Agenda, Volume 7, Number 1, 2000

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A More Productive Australian Economy

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There is mounting evidence that the Australian economy may have moved into a new economic phase in the 1990s. It would be the third phase of development since the Second World War. The first phase was the 'golden age' of high rates of growth up until 1973-74. Like many other countries, Australia then moved into a period of macroeconomic instability and slower growth. There was a period of recovery in the second half of the 1980s, but many of the additional gains achieved then were subsequently reversed in the early 1990s recession. It has been since the 1990s recession that the Australian economy appears to have entered its third phase. Up to June 1999, there have been eight years of GDP growth — a period already longer than the previous two expansions — at an average rate of four per cent a year (Macfarlane, 1999).

These three phases differ in terms of the reliance placed on factor accumulation and productivity growth as a source of growth. It can be seen from Table 1 that factor accumulation was the main source in the golden age; and a drop-off in factor accumulation was the main proximate reason for the subsequent slowdown. A feature of the 1990s recovery is the greater reliance on productivity growth. The importance of productivity in the 1990s is probably greater than the numbers in Table 1 suggest, since it is very likely that improved productivity has created conditions more conducive to growth in investment and employment.

Table 1: Annual Rates of Growth in Output, Inputs and Productivity in Australia's Market Sector (per cent per year)

	Inputs		*Productivity*		*Output*	
1964-65 to 1973-74	3.4	(71)	1.4	(29)	4.8	(100)
1973-74 to 1990-91	1.9	(76)	0.6	(23)	2.4	(100)
1990-91 to 1998-99	2.0	(57)	1.5	(43)	3.6	(100)

Note: Numbers in brackets are percentage contributions to output growth.

Despite the length of the current expansion, it might be claimed that it is still too early to declare the 1990s to be more than a transient phase of higher growth.

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But it is argued in this paper that the Australian economy started behaving differently in the 1990s and in a way that holds prospects for continued strong growth in the long term. This paper reviews trends in Australia's productivity performance and illustrates some of the links between productivity and growth in output and Australian living standards. It also attempts to draw out a number of policy and other issues relating to the current period of stronger growth.

The Three Phases of Development

The 'golden age' period to 1973-74

A 'golden age' blessed many high-income countries with high rates of growth in productivity and output in the post-war period. This was particularly true of a number of Western European countries and Japan. It was associated with the stimulus of foreign aid for post-war reconstruction, strong domestic demand, an opening up of international trade and capital flows and the transfer of technology from the productivity leader, the United States (Maddison, 1994).

Australia's participation in the golden age was due more to a push for further development than to a reconstruction after the ravages of war. With a catch-cry to 'populate or perish', Australia stepped up long-standing programs of immigration and industry development. Against a trend toward more liberal trade among other high-income countries, Australia maintained and raised trade barriers in the 1950s and, to a lesser extent, in the 1960s (Pincus, 1995). The extensive development of minerals and favourable movements in the terms of trade also helped to underpin strong economic performance, especially in the 1960s and early 1970s.

The importance of factor accumulation was consistent with the interest in nation building and exploitation of minerals. Factor accumulation was the primary focus, and productivity performance, though relatively high by historical standards, was of more incidental concern. Australia's reliance on factor accumulation was high by international standards, and its reliance on productivity growth was correspondingly low (Elek, Camilleri and Lester, 1989).

Australia's productivity growth did not keep pace with the performance of other high-income countries. Even though Australia's rate of productivity growth was high by historical standards, it did not match the rates of European countries and Japan. To some extent, this could be expected. International catch-up and convergence theory suggests that faster productivity growth can be expected in countries that start with a wider productivity gap against the productivity leader (Abramovitz, 1994). However, even allowing for its relatively strong starting point, Australia's productivity performance was relatively poor. In 1950, Australia had the third highest level of GDP per hour worked at 69 per cent of the US level, while the arithmetic average of (Western) European countries was at 46 per cent, and Japan was at 16 per cent (Maddison, 1995). By 1973, the Europeans had essentially caught up to Australia (70 per cent and 72 per cent of the US level, respectively) and Japan had caught up as far as 48 per cent of the US level. Australia's rate of productivity growth over the golden age had not been sufficient

to make much progress in catching up further to the productivity leader (a feat which other countries later showed to be possible when they overtook Australia's position).

There was growing awareness in Australia through the 1960s and 1970s that production was not organised in a way that would make the most of available opportunities. Max Corden, for example, was a major influence on academic argument about the costs of import protection for local industry. In 1965, the Vernon Committee outlined the costs of the complex assistance structure that had evolved under 'made-to-measure' tariff setting. The Tariff Board also brought the costs of protection to policy attention. But, while general prosperity continued to grow at satisfactory rates, there was perhaps insufficient political imperative to tackle structural problems that were holding back Australia's growth in productivity and the realisation of its potential in terms of growth in living standards.

The slowdown period, 1973-74 to 1990-91

As in other countries, Australia's golden age came to an end around 1973-74. From that time, there was a deterioration in the terms of trade and a fall in volumes of some traditional exports. Immigration slowed, unemployment and inflation grew, and the rate of investment in mining collapsed. Growth in inputs slowed markedly. There was no productivity response. Indeed, productivity growth slowed. And, as a result, growth in GDP and average income slowed.

Australia's structural problems came to more prominent attention around this time. There was a series of government-commissioned reports — the report of a Working Group (convened by Stuart Harris) of 1974 on rural policy, the Jackson Committee report of 1975 on policies for the manufacturing sector, a government White Paper on manufacturing in 1977 and a Study group (convened by Sir John Crawford) in 1979 on structural adjustment. (See Snape, Gropp and Luttrell, 1998, for comments and extracts from these and other reports.) They had different perspectives, but all included reference to structural problems and adjustment issues facing the Australian economy. From a productivity perspective, these structural weaknesses included: the proliferation of small-scale production facilities covering an excessive product range (at the expense of gains from scale and specialisation); diversion of resources from industries with the best long-term prospects for growth; the focus of manufacturing on the domestic market, leaving a dependence on agricultural and mineral products for export earnings; poor work practices, labour relations and management; and outdated or inappropriate technologies, combined with low innovation and skill development.

Although it did not receive the same attention at the time, there were also inefficiencies in the provision of Australia's economic infrastructure. Government provision of electricity, gas, water, transport and communications had assisted national development and redistribution objectives. But it had also contributed to poor investment decisions and poor operational efficiency.

As mentioned before, there was a transient period of strong growth in the latter part of the 1980s, due to strong growth in capital (especially in property) and labour inputs (expansion of employment encouraged in part by lower labour costs under the Accords). Productivity growth at this time was at an historical low. But the recovery was accompanied by unsustainable asset prices and credit levels. Recession followed.

The 1980s saw the beginnings of substantial policy reform to tackle structural weaknesses and to rekindle stronger growth. The imperative for policy reform grew as inflation and unemployment problems persisted into the 1980s and were joined by other concerns, for example, about the outlook for the terms of trade, stronger international competition, Australia's slippage on the international league table of average incomes and its vulnerability on the balance of payments. There were both macroeconomic and microeconomic dimensions to economic reform. Microeconomic reform, which was expected to raise Australia's productivity performance, gathered momentum in terms of coverage and intensity from the late 1980s. Following on from earlier financial deregulation, phased reductions in border protection commenced, reforms to government business enterprises and regulation were initiated and stepped up, and some tentative steps toward labour market reform were introduced.

The 1990s expansion

The Australian economy appears to have been undergoing a supply-side transformation in the 1990s. Productivity growth has accelerated over the 1990s to outreach the highs of the golden age. Recently, the Australian Bureau of Statistics (ABS) has further revised its productivity estimates. It now puts multifactor productivity growth between 1993-94 and 1998-99 at 1.7 per cent a year (ABS Cat. No. 5204.0). This compares with an historical average from 1964-65 to 1993-94 of 0.9 per cent a year. The previous record high (over a peak-to-peak productivity cycle) was 1.6 per cent a year over the period 1968-69 to 1973-74.

A recent study by the Productivity Commission (PC, 1999) pointed to the following productivity-related changes that began taking place in the 1990s, compared with the past:

- Resources are freer to move to where they can be most productively employed. The pace of structural change has quickened. Resources have left 'traditional' industries, raising the productivity performance of those industries, while there has been strong growth in business-related services (communications, business services, finance and insurance) which can provide these 'growth' services more productively through specialisation, economies of scale and technological advance. Industry composition effects appear have played an unusually large role in Australia's productivity performance in the 1990s.

- A greater proportion of investment is being directed toward machinery and equipment rather than buildings. Expenditure on equipment as a proportion of GDP has reached its highest level in over 30 years. A greater proportion of equipment purchases are sourced from overseas, much of it being in computer and telecommunications equipment.
- Firms and industries are being reorganised to concentrate production on a smaller range of products. Production facilities are being rationalised through mergers, takeovers and closures.
- Production is being modernised, with the introduction of more up-to-date technologies. There is also a greater business involvement in innovation and production of innovative products.
- Management skills, incentives and systems are being improved. Work arrangements are being redesigned, assisted by the greater flexibility permitted by enterprise bargaining. The skills of the workforce generally have improved.

A legacy of the pre-reform policy environment was that it encouraged 'development in all directions' (eg 'made-to-measure' tariffs and 'protection all round') and encouraged production and pricing with scant regard to the interests of customers and the wider economy. The emphasis in the 1990s is shifted more to what customers want, where market prospects lie, and the development of products that exploit opportunities to add value. Businesses are taking a longer-term, more strategic view of markets and products, and the production systems they need to fulfil business goals. Flexibility, anticipating and managing change, innovation and productivity are growing in prominence in the business culture.

The Productivity Commission study showed that there have been some strong industry contributors to the improved productivity performance, and that productivity growth in different sectors has picked up at different times. Manufacturing, mining, and electricity, gas and water, made particularly strong contributions in the late 1980s and early 1990s. Agriculture has been a major contributor at various times in the 1990s. Service industries — particularly finance and insurance, wholesale trade, transport and storage, and construction — have contributed more in the latter part of the 1990s. Estimates based on recently revised ABS data show a strong pickup in productivity growth for communication services. Evidence of variations in productivity performance across sub-industries and firms within industry sectors is also provided in the Productivity Commission study.

Two implications can be drawn. First, improved productivity performance in the 1990s does not necessarily come predominantly from particular sectors or traditional sources such as manufacturing. A wider range of industries, including service industries, participates and relative contributions change over time. Second, even though differences in productivity performance at more micro levels within industry sectors are unlikely to be eliminated, their presence suggests that there may be scope for further productivity improvement.

Australia's productivity growth in the 1990s has been in advance of most other high-income countries. Norway and Ireland have also experienced strong productivity growth for reasons that differ from those underlying Australia's productivity surge. There has been much interest in, and debate about, the extent and sources of a productivity growth surge in the US over recent years. While the US experienced a productivity uplift, the improvement in multifactor productivity growth has not been as strong or as prolonged as that evident in Australia.

Australia's 1990s performance reverses a very long history of failing to keep pace with international standards. It is consistent with Australia pursuing some of the catch-up opportunities that were forgone in previous phases. But it is also consistent with some fundamental changes taking place in the Australian economy which place greater emphasis on productivity performance.

Productivity, Economic Growth and Living Standards

One way of illustrating the growth implications of an acceleration in productivity growth is to examine Australia's growth path. Figure 1 depicts a growth path for the market sector of the economy since the mid-1960s. It plots observations of the output-labour ratio (labour productivity) and the capital-labour ratio. Dividing both output and capital by labour input is a convenient way of capturing the three dimensions of output and inputs of labour and capital in a two-dimensional chart. Because the capital-labour ratio and labour productivity increase over time, the observations line up in chronological order.

Growth based on capital accumulation (or, more correctly, capital deepening — that is, increases in capital per unit of labour) shows up as a growth path drawn out over a wide range of values for the capital-labour ratio. Growth based on productivity growth shows up as a relatively steep gradient in the growth path, since productivity growth means more output for given labour and capital inputs.

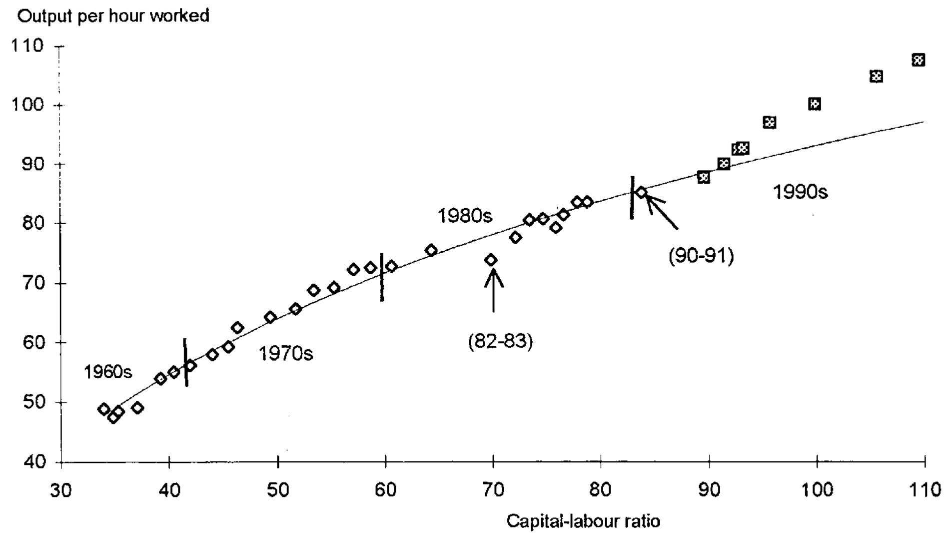
A line is fitted through the observations for 1964-65 to 1990-91, corresponding to the first two phases of development discussed in this paper. A line with some curvature is used to allow for the fact that productivity growth slowed in the second phase, so that the historical trend growth path is allowed to flatten out over time in order to provide the best possible fit.

Australia's growth path showed a remarkably stable pattern from the 1960s until the early 1990s. The curve fitted from observations for that period shows a very close fit. The 1980s recession is the only period deviating from the path.

Projecting the fitted line into the 1990s is a way of illustrating in broad terms what might have happened if the economy had continued on the same historical growth path. It can be seen, however, that the productivity surge in the 1990s led to a steeper growth path, yielding greater increases in output (per hour worked). There could be some argument about the precision in projecting into the 1990s on the basis of the historical trend. But, as an illustrative order of magnitude, the value of output (per hour worked) in 1998-99 is about 13 per cent above the projection line.

Figure 1: Australia's Growth Path, 1964-65 to 1998-99

Indexes 1996-97 = 100



Note: An exponential trend line is fitted for observations up to 1990-91 (end of second development phase) and projected from there. R^2 = 0.99 for the fitted line to 1990-91.

Source: Based on Parham (1999).

One issue is whether the 1990s productivity acceleration merely stems from recovery from the recession. The normal pattern is for productivity to increase in recovery from a recession as underutilised capacity and hoarded labour become used more intensely. Figure 1 shows a difference between the 1982-83 and 1990-91 recessions. In 1982-83, labour shedding and the maintenance of underutilised capital led to a more marked shift to the right in the capital-labour ratio. However, a greater reduction in output than in labour meant that labour productivity declined. This would be consistent with there being some remaining labour hoarding. In the recovery from the recession, productivity growth pushed the observations back on to the trend growth path. In the 1990-91 recession, there were again more marked shifts to the right in the capital-labour ratio, but not reductions in labour productivity. The fact that the observations remained on the trend line suggests there was no labour hoarding. In recovery from the recession, the economy took a new growth trajectory. The 1990s productivity surge thus appears to be something more than re-establishing the long-term trend.

Increased productivity growth brings not only faster output growth, but also faster improvement in average living standards. The additional output that productivity growth enables, provides additional income, which can be distributed through:

- better wages and conditions for the existing workforce;

- increased profits and distributions to shareholders;
- lower prices and better quality products to final consumers (and lower inflation reduces interest rate pressures) and to commercial users;
- increases in government tax revenue (with possibilities to fund tax rate cuts or greater capacity to fund social programs); or
- greater protection for the environment.

Depending on how the gains are distributed, productivity growth can induce further rounds of increased employment and investment. Wage increases would tend to moderate employment growth, whereas price decreases would tend to induce greater output and employment effects. Increased profitability would tend to induce further investment.

Productivity growth is generally regarded as the most important determinant of living standards over the long term. (See IC, 1997 for a formal exploration of the links.) Figures 2 and 3 show that, broadly, there has been a strong correlation between productivity and real domestic income per head (GDP per head adjusted for the terms of trade). The trends are drawn on a log scale, so that the slope of a straight line depicts a rate of growth. (The productivity chart refers to the market sector of the economy, whereas the income chart refers to the economy as a whole.) There are two minor differences between the trends. First, productivity continued to grow at golden age rates through to 1978-79, reflecting a contraction in growth in inputs which maintained productivity growth in the short term. Second, as previously outlined, the stronger income growth in the latter part of the 1980s was accompanied by low measured productivity growth.

Growth in real average incomes in the 1990s (3.0 per cent a year) returned to rates of the 1960s (also 3.0 per cent a year). The rate of growth from the mid-1970s to the mid-1980s was around 1.2 per cent a year.

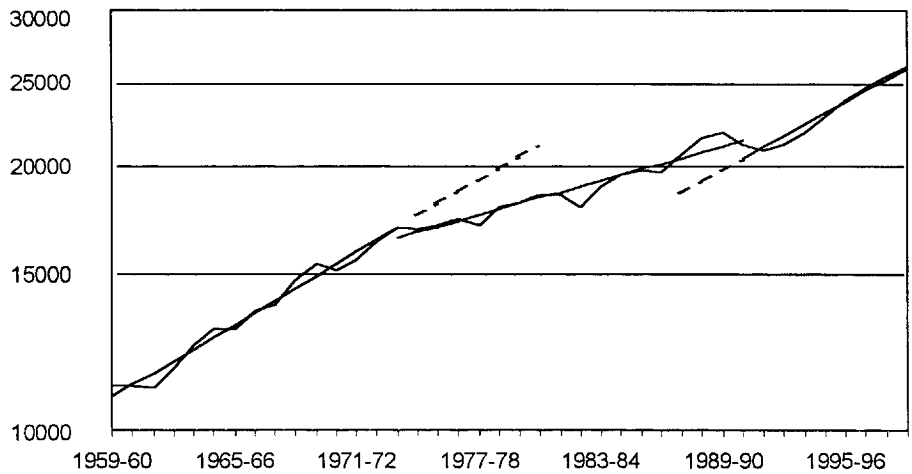
While average incomes provide an (approximate) indication of average standards of living, there are other dimensions of living standards to consider. The distribution of productivity gains is a major issue. As recognition grows that the economy is performing consistently well, concern is turning to how evenly the gains are being distributed. The specific effects of productivity gains on income distribution have not been studied. But it can be observed that, while earnings and private income inequality increased between 1982 and 1993-94, it was offset at the lower end by increasing progression in income tax scales and, in particular, government cash transfers (Harding, 1997). The ABS has found the distribution of income to have remained almost unchanged between 1994-95 and 1997-98 (ABS Cat. No. 6523.0).

It is also important to note that the surge in productivity in the 1990s has not come at the expense of employment.

- The employment rate (ratio of employment to the size of the population aged 15-64) has increased over the 1990s to reach the same high achieved at the end of the 1980s employment expansion.
- The unemployment rate has declined over the 1990s, since the recession.

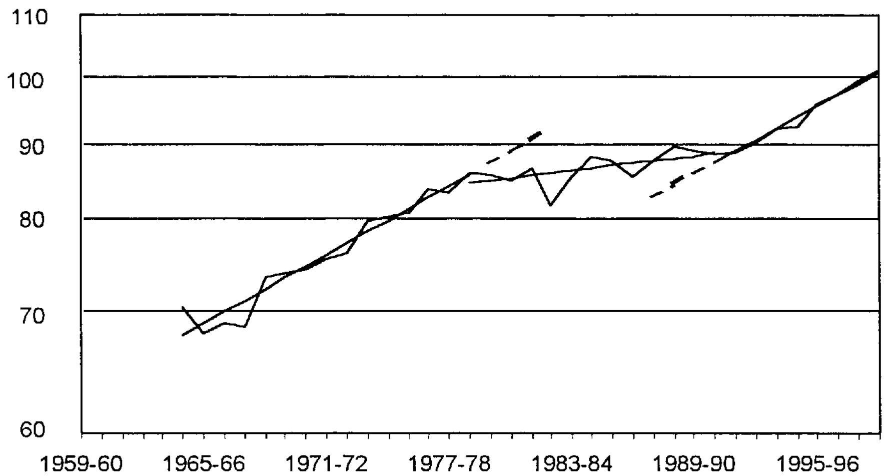
- During the latest productivity cycle (1993-94 to 1998-99) in which productivity growth has been at a record high, market sector growth in labour input (hours worked) has been high by historical standards (1.3 per cent a year compared with 0.9 per cent a year up to 1993-94).

