is the fall in real unit labour costs (RULC) over the same period. RULC is the cost of employing labour adjusted for inflation and labour productivity, expressed as an index. RULC can fall due to wages rising slower than inflation or rising by less than the growth in productivity. The Australian Bureau of Statistics (ABS) has recently begun publishing historical estimates of RULC for the Australian economy and these are shown Figure 3. It is generally recognised by economists that the demand for labour (employment) is strongly inversely related to RULC (Lewis and MacDonald 2002).
The very high level of RULC in the early 1980s is clearly evident and was associated with the very high levels of unemployment (see Figure 1) at that time. The success of the Prices and Incomes Accord in breaking the nexus between wages and prices, particularly through the ending of full indexation, was particularly important in reducing RULC and unemployment (Lewis and Spiers 1990). The continuing fall in RULC through the 1990s and 2000s was due to microeconomic reform, including labour-market deregulation by successive ALP and Coalition governments.

It is tempting to use the above analysis to argue the effects of imposing a minimum wage for the lower paid. However, the above analysis needs to be adjusted for the analysis of minimum wages. Since most workers would obtain a wage higher than the minimum anyway, the effect of imposing a minimum wage is to increase the wages only of those who would otherwise receive the lowest wages. The effect on the average wage is small and, thus, the impact on total employment and unemployment is also small. The international empirical evidence confirms that the impacts of minimum wages on total employment and unemployment are small (Brown, Gilroy and Kronen 1982; Neumark et al. 2000). In the only recent study for Australia, Leigh (2003; 2004) also presents evidence which indicates a small but significant effect. However, despite small effects on total employment, the impact on the low-skilled is high.
To get to grips with the effects of a minimum wage it is necessary to dig deeper into the operations of the labour market. The impact of the minimum wage on employment depends on four effects — the substitution effect, the truncation effect, the leakage effect and the output effect.

An important characteristic of the multitude of labour markets is substitutability. In reality there is not a single labour market but, rather, very many labour markets, each with its own supply and demand. Although it is common, particularly in the professions, to think of occupations being rigidly defined, in practice there is a great deal of substitutability between workers (Lewis 1997). There is also strong evidence that, given the degree of substitutability, the demand for labour in these more narrowly defined labour markets is highly responsive to relative wages (Hamermesh 1993; Lewis 1985; Daly et al. 1999).

The imposition of minimum wages only directly affects those in or seeking low-skilled, low-paid jobs. These individuals are, generally, very poor substitutes for the majority of the workforce and, therefore, minimum wages have little impact on the wages and employment of most workers. However, those workers who have a market wage just above the minimum wage are highly substitutable for minimum wage workers.

Firms employ fewer of those who would have earned below the minimum wage and, therefore, unemployment among this group rises. However, these workers are substituted by more workers earning just above the minimum wage. The net effect on total employment may be difficult to detect.

In summary, the impact of the minimum wage on total employment may be proportionately small but the impact on low-skilled, low-paid workers is disproportionately high. There is a large fall in employment of workers who could otherwise have earned below the minimum wage. Minimum wages are all about distribution. Jobs and income are redistributed away from the worst off.

The truncation effect relates to the extent to which the imposition of the minimum cuts into the distribution of jobs. The larger the minimum wage relative to what the market wage would otherwise be, the larger the truncation effect (the loss of jobs). In Australia the minimum wage is high relative to average weekly earnings by international standards (Lewis 2006). The estimates of excess supply earlier in the paper, between 500 000 and 1.7 million, suggest that the truncation effect is high. Of course, because Australia has long had a minimum wage we cannot tell what the market wage would be if there were no minimum. However, it can be deduced from the characteristics of the unemployed,

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3 In addition to labour–labour substitution, there is also likely to be a high degree of capital–labour substitution since capital and low-skilled labour are generally highly substitutable (Hamermesh 1993).
particularly the long-term unemployed, namely that they are low skilled, that their market wage would be low (Argy 2005).

In summary, the characteristics of the unemployed plus the magnitude of the number of jobless suggests that the substitution and truncation effects are very high. Therefore, the minimum wage is clearly well above the wage which would equate demand and supply.

With regard to the leakage effect, there is little evidence except casual empiricism that ‘cash out of the till’ payments may be common for many employers of unskilled workers in some industries. The high preponderance of students and overseas backpackers in these industries may also be some indication of the willingness of people to supply labour in these jobs.

Finally, the output effect depends on how large labour costs are as a proportion of total costs and how sensitive is consumer demand to increases in prices resulting from wage rises. Minimum-wage jobs are generally in labour-intensive industries with high responsiveness to prices and therefore we would expect that the output effect is relatively large.

**Monopsony, anyone?**

It is worth digressing somewhat here. In recent years there has been a concerted campaign to challenge the economic orthodoxy and suggest that labour markets are somehow different to other markets. Essentially, proponents of this view try to argue it is possible for wages and labour demand to both rise! The foundation for these ideas is the work of Card and Krueger (1995). Robson (2004) has provided a lively and convincing criticism of this view and the critique below borrows heavily on his reasoned arguments (see also, ACCI 2006; Moore 2002). The empirical findings of Card and Krueger for the United States have also been heavily criticised (see, for example, Ehrenberg 1995; Osterman 1995; Seltzer 1997).

The basis of the argument is that the labour market is characterised by monopsony, whereby some employers have monopoly power in the hiring of workers. Monopsony power is where an individual employer is able to exert control over the level of wages due to their market power. This situation can arise where there is a single employer of a certain type of labour, or where the employees are in an isolated area and only have the choice to work for a single employer. Under monopsony power a small increase in the minimum wage will result in an increase in employment. The increase in wages effectively transforms the behaviour of low-wage firms into that of high-wage firms.

In the case of a pure monopsony, a firm can reduce its wages and only lose part of its workforce. This occurs because some portion of the workers are either unable or unwilling to leave. This is not the case in a perfectly competitive labour market, where all employees would leave to maintain a higher wage. Firms under
monopsony will reduce wages, because even though they are losing workers, which reduces their output and hence revenue, they have also lowered their wage bill for their remaining workers, and have hence lowered their production costs. A firm will continue to lower wages until the reduction in revenue exceeds the reduction in costs.

If the monopsony model holds, imposing a minimum wage can result in an increase in employment, under certain conditions. If a minimum wage is introduced it means that the firm will now have to pay higher wages for all its employees, increasing the wage bill. This will result in the firm expanding employment in order to increase production and, hence, revenue until the increase in revenue offsets the increase in costs.

The major problem for exponents of the above view in Australia is to explain why employers of the lowest-paid workers would have monopsony power, as there are numerous employers of low-skilled labour, and there are few impediments to these workers moving to another employer, particularly in the long term when employees can change industry and location. In a monopsony labour market you would expect to see few employers and numerous barriers to entry to new firms.

Also, if monopsony power existed, we should observe a fall in output prices as the minimum wage increases. This is because an increase in the wage will increase employment, which would expand production. For the firm to be able to sell this additional output, it would have to decrease output prices to encourage consumers to buy the extra output. All the empirical evidence shows that prices rise when minimum wages rise (ACCI 2006).

Even if there is monopsony power, the minimum wage can only rise within a certain range before it starts having a negative effect on employment, even if it initially had a positive one. Card and Krueger (1998) themselves acknowledge that if the minimum wage is raised too much, job losses will arise. The wage at which employment falls will vary across industries, making minimum wage a fairly useless economy-wide policy.

**How can the system be improved?**

Although a cogent argument can be made for having no minimum wage (see, for instance, Moore 2005), realistically this is not a politically acceptable option given the level of support the minimum wage receive from all major political parties. The emphasis in this paper is how the system of setting the minimum wage could be improved. One of the major reasons for the setting up of the AFPC was to increase the clarity and transparency in determining the minimum wage. Unfortunately, this has not occurred and it is hard to argue that the AFPC is an improvement on the process conducted by the AIRC. For instance, a frequent criticism of the AIRC was that it did not adequately explain how it arrived at
the specific values for wage adjustments and this has hardly improved with the AFPC.

What is urgently needed in a new system establishing itself as a proper means of adjusting the minimum wage is a framework that others can understand, especially those who are compelled to pay the increase. There needs to be established a series of guidelines such that those who are affected by such decisions are able to forecast outcomes which can then be used in their own budgeting. It is important that a level of certainty be established so that business is not continually faced with an unpredictable change in costs based on a decision-making process for which there are no clear principles.

The lack of clarity is unsatisfactory. More to the point, if increases can be predicted by nothing more than examining past movements in the CPI, then certainty of some kind is being given, but will have its own repercussions on the ability of the labour market to provide jobs for all who seek work.

Conforming to the movement in the CPI will also build in a form of expectation among the workforce so that any increase that is not at least as large as the movement in consumer prices will be instantly dismissed as illegitimate. It is creating a rod for its own back for the system, especially in its early stages, to be giving the impression that the aim is to compensate workers for the rise in prices over the period since the last increase. This is a form of economic addiction that will create industrial disruption over the longer term, especially if inflationary pressures increase. Under such a regime, any increase in the price level, irrespective of the cause (petrol prices and the cost of bananas being recent examples) can become part of the adjustment process.

It would be a serious mistake to consider inflation as a phenomenon of the past. Although Australia’s recent history with respect to inflation has been good, there is a need not to be complacent (Edey 2007). The apparent strength of the Australian economy is raising fears among some commentators of inflationary pressures and the possibility of higher interest rates even given the raises in 2007 and early 2008.

It is generally recognised that Australia’s previous regime of centralised wage bargaining with indexation was a major reason for the perpetuation of inflation in the 1970s and early 1980s (Dwyer and Leong 2002). The success of the Prices and Incomes Accord in reducing inflation was to act as a circuit-breaker in the centralised system, reducing real wages by 10 per cent below what would have been expected under a strict indexation regime (Lewis and Spiers 1990). A major feature of the more decentralised wage-bargaining system, begun under the Hawke/Keating governments and continued under the Coalition, is the decoupling of wages and prices through automatic indexing of wages to inflation, removing a mechanism for the direct transmission of prices to wages and, in turn, wages to prices. For much of the period of centralised wage determination, there was
some form of regular indexation of wages to the CPI. In wage bargaining today this does not generally occur. It would therefore be inappropriate for indexation to be the major focus of pay rises for the approximately 20 per cent of workers on awards determined by the AFPC.

Removing the automatic link between wages and prices, minimising flow-on effects of awards and lengthening the period between wage adjustments have been important in the management of inflation in Australia (Dwyer and Leong 2001). Regular adjustment of award wages to the CPI should be seen as a backward step in sensible anti-inflation policy.

The AFPC and its successor must provide a framework such that:

- it provides a genuine safety net which does not rigidly keep pace with short-term economic change or which is subject to continuous, unpredictable revision. It should also not proceed from the assumption that strong economic growth automatically provides the rationale for increased minimum wages;
- it must allow those who make submissions to understand what the criteria for making decisions are so that these can be addressed in their own submissions; and
- any minimum wage increase should apply only to the federal minimum wage; increases above this level should be by workplace bargaining.

The framework must make it clear from the start that its role is to provide a safety net that underpins the system in a way that encourages employees to bargain with their own employers. Wage earners should not come to expect that adjustments in the minimum wage will be equivalent in practice to increases that would otherwise have had to be negotiated with an employer.