Figure 2: Real Gross Domestic Income Per Head, 1959-60 to 1997-98
(1989-90 dollars, log scale)



Source: Data from ABS Time Series Statistics on Econdata Data.

Figure 3: Multifactor Productivity (Market Sector) 1964-65 to 1998-99
(Index 1997-98 = 100, log scale)



Source: Data from ABS Cat. No. 5204.0.

In other words, and bearing in mind also the growth in capital input, the historically high rate of productivity growth over recent years does not amount to 'doing more with less'. It is 'doing more with more'.

Productivity growth also enables the community to support higher spending — enjoying more of the fruits of consuming goods and services (be it necessities such as food and schooling or luxuries such as more expensive cars or holidays). All other things equal, relying on capital accumulation to underpin growth requires Australians to save more in order to help finance the growth in investment expenditure without running into balance of payment problems. It also defers the realisation of gains in living standards to some time in the future. However, relying more on productivity to underpin growth, means Australians are in a better position to spend now and not run (as readily) into balance of payments difficulties.

Some welfare considerations — though relevant — have been linked inappropriately to productivity. In particular, concerns have been raised about the welfare implications of increased working hours and unpaid overtime. However, it would be wrong to attribute Australia's productivity improvement to longer working hours as suggested by some. Additional working hours, whether paid or unpaid, contribute to output through input growth and not productivity growth.

Policy Issues and Perspectives

The improved productivity performance of the 1990s raises at least three general questions.

- What has been the role and importance of microeconomic reform in raising Australia's productivity performance and, therefore, how important is it to a continuation of strong productivity growth?
- Can the improved productivity performance be sustained?
- What are the implications for the distribution of burdens and gains among Australians?

Role of microeconomic reform

The introduction of microeconomic reforms was intended to bring a number of welfare gains on both the demand and the supply sides of the economy. Reforms were expected to boost Australia's productivity performance by:

- enabling greater flexibility in the economy so that resources could be attracted to more productive uses;
- improving technical efficiency; and
- encouraging a more 'dynamic' business culture that would enable Australian firms to be more self reliant and better able to meet the challenges of fiercer international competition, technological advance and globalisation.

The structural changes that have taken place in the economy over the past decade or so, as outlined above, are in keeping with the expected outcomes of microeconomic reforms. Reductions in trade and regulatory barriers have enabled a freer movement of resources to where growth prospects lie. Reform in capital and labour markets has enabled a better allocation of resources. Enhanced competitive pressures and, in the case of government business enterprises, a clear commercial focus have provided incentives for firms to improve efficiency, not only by cutting unnecessary costs, but also by upgrading technologies and becoming more active in innovation. Openness to foreign trade and investment is bringing access to technologies, ideas and expertise and has encouraged greater specialisation.

Reforms have also brought changes in the attitudes of domestic producers. A previous reliance on tailored government assistance to underwrite and protect market positions has given way in large part to greater self-reliance among businesses and industries and to a focus on business improvement as a means of securing growth and profitability.

Reform case studies conducted by the Productivity Commission (PC, 1999) provided illustration of the potential benefits of a change in expectations. The whitegoods, automotive, and textiles, clothing and footwear (TCF) industries were in quite similar positions in the 1970s — mature, highly-assisted industries, which were afforded the protection of quotas. All were subsequently subjected to reductions in protection. However, protection was reduced in whitegoods earlier, quicker and to a greater extent than in the other industries.

Having realised by the mid-1980s that the government policy stance toward support of the whitegoods industry had changed, the local industry went through a period of relatively rapid adjustment to become internationally competitive. Automotive and TCF, although provided with extensive forms of adjustment assistance, were slower to adjust and have been much slower to raise productivity.

There have been marked improvements in productivity performance in areas of economic infrastructure traditionally dominated by government business enterprises. Bringing the discipline and opportunities of a clear commercial focus and clear accountability for performance have been key changes. Productivity gains in a number of industries and particular enterprises have been quite spectacular.

But it would be overstating the case to attribute all the productivity improvement to microeconomic reform. The resumption and maintenance of a more stable macroeconomic environment, through monetary and fiscal measures, has undoubtedly made a contribution. For example, sound macroeconomic management was a factor sustaining output over the period of uncertainty created by the Asian economic crisis.

It is also possible that underlying technological advances (for example, the use of fibre-optics in communications) may have contributed to some of the productivity improvement. However, Australia's long history of lagging in the adoption of technologies prior to reform would caution against overstating the

speed of adoption of advances in the absence of the competitive and commercial incentives that were strengthened by the introduction of microeconomic reforms. In addition, many technological advances are embodied in new equipment purchases and are counted by the statistician as part of capital inputs rather than productivity.

The productivity growth outlook

The outlook for continued strong productivity growth seems favourable. Greater exposure to competition and the greater commercial focus of government business enterprises provide ongoing incentives to seek out better products and better ways of doing things. A more 'dynamic' business culture reinforces the focus on productivity. There are also greater flexibilities to improve business operations. For example, less unnecessary regulation and new enterprise bargaining structures enhance the ability of firms to reorganise production and redesign work arrangements. As noted above, the evidence that improved productivity performance is still patchy at a micro level suggests that there is still scope for further improvement.

That is not to say that there will be immunity from demand-side shocks, such as downturns in external markets. But, even here, it can be noted that the economy has become much more resilient. It posted record productivity growth in the midst of the Asian economic crisis. In part, this was due not only to good macroeconomic management, but also to the fact that producers are more flexible, more aware of markets and anticipate and manage risks better.

If the rest of the world were to stand still, Australia's relatively high rate of productivity growth could be expected to slow at some point as available, catch-up opportunities become fully realised. But the rest of the world does not stand still. The increase in productivity growth in the US in recent years may signal that a new frontier of productivity improvement is opening up. (While benefits from an information technology 'revolution' are much discussed, there is insufficient consensus for a firm conclusion on the underlying reasons.) But, if this is the case, Australia is positioning itself well through the process of renewal of production, to incorporate any new developments that can be used to advantage. Rather than falling further behind as it would have in the past, Australia is now better placed to ride on the crest of a longer wave of productivity improvement. Our ability to succeed in this regard, however, will depend also on the flexibility provided by ongoing reform, the development of necessary skills and the presence of sound institutional supports.

Distributional issues

The distribution of the gains from economic progress is an important issue. Distributional matters are a key component of living standards. And Australians have a strong egalitarian ethic. Distributional issues may well come further to the fore in policy debates if the period of improvement in general prosperity

continues. There has been discussion already of a divide between urban and rural communities; and the extent of the benefits received by top executives.

While distributional issues are real and need to be addressed, the improvement in prosperity that productivity growth generates provides more of an opportunity than a problem. As Lester (1998:45) observed in the productivity context, '… a rising tide will not lift all boats. However, a more rapidly rising tide will certainly leave fewer boats stranded.'

Some of the issues to be sorted out are as follows:

- Is some inequality in the distribution of the gains inevitable and tolerable, for example, to provide reward for entrepreneurial endeavour and to compensate those who take the risks?
- To what extent is it a problem if all are made better off in absolute terms, but some receive greater gains than others?
- Who is missing out and what is the best way to help them? What is the best way to include those not participating strongly in market activities in the distribution of the gains?
- Productivity growth provides the wherewithal in the long term to pursue community objectives, including social and environmental goals, more thoroughly and vigorously. Are there tradeoffs between pursuing productivity improvements and broader community objectives? How can any potential conflicts be best mitigated?

Concluding Remarks

The Australian economy appears to have moved into a new phase of higher growth in the 1990s. A heavier reliance on productivity as a source of growth stands out as a break from the past. Australia has turned around a long history of poor productivity performance by international standards. The fact that Australia's rate of productivity growth was higher than nearly all other high-income countries in the 1990s suggests that a domestic explanation for the improvement is required. Some success in explicit attempts to raise Australia's productivity performance by introducing microeconomic reforms is an important part of the explanation.

Stronger productivity growth not only underpins faster output growth, but it also brings forward improvements in average living standards. The improvement in prosperity provides greater opportunity over the long term to pursue community goals.

The prospects for sustained improvement in Australia's productivity performance seem favourable. They will be reinforced by ongoing commitment to policy reform. From a welfare point of view, attention will also need to be given to how the gains are distributed.

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This article draws on work undertaken by colleagues at the Productivity Commission. I am grateful to Paul Roberts for assistance in preparing the charts. I also acknowledge helpful comments from Richard Snape, the Editor and an anonymous referee. The usual caveat applies.

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The Distributional Impact of Year 2000 Tax Reforms in Australia

Ann Harding, Neil Warren, Martin Robinson and Simon Lambert

Whenever major tax reform packages are proposed, one of the areas of fiercest debate is always about the distributional impact of the reforms — who wins, who loses, and by how much. When major shifts in the tax mix are suggested — away from income tax and towards consumption taxes — the distributional issues always assume particular prominence because of concern about the impact of such changes on the most vulnerable groups in the community. It is arguable that the previous two attempts at tax mix shifts in the mid 1980s and early 1990s failed in large part because of concerns about their distributional impact (Treasury, 1985; Liberal and National Parties, 1991). So when the Howard Government laid out a comprehensive 200 page tax reform plan in August 1998 and then held an election on this issue, there was intense public interest in whether or not the new tax system would be fairer (Treasurer, 1998).

Estimates of the distributional impact of the package were prepared by the Treasury and included in the document released by the Treasurer. But aspects of the methodology underlying these estimates differed from that used in previous attempts in this area. Ultimately, the Australian Senate set up the *Committee on a New Tax System* to evaluate the Government's tax reform package. That Committee asked us to examine the distributional impact of the reforms, in some cases using assumptions that were different from those made by the Treasury (Warren et al, 1999a).

Subsequently, in May 1999, the Commonwealth Government negotiated a compromise agreement with the Australian Democrats and the new tax package is now being introduced on 1 July 2000. This compromise resulted in food being removed from the GST base, compensation to pensioners being increased and better protected, changes to the taxation of petroleum products, reductions in tax cuts for high income individuals, and the deferred abolition of a number of State taxes.

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The Tax Reform Package

The package originally proposed by the Government was complex, involving sweeping changes to indirect taxes, large cuts in income tax, and substantial reforms to social security and family assistance programs.

Indirect tax reforms

The original package proposed the following indirect tax reforms:

- A 10 per cent Goods and Services Tax (GST) on a broad base with health and medical care, education, childcare, charitable activities and religious services GST-free and residential rents and financial services input taxed.
- Abolition of the current wholesale sales tax.
- Abolition of a range of State taxes including Financial Institutions Duty; debits tax; stamp duty on marketable securities; conveyancing duties on business property; stamp duties on credit arrangements, instalment purchase arrangements and rental (hiring) agreements; stamp duties on leases; stamp duties on mortgages, bonds, debentures and other loan securities; stamp duties on cheques, bills of exchange and promissory notes; and 'bed taxes'.
- Introduction of taxes on wine and luxury cars to maintain the current effective consumption tax rates.
- Adjustments to excise duties following the imposition of a GST (but with a significant increase in the price of tobacco following the introduction of a per-stick system of excise duties on tobacco).

In the revised package, a number of major changes were made to the proposed indirect tax reforms. First, basic foods were removed from the base of the GST. Second, the removal of those State taxes initially proposed for abolition was either deferred or abandoned. The other main area of change to the indirect taxes was to the proposed Diesel GST Credit. This scheme was restructured into a rebate and reduced as part of a compromise involving increased environment-related subsidies.

The removal of food from the base of the GST was at a cost to revenue of \$3.6 billion in 2001-02, of which \$1.2 billion was funded via reductions in the top personal income tax marginal rates, and the remainder through changes to indirect taxes and subsidies (Warren et al, 1999b). In effect, two-thirds of the cost of removing food from the GST base was funded from increases in other indirect taxes (compared with the situation in the original package). Thus, somewhat paradoxically, the removal of food from the GST base was largely paid for by the re-imposition of other indirect taxes, which themselves will flow-through to the price of food and other commodities consumed by households. Nonetheless, the changes resulted in a 0.5 percentage point reduction in the likely impact of the package on the Consumer Price Index, from 3.2 per cent for the original package down to 2.7 per cent for the revised package (Warren et al, 1999b).

Income tax reforms

The 1999-2000 personal income tax schedule is outlined in Table 1. This schedule has remained unchanged since 1 November 1993, so that wages growth has seen a growing proportion of the labour force pushed into the higher marginal tax brackets (Harding, 1998). Currently, the average full-time employee faces a marginal tax rate of 44.5 per cent (including the 1.5 per cent Medicare levy). This 'bracket creep' has been creating political problems for the government, as it is widely regarded as unfair that average families should be facing such high tax rates. This is one of the key reasons why the government originally proposed reducing the marginal tax rate for those with incomes between $38 000 and $50 000 a year from 43 to 30 per cent (Table 1).

However, the government's original package also proposed cutting the marginal tax rate for those earning from $50 000 to $75 000, from 47 to 40 per cent. Ultimately, the generosity of the tax cuts for such taxpayers was reduced in the final version of the package, amid concerns that high income earners were deriving excessive benefits from the package allied with the need to pay for the exclusion of food from the new GST base (Table 1)

Table 1: Current and Proposed Income Tax Scales

Current 1999-2000 tax scales		***2000-2001 tax scales***		
Taxable income	*Tax rate*	*Taxable income*	*Government's original proposal*	*Final scales*
$0-$5,400	0	$0-$6,000	0	0
$5,401-$20,700	20%	$6,001-$20,000	17%	17%
$20,701-$38,000	34%	$20,001-$50,000	30%	30%
$38,001-$50,000	43%			
$50,001+	47%	$50,001-$60,000	40%	42%
		$60,001-$75,000	40%	47%
		$75,001+	47%	47%

Note: The Medicare levy is currently an additional 1.5 per cent of taxable income, above a threshold that varies by family type. In modelling the impact of the package, we assumed that families held a sufficient level of private health insurance to avoid paying any further Medicare surcharge.

Social welfare reforms

There were two major considerations underlying the social welfare reforms announced in the Government's original tax package. The first was that any

substantial shift in the tax mix away from income taxes and towards indirect taxes always creates a need for comprehensive compensation packages (Harding, 1998; Liberal and National Country Parties, 1991). This is because there are a substantial number of families that do not pay sufficient income tax to be compensated for their extra indirect taxes via income tax cuts (such as age pensioners and unemployed families).

The second was that the various programs of government assistance were heading in the direction of being out of control due to the proliferation of programs, all with exceptionally complicated means tests and eligibility rules (Harding, 1997a). Some of the new programs introduced by the Howard Government had exacerbated this trend, because of their preference for delivering assistance on the tax side rather than the outlay side. Thus, as at the end of 1999 the 'family tax assistance Part A' delivered income tax reductions to almost exactly the same families as received 'family allowance' from the Department of Family and Community Services. Very sensibly, therefore, the government also used the tax reform package as an opportunity for a 'spring clean' of the various programs providing assistance to families with children.

The social welfare side of the government's original tax reform package thus comprised four major components:

(1) restructured and increased payments to families;
(2) increases in pensions and benefits;
(3) rationalised child care benefits; and
(4) savings bonuses for aged persons and self-funded retiree

Payments to families

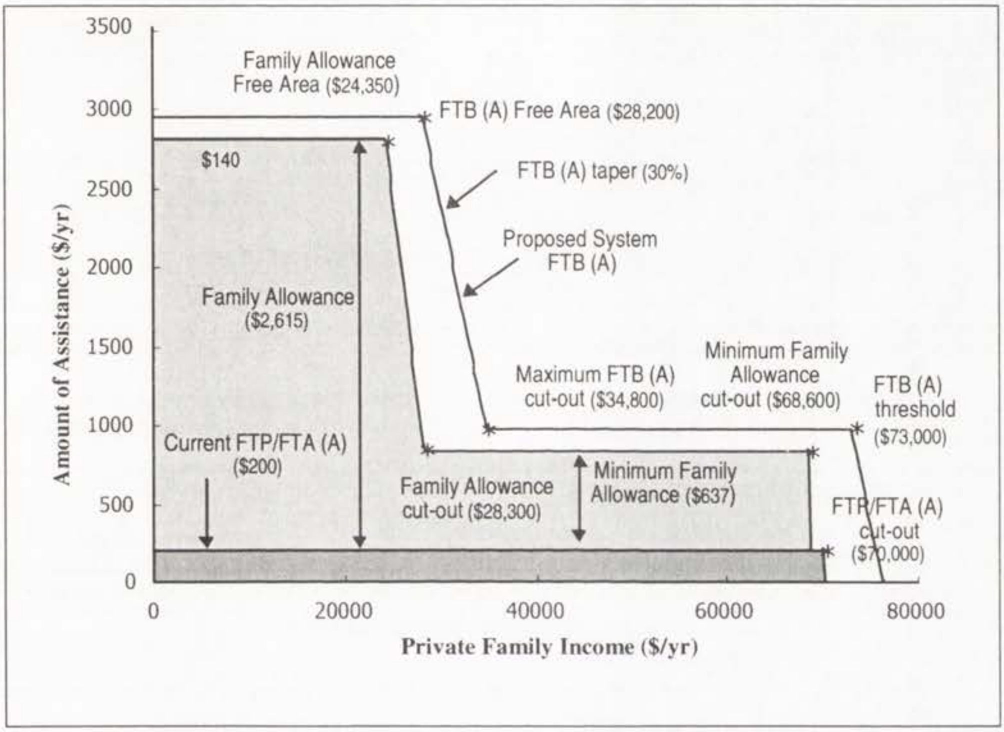
The family assistance reforms proposed by the government in the original tax package were not amended as part of the subsequent deal with the Australian Democrats. The government is rolling ten current forms of family assistance into two new family assistance programs — *Family Tax Benefit Part A* for all families with children and *Family Tax Benefit Part B* for single income families with children (including sole parents).

Looking at Family Tax Benefit Part A first, the amalgamation of the existing Family Allowance and Family Tax Assistance does not result in significant structural change in the payments, as very much the same types of families receive these payments. Three features of the proposed changes are, however, especially significant. The first is the reduction in the current 50 per cent taper applying to the assistance given to lower income families to 30 per cent. This change will thus reduce effective marginal tax rates by 20 per cent for those families currently affected by the income test for the maximum rate of family allowance.

The second key feature is that at the upper end of the income distribution, at incomes ranging from about $66,000 to $80,000, the 'sudden-death' income test currently applying to both Minimum Family Allowance and Family Tax Assistance is to be replaced by a 30 per cent taper. A third key feature is that the

tension between the currently asset-tested Family Allowance and the non-asset-tested Family Tax Assistance is to result in a liberalisation of the means-test, with the proposed new Family Tax Benefit being income-tested but not asset-tested. Figure 1 illustrates the effect of the proposed new system, with the white areas showing the increases in assistance and gentler slopes on the 'proposed system' lines reflecting the lower tapers applicable under the proposed new system.

Figure 1: Comparison of Current and Proposed Systems in July 2000, Family Tax Benefit Part A[a]



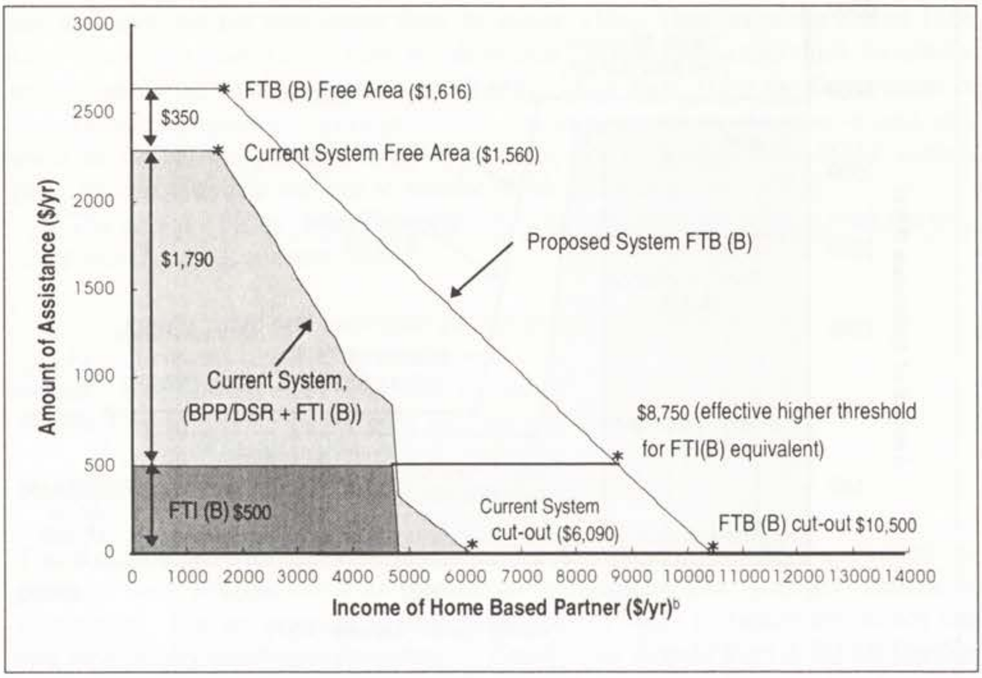
Source: Treasurer, (1998:62).
Note: a = For families with one child aged 13 years.