Employers should also not have the luxury of allowing the decisions of the AFPC to stand as a proxy for ensuring that the wages paid are sufficiently high to retain their own workforce to meet all of the requirements of their businesses. Being paid according to the award should not be seen by employers as setting a standard so high that workers should under normal circumstances be satisfied with their level of compensation. The minimum wage should be seen by all as a safety net paid only to those who are generally low-skilled and whose productivity contribution is equally low. The decisions of the AFPC should not be part of a process that fuels an inflationary process.

**An advocate for the jobless?**

One of the major problems with the current system of setting awards is that there is no lobby group for the jobless, with most welfare groups arguing for higher wages. The focus of policy should be to raise the incomes of *low-income households* rather than of *low-wage workers*. There is substantial evidence that many low-wage workers are in relatively high-income households and that poor
households are usually poor because members of the households are out of work (McGuiness et al. 2006; Lloyd et al. 2004; Tsumori 2004). Thus, facilitating jobs growth should take preference over raising wages of those in work.

Unfortunately, the inflexibility resulting from awards is compounded by the social security system. Table 2 presents some interesting comparisons between the maximum disposable income for those whose income is only derived from social-security benefits entitlements and the disposable income for those working full time on the minimum wage and receiving the (reduced) welfare payments they are entitled to. The disposable-income figures take no account of non-cash benefits to which many recipients are entitled. Non-cash benefits include concessions for health and welfare services, housing, transport, education and other goods and services.

Table 2 shows that for single people, in particular, there are significant increases in disposable income by moving from social security to a job at the minimum wage but that this diminishes for those with children. It is not obvious without further analysis whether the increase in disposable income would be sufficient compensation for the move from no work to full-time work. Nevertheless, for many contemplating moving from joblessness there are high effective marginal-tax rates (AMP/NATSEM 2006) which are a major disincentive to work.

Table 2: Disposable income of selected households with income from only social security payments and the minimum wage plus social security payments, December 2006 ($ per week)

<table>
<thead>
<tr>
<th></th>
<th>Social Security</th>
<th>Minimum Wage</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(a)</td>
<td>plus welfare (b)</td>
<td>(a)/(b)</td>
</tr>
<tr>
<td>Single Adult</td>
<td>262.05</td>
<td>450.34</td>
<td>0.58</td>
</tr>
<tr>
<td>with 1 child</td>
<td>429.23</td>
<td>649.61</td>
<td>0.66</td>
</tr>
<tr>
<td>pensioner</td>
<td>307.65</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Couple (single earner)</td>
<td>418.00</td>
<td>600.69</td>
<td>0.68</td>
</tr>
<tr>
<td>with 2 children</td>
<td>587.84</td>
<td>829.42</td>
<td>0.71</td>
</tr>
<tr>
<td>pensioner</td>
<td>464.70</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>511.86</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


When income tax on wages and the other benefits and discounts available are included, together with the loss of leisure time and disutility of working in low-skilled jobs, the incentives to work may be low or negative for many. Clearly, changes to the demand side of the labour market, such as greater wage flexibility, must be accompanied by supply-side policies such as major reform of the social security and tax systems. The Coalition government did introduce stricter
conditions for eligibility for welfare benefits but it is too early to tell what the full impact of these measures will be.

According to Lewis (2002) most unemployment is due to lack of ‘effective supply’. These are jobless people for whom, given the current wage and institutional structures, there are no jobs for which they are willing to work or profitable activities which employers can find for them to do. What is required is a raft of policies which increase effective supply. These policies would involve long-run commitment to raising education participation and achievement among the most disadvantaged Australians. This is no small task, which involves improving the efficiency of the education system and widespread reform of social security, taxation and income-support systems for low-income households (Lewis 2002).

However, supply-side policies can only work if there are flexible wages. Supply-side policies shift the effective supply. People who were previously unemployable or unwilling to work now enter employment as the real wage falls for people at the margin. However, new jobs can only be created if there is an increase in demand for low-skilled labour which requires downward flexibility in wages. People willing to supply their labour can only make this effective if employers can find profitable work for them to do.

**Conclusion**

It has been argued here that reducing joblessness among Australia’s most disadvantaged is not easy and requires a whole range of labour-market, welfare, social and education policies. However, part of any package of measures would be incompatible with the current minimum wage.

The AFPC has replaced the previous means of setting the minimum wage and other award conditions. Importantly, the AFPC is required to take account of the impacts of wage rises on employment and unemployment. The inclusion of the interests of the most disadvantaged, the jobless, rather than simply the interests of the unions and employer groups, has the potential to be a major step forward. Setting a wage that allows everyone who wishes to work to find paid employment must be the core aim of the process. Pricing workers out of jobs should be strenuously avoided.

Market forces, as exemplified by supply-and-demand analysis, should underpin the logic of the decisions. There are many considerations that go into the final determination of the adjustment but primary among these must be the certainty that excessive wage increases will keep many people out of work who otherwise would find jobs.

Although some employer groups argued that the old system should be abolished they have found that they have another one very much like it in its place, a major difference being that there is only the opportunity for submission
of argument and no opportunity for debate on the relative merits of these submissions.

The suggestion that the minimum wage must be raised to a level that allows wages to compete with the welfare payments that might instead be received is economically unsound and deeply insulting to the unemployed. The decision to work rather than live on welfare is thus taken from the unemployed who would to some extent be in a position to choose whether to work or remain on welfare. Welfare should be seen as an entitlement for those who have no alternative. It was incumbent on the AFPC to point out the problems inherent with setting a minimum wage which maximises employment in the context of a generous social-security system.

There are a number of technical issues in regard to the conduct of the AFPC wage decisions that are important considerations.

There is, primarily, a question of whether the AFPC has stayed within its Terms of Reference. The objective of wage determinations of the AFPC and matters to which it is to have regard is set out in section 23 of the Workplace Relations Act:

…the objective of the AFPC in performing its wage-setting function is to promote the economic prosperity of the people of Australia, having regard to the following:

The capacity for the unemployed and low paid to obtain and remain in employment;

Employment and competitiveness across the economy;

Providing a safety net for the low paid;

Providing minimum wages for junior employees, employees to whom training arrangements apply, and employees with disabilities that ensure that these employees are competitive in the labour market.

Section 24 of the Workplace Relations Act gives the AFPC wide powers to determine its own procedures. The AFPC may determine the timing and frequency of wage reviews; the scope of particular wage reviews; the manner in which wage reviews are to be conducted; and when wage-setting decisions are to come into effect.

The brief the AFPC has made up for itself is a very wide one which seems to go beyond the intent of the Act. The terms of reference of any body which replaces the AFPC should be looked at thoroughly to ensure that they are not being exceeded. It is not clear at the time of writing exactly what will be the approach taken and the terms of reference of the Rudd government’s alternative to the AFPC under the umbrella of the omnibus industrial-relations body Fair Work Australia.
A major fault in the AFPC process is that it is one in which submissions can only be addressed to the issues and not to the submissions of other parties. The AFPC and its successor should welcome the observations of individual parties on the submissions made by others. It will deepen the process.

The relevant decision-making body within Fair Work Australia set the task of determining the minimum wage needs to be more clear cut about its own reasons for a decision. Statements by the Chair of the AFPC outside the process that he was pleased to be able to be told of the financial difficulties faced by those on low incomes suggests that the process is attempting the impossible. Adjusting the minimum wage should not be seen as an aspect of social welfare.

The process should adjust the minimum wage only. Adjustment of all award rates perpetuates the centralised system. Minimum-wage adjustment allows the labour market to adjust, while the maintenance of the award structure prevents relative wage movements in response to changes in the market from taking place.

Hopefully the new Fair Work Australia will take on board the criticisms of the AFPC and introduce a more satisfactory process

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CONTROVERSY
The Northern Territory Intervention in Aboriginal Affairs: Wicked Problem or Wicked Policy?

Gary Johns

This paper takes up the debate kindled by Boyd Hunter in ‘Conspicuous Compassion and Wicked Problems’ (2007). The present paper’s contention is that just as unemployment is a ‘matter of choice’ — in the words of Treasury Secretary Ted Evans in 1993 — so too is Aboriginal despair. In the case of Aborigines, there is a price to pay for an alleviation of that despair; a change in behaviour. But changing behaviour — in other words, becoming less ‘cultural’ and less ‘authentic’ as an Aboriginal — has until recently been ruled out of the policy lexicon. For this reason many Aboriginal people, especially those locked out of the economy and sitting in dysfunctional communities, have paid a price because policy-makers have restricted their choices to a sub-set of those available to other Australians.

The ability of Aborigines to change their behaviour and the cost of change are matters for debate. But as long as appalling behaviour continues, not changing is not an option. At the very least, the recent intervention by the Australian Government into the Northern Territory — the Emergency Response — has opened a space for a more realistic debate about choices in Aboriginal policy.

The origins of wicked Aboriginal policy

The history of recent Aboriginal policy provides a clue to its ineffectiveness in the face of apparently wicked problems. In doing so it is possible to find that it was the policy-makers’ vision that was wicked, not the problem itself.

In 1976 Nugget Coombs, chair of the Council for Aboriginal Affairs, said: ‘I wish that some Aboriginal leaders could evolve something equivalent to the Nyerere’s [first President of Tanzania] Ujamaa Socialism as a guide and rallying point for their political action’ (1976: 15). For the record, Nyerere had tremendous faith in rural African people and their traditional values and customs, and believed that life should be structured around the ‘ujamaa’, or extended family, found in traditional Africa. He believed that all Africans needed to undo ‘imperialism’ to return to their traditional mode of life. To that end, Nyerere introduced a policy of collectivisation in Tanzanian agriculture. Unfortunately for Tanzanians, the ‘ujamaa system’ failed to boost agricultural output. By the
time Coombs was waxing lyrical about Nyerere’s dream, the collectivisation had ended and Tanzania had gone from the largest exporter of agricultural products in Africa to the largest importer of agricultural products in Africa. Commenting on his economic policies in his farewell speech at his retirement in 1985, Nyerere declared: ‘I failed. Let’s admit it’ (Maier 1998).

Too much faith has been placed in traditional values and ways of life and the attachment to land as both a means of economic and spiritual sustenance. There are few working cattle properties on Aboriginal land anywhere in the north, despite these being in Aboriginal hands since the 1970s: all are leased to white men. Many Aborigines who have claimed Native Title are distraught at the base politicking associated with the claims process, which inflames old family and clan hatreds. Successful claimants do not always visit the land; and if they do, it is often because of the inducement to secure a government job in a cloistered role — for example, as a ‘park ranger’ or ‘environment interpreter’.

In his 1976 address, Coombs (1976: 10) quoted from the 1969 view of anthropologist W. E. H. Stanner (in ‘After the Dreaming’): ‘When we took what we called land we took what to them [Aborigines] meant hearth, home, the source and focus of life and the everlastingness of spirit.’ Clearly, Aborigines have a deep attachment to their land, but it may have been wiser if Coombs had also quoted from the 1958 Stanner (1979: 49):

I have seen a man, revisiting his homeland after an absence, fall on the ground, dig his fingers into the soil, and say: ‘oh my country’. But he had been away voluntarily; and he was soon to go away again voluntarily. Country is a high interest with a high value; rich sentiments cluster around it; but there are other interests; all are relative, and any can be displaced.