The reforms proposed under the second plank of the new Family Tax Benefit are more extensive. They involve amalgamation of the six programs currently delivering assistance to single income couples with children and sole parents into a single Family Tax Benefit Part B, with a withdrawal rate of 30 cents in the dollar on the spouse's income. This represents a sharp break with existing policy in a number of ways. First, the payment is not income-tested on the income of the primary income earner — which means that it will go to even the richest single income families and is effectively a universal payment for sole parents. Second, the existing sudden-death income test on Part B of the Family Tax Assistance has

been abolished, as this payment has been incorporated into the new Family Tax Benefit Part B. Figure 2 illustrates the impact of the proposed changes in assistance under the Family Tax Benefit Part B for single income couples with one young child.

The Government is also rolling the two programs of child care assistance into a new Child Care Benefit, but this was not included in our modelling because of insufficient data about who benefits from the child care subsidies.

Figure 2: Comparison of Current and Proposed Systems in July 2000, Family Tax Benefit Part B[a]



Source: Treasurer (1998:65).

Notes: a =Single income couples with one child less than 5 years.

b =The income shown on the horizontal axis is the income of the secondary income earner, not of the family or the primary income earner. The proposed payment will no longer be tested on family income or primary earner income.

Pensions and allowances

In the original tax reform package the Government proposed increasing pensions and allowances — for the aged, the unemployed, the sick and so on — by 1.5 per cent more than the inflation rate. The adequacy of the compensation package for social security recipients subsequently emerged as one of the most controversial aspects of the tax reform debate. Ultimately the final agreement was to increase pensions and allowances by two per cent more than the inflation rate. (The

income test for pensioners — thus including sole parents but *not* the unemployed — was also liberalised, with the taper rate being reduced from 50 to 30 cents in the dollar.)

The compensation mechanism for pensioners proposed under the original package was also subsequently shown to be flawed. This was because an existing Government commitment to set pensions at 25 per cent of male total average weekly earnings meant that the 1.5 per cent real compensation increase for pensioners would be rendered meaningless in about five years, as wages increased faster than prices (see Warren et al 1999b for a fuller explanation). As a result, in the final tax reform package the compensation for pensioners was 'locked in', with the indirect tax compensation payment remaining a separately indexed component of the pension in future years.

Other vulnerable groups

Apart from social security recipients, there are other groups in the community that are generally considered to be at risk of inadequate compensation in the face of major shifts in the tax mix towards indirect taxes (Harding, 1998). These include early and self-funded retirees and those whose annual taxable incomes are too low for full or any compensation via income tax cuts (for example, those working part-time or part-year). The Government's original tax reform package was extended in two ways by the Senate to improve compensation for such groups.

First, the Government originally proposed an Aged Persons Savings Bonus for those aged 60 or more and an additional Self-Funded Retirees Supplementary Bonus for those of age pension age or over and not in receipt of social security — the former payment being designed to compensate for the possible loss of the value of some assets after the tax mix shift and the latter to pick up those aged persons who would not be compensated via age pension increases. Concerns subsequently emerged about self-funded retirees who were *below* age pension age and not receiving any social security payments. As a result, in the final package the Government extended the Self-Funded Retirees Bonus to those aged 55 and over.

Another issue that emerged during the hearings by the Senate Committee was concern about those on low taxable incomes who were not receiving social security payments — and who would thus not be compensated via either income tax cuts or social security increases for their new indirect tax burdens. In the final package the Government agreed to establish a GST Assistance Scheme for Low Income Persons outside the social security net but, at the time of writing this article, no details of the Scheme have emerged.

Simulating the Impact of Tax Reform

How can we tell who will win and who will lose from complex tax reform packages? In all three of the major tax mix shift reforms proposed in the last two decades, microdata and microsimulation models have been used to estimate the

distributional effects of the reforms (Treasury, 1985; Liberal and National Parties, 1991; Warren et al, 1999a and 1999b; Johnson et al, 1998). However, in the latest round of tax reform the Treasury departed from its own earlier practice by not using its PRISMOD microsimulation model as the basis of distributional impact estimates published in the Government's tax reform package (1999).

This change in methodology stemmed from Treasury's concern about the accuracy of the 1993-94 Household Expenditure Survey (HES) conducted by the Australian Bureau of Statistics (Carnahan, 1998). There are two key problems with using the HES as the basis for microsimulation modelling of substantial tax reform packages. First, there is an imbalance between expenditure and income in the HES, with the average Australian household apparently spending more than its disposable income (Harding and Warren, 1998). In fact, the ABS (1995) specifically warns against using the difference between income and expenditure in the HES data as a measure of savings or dissavings. Second, the HES sample size is relatively small and, particularly for infrequently purchased consumer durables, one household behaving in an unusual manner in a small population sub-group may distort the average results for that population sub-group.

As a result of these types of concerns, instead of using estimates of gain and loss based on the representative sample of families captured in the HES, the Treasury constructed 'representative' or cameo household types. Two critical assumptions underlay the Government's estimates for cameo households of the net gains from the tax reform package. The first was that it was fair to assume that the prices facing each of the hypothetical households would rise by 1.9 per cent, which was the Treasury's estimated change in the CPI (excluding housing and tobacco price effects). It was thus assumed that the price increases facing different types of households would not vary greatly, despite differences in consumption patterns. This was a particularly important assumption as, in the original package, social security pensions were to be increased by the general CPI effect plus 1.5 per cent. If the general CPI effect did not provide an adequate indicator of the likely changes in prices for pensioners, then there was a possibility that social security recipients would not be adequately compensated for the shift in the tax mix towards consumption taxes.

The second critical assumption was effectively that dissaving did not occur or, if it did, it was not a problem that required addressing. This assumption was implicit in Treasury's calculation that the impact of the new indirect taxes would be limited to 1.9 per cent of current disposable income, rather than 1.9 per cent of current expenditure in cases where expenditure exceeded income.

These two key assumptions were of particular concern to the Senate Committee, which asked us to make alternative assumptions when simulating the distributional impact of the tax package. Consequently, we calculated group-specific price effects for 29 sub-groups within the Australian population, using the HES data on consumption patterns and our STINMOD-STATAX microsimulation model (Lambert and Warren, 1999). For example, we estimated that the indirect tax changes in the final package would increase prices as measured by the CPI by 2.7 per cent, but that prices would increase by 3.05 per cent for age pensioners and

only 2.16 per cent for single income couples with one child aged less than five years (Warren et al, 1999b). We also assumed that low income households with no private income of their own were spending 10 per cent more than their income and we included the impact of tobacco and house price increases in our estimates of the price changes likely to flow from the tax package.

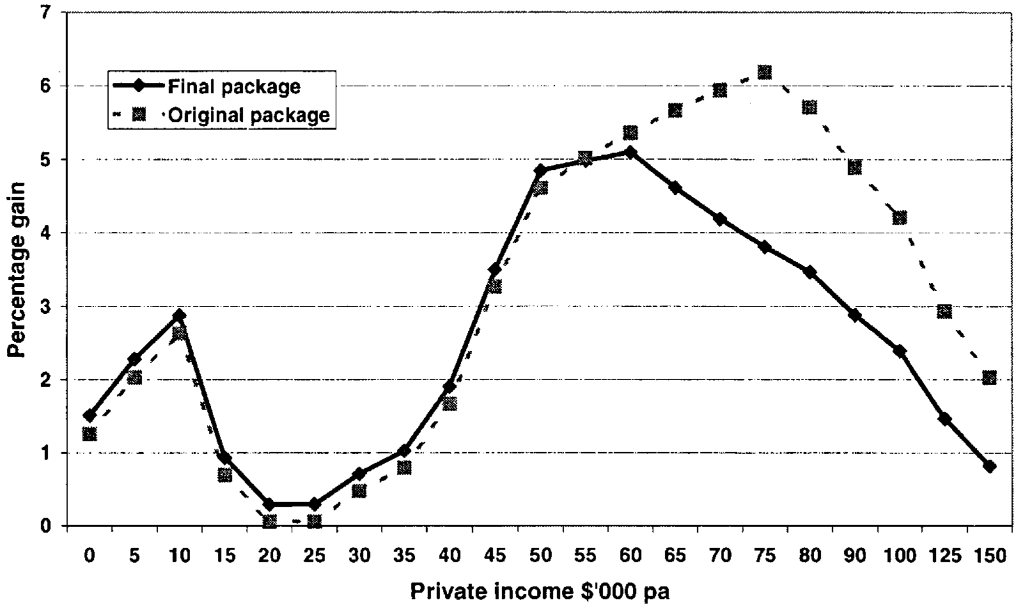
Finally, another important issue was the timing of the simulation, because many of the indirect tax reforms were being phased in over a number of years and strong transitional effects were expected in the 12 months following the introduction of the new GST in July 2000. Our modelling showed the estimated impact of the tax reform package at July 2000. This meant that average weekly earnings, social security payment rates and so on were forecast forwards to that point in time. However, in calculating the impact of the indirect tax changes it was assumed that the GST had been in operation for two years, so that the estimated impact on prices in 2001-02 was used to calculate the expected increase in the indirect taxes paid by households. This is because there were expected to be major transitional effects in the first year of operation of the GST and our modelling attempted to show the likely medium term impact once these transitional effects had worked their way through the system. Similarly, the Government intends that social security recipients will remain two per cent better off once these effects have eventuated, and the modelling incorporates that intention.

Impact of the Original Package

Although the impact of the package differs greatly for different types of families, the results for a single taxpayer provide a useful illustration of the general differences between the original and the final tax reform packages. First, low income households dependent on social security did better out of the final package, because of the additional 0.5 per cent real increase in pensions and allowances. Second, the removal of food from the GST base reduced the impact of the indirect tax changes for all single taxpayers so that those who still received the full income tax cuts were better off under the final package than under the original package. Third, those with taxable incomes above $50,000 a year did less well under the final package, because of the reductions in their income tax cuts. All of these effects are clearly illustrated in Figure 3, where single taxpayers earning $50,000 or less are better off under the final package, while those earning more than $50,000 are better off under the original package.

Another notable feature is that the gains from the package are relatively slight for those in the $20,000 to $30,000 private income range. This is because the income tax cuts for those in this zone are relatively small and largely offset by their new indirect tax burdens.

Figure 3: Percentage Gain in Disposable Income Under Original and Final Tax Reform Packages for Single Taxpayer



Note: It is assumed in this and in all subsequent cases that those with very low levels of private income are receiving social security payments.

Distributional Impact of Final Package

How will different types of families benefit from the tax reform package? Generally, those without children fare less well than those with children — and single income families fare better than dual income families. Figure 4 looks at the impact of the tax reform package on the disposable incomes of those without children. In essence, the gain curve is shifted to the right for dual income families, as at least one person needs to be earning more than $50,000 before the major impact of the income tax cuts is felt. It is notable, however, that the percentage increase in disposable income never exceeds 5.5 per cent for these families without children.

In contrast, as Figure 5 illustrates, the gains for some single income families with children exceed 10 per cent. Single income families with children are the big winners out of the tax package. This is because families with only one earner receive all of the Family Tax Benefit Part B, regardless of the primary earner's income, and also receive substantial personal income tax cuts as their income increases up to around $50,000. These gains come on top of those received through the Government's Family Tax Initiative, introduced in 1997. (However, there is some evidence that single income families fared relatively poorly during the 1982 to mid 1990s period (Harding, Szulkaska and King, 1999).

Figure 4: Estimated Percentage Gain in Disposable Income Under Final Tax Reform Package for Those Without Children

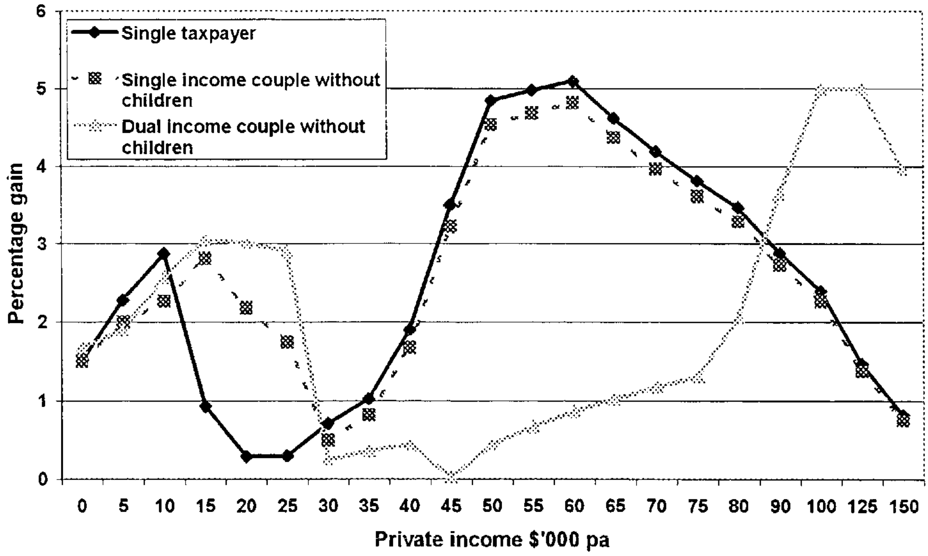
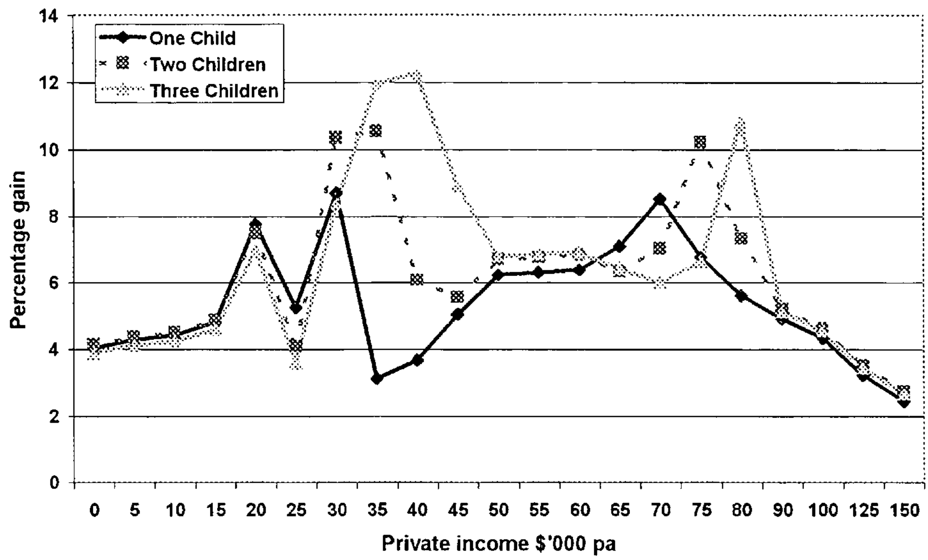


Figure 5: Estimated Percentage Gain in Disposable Income Under Final Tax Reform Package for Single Income Families



Note: In all graphs, one child means a child aged less than five years; two children means one aged less than five years and one aged 5-12; and three children means one aged less than five years and two aged 5-12. The figures underlying all of these graphs were published in the *Weekend Australian* on June 19 and can be freely downloaded from the NATSEM website — www.natsem.canberra.edu.au.

Those single income families whose primary earner receives between \$30,000 and \$40,000 benefit most because they receive the effect of both an increase in the threshold for their main family tax payment (Family Tax Benefit Part A) and a reduction in the withdrawal rate for those benefits. The more children they have, the greater the child-related benefits and the higher the gains.

The boost to disposable income for families with income around \$70,000 comes from the changes to the income test for Family Tax Benefit Part A, which is no longer 'sudden-death', but now has both a higher threshold and a 30 per cent taper. This means a boost to payments for those single earner families with children with an income above \$70,000. The gains for single income and families above \$70,000 are quite significant and more accentuated than for dual income families with children (as noted below).

The situation for dual income couples differs from that of single income couples for two primary reasons. Firstly, the income tax cuts are less significant for dual income families on comparable family incomes up to \$70,000, since the greatest tax cuts accrue to those with individual incomes between \$38,000 and \$50,000.

Furthermore, the Family Tax Benefit Part B is not means-tested on the primary earner's income, only on the secondary earner's income. This contrasts with the situation for comparable payments under the current system, where a means test is applied to the primary earner's income. Obviously, dual income couples have this Family Tax Benefit Part B payment means-tested away, resulting in less of a boost to the disposable income of families with incomes of over \$70,000.

However, dual income families still benefit just like single income families, from the increase in the Family Tax Benefit Part A threshold and the introduction of a 30 per cent taper.

Sole parents

Sole parents generally receive above average benefits from the tax reforms. Those fully dependent upon the pension benefit from the substantial increases in the new Family Tax Benefits Parts A and B and the increase in the base pension rate. Those with low private incomes benefit from the liberalisation in the pension income test, although these gains are slightly offset by the removal of the Sole Parent Rebate from the tax system. At modest private income levels, around \$30,000 to \$40,000, sole parents benefit from the reduction in the income test taper for family assistance from 50 cents to 30 cents in the dollar. And at higher private income levels sole parents benefit from both the income tax cuts and the removal of the primary earner income test from Family Tax Benefit Part B. The latter change results in the 'spike' for net gains for sole parents with incomes around \$70,000-\$75,000 shown in Figure 6.

Figure 6: Estimated Percentage Gain in Disposable Income for Dual Income Families and Sole Parents

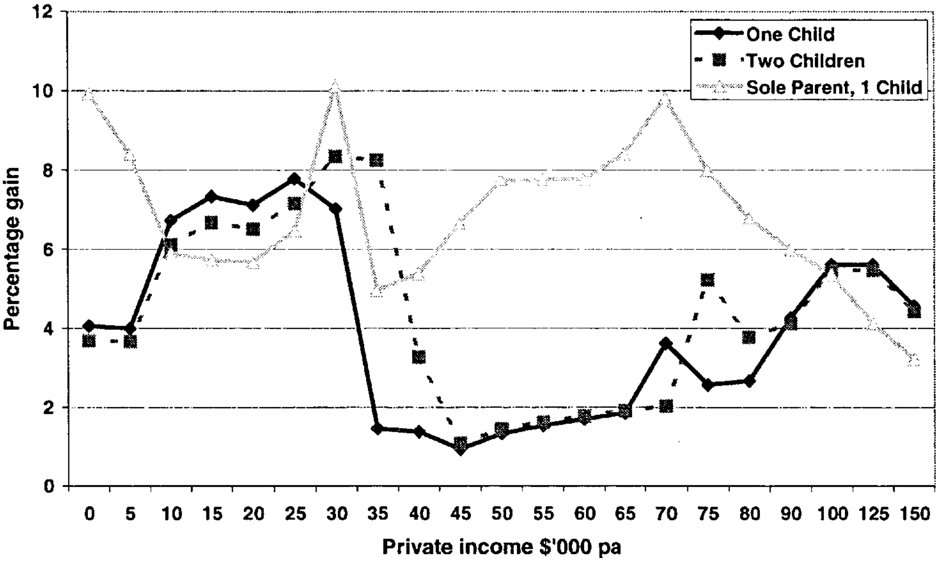
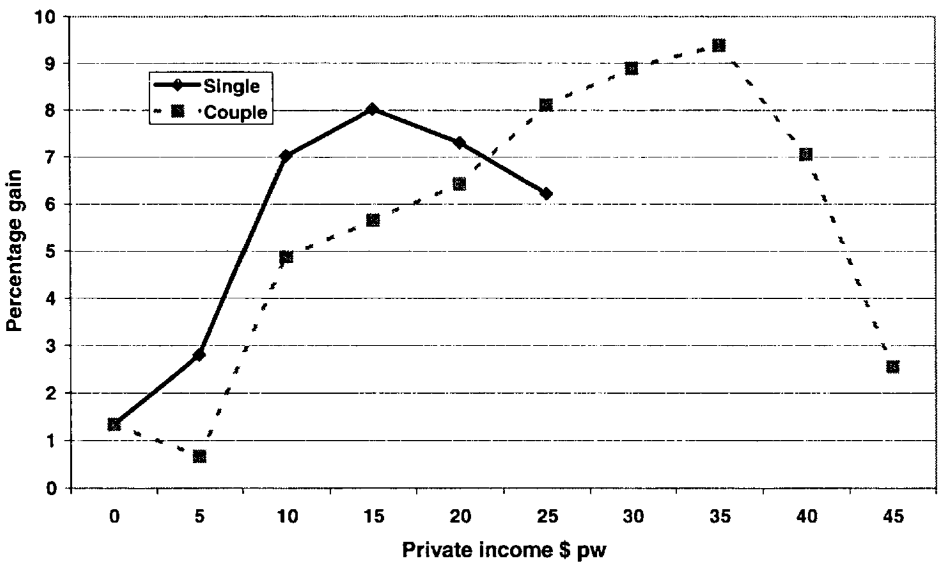


Figure 7: Estimated Percentage Gain in Disposable Income for Age Pensioners



Age pensioners

Age pensioners were one of the groups that featured prominently in the negotiations about the shape of the final tax reform package. Their different consumption patterns meant that they faced substantially higher than average increases in prices under the original proposals, and they benefited greatly from the removal of food from the revised GST base. For example, while we estimated that the final tax package would increase prices by 0.5 per cent less than the original tax package, for age pensioners the removal of food resulted in more than double the average benefit (Warren et al, 1999b). Age pensioners also benefited from the increase in real pensions, up two per cent in the final package compared with only 1.5 per cent in the original package. Nonetheless, Figure 7 makes clear age pensioners with substantial private income fared much better from the tax package than those fully dependent on their pension.

Conclusions

In July 2000 Australia will have a new tax system. The tax reform package involves cuts in income tax, the introduction of a new 10 per cent GST on a wide base but excluding basic foods, and the abolition of some other indirect taxes. The income tax cuts may still appear to some to be large and unfair. But it must be recognised that they essentially only represent the return to taxpayers of the tax bracket creep that inflation has imposed upon them since 1993 (Carmody, 1999). Other research suggests that the income tax system became more progressive between the early 1980s and the mid 1990s and that there were evident political limits to how much longer the trend towards higher marginal tax rates for average earners could continue (Harding, 1997b, 1998).

The indirect tax reforms ultimately accepted by the Senate were clearly less efficient than those originally proposed by the Government, but they did help to improve the equity of the overall package. The exclusion of food from the GST base was particularly important to the aged and those on low incomes.

All estimates of the distributional impact of tax reform packages are of necessity only a rough guide to likely outcomes. Our estimates incorporate important assumptions about behaviour, including how quickly businesses will pass on tax cuts or increases and ignoring any possible changes by consumers in their purchasing patterns after the tax change. However, our analysis of the 2000 Australian tax reform package suggests the following general conclusions:

- the biggest winners are single income couples with children;
- families with children generally do better than those without;
- sole parents fare relatively well;
- age pensioners with substantial non-pension income make larger gains than those fully dependent on social security;

- the gains from the package are very modest or almost non-existent for some groups, including those without children with incomes around $30,000 to $35,000; and
- those individuals with incomes between $38,000 (around average weekly earnings) and $50,000 do particularly well as a result of the income tax changes.

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Getting Tough on Crime: Will it Win the War?

Jenny Williams

Australia's rising crime rate remains an issue of considerable public concern, the significance of which was not lost during the last Federal election. At the launch of his 'A Safer and Stronger Australia' policy, John Howard proclaimed protecting the community from crime as the first responsibility of government. While placing 'strong and effective law enforcement' at the heart of his 'fight against crime', Howard conceded that the criminal justice system was largely the responsibility of state and local governments.

The emerging trend in policy response from State legislatures has been the passage of bills establishing mandatory minimum sentences for various crimes. Prominent is the Northern Territory's 'one strike' law, passed in November 1996. This law imposes a mandatory prison sentence for first time adult property offenders and applies to many common and less serious offences, including criminal damage, stealing, unlawful entry of a building and unlawful use of a motor vehicle. For adults (17 years of age and over) found guilty of nominated property offences, the first offence attracts a sentence of 14 days imprisonment, the second offence 90 days and the third and subsequent offences 12 months. Mandatory sentencing legislation, imposing a minimum 12 months imprisonment for a third conviction of home burglary, was also introduced in Western Australia (WA) in the same year.

To implement this type of legislation, the courts must be able to incarcerate offenders convicted of crimes covered by mandatory sentences. Walker and Dagger (1993) report that nationally, male prisons are operating at 103 per cent of capacity. The NT has the highest occupancy rate of 118 per cent of capacity. Thus, shortly after introducing the 'one strike' policy, the Northern Territory (NT) Correctional Services Minister announced plans to build a new three million dollar prison to house 140 more prisoners. Over and above these construction costs, incapacitation of criminals is a costly business, estimated to be around $56,000 per offender annually (Australian Crime — Facts and Figures, 1998). The expense associated with these 'tough on crime' policies raises the question of the effectiveness of mandatory imprisonment as a response to the growing problem of crime. This paper addresses this question.

Sufficient data are not yet available to assess the long-term impact of the new mandatory sentencing legislation in NT and WA. However, New South Wales (NSW) experience is relevant. Since the abolition of remissions in 1989,

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sentencing outcomes in NSW have been similar to mandatory sentencing in two important respects. Since 1990, NSW courts have been more likely to impose imprisonment, and the probability of a repeat offender being incarcerated, compared with a first time offender, has increased. Since these policies have been in place for a longer period, we take advantage of the greater information available from NSW to evaluate the impact of tougher sentencing policies on the crime rate.

We begin in the next section by putting the size of Australia's crime problem in an international perspective through comparisons with England and the US. Having established the magnitude of crime in Australia, the next section provides a framework useful for understanding the 'tough on crime' policy approach. Discussion of the NSW experience follows. Multivariate regression analysis is used to examine why the rate of crime has continued to grow in NSW despite the harsher sentencing regime.

The Size of Crime In Australia: An International Perspective

According to the Australian Bureau of Statistics (ABS) (1997), 159,699 violent offences (comprising 360 homicides, 123,940 assaults, 14,138 sexual assaults and 21,261 robberies) and 1,077,596 property offences (including 417,845 unlawful entry with intent offences, 130,406 motor vehicle thefts and 529,345 other thefts) were reported to police in Australia in 1997. In order to compare the incidence of these crimes in Australia with the US and England, the levels of these offences should be converted to rates per 100,000 persons.

Table 1: A Comparison of Recorded Crime Rates in Australia, England[a] and the United States

	Rate per 100,000 in the population		
	Australia	England	US
Property			
Unlawful Entry with Intent	2,196	2,240	940
Motor Vehicle Theft	671	950	530
Violent Crimes			
Homicide	1.9	1.3	7.4
Assault	623	440	390
Sexual Assault	79	22	71
Robbery	89	140	200

Sources: Australian Bureau of Statistics (1996); Langan and Farrington (1998).

Note: a. = Data for England include Wales.

Table 1 compares the crime rate per 100,000 in the population for Australia, England and the United States for the year 1996, the latest year for which data are available. The data show that the Australian public concern with crime is

justified. The rate of recorded crime in Australia is higher than in England or the US for many of the categories under comparison. While its homicide and robbery rates compare favourably with the US, Australia has a much higher rate of assault, breaking and entering (unlawful entry with intent), and motor vehicle theft. Compared with England, Australia has a lower rate of motor vehicle theft and robbery, but higher rates of homicide, assault, and sexual assault.

Recorded crime reflects only those crimes reported to or detected by the police. To verify that the differences in recorded crime across these three countries is due to differences in criminal activity and not in reporting behaviour, Table 2 presents a comparison of crime rates based on national victimisation surveys. The US data are from the National Crime Victimisation Survey and reflect the rate of victim-survey offences for the population aged 12 years and over for the calendar year 1995. The UK data, also for the calendar year 1995, are from the British Crime Survey which covers the population aged 16 years and over. The ABS conducts a nationwide household survey on crime and safety on an infrequent basis. The most recent Crime and Safety Surveys were conducted in 1998 and 1993. The ABS reports that the 1998 victimisation rates are similar to those based on the 1993 survey data. Data from the 1998 survey, which measures rates of victimisation in the population aged fifteen years and over during the 12 month period to April 1998, is contained in Table 2. Notwithstanding differences across countries in reporting criminal behaviour, these data confirm that crime is a serious social problem in Australia, whether it is measured by victimisation survey data or by reported crime statistics.

Table 2: A Comparison of Survey Crime Rates in Australia, England and the USA

		Rate per 1000[a]	
	Australia	England	USA
Property			
Unlawful Entry with Intent	76	83	48
Motor Vehicle Theft	17	24	11
Violent Crimes			
Assault	43	20	9
Robbery	5	8	5

Source: ABS (1999); Langan and Farrington (1998).

Note: a = Households for property crime; persons for violent crime.

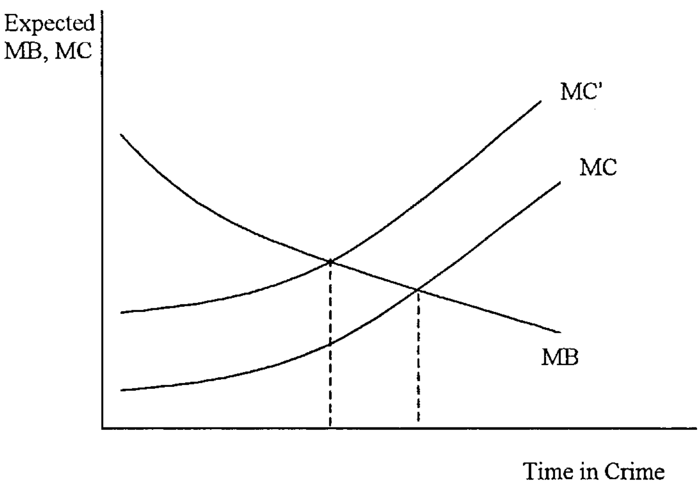
Framework for Crime Policy Development

Underlying the 'get tough on crime' approach is the assumption that criminals are rational in the sense that they engage in crime because they expect that the benefits outweigh the costs. The benefits may be pecuniary, or non-pecuniary.

Non-pecuniary rewards from crime include the 'rush' from doing something illegal. The costs of engaging in crime include the expected costs associated with being caught and punished, as well as the time cost. The time cost, or opportunity cost of time spent in crime, captures the idea that in order to engage in crime an individual must give up time otherwise spent doing something else. Alternative time uses may be income generating, such as work, or simply leisure. By engaging in crime the offenders incur the cost of forgone benefits associated with the next best use of their time.

This way of viewing crime was first formalised by Becker (1968), and refined by Ehrlich (1973). Ehrlich's model views the decision for optimal allocation of resources, referred to collectively as time, to the activities of leisure, legitimate labour market employment, and crime. Note that this analysis is not confined to income generating crime, applying equally well to crime which generates direct utility to the individual, as does leisure. If all costs and benefits of crime and work are converted to their monetary equivalents, then criminal activity is similar to employment in that it requires time and produces income (Ehrlich, 1973). However, crime differs from employment in at least one important respect. The costs associated with crime are uncertain since they depend on whether the offender is apprehended; with some positive probability the individual will be caught and punished.

Figure 1: Marginal Cost and Benefit of Time in Crime



Drawing on Buchanan and Hartley (1992) an individual's optimal allocation of time to crime decision may be illustrated diagramatically using marginal cost and benefits curves, as shown in Figure 1. The marginal cost of time in crime is upward sloping. This reflects the assumption that each additional hour devoted to crime has a greater opportunity cost in terms of forgone legitimate earnings and leisure. The expected punishment, which is also a cost of engaging in crime, depends on both the probability of apprehension and the size of the punishment.

The marginal cost of time in crime function can be considered the individual's supply of time in crime.

The marginal benefit of time spent in crime reflects the expected return to criminal activity. It is downward sloping to reflect the fact that criminals will choose to exploit the most rewarding criminal opportunities first. With each subsequent crime, the offender will reap a smaller reward. Also, at higher levels of crime, members of the offender's community are more likely to take actions to protect themselves, called target hardening, further reducing the marginal benefits to crime as crime rises.

Figure 1 illustrates the response of a potential criminal's supply of time to crime to changes in the expected marginal cost of punishment. An increase in either the probability of apprehension or the level of punishment if caught increases the expected marginal cost of time spent in crime. This is represented on Figure 1 by an upward shift from MC to MC'. The increased cost reduces the incentive to participate in crime at the margin, resulting in a reduction in the time the individual allocates to criminal activities.

An important insight from this model of crime is that expected penalties deter marginal criminal acts. The significance of this lies in the fact that even if the expected monetary costs and benefits of committing crime are not the only reason for committing crime, decreases in the benefits or increasing the costs of committing crime can reduce the total number of crimes.

'Get tough on crime' policies such as mandatory sentencing aim to reduce the level of crime by (1) using increased costs of punishment if caught as a deterrent, and (2) by incapacitating convicted criminals. If the penalty for a criminal act is raised through mandatory sentencing policy, then a potential offender must weigh these increased costs against the expected return from the crime. If the rewards are not sufficient to compensate the offender for risking the greater penalty, then the offender will be deterred from committing the crime. The incapacitation effect refers to the fact that, while they are in prison, convicted offenders are prevented from committing crimes against the general public. The deterrence effect is likely to be quantitatively more important than incapacitation in reducing crime. This is because deterrence applies to the whole population — everyone is a potential offender. In contrast, the incapacitation effect applies only to those offenders who are caught and imprisoned.

Getting Tough on Crime in NSW

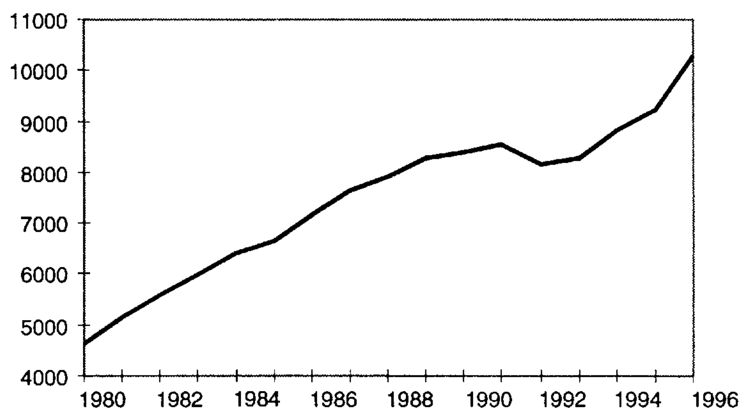
Since 1989, NSW has pursued a targeted 'get tough on crime' approach which has seen harsher penalties for repeat offenders and for more serious crimes. The NSW *Sentencing Act 1989* abolished remissions and the courts did not compensate for this change in handing down minimum sentences. This effectively increased prison sentences by 25-33 per cent across the board (Matka, 1991; Gorta and Eyland, 1990). Moreover, the legislative change had a wider impact on sentencing in both the Local and Higher Courts in NSW. A recent report by the NSW Bureau of Crime Statistics and Research found that since 1990, NSW courts have been

more inclined to imprison convicted offenders (Baker, 1998). The Bureau's research also shows that the courts have become much tougher on repeat offenders relative to persons with no prior convictions, and prison sentences for repeat offenders have become much longer.

This tougher policy regime has seen the prison population increase by about 30 per cent to reach a total of 6,325 by 1996. Taken as a proportion of the population aged 17 years or over, the rate of incarceration increased from 109 per 100,000 to 135. During the 10 years prior to the abolition of remissions, the number of incarcerated people was growing at an average annual rate of about one per cent. Since then, the incarcerated population has grown by about seven per cent annually. Given this large increase in the number of individuals incarcerated, we would expect that the incapacitation and deterrent effects would have caused the crime rate to fall substantially.

Figure 2 shows that the crime rate did eventually respond modestly to the increased incarceration rates. However, it appears that the effect was temporary. Notwithstanding the continuing increase in the incarceration rate, by 1993, the trend of an increasing crime rate was re-established. This must lead policy makers to ask why people are increasingly turning to crime in the face of increased penalties. Perhaps criminals do not respond to deterrence.

Figure 2: NSW Recorded Crime Rate



Source: New South Wales Recorded Crime Statistics.

Another possible explanation of why crime has continued to rise in the face of higher penalties is that a countervailing factors may have operated. For example, if the criminal justice budget was not increased when the tougher sentencing regime was introduced, then resources would have to be re-allocated away from catching and convicting criminals to pay for the increased population of

incarcerated criminals. The reduction in the probability of being charged and convicted would then weaken the deterrent effects of the tougher sentencing regime, which can only be applied once a criminal is convicted. A further possibility is that alternative uses of time, such as employment may have become scarcer. This reduces the opportunity costs of time, making it relatively more worthwhile to the potential offender to engage in crime. We investigate the possibility of these countervailing influences on the crime rate using a linear regression model. This method allows us to separate out the influence of each factor on the crime rate.

Explaining the Rise in Crime

Based on the benefit-cost framework discussed above, we model the NSW (reported) crime rate as a function of criminal justice policy variables and the opportunity cost of crime. We include the probability of being charged, the probability of being convicted given charged, and the probability of being imprisoned given conviction as the criminal justice deterrence variables explaining the crime rate. We also include the number of police per capita to allow for the fact that increasing the number of police (relative to the size of the population) is likely to increase the number of crimes detected and recorded.

A potential measure of the time cost of crime is forgone earnings. Unfortunately, there is no obvious measure of the legitimate earnings of criminals. The unemployment rate is often used as a proxy for the time cost of crime since the higher the rate of unemployment, the smaller the probability of a potential criminal being able to get a job and obtain legitimate earnings, the smaller the time cost of engaging in crime. However, since those at risk of committing crime are likely to be drawn from young men who have fewer job prospects than the average unemployed person, the model is estimated using the proportion of working age males not in the labour force as the measure of the opportunity cost of crime. This measure reflects men who are working age, but are neither working nor looking for work (according to ABS definitions). Many of these men are discouraged workers who have left the labour force because they believe their employment prospects are so poor. All else being equal, poor employment prospects imply a low opportunity cost of time in crime, and hence a higher rate of crime.

There is much evidence that individuals who are at risk of criminality are also likely to face worse employment prospects than other members of society. The 1992 prison census revealed that 65.8 per cent of prisoners were unemployed at the time of arrest. Only one in eight prisoners had completed secondary school. Indigenous percentages for both unemployment and school completions were far worse than for non-indigenous prisoners with six per cent completing secondary school, and 77 per cent unemployed (Walker and McDonald, 1995). Prisoners are also predominantly male, accounting for 94 per cent of the prison population in 1997.

The following model of the crime rate in NSW was estimated using annual data for the period 1980 to 1996. Specification tests do not reject the hypotheses

of homoskedasticity, serially uncorrelated and normally distributed errors. Details of these tests can be obtained on request from the author. Definitions of the variables and data sources are given in the appendix.

$CR_t = 0.14 - 0.74 PrCharged$	$- 1.22 PrConviction$	$- 0.43 PrJail$	$+ 0.56 NILF$	$+ 1.17 Police$	
pvalues (0.00)	(0.00)	(0.00)	(0.07)	(0.00)	

$R^2 = 0.99$

All variables are measured in logs, so the coefficients are interpreted as elasticities. For example, the coefficient on the probability of being charged is interpreted as follows: a one per cent increase in the probability of being charged decreases the crime rate by 0.74 per cent on average, holding all else constant. These results indicate that each of the deterrence variables has a negative effect on the crime rate, as expected (all explanators are statistically significant at the one per cent level of significance, except the proportion of men not in the labour force, which is significant at the 10 per cent level). These results also imply that a larger pool of men not in the labour force is associated with higher levels of crime. In particular, a one per cent increase in the proportion of working age males not in the labour force is associated with a 0.56 per cent increase in the crime rate. It is common for the unemployment rate to be used to capture the time cost of engaging in crime. Although not reported here, we experimented with specifications which used the unemployment rate. The unemployment rate was found to be positively correlated with the crime rate, but not statistically significant. This is a very common finding in the literature, and may be because the unemployment rate for the general population is not a good proxy for the employment prospects faced by a prospective offender. We also find evidence of a 'net-widening effect' whereby an increase in the number of police per capita is associated with an increase in the recorded crime rate. These results are now used to examine why the crime rate rose in NSW in the face of increased penalties.

The estimated model predicts over the period 1989 to 1996, the crime rate increased by 23 per cent (this compares with an actual increase of 25 per cent). This increase can be decomposed into the components associated with changes in the probability of being charged ($0.74*(PrCharged_{1996} - PrCharged_{1989})$), probability of conviction given charged ($1.22*(PrConviction_{1996} - PrConviction_{1989})$), probability of imprisonment given conviction ($0.43*(PrJail_{1996} - PrJail_{1989})$), the number of police per capita, ($1.17*(Police_{1996} - Police_{1989})$), and the proportion of working age males not in the labour force ($0.56*(NILF_{1996} - NILF_{1989})$). The results of this decomposition are given in Table 3.