Land has indeed been displaced as a source of direct sustenance. Sustenance is now indirect — royalties and pensions. Traditional law has been replaced because it does not have an answer for modern problems (such as alcohol abuse) and it cannot provide the remedies for old problems, such as ‘improper’ marriage, because the discipline required is illegal. The old enforcement kept old men in charge and young men and women in fear of their lives (Tonkinson 1990: 127). There are now far more powerful, fair and malleable sources of law available from the white man.

The recent struggle to save the Aborigine has really been a struggle to save the white man’s conception of the Aborigine. It mirrors the earlier misconception in the assimilation period that full-bloods were beyond civilising and half-castes should be separated and intensively schooled. It would be a useful research exercise to see which path — assimilation or self-determination — saved the most lives. The number of people now identifying as Aborigine off-country far
exceeds those living on-country, and Aborigines who are by and large, integrated into the economy and society are better off on all measures of wellbeing. They have higher incomes, are more likely employed, more highly educated, less prone to diseases, less likely to be gaolred, less likely to be murdered, less likely to contract sexually transmitted infections (Productivity Commission 2007a: Ch. 3; Department of Communities 2006; AIH&W 2005; Measey et al. 2006; FaCSIA 2007: 56.) and on and on. There are many instances where Aborigines in regional areas and in town camps are not much better off than those in remote areas, and some measures of need (for example, housing) may be the result of inadequate provision; but, as argued below, the investments have been made again and again but have failed to change behaviour for the better.

Indeed, the research agenda in Aboriginal policy has been stunted by wicked policy options. For too long, data on Aboriginal indicators has not been available on a spatial basis; that is, by remoteness classification. For example, children’s school attendance has compared Aboriginal with non-Aboriginal and, until recently, it has been difficult to compare the performance of Aborigines in different circumstances. When it has been available, the answers are stark: ‘[A]verage levels of literacy and numeracy achievement for Indigenous students living in remote areas were substantially below those of other Indigenous students … In contrast, geographic location had minimal effects … for non-Indigenous students’ (ACER 2005: 3). As the data becomes more readily available, it has become clear that there are three classes of Aborigine: those in discrete communities, mainly in remote areas; those in transition to integration, mainly in country towns; and all others. A new research agenda may be advisable. It should study matters such as integration pathways, Aboriginal migration, and choice-modelling to indicate the cost of individual choices for a given value set, and cost-benefit analysis of all policy options.

The impossible dream created the wicked problem

Two essential elements of a wicked problem — that the problem is not understood until after a solution has been formulated, and that the stakeholders have radically different world views (see Hunter 2007: 37, quoting Conklin) — apply to Aboriginal policy. Aboriginal policy in the last 30 years has been formulated on the impossible dream that Aborigines could accommodate the new world to suit themselves and that any shortfall in terms of economics or poor behaviour would be picked up or forgiven by the state. The formulation, which may be labelled ‘self-determination’, has very substantial intellectual support. The alternative position in Aboriginal policy is integration, which is indeed a radically different world view. It suggests that Aborigines are entitled to reach their own accommodation with the modern world but not in a way that requires constant subventions and not in a way that condones bad behaviour. There is an element of pre-judgment in finding the solution to the Aboriginal problem but, as the
The present formulation has been found wanting, it is open to the policy-makers to try. The essential lessons of self-determination are that, in the face of a depleted and non-adaptive culture, group pride is not a good motivator, and attachment to land can be a curse. The alternative is to treat Aborigines as other citizens are treated, and allow them to integrate into the modern economy under the same suite of incentives and disincentives and civil obligations as others. All that remains is for the policy-makers to shift ground.

Hunter’s (2007: 37) observation that the ‘modernisation project’ is inconsistent with the maintenance of ‘culture’ is a good starting point. Many have observed the ways in which Aboriginal culture is inconsistent with success in a modern economy, but few have been game enough to suggest a path to overcome it. Too frequently ‘culture’ has been used to veil or excuse bad behaviour. For example, it has been recognised for a long time that Aboriginal economies in remote areas operate by ‘demand sharing’ or ‘humbugging’ (that is, where kin demand the immediate use of whatever a person owns), rather than by individual accumulation of physical or financial capital (Martin 1995: 19). Yet there is no suggestion Aborigines should be advised that this is why they are poor, or that this aspect of the culture must change. The inconsistencies between personal obligations in more traditional Aboriginal culture and contractual (and work) obligations in a commercial society are at times profound (Folds 2001: 51); yet there is no suggestion that the culture must change (although Folds, at least explicitly, acknowledges that choosing ‘culture’ is to choose poverty). Aboriginal associations have to cope with the need for impersonal relations which are at odds with customary obligations yet there is little acceptance (Rowse 2002: 231) that the culture must change.

The uncomfortable fact is that, having recognised for decades the impediment that Aboriginal culture poses to success, policy-makers nevertheless chose cultural observance over success. Such choices ensure that the ‘cargo cult’ (Lawrence 1964) is alive and well. The consequence is that if people are maladapted to modern society they are, in fact, trapped in a culture of bad behaviour, a ‘sick society’ (Edgerton 1992) that continues to reproduce its awful daily mores. The truth that confronts those who want to preserve culture is that they have not addressed the 1959 position of Paul Hasluck, the then Minister for Territories:

While it is of course, desirable that Aborigines should retain the best aspects of their own culture, it is important for them to realise that tribal obligations have to be considerably modified to meet the basic requirements of the new way of life. So long as the old tribal obligations are felt in that original form, they will retard the advancement of Aborigines towards assimilation. (Paul Hasluck, 1959)
Strike out the no-longer-acceptable term ‘assimilation’ and substitute ‘economic integration’ in the Minister’s statement and the sentiment is the same as that of Hunter above (2007: 37): the ‘modernisation project’ is inconsistent with the maintenance of ‘culture’.

That there are parts, if not a great deal, of Aboriginal culture that retards Aboriginal advancement is well accepted. Unfortunately, ‘progressive’ Aboriginal politics is built around the enduring assumption that cultural preservation is fundamental to ‘identity’. Identity politics works, however, on the assumption that group bravado works better as a motivator than the individual desire to do better (Sowell 2005: 256). For example, despite suffering discrimination, immigrant groups who succeed in the adopted society do not wait for their political leaders to broker a ‘solution’ on their behalf. Instead, they set out to succeed in the things that are most likely to determine their future, such as the labour market. In addition, although it is possible for a racially distinct middle class to emerge, as among American blacks, the common course is for successful immigrants to succeed through intermarriage as well as economic engagement. While the intermarriage rate for an Aboriginal woman in Sydney is 84 per cent, it is four per cent for an Aboriginal man in the NT outside of Darwin (Birrell 2007). For those in remote areas, the prospects for one form of integration are poor.

The emphasis on sustaining Aboriginal land, culture and language ignores the effect on the inability to produce goods and services that the rest of the society wants. The result has been unhappy and poor people. The ‘culture cult’ (Sandall 2001) has been a curse in the way that the ‘resource curse’ and the ‘aid curse’ (Bhagwati 2005) have. Each has disabled the hopeful beneficiaries of those windfalls and for much the same reasons. Aboriginal aid passed its absorptive capacity a long time ago; the wastage and the damage has been phenomenal.

### Two interventions in the Northern Territory

The two interventions in the Northern Territory — the NT government’s Wild and Anderson report, and the Howard government’s Emergency Response — illustrate vastly different conceptions of, and solutions to, the wicked problem of Aboriginal communities.

The origins of the Australian government’s Emergency Response in remote Aboriginal communities seem to be an object of fascination. According to one source, the circumstances were that the April 2007 NT government report on child sexual abuse, *Little Children are Sacred* (Wild and Anderson 2007), had caught Prime Minister Howard’s attention. The result was that the Prime Minister mentioned to his Minister, Mal Brough, shortly before a Monday question time

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2 As told to the author by Mal Brough, 11 January 2008.
in the House of Representatives that he was thinking of ‘cutting off the grog’ in Aboriginal communities in the Northern Territory. The matter was raised by Howard in Cabinet the same afternoon, but as a standalone measure Brough was opposed. As a result, Brough was asked to bring a package to Cabinet later that week, and he sat down after Cabinet and wrote at the top of a sheet of paper ‘How to fix a town’ and proceeded to build a ‘to do’ list. He took his thoughts to his senior officers and by Thursday’s Cabinet meeting the intervention package was born. The intervention took place in June 2007 and the legislation to accompany the intervention was introduced in August 2007.

Clearly, John Howard wished to make some form of dramatic move on Aboriginal communities, and the wish presented the Minister with an opportunity to intervene in a bold manner. He did so with a military model in mind, using logistics—people who could do things on the spot: no meetings, no permits, no obligations and no negotiations — the things that strangle resolve — just doing what he deemed necessary.

The background to the Minister’s conception of the intervention was that in May 2006 Nanette Rogers, a Deputy Crown Prosecutor in Alice Springs, had revealed the widespread nature of child sexual abuse in the Northern Territory. Subsequently, Brough secured agreement from a national summit of the states (hastily convened) to work on child sexual abuse. But nothing happened. As is often the case in politics, an old agenda was brought forward at the propitious moment, and the Wild and Anderson report Little Children are Sacred was used as the pretext. While the report was the catalyst for the Howard government intervention, it was never the intention of that government to implement the recommendations of the Little Children are Sacred report. Implementation (another form of intervention) was left to the Northern Territory government.

More recently, the new Labor government has extended to Wadeye in the Northern Territory and the Kimberley in Western Australia the income-management scheme contained in the Emergency Response legislation, and the Noel Pearson-inspired Family Responsibilities Commission will be the vehicle to expand income management to Cape York in Queensland. Labor also wishes to reinstate in a modified form the permit system and has plans to modify, presumably meaning keep alive the Community Development Employment Projects (CDEP) program.

To characterise the respective interventions, the first risks saving the and losing the child (NT government and self-determination) and the second risks saving the child and losing the culture (Howard government and integration). Unfortunately, to lose the child is to also lose the culture. While this characterisation may be too stark and is no doubt oversimplified, the trade-off it implies proves too hard for most governments. They prefer to avoid the trade-off by recommending rounds of consultations and reinventions of existing
programs. The Wild and Anderson report confirmed the depth of the problem of child sexual abuse in Aboriginal communities in the NT. The recommendations, however, assume that so long as more funds are applied and the community is consulted, life should continue in remote communities without changes to economic incentives. The Howard intervention on the other hand was preceded by major changes to economic incentives such as the removal of remote-area exemptions for social security obligations, effectively the abolition of Indigenous Community Housing Organisations and encouragement of home ownership, an implied consolidation of communities by withholding funds from homelands and outstations with the abolition of the Community Housing and Infrastructure Programme and its replacement by the Australian Remote Indigenous Accommodation Programme, the regularisation of training and unemployment incentives with the abolition of CDEP, changes to land tenure through the Aboriginal Land Rights (Northern Territory) Amendment Act 2006, and so on.