Table 3: Decomposing the Predicted Change in the Crime Rate

Total Change in the Crime Rate	23.3 per cent
Probability of being Charged	2.7 per cent
Probability of Conviction	37.2 per cent
Probability of Imprisonment	–16.1 per cent
Police per capita	–4.5 per cent
Not in Labour Force	3.9 per cent

Table 3 shows that the increased probability of imprisonment did have a crime reducing effect, expected to have decreased the crime rate by 16 per cent, all else being equal. However, other factors changed during this period, reversing the expected fall in the crime rate associated with the greater probability of imprisonment. In particular, both the probability of being charged, and the probability of conviction once charged, fell during this period, reducing the cost of engaging in crime, and hence contributing to the increase in the crime rate. These factors contributed a three per cent and 37 per cent increase in the expected rate of crime, respectively. Further, the reduction in the number of police per capita reduced the number of detected crimes by about five per cent. Taken together, the changes in the criminal justice variables would have been expected to *increase* the rate of crime by about 20 per cent. In addition, the proportion of working age males not in the labour force also increased during this period. This had the effect of increasing the expected crime rate by four per cent. The combined effect of changes in the criminal justice and labour force variable adds up to the predicted increase in the crime rate of about 23 per cent.

Conclusion

Crime has emerged as an issue of considerable concern to Australians in recent years. Increasingly, the political response is to turn to mandatory sentencing legislation. Mandatory imprisonment is expensive, both in terms of the capital outlay for providing additional prison places, and in terms of the recurrent costs of housing convicted offenders in prisons. Therefore, unless the law and order and public safety budgets are increased accordingly, these policies will necessitate a reallocation of funds away from agencies which apprehend and convict criminals to pay for the increased rate of incarceration. Ironically, the introduction of 'get tough on crime' policies increases the burden on these other agencies. For example, mandatory sentencing creates an incentive for those who are charged with a crime to plead not guilty, rather than enter a plea bargain. This requires more resources in order to obtain a conviction, since the matter must go to trial.

Although we are unable to obtain expenditure information to consider this aspect directly, published court data reveal that the probability of being charged

and convicted has fallen markedly since the introduction of a harsher sentencing regime in NSW. Our analysis shows that the effect of the decline in the likelihood of conviction has more than outweighed the crime reducing effects of increased incarceration. The net impact of the changes in the criminal justice system in NSW since 1989 has been to increase the rate of crime. While getting tough on crime may have political resonance, it is yet to win the war on crime in NSW.

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The author gratefully acknowledges financial assistance from the School of Economics Research Grant Fund. This research has benefited from discussions with J. Pincus, David Round, and L. Cameron, and from the comments of two anonymous referees. Special thanks are extended to Bill Jones for excellent research assistance. The usual caveat applies.

Appendix: Data Sources and Definition of Variables

Data	*Source*
Recorded offences	Source Book of Australian Criminal and Social Statistics; NSW Recorded Crime Statistics, 1985-1995
Population	Australian Demographic Trends, ABS 3102
Total charges brought before the lower courts	Source Book of Australian Criminal and Social Statistics; NSW Court Statistics, 1984, 1985, 1986; NSW Lower Criminal Courts and Children's Courts statistics, 1989; NSW Criminal Court Statistics, 1991-1996
Total charges brought before the higher courts	Source Book of Australian Criminal and Social Statistics; NSW Higher Criminal Court Statistics 1988, 1989, 1990; NSW Criminal Court Statistics, 1991-1996
Total number of convictions in the lower courts	Source Book of Australian Criminal and Social Statistics; NSW Court Statistics, 1984, 1985, 1986; NSW Lower Criminal Courts and Children's Courts Statistics, 1989; NSW Criminal Court Statistics, 1991-1996
Total number of convictions in the higher courts	Source Book of Australian Criminal and Social Statistics; NSW Higher Criminal Court Statistics 1988, 1989, 1990; NSW Criminal Court Statistics, 1991-1996
Total number of prisoners	Source Book of Australian Criminal and Social Statistics; Australian Prison Trends, 1988-1993; New South Wales Year Books 1994-1997
Male participation rate	Labour Force Australia ABS 6204

Variable		*Definition*
CR	crime rate	100,000 x (all recorded offences population)
PrCharged	probability of being charged	total charges brought before the lower and higher courts; all recorded offences
PrConviction	probability of conviction given charged	total convictions in the lower and upper courts; total charges brought before the lower and higher courts
PrJail	probability of imprisonment given conviction	total number of sentenced prisoners; total convictions in the lower and upper courts
Police	police per capita	total number of police/population
NILF	proportion of working age men not in the labour force	100-male participation rate

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Making Languages an Object of Public Policy

Joseph Lo Bianco

This article explores key issues involved in making language an object of public policy with particular reference to the relation between the multilingual competence of Australians and the perceived national need for competence in the languages of key trading partners. The theoretical framework that dominates in this field of making policy around language issues emerges from applied linguistics and sociolinguistics and is generally known as language planning. These branches of scholarship locate the systematic study of language within either a pedagogical framework or a sociologically oriented framework (Kaplan and Widdowson, 1992). Within these frameworks many language planning scholars locate the practice of public policy making on languages under three broad categories. 'Status planning', which addresses the relative position and role of different languages (or varieties of a single language) within a single administrative or political unit. 'Corpus planning', which involves technical work to the internal resources of a language (its words, grammar, sounds, writing system etc.) usually aimed at permitting the target language to handle technical or advanced scientific discourse. Finally, 'acquisition planning' which refers to the policies that public authorities adopt towards the learning and use of new languages or of new forms of language (Cooper, 1989). This article concerns itself only with aspects of status and acquisition planning in the Australian context.

The range of specific issues of language taken up within explicit policy determinations is extremely vast and involves both multilingual societies and 'monolingual' societies. Monolingual societies, or societies in which minority languages are very marginal to public life, tend to evolve policies around questions of language style, accent, pronunciation (even spelling and writing conventions) and these can become the object of debate and contest. However, explicit policies on language are more typically found in multilingual societies — the great majority of the world's societies are multilingual and face more challenges in developing languages policies (Edwards, 1994).

A problem arises when there is a perceived mismatch between what might be called the existing domestic language resources and the language skills perceived to be needed by a society. Such a problem is highly relevant to Australia's language policy making. Much recent policy making in Australia has been driven by the idea that the bulk of Australia's bilingualism is contained within immigrant communities and is perceived by government to be different from the languages

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dictated by Australian economic, geo-political and strategic interests (Ozolins, 1993; Djite, 1994; Clyne, 1991b; Lo Bianco, 1990).

There is a perception that much of Australia's bilingualism is in European languages and Australia's economic and political interests favour the Asian region (Sheridan, 1995; Irwin, 1996; Lo Bianco, 1996; Byrnes, 1994). There also appears to be a considerable reluctance in public policy to favour the cultivation of minority languages as a skill even when these coincide with the languages of trading partners. Furthermore, there appears to be a tendency to conceive of such domestic language skills as an obstacle to English (Lo Bianco, 2000) such that planning to overcome perceived gaps in national language capability favours new learning of key languages by English speakers rather than the cultivation of existing potential among minority communities (NBEET, 1996; Cope and Kalantzis, 1997).

An overview of the phases and features of Australian language planning, both deliberate and implicit, will help illustrate some issues that arise when public authorities make language an object of policy.

Australia's Language Planning

For most of Australia's national history language planning and policy making has been indirect rather than explicit — driven by the implications for languages of decisions taken in other fields. Language policy of this kind is submerged within more general policies in education, immigration selection, foreign trade patterns and relationships and needs to be extracted from these other fields of endeavour. Despite this difficulty the effects on 'languages' of wider policies do suggest a consistent pattern of Australian language planning. Its overarching historical goal has been for English monolingualism modelled on Southern British forms of speech (Ozolins, 1993; Djite, 1994) although Australia has always been a poly-ethnic and linguistically diverse society (Clyne, 1991a).

This overarching goal is a result of the collective force of informal language planning as implied in decisions and measures taken in related fields over a long period of time combined with prevailing public attitudes and some instances of explicit language policy.

The four principal means for promoting this goal of English monolingualism, both formally and informally, have been:

- Stigmatisation of Australian forms of English and the privileging of Southern British norms of pronunciation and expression.
- The repression of Aboriginal languages through the forced separation of families, the aggregation of different language speakers so that English based creole contact language forms or pidgins emerged to facilitate communication, and the banning of the use of indigenous languages in schools.
- The marginalisation of immigrant languages.

- The trivialisation of foreign language study in general and making bilingualism a very uncommon achievement (Lo Bianco, 1990).

During the First World War several Australian states introduced legislative amendments to their education acts to ban the teaching in languages other than English, or to force schools teaching in other languages to convert to English-only instruction. The majority of these programs were in German. Ordinances to de-Germanise the name of towns in the Western districts of Victoria and parts of South Australia also occurred at this time (Smolicz, 1994; Selleck, 1980).

Ideologies of Language Planning

Since the late 1960s the following four main constructions of the language and policy connection have jostled for public appreciation. In debate and in actual policy texts on languages these four ideologies of language and its wider connection to the sense of the Australian nation have influenced both acquisition and status planning. These have broadly been a linguistic correlate of wider assimilationist pressure stressing British attachments, a reaction advocating pluralism divided into one version stressing Australianism and another multiculturalism, and a later pattern stressing the Asian context of Australia. While the periodisation which follows is approximate the alternatives used by other scholars are broadly consonant (Djite, 1994:6-10). Minority languages shifted from being regarded as a problem, to being advocated as a right, to being construed as a resource, with a recent return to a problem orientation (see Ruiz, (1984) for language planning orientations).

British oriented Anglo-conformity.

Policies that aimed for cultural homogenisation, requiring abandonment by immigrants and indigenous Australians of distinctive linguistic and cultural patterns were the norm until the mid-1970s (Cahill, 1996). Although the assimilative goal was not always explicitly expressed it is discernible as the underlying objective of policies as diverse as education, health, policing and law, and it characterised the mainstream sections of the community in some ways. Foreign languages policy tended to reflect inherited language choices more appropriate to Britain than to Australia while the models of English that were propagated in education and in the media ranked Australian norms low compared to British equivalents (Ozolins, 1993; Djite, 1994).

In relation to minority languages the underlying orientation of policy was to regard language diversity as a problem for teachers trying to teach English to minority language children or for children as they attempted to fit into schooling. Basing policies on this kind of operating assumption tends to bias the policy goals towards an eradication of the problem and therefore towards a replacement of children's languages with the school's English — supplanting children's language of culture, socialisation and intellectual development with the language of the

dominant society. Although the stress was very much on the acquisition of English, there was strong policy opposition to providing specialist English services believing these to be an inappropriate intervention (Cahill, 1996).

Australian models and a rights oriented multiculturalism

The early 1970s saw the beginnings of a two part reaction to a British oriented assimilation in language. The first part was to replace British identification with Australian alternatives. Although evolving for more than a century the idea that local linguistic norms were the appropriate models for educational practice in Australia became widespread at this time. These changes were influenced by the 'Australianist' cultural politics of the Whitlam era; the reaction against Australian involvement in Vietnam and, therefore, the assertion of independent modes of thinking about national culture; and a reaction to Britain's accession to the (then) European Economic Community. These developments accompanied and reinforced the beginnings of appreciation of wider cultural diversity, with immigrant and indigenous components, as constituting a new national identity potential for Australia.

Policies developed around this time, as well as reports of public enquiries into immigrant and Aboriginal children's education, reveal two basic ideologies and orientations to diversity of language and culture. The first continues the 'problem' mode, but instead of seeking to replace the first language it seeks to offer specialised language (English as a second language) and culture retention programs. The second is to move from regarding diversity as a problem to advocating the retention of minority language and culture as a 'right'. Reports of this time started to reflect this idea that in a new kind of Australia, one in which national identity itself was being negotiated, minorities had a right, as citizens, to seek to be reflected in the institutions of the nation. Language and cultural retention, while learning and adopting English as the common national language, were seen to be a right that benefited the individual and the community (Djite, 1994; Ozolins, 1993).

From the late 1970s to the mid-1980s, it was clear that acquisition and status planning were aiming at national bilingualism with minorities acquiring English and the majority acquiring a second language. This complementary pattern infuses much of the policy discourse of the period and gives effect to a status change for languages in general.

Culturally oriented multiculturalism

Gradually the advocacy of rights to the maintenance of minority cultures and languages waned. A key reason for this was the realisation that the actual retention of minority languages and cultures rests largely with individual communities, and that public institutions have little scope for direct, practical intervention to support all differences of language and culture. A new manner of thinking emerged. This regarded language and cultural retention as a 'resource'

rather than a 'right' and was accompanied by a shift in public policy towards notions of cultural diversity for all rather than minority language rights. A right involves sanction against some authority for non-compliance. A resource involves thinking about the benefits (intellectual, cultural, economic and social) of assisting young people to retain and develop a mastery of the language of their families, and the cultural knowledge that they are developing in their communities (Lo Bianco, 1990; Clyne, 1991a; Moore, 1996).

Economically motivated Asia-literacy

An altogether new force emerged by the late 1970s that ultimately came to be known by the term Asia-literacy. To a large degree, this reflected a reorientation of trade policies caused by reductions in Australian exports to Britain and the need for the nation to secure new markets for its produce and raw materials. Inevitably, the new market prospects were in the geographically closer Asia-Pacific zone that was undergoing rapid economic development.

This economic imperative combined with geo-political and strategic interests in elevating interest in bilateral and multilateral relationships with Asian countries. From the early 1980s onward, and more strongly during the early 1990s, as the focus shifted from community orientations to national economic and strategic considerations, public policy discourse and many reports of enquiries advocated strongly the teaching of a selected number of key Asian languages (Sheridan, 1995; Irwin, 1996; Lo Bianco, 1996; Byrnes, 1994). These were advocated not principally as skills that Asian Australians could contribute to the body politic of Australia, but rather as new learning that English-speaking Australians would undertake (Ozolins, 1993; Clyne, 1991b).

As a result of these developments, status planning for minority languages was challenged and a circumscribed role for such languages, including indigenous ones, was advocated while acquisition planning for foreign prestige Asian languages experienced a period of vitality that was wholly new in Australia.

National Policy

The period between 1987 (when Australia adopted the first explicit policy directed at language) and 1994 was one of intense policy development. Commonwealth and state governments issued policy statements in regular succession (Djite, 1994). The idea that language was an appropriate object of education, health and other kinds of policy domains became widely accepted. Indeed, states and territories, as well as local authorities, began to compete with each other about the priorities, the underlying ideologies and the resources devoted to language policy issues.

At the Federal level the main explicit policies were:

- National Policy on Languages (NPL) (Lo Bianco, 1987).
- Australian Language and Literacy Policy (ALLP) (DEET, 1991).

- National Asian Languages and Studies in Australian Schools (NALSAS) (COAG, 1994).

To a large extent the NPL culminated the phases of pluralistically oriented language policy of the 1970s and 1980s whereas the ALLP and NALSAS have contained different and even opposing emphases. In the late 1990s, language policy appears to have returned to an earlier pattern that ranks English, and English literacy not as complementary to other languages (aiming, therefore, for bilingualism) but considers language diversity as a problem. The concern that recurs prominently in policy this time is for English literacy standards. The effect of this strong and insistent advocacy of the priority of English is to make vulnerable many of the extensive achievements that Australian education has made for multicultural and multilingual education (Freebody, 1997, 1998; Miller, 1999; Herriman, 1996; Nichols, 1999; Moore, 1996).

1990s policy

The 1980s can be seen as a decade of coalition building around pluralism as a basis for national language policy that eventually culminated in the Commonwealth Cabinet's endorsement of the National Policy on Languages on 4 June 1987. The concept of pluralism had been a growing and powerful policy theme throughout the 1970s and 1980s. For much of that time pluralism — understood initially in the more limited sense of 'ethnic-based multiculturalism' but expanded subsequently to incorporate a wider sense of Australian diversity comprising indigenous pluralism and diversity within mainstream Australia — became a powerful political constituency.

However, it was not until the 1978 Fraser Government sponsored review of post-arrival services and programs (Galbally Report, 1978) that the notion of pluralism representing a basis for social policy in Australia became accepted. The Fraser Government introduced and endorsed its own version of multiculturalism (which had previously been principally a Labor Party project) thereby universalising cultural diversity as a national endeavour (Cope and Kalantzis, 1997). Labor had conceived of multiculturalism principally as an embellishment of class differences in society. In 1989, via the adoption by the Hawke Government and the acceptance by the Liberal opposition of three principles in the National Agenda for a Multicultural Australia (economic efficiency, cultural identity and social justice) (OMA, 1989), Australia achieved a rare cross-political compromise on a vexed social issue.

This unique phase in Australian social planning was inaugurated by the Fraser Government's legitimisation of official multiculturalism/multilingualism. Specifically the Galbally Report focussed on funding for migrant settlement programs, and especially for English as a second language. However, it also opened the door to other languages, established the Special Broadcasting Service provided financial assistance to ethnic schools. Its style was consultative in preparation and implementation. It represented a decentralised style of policy

determination that characterised more directly the language oriented policy developments of the 1980s. The NPL in many ways was the language articulation of this wider multicultural accommodation in Australian political culture (Moore, 1996; Djite, 1994). However, both Labor and Liberal parties have retreated from pluralist principles in the 1990s.

NPL and ALLP

Along with the NPL the Australian Language and Literacy Policy is the other national language policy text in Australia that aims to produce a comprehensive coverage of the field. Although they are very different from each other (in both substance and style) the ALLP explicitly claimed to be derived from and closely influenced by the NPL (DEET, 1991).

The ALLP represented itself and claimed to be a continuation of the NPL. This claim was intended to forestall the energetic public criticism that had been waged against its introduction. However, in the reality of its essential ethos and objectives the ALLP contradicted and sought to undermine the core multicultural and multilingual basis of the NPL and especially to disenfranchise the coalition of community-based interests that had brought it about. Many commentators note that, despite its self professed claims to continue 1980s collaborative determination of policy and to retain the broad scope of the NPL, the ALLP in fact stresses earlier models of central determination. It also prefigures later emphases on language skills and problems, rather than language rights and resources (Moore, 1996; Herriman, 1996; Djite, 1994), and has a more restricted focus (Ingram, 1994).

In her detailed comparison of the differences between these policy texts Helen Moore (1996:480) observes:

> The ALLP 'Foregrounds English' and 'Asian' languages; ties English literacy to education, training and employment; views not 'speaking' English as a threat to democracy; ties Asian languages to trade ... generalises and obscures the role of different languages by mythologising the instrumental value of some, obliterating others, and demonising the consequences of lack of English.

These characteristics are contrasted with the NPL which:

> Articulates the multiple values for languages; focuses on the potential of languages as resources in a variety of ways.

These differences are the systematic effect of applying central, elite determined language restrictionism to a pluralist conception of national language policy.

NALSAS and Commonwealth literacy policy

Since the ALLP there has been a further statement that can be called a national language policy. This was issued in February 1994 and is entitled National Asian Languages and Studies for Australian Schools Strategy (NALSAS). NALSAS was derived from a report (Asia and Australia's Economic Future) of a committee chaired by K. Rudd, then head of the Queensland Premier's Department. The Strategy was endorsed in February 1994 at a meeting of the Council of Australian Governments. The key feature of the policy is an intergovernmental agreement to a ten year shared expenditure plan (50 per cent Commonwealth government, matched by the State and Territory governments in proportion to their percentages of the national school enrolment totals). The plan aims for 60 per cent of all students at year 10 to be studying a priority language by the completion date of the policy.

This spending is on behalf of the teaching of four languages: Chinese, Japanese, Indonesian and Korean. Funding for the Strategy has been retained by the new Commonwealth government and announced to last until 2004. The four languages were selected on the basis of trade volume statistics, namely, the total financial value of the exchange of goods and services between Australia and the main foreign markets where these languages are spoken.

The figures are supplied by the Department of Foreign Affairs and Trade and the strategy expresses that its only basis for modification is any change in these figures as noted by the same Department. This is significant in that the capacity for modifying what is essentially a program for the teaching of languages in schools rests with a Commonwealth government department that has no relationship at all with schools.

The NALSAS approach to national language policy making is based on the notion that governments should be assertive, should set prescriptive targets and should impose what they consider to be 'national priorities'. It adopts a rather non-problematical notion of the national interest and believes that such an entity is either in inevitable conflict with community interests, or at least that other interests deflect attention from the pre-eminently important national interest. What the national interest is at any one time is to be determined by certain public elites who are engaged professionally in national representation in trade and geo-political strategy.