The critics of the Howard intervention are concerned that Aboriginal people have been subjected to a great deal of management. It is clear, however, that Aboriginal people are already subject to a great deal of management, either from white public servants or black political leaders. Living collectively means being managed; failing to integrate, and therefore failing to lead an independent life, means being managed. Those whose policy goal is autonomy for Aboriginal need to appreciate that autonomy is conditional and mostly available to those who make a contribution to the common wealth. Sitting in a camp, playing cards and neglecting children does not constitute a contribution. The first rounds of mutual obligations in Aboriginal policy were designed to shift behaviour from dependence to autonomy by enforcing obligations on beneficiaries. Unfortunately, they ran into another cultural blocker: they were focused at a collective level. The agreements ran into the sort of problems that all programs for Aboriginal people do; that responsibility is not sheeted home to individuals. Consequently, Shared Responsibility Agreements, which are collective bargains between communities and government for the performance of certain functions in return for infrastructure — for example, ‘no school- no pool’ — have consumed an enormous amount of public investment with very little return. Nevertheless, the exercise allowed the discussion of obligation to be raised, albeit in ineffectual community forums. The next step is to make obligation an

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3 ‘Community’ is here taken to mean a common location where the majority of people are Aboriginal and which has more than 250 people. It is permanently occupied and has a minimum of three services such as a school, clinic and store, and full access to all utilities. It will also have a legal corporate governance and management structure (Phillpot 2007: 3).

4 ‘Homeland’ is here defined as a common location occupied by the traditional owners or those people with a direct link to the traditional owner of the land. It has fewer than three services and may or may not be permanently occupied. ‘Outstation’ is similarly defined and is distinguished by the fact that the residents may not be able to demonstrate traditional ownership and may only have a general association with the area (Phillpot 2007: 3).
everyday part of the incentive and compliance structures that every person must face, as for example canvassed by Andrews (2005) in a case study of Mutitjulu in the NT. The Family Responsibilities Commission experiment in Cape York is the next generation of the mutual-obligation experiment. It creates individual incentives and obligations and is built on the observation of Folds (2001: 50, 82) and many others that Aboriginal accountability to kin is far stronger than to community. In other words, Aborigines in remote communities are not overly collective in a western or socialist sense; they are kin oriented.

Policies such as ‘work for the dole’, lax policing of truancy, poor enforcement of rent payment and, until very recently, remote-area exemptions to social-security obligations, when coupled with living in places with poor work prospects cause bad behaviour. Rather than mask poor policy with massive resources it would be better to change the policies to change behaviour, at the same time anticipating the problems along the way. Government, hopefully in conjunction with Aboriginal people, must set the parameters that allow each person to know what is acceptable and what is not. People should have choice and know the consequences of their actions. In the case of children for example, they should be afforded the right to protection and the obligation of compulsory school attendance. Where such rights and obligations are unachievable, as will be the case in many remote discrete communities, they must be delivered in ways and in places that are achievable. The policy task is to find an exit strategy for Aborigines locked in discrete remote communities, town camps or, indeed, in urban ghettos. Such paths will not be free of casualties, but the present policy-settings indulge horrendous outcomes.

The casualties of integration will be those people who cannot adjust to modernity. For those who are pessimistic at the prospects for behaviour change, the numbers will be large; for the optimists, the numbers will be small. For example, Folds’ (2001: 181) understanding of the Pintupi of the Pilbara is that they ‘are an innovative, modern people, engaging selectively and creatively with the contemporary world while living their lives with great exuberance on their settlements’. Folds is clear that in pursuing their lives Pintupi will remain materially poor and dependent. Policy-makers find the trade-off between preserving culture and equality unacceptable, so they fund the culture and the poverty alleviation caused by the culture. Where the ‘exuberant’ lifestyle, however, descends into child abuse, violence and substance abuse the policy masking becomes unacceptable. This is not to argue that family obligations need to be broken or families broken up in the search for work. It should be possible for more-traditional Aborigines to live closer to work and maintain their ties; but where maintaining their land base and kin ties becomes the sole purpose in life, equality cannot be expected. Where behaviour descends into abuse it cannot be tolerated.
In fumbling towards the realisation that the previous policy settings did more harm than good, the Howard Government intervention sought to change the long-term policy goal in Aboriginal affairs. It was becoming more acceptable to assert, for example, that being an ‘Aborigine’ was no longer an excuse for absence from the primary civic obligation of compulsory school attendance. School attendance had been allowed to slide because the outstation or homeland movement of the 1980s removed children from schools. Education departments found supplying teachers to outstations very difficult. In some settlements behaviour was so bad that normal schooling was difficult because the child attending was not prepared in the manner expected and assumed. The child was not well rested, nourished and ready for the day’s lessons. Self-determination created a wicked problem for Aborigines. Their lives were confined to the insular world of Aboriginal politics and public-sector provision.

Wild (2007: 119) has been at pains to point out that the Howard government’s intervention ‘missed the central point’ of the recommendations of his report. As noted above, it was never the intention of the Howard intervention to implement the Wild recommendations; but, for the purposes of the debate, Wild argued that no solution should be imposed from above and community involvement was a key component of the solution. Like a score of previous reports on Aboriginal child sexual abuse, the Wild and Anderson report suggested that the root causes were the ‘breakdown of Aboriginal culture and society’ and that ‘community involvement’ and/or ‘consultation’ were an essential response (Wild 2007: 113). The authors of the report were well aware that consultations are the lingua franca of Aboriginal life. At a recent review of the Community Housing and Infrastructure Programme, for example, there were 132 consultation meetings in three months in one community alone (FaCSIA 2007: 14). The fact that consultations were not an aspect of the Emergency Response may be a break with convention, but consultations are no measure of policy effectiveness. Indeed, consultations are an example of a policy goal or, more accurately, a policy-maker’s goal that may inhibit a policy solution.

For the most part, the Wild and Anderson recommendations call for more funds to be devoted to public goods and services in Aboriginal communities. There is no mention of the fact that the appalling behaviour which was the subject of the report was probably not exhibited in earlier generations when resources were much less-readily available. The recommendations do not seriously challenge the assumptions of business-as-usual in Aboriginal policy. The report offers a very conservative response to a problem which it, like the Howard government, regards as an emergency. The recommendations proceed on the assumption that Aboriginal ‘culture’ and ‘society’ can be fixed, and fixed in a very particular way. That is, even though a large proportion of the population exhibits appalling behaviour such people should be the master of their destiny and stay on their country, regardless of the ramifications for their safety, health,
education and employment prospects. Changing culture and changing bad behaviour, much less the challenge of modernisation, are not mentioned. By contrast, a member of the Australian government’s National Emergency Response Taskforce concluded:

Those people living on remote communities, including those people who have moved there from remote outstations, who are capable of working or training for work and who cannot find a job or job training there, may well have to move closer to the nearest available jobs or job training facilities i.e. the nearest regional towns. (Reeves 2007: 8).

The wicked problem dissolves very quickly when the policy goals change. While there is a price to be paid for each Aboriginal policy path, the price of Aboriginal self-determination is proving very high. Those who would argue that the self-determination revolution is incomplete need to take stock: literally they need to assess who has benefited from the dream and who are the casualties. They may like to test whether the children of assimilation are happier than the children of self-determination. Assimilation was a crude policy designed to create paths for Aborigines into the Australian society. It involved leaving behind all remnants of the earlier identity, although often for good reason (Marchant 2003). This policy was ill-founded because it is now clear that ‘identity’ is important to wellbeing. But self-determination involved creating an entire life around ‘identity’; so much so that it excused and continues to excuse bad behaviour. In the post-self-determination era new paths to integration need to be mapped and the minimum obligations for receipt of the benefits of the society need to be stated.

Misplaced fear of old problems — fringe dwellers

A reason for wicked policy is that Aboriginal adjustment almost inevitably involves changing locations. There are few jobs in remote locations (DEWR 2006) and if Aborigines are to engage in the workforce they will have to move to those places where jobs exist for their level of skill, which by and large means a shift to town. Encouraging people to stay on their land and outside of the labour market incurs a real penalty. Indeed, having people come to town incurs a real penalty, but the difference is that the former is permanent and the latter may be temporary, provided people change their behaviour along with their location. So long as provision is made to assist people to adapt, the long-held fear that Aborigines are ‘coming to town’ (see Etherington 2007) is misplaced.

Aboriginal settlement policy is rarely explicitly stated, but the emergency intervention and other housing-policy initiatives of the Howard government provided some indications. There seemed to be a covert policy of physical consolidation of Aboriginal communities because the 73 ‘intervention’ communities were quite simply chosen on the basis of size (any community over
the inference being that the Australian government would no longer service any smaller community. Wadeye in the NT, for example, would be funded not because it deserved the same infrastructure as any town the same size (the public rationale), but because of the fear that if the largest Aboriginal community could not survive then no others would. The entire edifice of discrete Aboriginal communities would collapse.

The settlement side of the intervention (or the assumptions behind it) have not been thought through. It could be concluded that the aim is the consolidation of larger Aboriginal settlements, presumably based on the assumption that these are easier to service. Indeed, outstations are not easy to service but the cost of servicing is a minor matter. The real policy must be to work out how to best place Aborigines in a position to enter the labour market. No matter how inventive public servants are in relabelling employment programs as Aboriginal investment programs, the market will not come to remote communities. If people are to locate near a labour market they will come to town and lest they end up in town camps and recreate the appalling behaviour of outstations then they will have to be managed. The short-term adjustment is akin to a refugee problem. It will be expensive and difficult but it has a realistic outcome. The present policy is to hope or pretend, a la Folds (2001) that there is something innovative going on ‘out there’. There is not: the reason for the Emergency Response and the Wild/Anderson Report is that mayhem is going on out there.

Supporters of Aboriginal land rights worry about securing a future for Aboriginal people in a culturally identifiable way, but they share with the white society the worry about fringe dwellers. Such concerns have a long history. A. O. Neville’s (the Aboriginal Protector) advice to Rod Schenk (missionary) of Laverton Western Australia is as fresh today as it was in 1920s: ‘Don’t collect the natives near a town, or they’ll become a nuisance, and then we shall have to shift both you and the natives’ (Morgan 1986: 1).

And:

It is hard to conceive of anything more unlovely or degraded than the dirty native who hangs around the Australian bush towns, clad in the filthy cast-off garments of bush civilisation, but the same native in his natural state is a very different being.


The observation persists that an Aborigine on his land will be fine, while an Aborigine attempting to integrate to white society living on the fringes is damned. But an Aborigine behaving badly by sitting around playing cards and drinking can occur in remote localities ‘on country’ and in town camps and in urban ghettos. Wherever it occurs, such behaviour is unacceptable and there
are laws in place to penalise and or assist people stuck in such a funk. But there seems to be an assumption that such behaviour is more acceptable for Aborigines on their own land. The probable reason is that they are out of the way. Excusing bad behaviour on Aboriginal land prevents intervention and prevents adjustment. It also provides a ready-made escape from the need to change behaviour.

Some clues to the growth of recent inappropriate policy and the fear of fringe dwellers may be gleaned from the 1982 report of the House of Representatives Standing Committee on Aboriginal Affairs ‘Strategies to Help Overcome the Problems of Town Camps’. The report contained a letter from the infamous Robert Bropho, latterly gaolled for indecently dealing with young girls at the Swan Valley Nyungah community (now closed). He stated: ‘All Aboriginal people became fringe dwellers the day the white man set foot upon this continent. All Aboriginal people are fringe dwellers until the land is given back’ (Standing Committee on Aboriginal Affairs 1982: 3).

The Committee indulged the Bropho view but failed to realise its implications for Aboriginal people. It noted that making town camps more attractive would attract people from outstations. While supporting three strategies — improving town camps, relocating people into conventional housing, and making outstations and properties more attractive — the real emphasis of the recommendations was to increase support for outstations and buttress CDEP (work-for-the-dole) in home communities so as to attract people away from town camps, thus making integration more difficult.

Perhaps as damaging was the acceptance of advice that fringe dwellings should be legitimised by calling them ‘town camps’. Fringe dwellings convey a sense of transition; ‘town camps’ implies permanence. In its settlement manifestation the essence of the apparently wicked problem is that policy-makers have been, and are, prepared to play ping-pong with Aborigines. They hope that the ‘culture’, which policy-makers know is bad behaviour, can be kept out of sight by keeping Aborigines out of town. But in keeping Aborigines out of town they deny them the chance to gain a foothold in the economy. Treating a very difficult problem as wicked is to duck the responsibility in the hope of avoiding the downside of the only sustainable option: integration including relocation.

The implications for such policy indulgence are profound. For example, a key issue for government is to decide where to build new houses for Aborigines. A view from one Aboriginal leader suggests that houses cannot be built in many existing communities: ‘No Government can justify keeping on building houses in the middle of nowhere where there is no school, no healthcare, no law and order, unreliable power and water, no jobs … and no hope for another generation of our young people’ (FaCSIA 2007: xx).
The fact is that the Australian government has invested around $2 billion in Aboriginal housing over the last 10 years without an appreciable increase in the number of houses (Brough 2006). In the last five years, the Aboriginal housing stock has only increased by 471, or 2 per cent, to 21,758; and in the Northern Territory there are 271 fewer houses than there were five years ago. In 2005–06 the Federal and State governments spent $2.4 billion (Productivity Commission 2007b: 228; Australian Government Secretaries’ Group) in dedicated housing-and-accommodation support programs for Aborigines. In addition, Aborigines have access on a needs basis to a range of other accommodation support services on the same basis as other Australian citizens (FaCSIA 2006: 101). Shortages are not the result of any underspend. A major cause of the shortage is a lack of care for houses. It stems from a cultural problem — many Aboriginal people do not understand that an asset needs to be maintained. Cooper and Morris (2005: 30) highlight a further aspect of a ‘cultural’ problem aligned with the abuse problem:

[When] men who perpetrate domestic violence or sexual abuse stay in the houses … the women and children [are forced] to leave to seek somewhere safe to live: there are men around here living in five bedroom homes by themselves. The women move and the blokes stay in the house.

While ‘culture’ prevails, it is very difficult for governments to provide adequate housing. Consequently, the existing housing stock has been appallingly maintained. In the last five years, the proportion of the housing stock needing major repairs increased from 19 per cent to 23 per cent (ABS 2007). Aboriginal-controlled/inhabited housing, for example, lasts about seven years while other government housing lasts about 40 years. The problems are exacerbated because very low rents are charged on Aboriginal housing in remote communities and land-tenure limitations prevent people from exercising any option other than to wait for government to build them a house. In some communities the dominant families have houses in their homelands and in the main community. Most homeland people spend much of their time living with relatives in the larger communities where services such as health, education, retail and recreation are livelier. Housing allocation is a constant source of grief for people who continually miss out, particularly those families with many young children who have witnessed for many years the differences in housing renovations, size, siting and number being provided to dominant families.

Typically, policy response to these problems has been to mollify the needs of what has become a recreational lifestyle among remote-area Aborigines. For example, to facilitate visits by kin, the design of new houses in remote centres would ‘benefit from well-sized, positioned and perhaps screened verandah spaces, adequately sized living spaces that can be used to accommodate temporary campers, detached shade structures that can accommodate visitors, well designed
wet areas, additional showers and toilets’ (Memmott 2006: 4). And further, ‘to provide a base for relatives from outlying communities, new house designs and renovations in the regional centres should be created to accommodate such semi-permanent migration of relatives’ (Memmott 2006: 5). The policy suggestions arising from these observations are that Aborigines should have built for them houses sufficient for all of their guests at both ends of their journey, in remote areas and in the regional centres as they circulate between the two. As Folds (2001: 79) makes abundantly clear:

> When symbols of social justice, such as houses, are provided there is an anticipation of equal outcomes … and of grateful Pintupi repaying the government by living in the houses … what bureaucracy see as a small price to pay for government ‘generosity’ is actually an extremely difficult and complex expectation to fulfil.

The town camps may be compared with the dark satanic mills of industrial England, but the mill towns were places of transition. People who lived in tenement houses at the turn of the 20th century, for example, did not stay long. They got a foot in the door of the emerging economy through the garment industry and then moved on both geographically, to the suburbs, and economically, to establish new businesses. In short, people adapted. Aborigines may be culturally more removed than Europeans from the ‘needs of industry’ but the journey is just as vital. Preventing people from adapting is dangerous and harmful. It leads to abuse of alcohol, of wives and children.

**Misplaced fear of old problems — economic change**

Aboriginal adjustment also inevitably involves economic change. In this area the fears of policy-makers have tended to vacillate between the insult of being lower class and the distaste for being white. In the mission period, the criticism was that Aborigines were only prepared for modest roles such as labourer or domestic servant. In the self-determination period, the tendency was that Aborigines should not be prepared for anything much except perhaps as elders, artists and representatives. That Aborigines may have to start at the bottom of the pile is no different from any uneducated and poorly assimilated group — refugees, for example. The preference that Aborigines should only work in some culturally appropriate tasks, thereby preserving their culture, is debilitating. The policy-maker may have to make a bold assumption, but a modest start in the real economy is better than being held in a designated Aboriginal role for all time.

Various economic policy options have been suggested for Aborigines (for example, Phillpot 2007). Most, however, run into problems (highlighted below in italic) of designated roles. For example:
The welfare model — where people are recognised as being outside the mainstream economy and on that basis are supported until such time as they have the desire and the capacity to relocate and participate in the mainstream economic life of the community.

Such desire never arises because the incentives are to remain on welfare. There are significant numbers of African refugees in Darwin who, despite their obvious racial identification and poor skills, are employed. By contrast, many Aborigines are unemployed. The expectation among Aborigines is that they do not have to work, and the welfare model which was supposed to be temporary became permanent when Aborigines were exempted from the obligation to seek work. They were free to pursue land claims, which left them stranded on uneconomic land seeking rent from mining companies, and to practise self-determination, which left them at the mercy of those who controlled the purse strings within their own communities — not to mention an army of ‘helpers’. It is wicked policy to make Aboriginal welfare contingent on their preparedness to enter the real economy when the incentives are to penalise entry into the real economy.

A self-sufficiency substitution model where labour is substituted for capital through ‘sweat equity’. Part of this model was a feature of missions and government settlements and elements of this approach underpin such programs as the CDEP.\(^5\)

This option is really an ‘import substitution’ model and it suffers from the same fate as the welfare model: it becomes a permanent substitute for engaging in the economy, and is not a good bridge to the economy.

A national-interest transfer model, where representatives of a community or individuals in a community take on contracts to carry out activities that are of regional or national interest. Examples include a national Indigenous land-conservation and management program.

Programs that are really in the national interest, as opposed to those in the interest of those who want to have Aborigines shepherded into a designated band of employment options, should be available to all. It could be argued that employment in the mining or tourism industries is in the national interest, but Aborigines are not employed in large numbers in these industries because they are paid to not work, or are not job-ready.

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\(^5\) There are good examples of ‘sweat equity’: Habitat for Humanity builds houses with people who would otherwise be unable to obtain finance. The secret to HH is that, in addition to 300 hours of sweat equity, the owner has to pay the mortgage; that is, carry the risk.
A population relocation model where continued location in remote localities is made so prohibitive that people in remote communities have no other option but to relocate to regional localities where there are services and employment.

The population relocation model is a misnomer because it is not a compulsion to relocate. The model is also stated somewhat pejoratively because continued location is not made prohibitive, it is prohibitive. It is clear that in addition to the prohibitive social and economic cost of preserving non-viable communities, people are moving away to seek opportunity. The risk of this model is that people will move to such centres without the skills, knowledge or social capacity to operate independently and, as a consequence, will create underclass communities in regional centres whose various needs and behaviour are beyond the resources of the regional centre to cope.

The big risk to people sitting in remote communities, even while being prepared for integration, is that the total environment — social and economic — is just too dysfunctional. The two great mechanisms of integration — migration and intermarriage — are unlikely while the policy biases are towards land-based and culturally collective ‘solutions’.

Who better understands Aboriginal culture?

The great contradiction of Aboriginal policy of the last 30 years is that the assimilationists better understood both Aboriginal culture and its faults and the impossibility of its preservation than those who uncritically sought to preserve it. The latter idealised culture and hoped that it could survive when its economic base was long gone and the very basis of the culture was no longer useful to sustain Aborigines in their new economy. While there were problems associated with the assimilation period, many were transient. Instead, the problems were mistakenly judged permanent. The permanent problems arose when programs were devised to stop the integration of Aborigines into the modern economy.

As Pastor Paul Albrecht, lately of the Finke River mission at Hermannsburg and a critic of the assimilation policy, has remarked:

There is nothing sacrosanct about cultures, and the Aboriginal culture is no exception ... the rationale for taking seriously those aspects of Aboriginal culture still shaping the lives of the more traditional Aborigines is not to preserve the culture, but to utilise the culture to assist Aborigines adjust to the current social and economic situation (Albrecht 2008: 89).

A practical application of Albrecht’s observation is the successful Aboriginal secondary school at Djarragun College in Gordonvale, in far-north Queensland. When faced with unruly students, the principal understood the necessity to be utilitarian about Aboriginal (and Islander) culture. She recounted:
[The students’] joy and energy needed to be nurtured and celebrated and so we dreamed up every excuse for days of celebration and feasting. Cultural performances became a feature of all these celebrations and relatives became involved in teaching students their traditional dances and music. As students’ self-esteem and belief in themselves grew, so the behaviour across the school improved. As behaviour improved, so we introduced a more rigorous curriculum and gradually minimised the amount of days of celebration. We got down to two days of celebration a term which allowed us to really spend quality time on delivering accredited courses and to follow the Queensland syllabus (Illingworth 2007: 3).

Therein lies the solution to the wicked problem. If the problem arises because the policy-maker or some clients have impossible or misconceived demands, there is indeed a problem. But if the problem is differently conceived — that is, that Aborigines must learn to adapt to their new environment — it will resolve itself more quickly and with less pain. The idealists may suggest the solution is tantamount to killing the patient, but is the patient an idealised Aborigine or a person? It is possible that policy-makers enjoy the complexity of the multi-faceted problem. It is rather deflating to be told that it really is straightforward in conception, if not resolution.

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Climate Change Policy: A Theorist’s Plea to Take Heed of Game Theory and Ambiguity Aversion

José A. Rodrigues-Neto

How fast and to what extent should Australia cut its emissions? *Agenda* 14(3) presented a Symposium on Climate Change that aired the existing division of opinions. Some argued that we need to undertake large cuts now, while others have been much more sceptical about the severity of the impacts that temperature change might bring. Despite such divisions, it would seem most analysts would subscribe to the proposition that we need ‘to balance costs and benefits of proposed policies’. Indeed, at present, the debate implicitly assumes that we can make a straightforward cost-benefit analysis, the only potential problem being the one of obtaining good quantitative measures for the relevant variables.