Even within its own logic, NALSAS has problems. It has been criticised for being impractical in its targets and assumptions. The National Board of Employment, Education and Training (NBEET) review of the implementability of this and other language policies delivered a trenchant criticism of language policy made through trade and foreign affairs related considerations. Arguing that those considerations had little sense of the concrete constraints and practical realities in schools and teaching, the report went on to describe NALSAS as consisting of 'rhetorical enthusiasms' (NBEET, 1996).

Research in sociolinguistics (study of language in social context) has provided strong evidence about how formal education in languages needs to work hand in hand with outside-of-school communicative realities for best outcomes (Baetens Beardsmore, 1992 and 1993; Cummins, 1996). Languages are best learned (and retained) when the domains of real communicative use (the networks of community institutions and settings and culture — the ecologies) that sustain languages are built upon and extended. This principle would indicate that foreign language teaching (teaching and learning of languages not spoken in the daily environments in which learners live) is less likely to be successful than programs in which the setting of the language study makes it available for informal acquisition. As a principle for acquisition planning this insight is important since pedagogical compensations for wider environmental constraints would need to be provided to enhance the chances of successful learning. A further implication would be that community based Asian languages could be profitably encouraged and community language maintenance supported.

Beyond these considerations another result of the directive top-down policy style enshrined by NALSAS, and its restricted remit, is that NALSAS excludes important potential beneficiaries from the increased funding it supplies. Excluded from any benefit are:

- all Asian languages other than the four it declares to be of priority concern;
- all Australian community contexts for all Asian languages (including any Australian context for the privileged four); and
- all 'non-Asian' languages.

Specifically excluded therefore are, for example:

- Vietnamese, Hindi, Arabic, Tamil, Filipino;
- all Australian community and institutional contexts or settings (that is, all Australian language and culture ecologies) for Chinese, Japanese, Indonesian and Korean; and
- all other languages (and their Australian ecologies), for example Spanish, Turkish, French, German and Swahili, have no place at all in the only national language policy vision that the Commonwealth and State governments have promulgated in the last decade.

These exclusions reinforce a pattern of selecting and prioritising shared with ALLP, but different from NPL. This pattern is one of favouring or distancing the spoken language diversity of Australia from shaping the content of language policy. The ideological frames of the NPL, the ALLP and NALSAS have tended towards selections from several binary alternatives:

- Multilingualism: *Resource* or *Problem*?
- Multiculturalism: a basis for *Globalisation Policies* or a *Handicap*?
- Motivation: *Human Rights* or *Human Capital*?

- National Interest: *Collaboratively Negotiated* or *Elite Determined*?
- Community Language Ecologies: regarded *Positively* or *Negatively*?
- International Orientation: *Global* or *Asian*?

In each case, the first choice construes domestic multilingualism as a resource rather than as a problem. That choice bases language policy on a premise of mastery of standard forms and literate competence in spoken community languages rather than stressing the obstacle that the maintenance of such languages poses for the acquisition of English literacy by their learners.

A related, but more broadly cultural, consequence flows from preferring to see domestic multiculturalism as a kind of local instance of the intellectual and cultural challenges from globalisation (Cope and Kalantzis, 1997).

Similar consequences also occur when the overarching goal of languages policy is seen as containing a human rights perspective (Smolicz, 1994; Miller, 1999) rather than as an element of national human capital. Radically different notions of what is the priority concern and the dominant understanding of the purpose of policy results from this choice (Freebody, 1997; Lo Bianco, 1999a).

If community voices and interests are engaged in shaping national language policy altered notions of the national interest also emerge; ones which relate Australia to a global set of markets rather than regional Asian ones principally driven by current trade volume relationships. In this way the maintenance of Australian ecologies of languages (local environments in which minority languages can be sustained across generations, with the complementary acquisition of English) comes to assume a central, rather than a marginal, place in public policy.

Recent policies have turned away from making multiculturalism a basis for language policy. In this respect they reveal a significant gap between policy makers' sense of priorities and those of the wider community. Many opinion surveys conducted in the 1990s indicate that public interest in diversity, languages and a plural notion of the Australian polity is buoyant. Several of those surveys, for example found that most Australians, in most age groups, imagine a multicultural and plurilingual Australian identity.[1] Australian schools and higher education institutions still teach more languages, and Australian examination systems still accredit more languages, than in almost any other country in the world. Australian academics and researchers are still invited in greatly disproportionate numbers to advise international agencies and foreign governments about the social and policy consequences of multilingualism.

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[1] Saulwick Poll, *The Age*, 31 May, 1994 (65 per cent of respondents felt that Australia was a 'better place' due to the diverse origins of its population); *The Age* Poll, 19 June, 1996 (61 per cent of respondents agreed with the policy of multiculturalism*); The Sydney Morning Herald* Poll 5 November, 1996 (70 per cent of respondents disagreed that the policy of multiculturalism should be abolished); Newspoll, *The Australian* 3 May, 1997 (78 per cent of respondents stated that multiculturalism had been good).

In short there is no one-to-one correlation between Commonwealth policy developments and the actual language use patterns of languages in Australia nor of the public priorities for language choices. This is partly because language policies have ambiguous effects and partly because the Commonwealth does not have a jurisdictional monopoly on the contexts where language can be influenced. For example, States jealously protect their constitutional control of education. But there is another reason. The wider Australian community does not seem to share the Commonwealth government's view about what the national interest is. The community seems to prefer language and cultural policies that are more wide-ranging and inclusive than successive Commonwealth governments have adopted.

Language restrictionism, from the ALLP through NALSAS, is connected directly with, and has made possible, several recent negative language developments. What comes to mind here is the Northern Territory Government's planned removal of funding from Aboriginal bilingual programs. While many improvements to bilingual programs are needed these should be in the context of a truly bilingual project that aims to achieve mastery of both English and an Aboriginal language. However, the Commonwealth and State governments appear to have decided that English literacy is the sole worthwhile objective for indigenous bilingual education (Lo Bianco, 1999b; Miller, 1999; Nichols, 1999; Yunupingu, 1999).

Other indicators of a more restrictive language policy are apparent. There is continuing pressure to reduce the range and number of languages offered in Australian schools and several Universities have cut back strongly on the number of languages that they offer and more cuts are threatened (NLLIA, 1995). Other Universities teach non-English literature programs in English partly because learners are not permitted sufficient time to read originals (Carroli, Hillman and Maurer, 1999). The teaching of English as a second language to immigrant pupils across the country is taking second place to the prevailing concern for general literacy standards (McKay, 1998a; 1998b). Policy on English for immigrants is generally considered to have 'lost its way' (Cahill, 1996).

Conclusion

Multilingualism as a policy objective, with English as the common language, can draw on multiple justifications including issues of social equity; economic benefit and efficiency; cultural and intellectual enrichment, all of which are associated with the acquisition and use of more than one language. A language ecology in which foreign, community and traditional languages can develop alongside English in a stable and mutually reinforcing manner provides a strong foundation for successful learning of languages. The quality and sophistication of the national culture that would result, the diversified international connections that multilingualism makes possible and the intellectual and community enrichment that it uniquely can produce are subtle dimensions to policy that elude direct planning. Apart from the cultural arguments, the globalising economic environment adds commercial interest to language learning relevant for

Australia's Asian context, and its ongoing connections with Europe and growing connections with other parts of the world.

The complexity of language, however, makes it a very difficult object of policy. It is an interesting coincidence of history that in 1999 Australia celebrated the fiftieth anniversary of Australian citizenship and the fiftieth anniversary of the founding of the Adult Migrant English Program. This Commonwealth government initiative was one of the policy pillars with which the post war governments were able to assuage public concern about new arrivals and about 'difference' (Martin, 1999: 5).

In addition the vast power of English as an international language of commerce is such that exclusively trade-based arguments for language policy are unpersuasive. If what is sacrificed is a wider commitment to language pluralism then the efficiency of concentrating on the acquisition of skills directly related to trade among new learners would seem to be questionable.

The complex conjunction of domestic multilingualism and economic regionalisation and globalisation makes it useful for Australia to take decisive steps to influence and shape the language and literacy capabilities of its citizens. Since language learning is a slow and complex process it is desirable to commence programs early in primary education aiming to achieve early bilingual awareness and if possible proficiency. This will probably dictate a choice of languages that are cognates of English and are written with the Roman orthography. In secondary schools and at higher education levels, the fostering of other languages with wider commercial and regional strategic interest would be desirable.

For minorities the cultivation of their children's potential precocious bilingualism is highly desirable. This is because the 'rates of return' will be greater. Cantonese speaking Australian children are, on average, more likely to acquire Modern Standard Chinese better and faster than raw beginners. However there is a deeper reason. The community needs encouragement and support to resist the pressure towards English-only. Our community has available to it a diminishing resource of multilingualism. Every year it becomes more tenuous as more and more young people prefer to concentrate on more professionally oriented courses of study and the retention of home-language skills becomes more difficult.

The multiple associations of language mean that when language enters the policy realm it is unlikely that a focus on the most narrow and forced utilitarian bases can be sustained.

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I am grateful to the editors and two anonymous referees for useful comments on an earlier draft of this paper.

Agenda, Volume 7, Number 1, 2000, pages 63-76

India and the East Asia Miracle

Brent Davis

The economic development and growth of East Asia over the past half century has been little short of remarkable. To some, such as the World Bank (1993), it is a 'Miracle'. India, by contrast is a composite of admirable achievement, dismal failure and challenges shirked. According to Root (1998), India's admirable achievements include a sustained commitment to democracy, while its failures comprise the absence of any meaningful reduction in mass poverty and the spread of economic and political corruption. *The Economist* magazine (1997:9) puts it more plainly, describing India as an 'epic tale of wasted promise'.

The East Asian Miracle

The economies of East Asia have experienced substantial and generally sustained economic growth, development and transformation over the past four decades. A few figures are illustrative: in 1950, Asia accounted for just 19 per cent of world income; by 1992, the share had risen to 33 per cent; and, between 1960 and 1985, real income per capita increased by a factor of four in Japan, Hong Kong, South Korea and Taiwan, and more than doubled in Indonesia, Malaysia and Thailand. Looked at another way, East and South East Asian countries experienced average annual real per capita economic growth rates in the 25 years to 1990 which, except for a number of European countries in the immediate post-war period, were probably unprecedented in human history.

The 'East Asian Miracle' can be distilled to seven core characteristics which set the high performing Asian economies (HPAEs) apart from other developing (and many developed) countries in the three decades to 1990. These were: rapid economic growth and reduced inequality; rapid output and productivity growth in agriculture; relatively higher rates of manufactured exports; earlier and steeper declines in fertility; higher growth rates of investment, supported by higher rates of savings; higher growth rates in human capital; and, higher rates of total factor productivity growth.

While there has been general recognition of the superior economic performance of the HPAEs, there has been much debate over the causes of the 'Miracle'. The World Bank (1993) argues the HPAEs achieved their high rates of economic growth by 'getting the basics right' — that is, by operating sound

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economic policies, and expanding the quantity and raising the quality of physical and human capital.

Macroeconomic management was seen to be particularly good. Economic performance was also unusually stable, including low inflation and high national savings, which encouraged national savings and private sector capital investment, respectively. The HPAEs also recognised macroeconomic crises were very costly in terms of lost economic growth. According to the World Bank (Online1), a single year crisis which reduced economic growth two standard deviations below average growth cost the equivalent of eight years of growth.

International competitiveness was a key economic policy objective, reinforced (after some initial flirtations with import-substitution policies) with trade liberalising, pro-export external policies. Expanding the human capital base also played an important role, although it was the targeting of educational policy and quality rather than the quantity of outlays which made the difference to economic development paths amongst the HPAEs.

Savings, investment and financial market policies were subject to both economic-fundamental and interventionist policies. National savings policies were often interventionist, ranging from rigorous pursuit of high public sector savings (for example, Singapore and Taiwan) to mandatory provident funds (for example, Malaysia and Singapore). Investment was also encouraged by a mix of economic-fundamental and interventionist policies: in the former, by creating infrastructures complementary to private investment; and, in the latter, by applying tax policies which favoured productive investment and holding down the prices of imported capital goods.

Labour market policies stressed promoting, rather than the constraining, the operation of market forces. Key elements of these policies included: ensuring generally weak labour unions, and structuring them along corporate, rather than industry, lines; avoiding generalised minimum wage arrangements; and, ensuring a high degree of wage flexibility in the face of macroeconomic shocks.

While there were many similarities in the policies adopted by East Asian countries, there was no single or uniformly applicable 'Asian model' of economic development and growth. The HPAEs used different combinations of policies at different times to provide the platform for and the stimulation of economic growth, with more rapid accumulation of physical and human capital, efficient allocation of resources, and higher rates of productivity than may otherwise have been the case.

The Indian Malaise

India at Independence in 1947 was already a semi-industrialised nation with a range of industrial activities, including steel and textiles, which had grown out of domestic investment and largely in response to market forces. It had an active entrepreneurial class, a modest but definite integration into the world economy, a first rate civil service and democratic form of government - a sound platform for strong economic development and growth.

The 1950s saw a clear movement away from this market-orientation with the embrace of a centralised planning framework as the foundation for accelerating economic growth. The governing Congress Party, and Prime Minister Jawaharlal Nehru personally, preferred the more visible hand of the State to the invisible hand of the market: the socialist way was to play the decisive role in India's production and distribution of material goods.

Under the Nehruvian model of State-directed economic development, the public sector would be positioned at the 'commanding heights' of the Indian economy, and act as a transmission mechanism for State plans which would oversee the flow of investment. As a result, according to Bhagwati (1996:7): 'The government turned from indicative planning to a mechanism for masterminding, with the aid of a stifling licensing system, the production, investment and import decisions in the economy to a degree unimaginable to anyone outside the system ...' In statistical terms, annual rates of real economic growth averaged 3.6 per cent during the 1950s, 3.1 per cent during the 1960s, and 3.6 per cent during the 1970s, all of which are clustered around the 'Hindu rate of growth' of around 3.5 per cent.

India's economic growth per capita in the period 1965-88 reinforced the message, lagging well behind that of most other Asian economies. Its annual average per capita economic growth rate of 1.8 per cent was less than half that of Indonesia and Malaysia (4.3 per cent and 4.0 per cent, respectively), just one-third that of China (5.4 per cent), one-quarter that of Singapore (7.2 per cent), and a mere one-fifth that of Taiwan (9 per cent).

Economic liberalisation in India started tentatively under the Gandhian Prime Ministership, both mother and son, which included selected, necessary deregulation of key sectors. If the reform programs adopted by Indira Ghandi were 'reform by stealth', and those of Rajiv Ghandi were 'reform by reluctance', then those by Prime Minister Narasimha Rao and his Finance Minister Manmohan Singh following the '1991 Crisis' were 'reform by storm' (Bhagwati, 1993).

India's dual program of stabilisation and structural reform were a crisis-induced response to pressures which had been building up from the late 1980s. While the first priority was economic stabilisation, the 'Crisis' was severe enough to convince policy makers that more substantial reforms were needed for the longer term.

The '1991 Crisis' manifested itself in the collapse of India's international credit rating, the sharp contraction of foreign inflows from non-resident Indians and the curtailment of the even small level of foreign direct investment. Foreign exchange reserves were down to a mere 2 weeks of imports, while India's credit rating had fallen from AA to C minus, with the effective termination of foreign private lending. India was on the verge of bankruptcy, and, according to Bhalla (1995), came very close to defaulting on its debt payments for the first time since Independence.

The stabilisation and liberalisation programs implemented in response to the 'Crisis' were a mix of external and internal agendas: external, under the conditions applied by the International Monetary Fund (IMF) and the World Bank

in return for the loans sought by the Indian Government; and internal, driven by the pro-liberalisation group within the Indian Government, especially in the higher levels and key sections of the bureaucracy.

The liberalisation program worked basically through a new industrial policy which saw industrial licensing removed for projects, whether for the creation or expansion of capacity, or for product diversification. It also involved the elimination of pre-entry clearance requirements, which were replaced by competition policy-style regulation. Reforms in the trade policy area included delicensing of imports (although replaced with import entitlements linked to export earnings), permitting exporters to maintain foreign currency accounts and raise external credits to finance trade transactions, liberalisation of imports of intermediate and capital goods, and the introduction of a more liberal system of exchange rate management. Foreign investment reforms included an easing of entry requirements, the most notable of which was the announcement of an extensive positive list of industries in which foreign ownership was welcomed. Various performance requirements, such as exporting and technology transfer, were also removed.

While much has been achieved since the 'Crisis of 1991' (including a three year period to 1997 when real economic growth averaged more than 7 per cent annually), influential India-watchers such as Little (1996) have criticised the lack of economic liberalisation since 1995. This slowing reflected, amongst other things, the reluctance of the political leadership to confront powerful vested interest groups, most notably rural producers, the bureaucracy, public sector trade unions, and the small scale industry lobby.

Substantial remaining impediments include still high non-tariff barriers, excessive fiscal deficits, inadequate infrastructure especially for power and transport, distorting (and fiscally expensive) subsidies, and inaction over sick industries, labour reform and inefficient public sector enterprises (Joshi and Little, 1996). The International Monetary Fund (1997) has a comparable list, stressing tackling the fiscal deficit, dealing with infrastructure bottlenecks (in particular, roads, ports and power), greater reform of public enterprises including privatisation, and wider trade liberalisation, emphasising further reductions in tariffs, more rapid elimination of quantitative restrictions on consumer goods, and faster relaxation of reservations for the small-scale sector.

Without doubt, the economic policy settings pursued by the high performing Asian economies and by India were a study in contrasts. While the contrasts were numerous, they can be distilled down to two main elements: while the East Asian economies adopted an outward orientation, India looked inward; and, while the East Asian economies sought to capitalise on markets, India looked to government intervention.

Some Key Explanators of Economic Performance

By any assessment, there has been no single, uniform driver of the high growth Asian economic performance. Rather, it was a combination of policies, varying

across countries and even within countries across time. The following section examines three of these (inter-related) policy determinants in more detail: trade policy; foreign investment policy; and industry policy.

Trade policy

A key element of the growth strategies pursued by most of the HPAEs was a strong orientation towards exporting, although some of these countries flirted with import substitution in the earlier stages of their development. Governments in the HPAEs actively encouraged export development and growth through a clear commitment to integration into the world economy, complementary macroeconomic climates and by offering microeconomic incentives.

Macroeconomic factors included broad economic stability, trade liberalisation and, in a number of cases, a deliberately undervalued exchange rate, while microeconomic incentives focused on export promotional activities and applied across-the-board to any potential exporter. Taken together, the two mutually reinforcing policy settings amounted to an overt 'export push' strategy. International benchmarking meant assessing performance against export targets. Where targets were not met, policy makers sought to determine why and alter policy accordingly. Where import replacement or other policies compromised export success, policy would be changed to the advantage of the latter.

The HPAEs also pursued export complementarity in other policy areas. In industry policy, they permitted easy entry into and exit from manufacturing-export activities, while labour market policy promoted responsive labour markets with the market determining wages, and firms able to hire and fire employees when conditions warranted. In fiscal policy, they imposed relatively low taxes upon exporters.

By contrast, India's trade policy for much of the time between Independence and the '1991 Crisis' was based on self-reliance through import-replacement. Imports were subject to extensive quantitative restrictions and/or very high tariffs, and exports were tightly regulated. The import-substitution strategy was intended to encourage industrialisation, fulfil the objectives of self-reliance and self-sufficiency, the reallocation of resources to encourage preferred activities and employment growth, and to provide fiscal revenue. Exports were, at best, an after-thought.

India eschewed actively using the exchange rate to encourage exports (at least until the 1980s), sustained inflexible domestic and external policies which impeded the capacity of business to penetrate competitive foreign markets, protected the domestic market with high tariffs and pervasive non-tariff barriers, and adopted a fundamentally hostile attitude to foreign investment. An important outcome of the import-substitution strategy was an industrial sector which lacked vital export capability. The import-substitution mind-set of industry weakened its capacity to adopt new technologies and develop economies of scale, resulting in inefficient domestic industries, low productivity and poor international competitiveness. Reflecting the pervasiveness of the import-substitution strategy,

India's share of world exports declined from 2.4 per cent in 1948, to a mere 0.4 per cent in 1981, recovering only slightly by 1990.

Following the '1991 Crisis', the Rao Government announced a bold program of trade and other policy reforms aimed at increasing exports, and reducing the degree of regulatory and licence control applying to foreign trade. Early trade policy reforms included ending the 'actual user' requirement for the importation of capital goods and components, and permitting established exporters to maintain foreign currency accounts and raise external credits to finance their trade transactions. Import tariffs were reduced from a peak of 300 per cent to 150 per cent, with the top rate on capital goods falling to 80 per cent. Subsequently, the import licensing system was virtually abolished, with almost all capital goods, raw materials, and intermediate products being freely importable, although subject to often high tariffs (the liberalisation did not extend to consumer goods).

While India has achieved much in terms of trade liberalisation, much remains to be done. The Indian Government (Hegde, 1998:1) has conceded there is a need to re-examine the remaining '... complex procedures and unwanted cumbersome regulations to free the exporting community from any possible harassment and also lessen their hassles'.

Foreign investment policy

Foreign investment has been an important part of the HPAEs superior economic performance. It is not widely recognised that Asia's share of global FDI stock almost doubled, from 7 per cent to 13 per cent, between 1980 and 1994. This FDI had a strong export-orientation, except for FDI into China, with most motivated by the desire to build export platforms (Chia, 1997), and take advantage of close geographic proximity to exploit economic complementarities and differences in comparative advantage.

There was also a strong growth in intra-regional FDI flows. 'Pull' and 'push' factors were both important drivers of the rising intra-regional FDI including notably stronger currencies in North East Asian countries, which caused a loss of price competitiveness for domestic producers who relocated offshore initially lower-end, but more recently more advanced, production. Other important drivers include: the relatively poor economic performance, and policy-introspection, of western industrialised nations; and, the inherent competitiveness of the East Asian developing countries, in particular competitive factor costs, more liberal trade and investment environments, and rapid growth of domestic markets.

The essential policy lessons of the East Asian experience with FDI include the most effective way to encourage worthwhile FDI is to implement policies (in the broadest sense) which generally improve the investment climate in the host country. It also means accepting the role of market forces and trends towards regional integration by removing obstacles to information, trade and investment flows.

By contrast, India has traditionally performed poorly in attracting foreign investment, reflecting the inherent contradictions of government policy and the

various criticisms of multinational companies, both from supporters of the 'socialist path to development' and local industrialists keen to avoid external competition. The overall policy framework was one of uncertainty, accompanied by an uncongenial environment (Sinha, 1994), to the extent of foreign investment being actively discouraged (DFAT, 1994).

India's inward FDI policy during the 1970s and 1980s emphasised sectoral selectivity, with the Central Government seeking to confine multinational firms to preferred sectors and activities. Benchmarks for new FDI approvals included willingness to enter priority sectors, levels of technology transfer involved and degree of export for subsequent production.

The Rao Government's response to the '1991 Crisis' saw substantial liberalisation of the country's policy towards foreign investment, at least by India's historical standards. Key early liberalisation initiatives included making approval virtually automatic for FDI participation up to 51 per cent of equity in priority areas covering most of the manufacturing sector. A number of sectors previously limited to the public sector were opened to private investment (for example, banking, power, air transport, mining, ports and roads), with the ready-made garment industry, previously reserved for small-scale industries, opened to larger business.

While India's foreign investment policy reforms may have been necessary, they do not appear to have been sufficient. According to Kumar (1995), India continues to lag behind competitor Asian nations in its capacity to attract FDI.

Between 1990 and 1995, FDI as a share of GDP rose from near zero to 0.4 per cent of GDP in India, well behind China (0.9 per cent to 5.7 per cent of GDP), Indonesia (1.0 per cent to 2.4 per cent of GDP) and Malaysia (5.7 per cent to 7.9 per cent of GDP). In the latter year, India attracted US$ 1.3 billion in FDI funds, while China pulled in US$ 38 billion (Chakwin and Hamid, 1996).

India's relatively protected domestic market and remaining screening procedures for foreign investment are also a deterrent to capital inflows. Other priorities involve dealing with market rigidities and associated relatively high wages in the organised sector, and shortages of hard infrastructure, especially those areas which impede export activity such as seaports (Chakwin and Hamid, 1996).

Industry policy

Most of the HPAEs have pursued, at one time or another, active industry policies. However, the nature and form of these industry policies varied, although they can be grouped under two generic headings: neoclassical, allowing functional interventions; and structuralist, using selective interventions. The neoclassical approach involved functional interventions, dealing with perceived market failures (for example, government playing a role to fill the gap in providing primary and secondary education) and developing broad-based capital markets without favouring any industry, firm or activity over any other. By contrast, the structuralist approach saw selective interventions with governments favouring

through, for example, taxation, trade or financial policies, one group of firms, industry or sector: the oft-debated notion of 'picking winners' and/or 'getting prices deliberately wrong'.

Key elements of the wider industry policies pursued by the HPAEs were: support for education, especially science and engineering which facilitated technology transfer; and, encouraging through financial market regulation the allocation of finance away from speculative/less productive activities (for example, real estate) towards those of more productive value (for example, funding plant and equipment). They also had strong export- and competitiveness-orientations; stressed the importance of research and development, either through acquisition, adaptation or, later along the development continuum, domestic efforts; and, sought to appeal to foreign capital and multinationals for their capacity to fast-track expansion of the nation's industrial base but also to bring with them superior intellectual property.

The foundation of India's industry policy between Independence and the liberalisations of the 1990s was the Second Five Year Plan, announced in 1956, which committed the country to a socialistic pattern of society as a national objective and to industrialisation based on import-substitution/replacement strategies. The basic objectives of Indian industry policy since the mid 1950s were, and to a high degree remain, increasing production in priority sectors, ensuring a regional dispersal of growth, promoting the small scale sector and preventing a concentration of commercial power (Shand and Kalirajan, 1994).

The emphasis of industry policy also involved concentration on capital-intensive projects in heavy engineering, basic metals and petrochemicals, with the public sector taking the 'commanding heights'. Consumer goods were considered of secondary importance and relegated to the small-scale industry sector which was also given a range of fiscal subsidies and exclusive rights to manufacture prescribed products.

India's labour market has been dominated by a complex legal regime of around fifty statutes which cover, *inter alia*, labour welfare and dispute settlement. This regime is particularly potent in the organised sector, which embraces almost all of the public sector as well as medium to large private sector firms. The labour laws also act as a strong disincentive to growth and development by small-scale firms, as once such an employer hires more than ten people they are deemed to be in the 'organised sector' and exposed to more onerous employment obligations. According to the World Bank (1996), labour retrenchment laws, combined with a restrictive 'exit policy' for industrial firms, make it virtually impossible to restructure, let alone close, ailing public and private sector firms, and constrain India's capacity to attract much-needed foreign direct investment.

Much of the public sector investment in India has been poorly utilised, suffering low capacity utilisation, either perpetual losses or very low rates of return on capital, low contributions to national savings and poor levels of operational efficiency. The annual rate of return on capital for public sector enterprises (PSEs) remained below 5 per cent during the 1980s, falling to a little over 2 per cent in 1990-91 (Bhalla 1995), while the profit-after-tax-to-net-worth

ratio for Central PSEs was negligible until the mid-1980s, and has been between 3 and 4 per cent since that time. However, when the significant contributions from the petroleum sector are excluded, the ratio has generally been negative (Mahon Rao, 1996).

Inefficiency was endemic in the Central and State Governments' own PSEs, but was compounded by the policy of successive governments taking over 'sick industries' — that is, firms with sustained losses and negative net worth — in response to political pressure to avoid those businesses going bankrupt and the resulting job-shedding. The annual losses of a selected 60 'sick' manufacturing firms in 1993-94 totalled 1.7 times the value of their net fixed assets. Further, accepting these firms could not be privatised, if the Central Government were simply to close down the firms, the World Bank (1996) estimated domestic savings would increase by 0.3 per cent of GDP. By any measure, India's early strategy of State-led industrialisation as the engine of economic growth and development was a failure.

Reflecting this failure, the '1991 Crisis' acted as catalyst for the more liberal 'new industrial policy' of 1991, the most significant feature of which was the effective dismantling of the old pervasive industrial licensing system, and the virtual abolition of government control over the investment and production decisions of enterprises. An important priority for industry policy, and for industry *per se*, is the reorientation of managerial practices away from those developed and suited to the former restrictive, government-dominated framework, toward those emphasising customer orientation and productive excellence.

The Asian Economic Crisis

Any assessment of India and the East Asian 'Miracle' cannot allow to go unremarked the so-called 'Asian economic crisis'. Without going into a long and detailed examination of the nature, causes and consequences of the plethora of events which came together, it must be said, while the Asian economic miracle may be tarnished, it is not necessarily over.

The East Asian economies may emerge enhanced by the crisis, if they regard it not as a threat but an opportunity to tackle structural impediments (Garnaut, 1998). Importantly, the fundamental conditions which sustained rapid growth and development of the Asian 'miracle' remain largely in place. These include high savings and investment, the emphasis on education, high quantity and quality of economic infrastructure, deep integration into the world economy and acceptance of a major role for markets.

The Asian turmoil, however, does contain a number of policy lessons for India. These include that restrictions on capital account convertibility and limited exposure to short term foreign debt helped to insulate India from the contagion of the turmoil, although this does not mean India should not move ahead thoughtfully and progressively with further economic liberalisation. The World Bank (Stiglitz, 1998) has argued India should exploit the opportunity to forge a comprehensive development strategy to tackle the major challenges which impede better

economic performance. This includes improving legal and regulatory processes which enhance the transparency and predicability of rules governing foreign investment.

Explaining the Miracle and the Malaise

The Asian Development Bank (1997) has attempted to shed some light on the important question of relative contributions to the 'Asian Miracle', in a quantitative sense, by examining the influence of a number of factors in explaining growth differentials of East, South East and South Asia. The factors examined were: initial conditions; policy variables; demography; and resources and geography.

Amongst the main findings of the ADB work were that the greatest contribution to explaining relative per capita growth performance were the superior policies implemented by the East and South East Asian countries compared with those of South Asia, with policy variables explaining fully 2.1 percentage points of the 2.9 per cent per capita growth gap between East and South East Asia, and South Asia during the period 1965-1990. In simple terms, policy matters; and, East and South East Asia did policy better than other developing regions, including South Asia (which, given India's relative weight, can be regarded as a reasonable proxy for that country).

The ADB further sharpened the focus of the 'policy variables' category by examining the relative significance of 25 variables for up to 77 countries clustered into three regions (East Asia, South East Asia and South Asia) for the years 1969 to 1971 and 1989 to 1991. These variables were grouped into what could be called: trade policy; savings and investment policy; industry policy; fiscal policy; education policy; and social policy. The most significant (at the 1 per cent level) positive individual policy factors explaining East Asia's superior economic performance were found to be: exports as a share of GDP; manufacturing export performance; imports as a share of GDP; domestic savings as a share of GDP; and, years of secondary schooling. For South Asia, the only significant (at the 1 per cent level) positive individual policy factor was agricultural value added to GDP, although secondary education indicators were significant and positive (at the 10 per cent level).

Regression analyses by the author using the World Economic Forum's annual World Competitiveness Reports provide an insight into the main characteristics which business leaders consider important to the international competitiveness of India and many of the East Asian economies. These regressions, under the three policy domains studied — trade, foreign investment and industry policy — seek to identify some of the key individual drivers of competitiveness in each of these policy domains, recognising some data constraints (most notably the limited number of years for which consistent and comparable data are available).

Taken as a whole, the East Asian 'recipe' can be said to comprise (being those explanatory variables which generally produced results significant at the five per cent level): encourage entrepreneurship and innovation in management;

ensure export credit and insurance is available at a reasonable price to those companies interested in exporting; adopt a welcoming approach to foreign investment; ensure a flexible labour market; recognise the parallel economy can enhance business development; and, ensure venture capital is readily available for business development. In other words, the regression analyses are compatible with the World Bank (1991 and 1993) view: intervene reluctantly, by allowing markets to work unless it is demonstrably superior to intervene; apply checks and balances, by continually subjecting interventions to both international and domestic market disciplines; and intervene openly, with interventions being simple, transparent and rules-based rather than subject to official fiat.

By contrast, the author's regression analyses indicate the Indian framework since 1991 has seen: movement towards economic policies which are adapted to current economic realities; continued acceptance or tolerance of corruption in the public sphere; liberation of a national culture which is open to foreigners; recognition that the entrepreneurial talents and innovation of indigenous management are attractive to foreign investors; the growing credibility of corporations with the broader community; and, more liberal access to venture capital for commerce and industry.

Conclusion

While there has been much debate about the drivers of East Asian economic development and growth, there can be little doubt its sustained nature relative to developed and other developing countries mean the countries involved stand-out from other comparable nations. The recent turmoil on Asian capital markets and downturns in a number of regional economies do not mean the 'Miracle' has come crashing down. Providing appropriate policy reforms are initiated, the weight of opinion favours the East Asian economies resuming their strong economic performances.

India's sustained commitment to democracy has rightly been described as a miracle in itself. However, the same cannot be said for its economic performance which has been hampered by an ideological commitment to centralised planning, government interventionism and detachment from the world marketplace.

While a range of economic policy reforms of varying ambition have been implemented, substantial challenges must be overcome if India is to liberalise and integrate into the world economy sufficiently to achieve and sustain the higher rates of economic growth necessary to meet its self-expected place in the world.

At the minimum, India needs another group of reform-committed senior Ministers at the Centre, covering at least the Prime Minister, and the Ministers for Commerce and for Finance. Allies within key sectional interests, including business, the bureaucracy and the States will also be important. The motivation and momentum for additional far-reaching reforms must come from within, not be driven by external imperatives such as further fiscal or balance of payments crises.

Taken as a whole, East Asia and India are a study in contrasts: the former driven by integration into the global economy, building on the market, with

adaptable economic policies; the latter driven by insularity, seeking to command the market, with economic policies framed by ideology. India is undoubtedly a political miracle, through its generally sustained commitment to democracy. India has the potential to become an economic miracle, if it can achieve and sustain a commitment to bold and far-reaching program of economic liberalisation and integration into the world economy. Only then will India's 960 million people find *Lakshmi* — the goddess of wealth and good fortune.

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REVIEWS

Trade Policy Reform

Richard Snape, Lisa Gropp and Tas Luttrell, ***Australian Trade Policy, 1965-1997: A Documentary History****, Allen and Unwin, St. Leonards, 1998*

Reviewed by ***Ben Smith***

This volume, from the title onwards, is very much a continuation of the work of Crawford (1968) in presenting a history of the development of Australian trade policy through excerpts from official documents and reports, with a sprinkling of non-official contributions. As in Crawford's story, the subject matter is divided by topic rather than time period, with the collection of documents relating to each topic being prefaced by a commentary on their significance in the context of policy development and debate. Richard Snape is ideally suited to the monumental task of succeeding Crawford in this endeavour, having been an active participant in trade policy discussion over the whole of the relevant period and, in recent years, a Commissioner of the Industry/Productivity Commission. The resulting work is an invaluable reference source on the developments in Australian trade and industry policy for more than 30 years up to 1997.

Crawford's history spanned the period 1942-1966, with a postscript on the events of 1967 being added while publication was in process. This was a time of dramatic change in the international economic environment facing Australia. Britain was making renewed, and clearly serious, efforts to join the European Common Market. The Kennedy Round of multilateral trade negotiations, although providing little gain to Australian export interests and involving only the most modest commitments by Australia with respect to its own tariffs, had, *inter alia*, resulted in an erosion of preferential arrangements in Australia's trade with the UK. More or less independently of these events, though, the redirection of Australia's import and export trade towards the Asia-Pacific region was already firmly in progress. The 36 year old fixed exchange rate between the Australian and UK currencies ended when the 1967 devaluation of sterling against major currencies was not matched by a devaluation of the Australian dollar. Alongside the rethinking of Australia's key trading and international relations interests that was taking place, there were emerging domestic pressures for trade policy change in the wake of the report of the Vernon Committee (Vernon et al, 1965). In particular, the role of the tariff in Australia's economic development and the principles that should guide the future determination of tariff policy was becoming a major focus of debate.

Snape et al take up the story from 1965, so the events just described frame the starting point of their history. This charts, among other things, the dramatic

change in attitude towards protectionist policies that has since occurred and that had its beginnings in the post-Vernon tariff debate, the associated reversal of the official view that international trade negotiations are about exchanging 'concessions' and the switch to active promotion of the benefits of liberalisation, the final ending of the preferential bilateral relationship with the UK and the increased focus on an Asia-Pacific regionalism based on non-discriminatory trade liberalisation, together with the experience of the movement from a fixed exchange rate regime to the floating exchange rate that was established in the middle of the period reviewed.

It is a reflection both of the earlier postwar preoccupation with international institution building and of the much greater attention subsequently given to domestic industry policy that, where Crawford devoted four times as much space to multilateral and bilateral issues as to domestic policies, the whole of the first half of this volume is given over to matters of unilateral trade policy. This comprises chapters on industry policy generally, including tariff policy; specific arrangements for particular manufacturing, agricultural, or mining industries; arrangements for the provision of temporary tariff assistance; by-law tariff concessions; export incentives; government procurement and offsets policy; and policies relating to the services industries.

The second section, on bilateral and multilateral commitments and policies, is divided into chapters on multilateral trade negotiations; bilateral and regional arrangements; foreign aid and developing country trade preferences; international commodity agreements; dumping and subsidies; and intellectual property. The concluding section contains a chapter on exchange rate and foreign investment policy, plus one on issues not elsewhere included (for example, quarantine, environment, labour issues).

With this comprehensive coverage, it has been a major achievement to put together the collections of documents that form the main substance of each chapter. In by far the largest part these documents are useful and relevant indicators of contemporary policy directions. They are, however, variable in the extent to which they provide insights into policy thinking and the surrounding debate, so the commentary with which each chapter commences plays a crucial role in developing a coherent picture. Taken together, those commentaries form a masterly survey of trade policy development over the review period, and the volume would be more than worthwhile for them alone. Most readers, indeed, will probably rely heavily on the commentaries for detailed understanding of the issues and will dip into the documents as appropriate.

Perhaps the chapter in which the accompanying commentary is most critical is that on service industries. This is a complex area, involving policies towards such diverse things as tourism and overseas students studying in Australia, banking, the media, and shipping and aviation services, and involves discussion of matters that extend well beyond what traditionally would be thought of as 'trade policy'. The commentary does an excellent job of sorting out the issues and pointing to the major policy changes as they affect trade and foreign competition in the various services, but the documents are more patchy than elsewhere in the

book and the inclusion of some appears less than compelling. In particular, it seems to be drawing a very long bow to think of the terms of reference of the West Committee on Higher Education as a 'trade policy' document.

In other cases, though, the documents provided need very little help in elaborating the nature of the debate. The paramount example is the set of documents that deals with the post-Vernon discussion of the role of the Tariff Board and the principles of tariff fixing that the Board should adopt. These are not just dry statements of policy position but are the cut and thrust of the debate itself. My own favourite is the speech of John McEwen, commenting on the Board's decision to classify industries according to whether they had high, medium, or low levels of protection, with obvious implications as to what consequences an industry's position in this ranking might have for the advice that the Board would tender in any tariff review. McEwen regarded this as stepping beyond the Board's proper responsibility of considering each case on its merits and moving into the realm of judgments about the best pattern of economic development for Australia. If, said McEwen, the government needed advice on these matters, it would want it to come from eminent people in economics or other fields. The government had never thought it appropriate to appoint such people to the Board. It had appointed people of such eminence to the Vernon Committee and, having chosen not to accept the advice of that Committee, it was most unlikely to substitute advice on the same matters from the Tariff Board.

This was a battle in which the Tariff Board and its successors, the Industries Assistance Commission, the Industry Commission, and then the Productivity Commission were ultimately to be victorious and, with some ups and downs, more or less to remain so, as the documents and commentary in the first half of the book reveal. Snape modestly passes up the opportunity to comment on how the eminence of those providing the advice may have changed.

Unfortunately, the story does not end on a victorious note, with the authors pointing to signs evident in 1997 that Australia's march from protectionism might have stalled. The most obvious signs were the government's rejections of the Industry Commission's recommendations for continued phased reductions in tariffs on passenger motor vehicles and on textiles, clothing, and footwear after 2000. A retreat towards the 'concessions' view of trade negotiations and commitments is identified in official statements that further progress in liberalising the trade in these industries, and more general progress towards the APEC commitment to free trade by 2010, will need to be considered in light of other countries' actions in areas of interest to Australia. There is, in this case, no immediate need for a postscript to keep the reader abreast of new developments.

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Privatisation and Community in Criminal Justice

*Bruce Benson, **To Serve and Protect: Privatization and Community in Criminal Justice**, Independent Institute/New York University Press, New York, 1998*

Reviewed by **Peter Grabosky**

Conceptions of what precisely constitutes an inherent governmental function are changing. Private prisons were regarded as unthinkable in Australia, even by conservative governments, only two decades ago. But things move quickly nowadays. When the Reagan Administration asked each US federal agency to outline which of their activities could be regarded as a core government function, the Environmental Protection Agency engaged a private consultant to develop just such a definition (Kettl 1993:194).