We argue that this view is incomplete, if not incorrect, and may bring disastrous outcomes in one way or another. Here, we claim that the design of optimal policies may not be as simple as one would think at first glance.

We contend that the discussion about the theoretical framework Australian economists are using to model climate-change-related policies has been greatly lacking. In this regard, we claim that decision theory and game theory should be among the top priorities.

Is it a good idea to use standard expected-utility theory to do a cost-benefit analysis? We do not think so. If researchers choose to use theoretical models that incorporate ambiguity aversion, as we suggest, the literature presents some alternatives. There are several questions that must be answered. For instance, how can we construct aggregate measures of risk and ambiguity aversion representing all Australians? How much of public resources, if any, must the government spend in order to protect us from the worst outcomes generated by

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1 School of Economics, College of Business and Economics, Australian National University, jose.neto@anu.edu.au. I would like to thank William Coleman and two anonymous referees for valuable comments. All remaining mistakes are my own responsibility.

2 See McKibbin (2007a) and (2007b); Quiggin (2007a) and (2007b); as well as Robson (2007a) and (2007b).

3 Ellsberg (1961) presented a famous experiment in which most subjects act in violation of expected-utility theory’s predictions. The violation is sometimes explained by the existence of ambiguity aversion: that people prefer to bet (even if they have to pay a small premium) on an urn with 50 red and 50 blue balls, than in one with 100 balls but where the number of each colour is unknown. Ghirardato *et al.* (2004) and Marinacci (2000) have theoretic foundations for a decision theory and game theory that incorporates ambiguity aversion. See Potamites and Zhang (2007), as well as Zhang (2007) and the references there for empirical evidence suggesting that there is some positive degree of ambiguity aversion on the behaviour of subjects in a controlled experiment, and for quantitative estimation of ambiguity aversion measures.
the lotteries associated with policies related to climate change? To try to answer these we need to know first how much we will spend in research and which areas need priority.

Further, for each fixed proposed policy, how certain are we about the outcomes that climate change may bring? As Knight (1921) taught us, there is a subtle but important difference between risk and uncertainty. The concept of risk is related to the fact that decision-makers obtain stochastic outcomes for their choices. For instance, when we flip a coin we do not know which side will come up next, but we are pretty sure that each side has a 50 per cent chance of coming up. On the other hand, the idea of uncertainty suggests that there is less-than-perfect confidence over the probabilities associated with some actions. For instance, what is the probability that we will find ourselves in a catastrophic situation 50 years from now if we do not cut emissions at all? One expert may say it is ‘around 20 per cent’, while another, equally respected, scientist may answer that ‘it is at least 60 per cent’. Not only the consequences of ‘doing nothing’ are uncertain, but the mere assignment of probabilities to possible outcomes is a complicated task. As Weitzman (2007) explains in his critique of the famous Stern Review, when it comes to the assignment of discount rates in Climate Change models ‘uncertainty tends to matter much more than risk’.

This time scientists cannot rely on the expected-utility theory as usually applied by economists because the challenges ahead of us involve a considerable amount of risk and uncertainty and also complex strategic considerations. We do not know every possible scenario that may happen. Even if we could list them all, we still would not know the real probabilities associated with each possible policy. Any estimate would be just a guess because natural scientists still work in many open problems. Besides, there is also a large source of uncertainty associated with other countries’ policies. Even if we knew exactly how pollution outcomes were translated into temperature changes, we would still not understand how seriously other governments would deal with the issue, or how cooperative they would be. After all, typically politicians play to their own home audience.

Furthermore, we need to explicitly differentiate the uncertainty regarding natural outcomes from the ‘strategic uncertainty’, which is brought upon us due to the fact that we are playing a strategic game with other countries. The climate change problem that Australia is confronting today is part of a game because every country’s actions impact everybody else. The strategic nature of this problem might have been overlooked so far. The best strategy we can play is a function of other players’ strategies, which themselves depend on their opponents’ strategies, and so on.

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4 Stern (2006) is a report about climate change officially commissioned by the British government in 2005.
The repeated nature of the players’ interaction is very important. The literature points out that agents playing repeated games may obtain, on average, much better outcomes than they would in a static environment, if they are sufficiently patient. This kind of result is usually known as a ‘folk theorem’. In a long, repeated strategic interaction it is possible to create incentives for cooperation by punishing, or threatening to punish, deviators. To formulate an optimal strategy one needs to design a contingent plan of action for every history of action profiles that all nations have played. In other words, our plan must be quite flexible and prescribe our actions under many different circumstances.

Unfortunately, however, the theories of dynamic games and repeated games with incomplete information are still unfinished. There are many open questions and more research is needed. In particular, the theory of dynamic stochastic games is not well developed. Studying climate change with this tool may be the best way to develop critical insights and to design sensible policies, but few research papers use this analytical framework.5

Nevertheless, game theory is the most reasonable framework to date for dealing with the strategic and repeated interaction of many governments when they all face uncertainty. For instance, any Nash equilibrium of a repeated game always explicitly describes what are the possible punishments players may face and the incentives that other players have to carry out each prescribed punishment. In other words, all nations have the incentive to keep to the equilibrium path, and, if a country is called upon to punish a deviator, it will in fact have sufficient long-run incentive to carry on the punishment even if this means short-run losses. In sum, the concepts of Nash equilibrium and sub-game perfect equilibrium are based on credible threats.

What level of international cooperation is likely to occur in practice? Does Australia need to have a direct benefit to reduce its emissions, given that we are not a major polluter? Is there a ‘first move’ advantage in this game or is it just silly to cut emissions now before others commit themselves to a long-run agreement?

Making a first move in cutting emissions is costly in the short run, but it could place us in a more favourable position in the future. There are at least three different reasons for this. First, it may smooth consumption, allowing internal agents to adjust more gradually to cleaner technologies. Second, it provides incentives for Australian scientists and technicians to take the lead in this research area. Third, it establishes our international reputation as a leader in the field, both in the policy area and in scientific and technological

5 The lack of research on climate change with up-to-date decision theoretical and game theoretical tools is not only a problem for Australia. To the best of our knowledge, there is no climate change model that simultaneously incorporates the recent findings of research in ambiguity aversion and stochastic dynamic game theory. We thank an anonymous referee for bringing this point to our attention.
development. There is an extensive literature on the value of reputation and on reputation-building.  

The Howard government was criticised for not signing the Kyoto Protocol. Has Australia lost the initiative and reputation when it comes to climate change? If so, how bad is this for future agreements? Solid scientific answers are likely to require the use of sophisticated game theory. In particular, the theory of repeated games with incomplete information seems to be necessary. In any event, it is wise for Australia to actively participate in the international debate because climate change may impact our country even if our own direct actions turn out to have little or insignificant direct impact. If we understand the situation well, we may help in the design of international agreements, efficient policies and new technologies that may change everybody’s future.

Sceptics such as Alex Robson claim that Australia is a minor polluter and that huge sacrifices may not have a significant impact on the global situation. Even if this is true, Australia may be punished by other countries if we do not adhere to major international agreements. It does not seem wise to count on free riding on other countries’ emissions cuts. A dynamic decision theoretic approach must be established. Being flexible with any possible numerical target does not mean that Australia has a weak attitude towards climate change. The important point is that we must be capable of using the most recent and accurate scientific information and technologies available. Such information and new technologies will come from future developments in both natural and social sciences.

Game theory has been criticised for not working with quantitative questions. In fact, it is a relatively common mistake to consider quantitative results as being of more use or of having more applicability then qualitative results. We argue that more important than knowing the exact numbers of the reduction in emissions and their costs, the very nature of desirable equilibria must be established first. How often are emissions going to be measured and what, if any, structure of punishments will be capable of enforcing optimal equilibrium? How complex will the strategies need to be? Is it a good idea to have a single round of ‘hard’ punishments for deviators or are longer ‘soft’ punishments more

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6 For some of the most recent references, see Cripps et al. (2004), Mailath and Samuelson (2006) and Ely et al. (2008).
7 See Robson (2007a).
8 It is not hard to see scientists who use alternative approaches to study Climate Change criticising game theory for different reasons. Typically, they make unfair claims and work with a variety of alternatives such as optimal control theory, purely empirical studies or general equilibrium models. We regard most of these criticisms as a natural outcome in an environment where scientists are highly specialised and there is intense competition for research funds and academic prestige. These alternative techniques usually miss important and complex elements of the question because they do not focus on the strategic nature of the problem. The fact that several pure and applied game theorists have recently won Nobel Prizes is a good indication of the power and potential of this field.
effective? Before addressing these qualitative issues, very specific quantitative questions are unlikely to get realistic answers.

How will we deal with disputes in the measurements? Again, game theory may save the day. Imperfect monitoring is also explicitly studied by the theory of repeated games.\(^9\) The good news here is that the literature has some results indicating that much of the structure of folk theorems is saved, with some technical adjustments, when one introduces imperfect monitoring.

Certainly, it is costly to invest in research. Game theory is an abstract, hard, highly mathematised discipline. But it may turn out to be much more costly for Australians not to invest in this field. Without explicitly incorporating these two elements into the discussion — namely, ambiguity aversion and the strategic and repeated nature of the nations’ interaction — much of the argument will be circular, or based on individual preferences or attitude towards risk and uncertainty. The debate will continue to be rich in factual knowledge, but poor on strategic reasoning. The sooner the discussion in Australia incorporates decision theoretic and game theoretic concepts, the correct tools for qualitative studies, the sooner social scientists will enter on the right track to attack problems related to climate change.

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REVIEWS
Alan Greenspan, *The Age of Turbulence. Adventures in a New World*  
(Penguin Press, New York, 2007)  

Selwyn Cornish¹

Alan Greenspan was Chairman of the US Federal Reserve Board from August 1987 to January 2006. He served a total of five terms under four presidents, from Ronald Reagan to George W. Bush. In August 2005, at the annual conference hosted by the Federal Reserve Bank of Kansas at Jackson Hole, Wyoming, a symposium was devoted to *The Greenspan Era: Lessons for the Future*. In their 94-page assessment of Greenspan’s work as Fed Chairman, Alan Blinder and Ricardo Reis concluded that: ‘While there are some negatives in the record, when the score is tooted up, we think he has a legitimate claim to being the greatest central banker who ever lived.’ John B. Taylor agreed that Greenspan was ‘the greatest central banker who ever lived.’ Allan Meltzer, the acclaimed historian of the Fed, was more qualified in his evaluation. Nevertheless, of the Fed’s 12 chairmen since 1913, Meltzer judged that ‘Alan Greenspan stands in the front rank’.²

For 18 years, Alan Greenspan was one of the most powerful men in the world. Yet he was something of an enigma, and consequently there has been a yearning to know what made him tick. As his retirement from the Fed approached, Greenspan accepted a multi-million-dollar advance from Penguin Press to write about his life: *The Age of Turbulence* is the result. It is likely to earn the author many more millions of dollars.

The book is generally well written and has been lavishly promoted and extensively reviewed. But it is a curious book. For a start, to what exactly does the title refer? Does *The Age of Turbulence* refer to the period of Greenspan’s chairmanship of the Fed, which included the stock exchange collapse of 19 October 1987, the boom and collapse of the late 1980s–early 1990s, the Mexican, Asian, Russian, Argentine and Long Term Capital Management (LTCM) crises, the equity bubble and collapse of the late 1990s–early 2000s, the Y2K scare, 9/11, and the origins of the sub-prime mortgage crisis? Or does it refer to the times that Greenspan himself lived through: the Great Depression of the 1930s, the Second World War, the Great Inflation of the 1970s and the Great Moderation?

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¹ The School of Economics, Australian National University.
² These papers can be accessed at: http://www.kc.frb.org/publicat/sympos/2005/sym05prg.htm
of the 1990s and early 2000s? Or again, is it the era that began with the attacks on New York and Washington on 9/11, 2001?

The book is a curiosity for another reason. It is divided into two distinct parts. The first part is a memoir of Greenspan’s life and career. Here the reader is taken through the main events of the author’s life: his Jewish forebears — the Greenspans and Goldsmiths — who had arrived in New York in the late nineteenth century from central Europe; the divorce of his parents soon after his birth; his upbringing by his mother in the Washington Heights neighbourhood of Manhattan’s upper-west side; his undergraduate studies at NYU and early work for a doctorate at Columbia under Arthur Burns (he eventually took his Ph.D at NYU); his work as a financial analyst at the Conference Board and the occasional journalism he undertook for Fortune magazine; the establishment of his own economic consultancy firm; his association with Ayn Rand, and her circle; his participation in Richard Nixon’s campaign for the US Presidency in 1968; his appointment by President Ford as Chairman of the Council of Economic Advisers; his dating of two of the most powerful women in television news and current affairs — Barbara Walters and Andrea Mitchell; and his various assignments for the Reagan Administration, culminating in his appointment as Chairman of the Fed.

The second part of the book comprises a series of essays on various topics, including recent economic developments in different parts of the world, the sources of economic growth, the nature of capitalism, international debt, globalization and regulation, education and income inequality, the financial implications of ageing populations, and the problems besetting corporate governance. The book concludes with a chapter on future economic developments, appropriately entitled ‘The Delphic Future’.

The two parts do not sit comfortably together. It is possible that Greenspan — or his publishers — considered that there was insufficient autobiographical material to sustain the reader’s interest, and so the disjointed series of essays that constitute the second part of the book were added. Greenspan himself has confessed that most of the book was composed while he soaked in the bath each morning for therapeutic purposes. Clearly this is not an ideal way of writing any book requiring substantial research, though it may be satisfactory for a book comprising subjects that catch the author’s fancy as he enjoys the recuperative powers of a hot tub.

Greenspan was one of the world’s pre-eminent economic-policy advisers and policy-makers of the final quarter of twentieth century, and unquestionably the world’s leading central banker of the past two decades. We could have learnt much more than is provided in this book about the work of a central banker,

3 The latter, to whom the book is dedicated, he married after an extended courtship.
and particularly about the *modus operandi* of Greenspan himself as he went about his work as the head of the world’s most powerful central bank.

What does Alan Greenspan reveal about himself and his approach to policy? Though he was unquestionably committed to market forces, he refused to subscribe to a particular monetary theory or monetary policy framework. He thought little of Keynesian economics, but he describes Keynes’s *General Theory* as ‘a mathematically elegant solution to why the world had stagnated and how government deficit spending could bring prompt recovery’ (p.15). He knew Milton Friedman well and worked with him on ending conscription in 1973, but he was not taken in by monetarist doctrine. Indeed, in the early 1990s he officially ended the Fed’s half-hearted dalliance with monetarism by switching its operating procedures from a focus on monetary aggregates to the rate of interest charged on cash in the overnight bank market (the ‘federal funds rate’). He was also sceptical of the Phillips curve approach to macroeconomic policy, dismissing the idea that there existed a unique ‘non accelerating inflation rate of unemployment’, or a ‘natural’ rate of unemployment. Nor did he support inflation targeting; he was committed to maintaining low rates of inflation, yet he refused to be pinned down to a particular inflation target. He rejected the view that the monetary authorities should intervene to prick an asset-price bubble. It might be legitimate enough for a central bank to warn the public of the dangers of ‘irrational exuberance’, but financial bubbles were often the result of innovation, which, for Greenspan, is the essence of capitalism.

If he supported any set of economic ideas, it was the views of Joseph Schumpeter that attracted his attention. Greenspan maintained that caution should be exercised at times when activity was accelerating lest the creative processes that lie at the heart of capitalism are stifled. For him, central banks face the difficult task of ensuring that inflation does not get out of hand while, at the same time, allowing the dynamic processes of innovation, competition and ‘creative destruction’ to proceed. Once the boom has collapsed, however, it is then the duty of central banks to flood the financial system with liquidity, thereby preserving solvent institutions that have temporarily become illiquid.

It is this outlook that explains Greenspan’s delay in tightening policy in the years preceding the recessions of the early 1990s and 2000s; his failure to limit the ‘high tech’ bubble of the late 1990s; and his dramatic easing of policy in 2002, to which many observers have attributed the origins of the current sub-prime mortgage crisis. It helps to explain his response to the New York Stock Exchange crash of 1987 and to the expected financial instability arising from 9/11. And it also explains his association with the rescue missions following the financial crises in Mexico, Asia, Russia and Argentina, and his role in the bailing out of LTCM.
Greenspan appears to have developed the idea that policy settings should be based on a risk-management assessment of the probability of inflation or recession. If such an exercise were to conclude that there was a high probability of inflation, he would recommend to the Fed’s Open Market Committee (FOMC) that monetary policy should be tightened; the probability of a recession would lead him to recommend an easing of policy. If inflation was accelerating but it was probable that a recession — or deflation — would soon occur, Greenspan was likely to recommend an easing rather than a tightening of rates. From this approach to monetary policy it is possible to identify the genesis of the housing bubble that began after the recession of 2000–01. As Greenspan explains:

At the FOMC meeting in late June [2003], where we voted to reduce interest rates further, to 1 per cent, deflation was Topic A. We agreed on the reduction despite our consensus that the economy probably did not need yet another cut. The stock market had finally begun to revive, and our forecasts called for much stronger GDP growth in the year’s second half. Yet we went ahead on the basis of a balancing of risk. We wanted to shut down the possibility of corrosive deflation; we were willing to chance that by cutting rates we might foster a bubble, an inflationary boom of some sort, which we would substantially have to address. I was pleased at the way we’d weighed the contending factors. Time would tell if it was the right decision, but it was a decision done right. (p.229)

Three pages later, he acknowledged the creation of the housing bubble, but again justified the policy that had produced it:

More recently, the unwinding of the housing boom has hurt some groups. It did not create great difficulties for the great mass of homeowners who had built up substantial equity in their houses as prices rose. But many low-income families who took advantage of subprime mortgage offerings to become first-time homeowners joined the boom too late to enjoy its benefits. Without an equity buffer to fall back on, they are having difficulty making their monthly payments, and increasing numbers are facing foreclosure … I was aware that the loosening of mortgage credit terms for subprime borrowers increased financial risk, and that subsidized home ownership initiatives distort market outcomes. But I believed then, as now, that the benefits of broadened home ownership are worth the risk. Protection of property rights, so critical to a market economy, requires a critical mass of owners to sustain political support. (pp. 232–3)

When future historians of the Fed come to make their assessments of monetary policy during the early years of the twenty-first century their conclusions may not be as favourable to Alan Greenspan as were those of the eminent economists who spoke at Jackson Hole in 2005.
Randall E. Parker, *The Economics of the Great Depression: A Twenty-First Century Look Back at the Economics of the Interwar Era*  
(Edward Elgar 2007)

G. R. Hawke

In his foreword to this volume Ben Bernanke comments: ‘History is a highbrow form of gossip. The stories of individuals swept up in — and occasionally influencing — the tide of world events are intrinsically fascinating, in no small part because they so often display the eternal verities of the human condition.’ (Randall 2007: vii). There was a good deal of gossip in Randall Parker’s earlier book, *Reflections on the Great Depression* — in which senior economists reflected on their experiences as young economists during the Great Depression — but there were also interesting reflections. Friedman’s declared admiration for Keynes — ‘a great human being and a great economist’ — and his dating of his own departure from Keynesianism to post-1936 debates about the role of governments rather than to economic analysis ensured that *Reflections* escaped common myths. Even more notable was Samuelson’s observation: ‘I think of the Great Depression as a concatenation of a multiplicity of factors. This is a lousy theory. But it is more important to describe the facts correctly than to have a simple elegant theory which misses the facts. (Randall 2002: 32)

*The Economics of the Great Depression* repeats the format of interviews used in *Reflections* but the subjects are younger economists who have contributed significantly to recent analysis of the Great Depression. The interview format works well, although there can be few topics for which it is appropriate, and even here historical understanding is variable. Parker’s standard interview format included the observation that in 1981 the study of the Great Depression seemed dead, using Brunner (1981) as his foil. This, however, tells us more about Parker’s intellectual autobiography than it does about the literature of the Great Depression. Recent advances have built on previous ones, and there was no lull in the 1970s and 1980s. Indeed, Parker’s books show a continual advance, built on the striking innovations of Friedman & Schwartz in the 1960s, the contribution

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1. Victoria University of Wellington.  
2. Perhaps there is more force in T.S. Ashton’s observation that humans are fascinated by growth, whether of a flower, a child, an economy, or knowledge.  

A major puzzle about the Great Depression is what initiated it — even remembering Samuelson’s acceptance of multiple causation and preferring it to the seductive appeal of searches for a simple explanation. James Hamilton asks: ‘… why did stock prices go down? Was it a rational anticipation of something about to happen? If so what and how were people recognizing it?’ (Randall 2007: 69) Despite the appeal of arguments like that of Temin for changed consumption plans, perhaps engendered by uncertainty about the durability of the boom of the 1920s based on motor vehicles, suburbanization and the impact of electric consumer durables, the best answer remains ‘consumption fell much more strongly than usual for the start of a recession … [T]here were these many different factors that mattered’ (Romer in Randall 2007: 26).

There is more agreement that the monetary policy decisions of the Federal Reserve turned a cyclical downturn into the Great Depression; but not a complete consensus. While some would still argue that monetary contraction initiated depression as well as intensifying a downturn so as to create the Great Depression, there are Real Business Cycle advocates who argue that the Great Depression can be explained as a productivity shock. Parker includes Lee Obhanian among his interviewees, and cautions about initial unjustified dismissal of earlier contributions, but the dominant view is that ‘the real business cycle models that have been written about the Great Depression with which I am familiar are not serious models of the Great Depression … they’re not taken seriously, except by macroeconomists who don’t know any better’ (Calomaris in Randall 2007: 221). It is hard to argue with that.

Recent scholarship is even firmer in establishing the significance of the international dimension. Or perhaps it would be better to say that it rediscovered what had been known, but was forgotten. Eichengreen, who has done more than anybody else to formulate current understanding, generously acknowledges Kindleberger (1973) and pre-war writers. But then the point was commonplace in the 1930s as in Keynes’s observation in 1930–31: ‘The maintenance of the gold standard keeps a country’s investment policy and its current rates of interest somewhat rigidly linked to those prevailing in the other gold standard countries, since any considerable departure from the policies pursued elsewhere will lead to a loss of gold. It is a commentary on the insularity of much US academic work that this had to be rediscovered. It is even more remarkable when one considers the amount of work in other countries, in Europe, Asia and Latin America as well Australia and New Zealand, on the relative contributions to the

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experience of the 1930s of external causes and pre-existing domestic circumstances.

Still, it is good to see it recovered, and pithily summed up by Robert Lucas: ‘We had our spending collapse because the money supply contracted. And I suppose they [Canadians] got theirs because Americans stopped buying Canadian goods’ (Lucas in Randall 2007: 96).

The impact of the Gold Standard in the US was through conventional thinking, and this is one of the areas where recent analysis has had most impact. Federal Reserve members did consider alternative policy actions, although not in any serious way a departure from the Gold Standard. Essentially they were imprisoned in established ways of thinking: ‘They were real bills doctrine people. Prices were not rising. Prices were actually falling very little, but falling. But they were real bills people and the Federal Reserve Act is written on the basis of the real bills doctrine. So inflation to them meant they were monetizing non-productive credit’ (Meltzer in Randall 2007: 226). Or:

The story was they followed something called the Riefler-Burgess doctrine which said that you look at two things. You look at member bank borrowing in New York and whether it’s greater than 500 million dollars and you look at the level of nominal short-term interest rates. If member bank borrowing was below 500 million dollars, the way the Fed interpreted things in the 1920s and 1930s was that it was a state of monetary ease. They believed that member banks only came to the window when they really needed to. They didn’t go there to make profits. The Fed looked at member bank borrowing in 1930 and 1931 and they said, ‘Gee, nobody’s coming to the window. I guess things are good.’ I mean really, that’s the key point. (Bordo in Randall 2007: 201)

Contemporary economic scholarship has added a good deal. While many have been puzzled about why people were concerned about inflation in the 1930s and have found an answer in changed ideas and terminology, we have learned only recently (from Japanese experience as much as abstract thought) that the zero bound on nominal interest can be significant. The US recovery is now traced substantially to declines in real interest rates: ‘But, expansionary monetary policy can cause expectations of inflation. And the evidence we have suggests that happened. As a result, real interest rates fell dramatically after 1933’ (Romer in Randall 2007: 134). We have also learned to look at local circumstances, not least for institutional features which frustrated real interest rate declines (see Hawke 1973), but also for how the US banking structure had a significant effect in the US: ‘[T]he shocks often had different magnitudes in particular regions, at particular times, and that the complexity of the Great Depression

5 Lucas explicitly rejects an unspecified productivity shock as an alternative.
partly resulted from our unit banking system, which connected the fates of banks in particular regions to the borrowers in their particular location’ (Calomiris in Randall 2007: 213). We have also learned not to ignore the debt deflation process, as emphasised by Ben Bernanke.

Understanding of the Great Depression has progressed continually since the 1930s. Economic historians will be especially interested in the reflection:

I think it is a new generation realizing that the Great Depression was fundamentally important. I wonder, as we’re sitting here pondering this, what role the new economic history played. … The revolution in economic history that started in the late 1960s. What had been questions we answered just with words, we started to actually get some old data and evaluate empirically and analytically. I think some of what we saw in the early 1980s is taking that philosophy and looking back at the macro economy, not just as slavery or some of the issues that have been so hot in the new economic history. (Romer in Randall 2007: 136)

Christina Romer recognised that new macroeconomic tools have also played a key role, but perhaps the most important lesson of all is the indispensability of approaching contemporary problems with the best available knowledge, not the lessons of previous generations.

References


Temin, P. 1976, *Did Monetary Forces Cause the Great Depression?*, New York: Norton.
A Biographical Dictionary of Australian and New Zealand Economists is a wonderful resource for anyone interested in the intellectual foundations of Australia and New Zealand. The editor, J. E. King, and the publisher should be greatly commended.

King wisely takes a wide brief as to what constitutes an ‘economist’, and what constitutes an Australian or a New Zealander. King’s subjects had to be either born in Australasia and have some Australasian context to their work, or, if born abroad, have a significant Australasian context to their work and have lived some of their lives in Australia or New Zealand. Importantly for the purposes of this work, all of its subjects also have to be dead.

His included subjects range from Edward Gibbon Wakefield (who wrote about Sydney from his London prison cell in 1829, influenced Marx, and eventually emigrated to New Zealand) to the ANU economist Neil Vousden, who was born in 1947. Examples of people not included are Ron Meek (who, although having one publication in New Zealand before leaving, had no New Zealand context to his subsequent work) and Karl Popper (despite his making a significant impression, while living in Christchurch during the war years, on at least one of the book’s subjects, Colin Simkin).

For an Australian book, it is refreshing that many of the subjects are New Zealanders. The Anzac spirit, more honoured in the breach than in reality, is alive and well, at least within the History of Economic Thought Society of Australia, and in the personal commitment of editor J. E. King, and some major contributors such as William Coleman, Alex Millmow and Warren Hogan.

Of particular interest for me were the ‘Tas-men’, those economists (all men, sadly) who contributed on both sides of the Tasman Sea. For two countries that shared surprisingly little between 1900 and 1980, the main meeting places of economic minds appear to have been the London School of Economics (LSE) and Cambridge. Nevertheless, there were substantial shared contributions, especially in the inter-war years, thanks to the shared membership of Economic and

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1 Unitec Business School, Auckland.
Economic History Societies of Australia and New Zealand. Of particular importance was the role played by the *Economic Record*, as the principal publication outlet for economists on both sides of the Tasman.

 Those economists whose contributed to economic thought and/or policy on both sides of ‘the ditch’ (as New Zealanders call the Tasman Sea) were Robert Torrens, E. G. Wakefield, Henry Hayter, Timothy Coghlan, William Pember Reeves, R. F. Irvine, Douglas Copland, A. G. B. Fisher, Colin Clark, Colin Simkin and Richard Manning.

 I enjoyed Alex Millmow’s account of Douglas Copland, a New Zealander who was trained under the auspices of Sir James Hight’s ‘Canterbury School’, along with J. B. Condliffe. Both men went on to stellar global careers while retaining strong identities with their places of origin. Copland would undoubtedly have been one of New Zealand’s greatest economists had he not been ‘unsuccessful in securing a chair in New Zealand’.

 Copland, who played an important role in devising policy solutions to the Great Depression in both countries, sought to find a balance between reliance on changing relative prices and activist macroeconomic solutions. Millmow observes that, in the 1940s, Copland had Keynesian sympathies but was not an advocate of ‘hydraulic Keynesianism’.

 Another Tas-man (just) was Alban William Housego Phillips, from the backblocks of New Zealand, born in 1914 into a family that generated their own electricity. He started his working life as an apprentice engineer in one of New Zealand’s early hydro-electric schemes. Succumbing to wanderlust, he took the long road to Britain (no easy routes to Cambridge via Rhodes Scholarships for this young Kiwi.) His journey included two years carrying his swag and violin across Australia. From Australia he travelled to London via China and Russia.

 Following an ‘interesting’ set of war experiences, Bill Phillips enrolled at the LSE, where he stayed and eventually became one of LSE’s many iconic professors. It was his article in *Economica* that gave birth to the Phillips Curve. As a teaching aid, Phillips built Moniac, a large hydraulic machine that simulated the circular flow mechanism that epitomised Keynes’ macroeconomic model. Yes, hydraulic Keynesianism was, literally, an Australasian contribution to economics education and to the history of economic thought.2

 Of course, most of these economists were much more than Tas-men: their contributions were global, or at least regional (in the extra-national sense of that word).

 2 Moniac machines are today on display in the Reserve Bank of New Zealand, Wellington; Cambridge University; and in the Science Museum in London.
An important example is William Pember Reeves, a nationalist journalist and politician from Christchurch who became the architect for a number of New Zealand government reforms to correct for market failure. His efforts stimulated similar reforms in Australia. His classic account was published in 1902 as *State Experiments in Australia and New Zealand*. Reeves was thus the pioneer of ‘colonial socialism’, a uniquely Australasian form of economic thought which Gary Hawke argues was formalised in the work of Noel Butlin, one of the really dominant personalities of the twentieth-century economic landscape in Australia. In later life in England (from 1897), however, Reeves came to be known as an ‘imperialist’, even a free-trader. On that basis he was appointed to the directorship of the LSE in 1908. One cannot help wondering to what extent Reeves’ position contributed to the subsequent importance of the LSE as a training ground (and place of mutual contact) for Australasian economists-to-be.

Yet the entry on Reeves disappointed me. His LSE directorship is simply noted, and his UK publications (including a contribution to the *Economic Journal* in 1899) are not mentioned. It is hard to avoid the impression that Hawke’s account of Reeves’ contribution is a case of damning with faint praise.

More commonly, contributors to the *BDANZE* are very close and favourably disposed towards their subjects. An important case in point is Warren Hogan’s entry on Colin Simkin. Hogan’s closeness works for the reader, in his discussions of Karl Popper’s influence, and in Simkin’s important regional work on East Asia. However this same closeness has meant that Simkin’s role in precipitating the schism in the Economics Department at the University of Sydney in the 1970s has passed unmentioned. Hogan was Simkin’s principal deputy at Sydney, and could hardly present a disinterested perspective on that matter. Further, because most of the other key players are still alive, this is a chapter in the economists’ history of Australasia that will need to be read about elsewhere.

Having chosen to emphasise the Tas-men in this review, another important impression of the book is the contribution of Tasmania to Australian economic policy. Copland cut his economic teeth in Hobart, with his tenure coinciding in the inter-war years with the tenures of L. F. Giblin, J. B. Brigden and Roland Wilson. Other noted Tasmanian contributions include those of Gerald Firth, Torleiv Hytten, Keith Isles, Frank Mauldon, Arthur Smithies, Ronald Walker and Gordon Wood.

Overall, the dictionary’s entries contain a comprehensive mixture of theorists, historical economists, nationalists, metricians, bureaucrats, philosophers and radicals. Historical economics and economic history have certainly punched above their weight, as well as providing some of the most interesting personalities in the history of the discipline.

Finally, I would like to note some relatively recent economic thinkers have made it into the dictionary on account of their premature deaths. In addition to
Vousden, who would be just 61 years old if still alive today, I would like to note the contributions of New Zealanders Richard Manning (1943–89) and Jan Whitwell (1944–93).

Under Manning’s leadership in the early 1980s, the University of Canterbury became New Zealand’s nearest equivalent to the Chicago School. Manning’s graduates were well placed to play critical roles in the implementation of the neo-liberal monetarist reforms of the late 1980s that came to be known as ‘Rogernomics’ (after Finance Minister Roger Douglas). This phase of economic thought was significant for Australia too, where, as in the period around 1900, Australian policy-makers looked to New Zealand for reasons to implement (or to not implement) a program of economic restructuring.

On the other side of the 1980s’ monetarist debate stood Jan Whitwell, one of Australasia’s most outstanding female economists and monetary theorists. Easily able to talk the mathematical talk that came to dominate economics (and make economics a very male-oriented discipline), her criticisms of Rogernomics were amongst the most telling. Because of the rigour of her exposition, her views had to be taken seriously by those who didn’t sit comfortably with her message.

I have mentioned but a few names in the parade of economic thinkers that this book introduces to both economists and to the wider public. This is a book that belongs in all of Australasia’s academic, public service and metropolitan public libraries. It also belongs in many of our private libraries, as a reference work, and as a book to just dip into for a random snippet from our intellectual past.