The roles and responsibilities of the state are narrowing, all the world over. For those who wonder where this trend will lead us, Bruce Benson, Professor of Economics at Florida State University, has some astonishing suggestions. This fascinating book will stretch the imagination about the limits of privatisation. In brief, the author concludes that there is virtually no area of criminal justice which is not appropriate for devolution to non-governmental institutions, neither law enforcement, nor adjudication, nor punishment.

Indeed, this is arguably the most radical book on criminal justice written in recent years. Combining history, economics, and organisational behaviour, it provides fascinating insights on the extent to which privatisation in criminal justice has already occurred, and charts a dramatic course which, if followed, would revolutionise criminal justice as we know it. Moreover, Benson contends that a fully privatised justice system will achieve significant reductions in crime.

Benson suggests that the disinclination of many victims to report crimes to the police reflects a rational decision on their part. There is simply not enough in it for them. How then, to manipulate incentives to encourage the reporting of crime?

Consider, for example, the idea of conferring transferable restitution rights on victims of crime. Benson would bypass police altogether, and provide civil remedies for victims, which they could pursue through private investigators and litigators working on a contingent fee basis. This is not a uniquely modern idea, having its origins, the author tells us, in medieval Iceland. It is quite reminiscent of the 'thief-takers' and bounty hunters who preceded the rise of the modern state and the nineteenth century invention of the police by Sir Robert Peel.

But wouldn't radical privatisation of criminal justice work to the disadvantage of those unable to afford private protection? On the contrary: The creation of transferable compensation rights would, Benson argues, provide more justice to the disadvantaged than does the existing justice system, which gives short shrift to victims, particularly those from marginalised backgrounds. The

status quo, he maintains, entails policing for the rich: Those who are politically influential are accorded protection, and those who are poor, are left to their own devices. Indeed, Benson argues, existing policies of firearms control are regressively redistributive, because they prevent poor people from defending themselves!

The growth of the private security industry is no longer news. But some manifestations are nonetheless remarkable. The in-house loss prevention division at Sears numbers 6000 personnel. Some small police forces in the United States already contract out investigations arising from narcotics offences and bad cheques.

The American Bankers Association and the American Hotel-Motel Association retain a private detective agency to investigate crimes against their members. Why? Because they claim the quality of service they require is not available from public law enforcement agencies.

Benson sees merit in the US system of bail bonds, where, for those defendants who lack financial means to meet the cash requirements of bail, the decision relating to pre-trial release from custody is essentially a commercial judgment made not by a judicial officer, but by a private entrepreneur. These financiers of liberty have a much greater incentive than the courts to ensure their client's ultimate reappearance.

And what about bounty hunters, who may be driven by incompetence or excessive zeal to capture the innocent or use disproportionate force? Benson assures us that civil remedies would lie against the incompetent or malicious bounty hunter no less than they would against the offender, and reminds us that public police in many jurisdictions enjoy effective immunity from both civil and criminal remedies.

Can courts be privatised? Benson reminds us that private arbitration services have been around a long while. And private fora lend themselves nicely to solutions based on restorative justice, as his proposed system of restitution would be.

The book does have its shortcomings, not the least of which being the author's inclination to cite his own work excessively. To give but one example, the assertion that 'the criminal justice system is truly an interrelated system' is supported by no less than three of the author's previous articles.

Notwithstanding the author's self promotion, and the extreme nature of some of his proposals, it is a most stimulating book, deserving to be read by both enthusiasts and opponents of privatisation.

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NON-AGENDA

With the view of causing an increase to take place in the mass of national wealth, or with a view to increase of the means either of subsistence or enjoyment, without some special reason, the general rule is, that nothing ought to be done or attempted by government. The motto, or watchword of government, on these occasions, ought to be — Be quiet...Whatever measures, therefore, cannot be justified as exceptions to that rule, may be considered as *non-agenda* on the part of government.

—*Jeremy Bentham* (c.1801)

A Charitable Concern

Gabrielle Berman

The role of information within the charitable sector poses all the dilemmas faced by economists in dealing with imperfect markets. Lack of price signals and asymmetric information imply that decision making at the individual level is likely to be less transparent than in many other sectors, and at the policy level may be largely misinformed. The regulation of this sector is predominantly the domain of state legislation. The introduction of the *Victorian Fund raising Appeals Act 1998* and other legislation is argued to be enacted on the premise that it will ensure greater accountability to the donating public by imposing greater reporting requirements. This article examines the efficacy, scope and limitations of information disclosure requirements in current legislation governing the charitable community.

In this paper accountability will be defined using *The Australian Concise Oxford Dictionary* definition of accountability; that is, to 'give a reckoning of or answer for (money etc. entrusted).' The argument for greater financial accountability in the sector perhaps may be best advocated on the grounds of perceived needs. Funders and donors seem to be demanding greater financial accountability of these organisations. If these claims are valid, the establishment of these systems may be seen as a means to reduce accountability concerns and address expectations held by funders. These expectations are highlighted in donor surveys, (O'Keefe and Partners, 1998; IOOF and ASSIRT, 1998; Campbell, 1998) and are expressed as uncertainty with respect to the use of donational finances for

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stated purposes. More simply put, these surveys suggest that donors are concerned about the proportion and effectiveness of funds donated going directly towards the programs advertised. Through an examination of current financial reporting requirements as well as potential changes to these requirements, an analysis may be conducted to determine possible impacts on reducing or alleviating accountability concerns in the sector.

Hence, this paper will consider public disclosure of financial information by charities to account for moneys received. This definition becomes problematic if one considers the myriad of stakeholders for whom a charity may be accountable to for moneys received. The list of these stakeholders is extensive, ranging from government departments to debtors to individual donors and the general public. For simplification purposes however, we will limit the analysis to financial accountability of charities for household monetary donations.

The Current Legislation

Charities may take on the form of an unincorporated association (estimates based on local council data indicate that there could have been over three hundred and eighty thousand of these organisations in 1995 (Pocklington et al, 1995)), an incorporated association (as at June 30 1996, over one hundred and four thousand non-trading organisations in Australia were registered as incorporated associations (Huntly, 1996)) or a company limited by guarantee. Other charities are legislated by their own Act of Parliament or by Royal Charter. The basic reporting requirements of these associations are determined by the form of association. These requirements range from audited financial statements presented to parliament to informal financial statements provided to committee members only. It is important to note that while some of these organisations are not compelled under legislation to produce full financial details in annual reports, they may do so anyway.

An examination of the various Acts that govern charities facilitates an appreciation of the legislative environment under which they operate as well as providing a starting point from which to assess the effectiveness of current, externally imposed, financial accountability systems.

Issues of State Based Legislation

An analysis of current legislation highlights inconsistencies in the definition and regulation of charities. There is little consistency across states, and within each state, the various forms of association (Unincorporated Association, Incorporated Association, Company Limited by Guarantee, Royal Charter, Own Act) determine the form of regulation. This disparity may also occur within an organisation if it has several offices in several states. In these instances it is common to create a central company limited by guarantee that will preside over independent incorporated associations regulated by their respective state legislation (Fitzgerald, 1997). The company limited by guarantee is the only organisational form whose

legislation is consistent across the states. This consistency is primarily the result of a Commonwealth as opposed to State, regulatory body, in the form of the Australian Securities and Investments Commission. This uniformity in legislation however, has not effectively resulted in uniformity in regulation and reporting requirements of charitable companies. Companies limited by guarantee under s66 of the Companies Code that were granted exemption from lodging annual accounts with the Australian Securities Commission prior to 1986 remain exempt under s150 of the Corporations Law.

The fund raising legislation also suffers similar deficiencies. The disparity in the reporting requirements for each of the states, and the absence of any regulation in the Northern Territory and Tasmania effectively implies that the degree of regulation of fund raising is highly contingent on the state in which an association is incorporated. Furthermore, in the Australian Capital Territory (ACT), South Australia (SA) and Western Australia (WA) the fund raising legislation has not been substantially altered since 1959, 1939 and 1946 respectively, resulting in the imposition of less rigorous reporting requirements for these states. This is further compounded by the differing exemptions in each state. New South Wales and Victoria effectively exempt religious charities from many of the reporting requirements in their respective statutes.

Heterogeneity Issues in Financial Reporting Requirements

The dilemma that this lack of homogeneity in reporting requirements poses is twofold. Firstly, heterogeneity in reporting requirements results in a lack of financial comparability between different organisations and, secondly, it encourages the evolution of somewhat esoteric reporting statements. One may argue that given the diversity and intangible nature of the services provided by charities, this situation is a product of the character of the sector, rather than deficiencies in the legislation. It has however, been proffered that the idiosyncratic approach to accounting and financial reporting evident in the not-for-profit sector may be more attributable to historical accident than to the eclectic financial accountability and management requirements of the sector (Perrin, 1985). The validity of these arguments remains purely academic if public perception holds that comparability and transparency in financial reporting can and does engender greater trust. If this is in fact the case, then it is probable that the current legislation is inadequate to foster this trust.

An analysis of the various reporting requirements for each state reveals few control mechanisms for assessing the validity of the figures contained in the financial reports. Aside from those charities that are Limited by Guarantee (and not exempted under s150 of the Corporations Law), it is only those incorporated associations in the ACT and Victoria (that have gross receipts in excess of $500,000 and $200,000 per annum respectively) that are required by law to have financial reports in compliance with generally accepted accounting standards. The implications for the states and organisations that are not required to adhere to

these standards is that the information contained within their financial statements is to some degree *ad hoc*, non-comparable and most certainly esoteric.

The issue of verifiability must also be considered when examining limitations to current legislation. Mandatory annual audits of financial statements are imposed only on the following; Companies Limited by Guarantee (again excluding exempted companies), those incorporated associations in the ACT, Victoria and SA that generate gross revenue in excess of $150,000 and $200,000 per annum respectively, as well as incorporated associations in Tasmania and the Northern Territory.

Heterogeneity Issues in Other Disclosure Requirements

The deficiencies that are present in the legislation do not merely pertain to reporting requirements. Charities in Victoria and NSW alone are required by law to disclose information regarding payments to canvassers or collectors. The issue of disclosure of use of funds has particular relevance in regard to paid collectors. The payment of these collectors is the most immediate indication for donors of funding not going to the final recipients. The requirement for paid canvassers to display a badge or give a verbal indication that they are being paid, at the outset, reduces this particular information asymmetry. The presumption that this information will be factored into the donor decision making process is not unreasonable and may lead to more informed and efficient allocation of monetary donations. The advantage of this type of disclosure is that it allows donors to convey to charities their attitudes towards charities use of funds. Organisations may find that the public responds poorly to paid collectors and may have to look to recruiting volunteers for these purposes. Alternatively, despite the surveys to the contrary (IOOF and ASSIRT, 1997; O'Keefe & Partners, 1998; Campbell, 1998) many charities may find that donors are, in reality, indifferent to the proportion of funding that gets to the final recipient and continue to donate despite this disclosure. The public response to this information would give charities a far better understanding of donors' true preferences with respect to proportional funding to final recipients than that produced by current surveys.

A further concern in the current fund raising legislation is the lack of specific regulations dealing with the labelling, handling and reporting of money and goods collected in the various receptacles. Only Victoria and NSW have specific requirements outlining the collection and reporting of monies received and expended in the course of collections from clothing bins. Additionally, Victoria and NSW are the only two states that require proper supervision of the use and emptying of collection receptacles. The lack of legislation in this area in the other states may not be problematic if donors are indifferent to the utilisation of these resources. It may be argued that the disposal of clothing is providing a service in and of itself, regardless of the use. Under these circumstances there still remains an argument in favour of regulation if the enforcement of systems to monitor and record the collection reassures donors and is capable of instilling a greater degree of trust. This assumption would necessarily extend to the reporting requirements

for fund raising appeals that exist in NSW, Queensland and Victoria. The mere certainty of access to this information (whether exercised or not) may do much to dispel fears that monies are being disposed of contrary to donor expectations.

Their Own Act: Religious Entities and Other Organisations

Many of the larger Australian religious orders have adopted a legal identity through the establishment of their own Act of Parliament (Church). The Salvation Army (Southern and Eastern Commands), Wesley Mission Sydney, The Anglican Home Mission Society and The Brotherhood of St. Laurence are some of the larger religious charities covered by their own Act or affiliated with a church that has its own Act. The Anti-Cancer Council of Victoria and the Royal NSW Institute for Deaf and Blind Children similarly have their own Acts of Parliament. It is significant to note that these organisations formed close to 25 per cent of Australia's largest revenue generating community service welfare organisations in 1993-94 (Industry Commission, 1995). More specifically, four out of the ten top revenue generators were in fact incorporated by their own Act of Parliament (Church). It becomes apparent that these religious associations play a central role in the provision of welfare service, and can and do generate revenues from donations, government support or services charges to the order of millions of dollars per annum (Industry Commission, 1995). The degree of regulation of these associations, the reporting requirements and the required forms of disclosure are determined by the organisation's Act, and the boundaries of incorporation.

Given the significance and the size of many of these organisations there may be a legitimate concern in current regulation. Their sheer size and revenue base suggests that they may have more in common with medium-to-large size corporations than the smaller, community based charities. They are responsible for the effective management of substantial cash flows and sizeable asset holdings (Industry Commission, 1995). Similarly sized profit and non-profit companies have definitive, homogeneous and thus comparable reporting requirements and must submit audited returns to an external independent body. Those organisations incorporated under their own Act may be required under their Act to submit audited financial statements to an independent, external body (usually parliament) however, this is not necessarily the case for religious organisations. These entities are either completely incorporated under their Act of Parliament (church) with self determined external reporting requirements (the degree of which is largely determined by the year of the enactment), or unincorporated organisations (with no specific legal identity and thus no external regulation) that have merely established a Charitable Property Trust under the Act.

Religious Organisations and Concerns Over Current Legislation

A close examination of the legislation reveals that some of the larger and older religious institutions have not had their Acts substantially revised since their enactment. The concern raised here is that the wave of reforms over the last few

decades with their emphasis on more rigorous financial disclosure and auditing requirements may not be reflected in these Acts.

Thus, it may be argued that any concerns regarding the financial accountability of organisations that are incorporated under their own Act may not find reassurance in the legislation. The fund raising legislation does little to compensate. Religious organisations (defined as those enumerated under s26 of the *Marriage Act 1961*) are exempt from many of the reporting requirements imposed by the fund raising legislation in Victoria, NSW and Queensland. Given that these three states have the most rigorous reporting requirements in Australia, there seems to be minimal regulation of fundraising, and few reporting requirements for those religious organisations that are incorporated under their own Act.

Slipping Through the Safety Net

It is interesting to note that the decision to exempt certain organisations (including Religious Organisations) under the *Victorian Fund raising Appeals Act 1998* was premised on pre-existing legislation, that is, they were seen to be regulated under alternative legislation. The exemptions were granted on the grounds that they would be unnecessarily burdened, and the imposition of the Act would imply that there would be duplication in reporting requirements. The validity of this claim for religious charities is not obvious. Given that each religious order has a separate Act, and that many of the larger religious organisations have not substantially revised their Acts for several decades (e.g., *Act to Provide for the Temporal Affairs of the Salvation Army in the State of Victoria 1930, Anglican Church of Australia Constitution 1960*) it follows that many do not, in fact, have any rigorous external reporting requirements in their own legislation in the first instance, and hence it is probable that the imposition of the Fund raising Appeals Act would not necessarily result in substantial duplication.

Further to this, an analysis of the Second Reading Speeches for the Fund raising Appeals Bill (Victorian Legislative Assembly, 1998) highlights the perception that the exemptions granted could be justified by the power of the Minister to revoke these exemptions, should the need arise, by going to court. This argument is unlikely to be an effective deterrent for misapplication or misrepresentation if their reports are not available for external examination, as is the case for many religious organisations, whose disclosure requirements pertain only to members or the hierarchy of the affiliated church. Thus, the argument presented is that the lack of external reporting requirements for these organisations effectively renders any external monitoring largely ineffectual, and hence the power to revoke the exemption remains redundant for many of these charities.

An additional note on the questionable nature of these exemptions is the drafting of the current legislation. It seems somewhat controversial that the committee responsible for drafting the legislation in Victoria consisted of four representatives from the charitable community, three of whom were in fact religious welfare groups who were effectively exempted from many of the

reporting requirements of the legislation. It seems ambiguous as to why these organisations were responsible for effecting legislation for the rest of the sector.

The size and number of these religious welfare groups is significant and has implications for trust throughout the non-profit welfare sector. Legislation regulating the sector and most particularly fund raising is supposedly enacted to protect donors and ensure minimum accountability levels for donations received from the general public. However, in light of preliminary statistics on giving in Australia (ABS, 1997), current legislation has largely exempted a subset of charities that effectively receive the largest proportion of all donations to non-profits in Australia, that is, almost 40 per cent of all donations. Religious associations receive approximately twice the donations of the education and research sector, and close to ten times that received by environment and animal welfare groups. The Victorian Act states that 'The purpose [of the Act] ... is to regulate the raising and application of money and other benefits for non-commercial purposes from the public' (Victorian Legislative Assembly, 1998). It would seem that the purpose for which the various fund raising legislation were drafted and enacted has only partially been achieved.

Explaining the Public Response

The issue that now must be addressed is the contradiction that seems to be emerging. It would seem that religious welfare organisations have less legal requirements with respect to public reporting than many other non-denominational charitable groups. Nevertheless, they maintain substantial public support in terms of donations. Religious organisations generate more than double the amount of donations to any other category of non-profit association (ABS, 1997).

The argument could proceed that this type of association has more representatives than any other category of charity. However, given that there is no official database listing all Australian non-profits, and given that these organisations were well represented in the Industry Commission's Report of the top revenue generating welfare groups in Australia (Industry Commission, 1995), it is not necessary to presume that the disproportionate allocation of donations is a product of the proliferation of this form of charitable organisation. Thus, several plausible explanations may emerge to explain this phenomenon.

The first explanation presented is that donors are not concerned with reporting requirements, contrary to popular belief. In this explanation we may presume that revealed preference highlights that the imposition of relatively less external reporting requirements does not necessarily decrease donations. The second possible explanation is that religiously affiliated associations are considered more trustworthy not only by donors but also by policy makers. Thirdly, it may be hypothesised that policy makers are in fact sending signals to the public that they are more trustworthy than the rest of the non-profit non-denominational charitable community.

It is possible to attribute the latter two hypotheses to the age of these organisations. Given that a large majority of the first non-profit welfare groups in

Australia had religious origins (Lyons, 1993) many of the older charities are likely to be religiously affiliated. The maturity of these organisations is likely to have a direct correlation with perceived trustworthiness. This argument seems to be supported by the results of the focus group surveys conducted for the benevolent Society of NSW (Consumer Contact, 1993). The survey found that the most significant factors in donors' perception of whether a charity was 'worthy' were the age (long established), and the reputation of the organisation, attributes most visibly attributable to religious charities in Australia. Beyond the advantages that maturity brings for public perception, many of these associations receive substantial funding not only from the government but also from foundations that demand the production of reports under funding agreements. Therefore there may be an inherent belief that funders, and most particularly the government, monitor these organisations indirectly through established contracts. Finally, acknowledgment must be given to the fact that religious organisations, though not required by legislation, may actually produce public reports in the first instance.

Conclusion

Though constitutional and fund raising legislation may not ensure broad ranging legislation to regulate the production of reporting, many organisations regardless of the method of incorporation are accountable in the production of reports, at minimum, to larger funding sources such as government, foundations or trusts or to voluntary umbrella associations. The issue that then must be raised is whether these reporting requirements are sufficient to discharge accountability for reporting to the general public and whether, beyond the surveys, the general public really cares.

The policy direction in this area is unlikely to change substantially. The introduction of more uniform Commonwealth legislation, and a single government authority to standardise and monitor the reporting process for charities would undeniably increase comparability and perhaps introduce more clarity to the reporting process and the sector as a whole. However, a similar recommendation was made in the report on Charitable Organisations in Australia (Industry Commission, 1995) and has not been adopted. Given current levels of donations, and the disproportionate allocation of these donations towards religious organisations, one may intuit that either the government or the public use a different barometer for trust-worthiness other than the production and dissemination of financial information. Thus, despite the existence of a blatantly uneven playing field with respect to the production of publicly available information by charitable organisations, any policy prescription to remedy this is likely to fall on deaf ears.

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I thank Rob Books, Sinclair Davidson, Myles McGregor Lowndes, the Editor and anonymous referees for the helpful comments received during the writing of this paper. I also thank the Pratt Foundation for its financial support of my research.

Agenda, Volume 7, Number 1, 2000, pages 93-96

The *Theatre* of University Research?

Frank Clarke, Russell Craig and Joel Amernic

Few academics would dispute that *theatre* is part of day-to-day life in universities. Certainly there is a significant theatrical component to teaching. Much of the process of university-based research is *theatre* too — it is performed with a facade of sophistication, in ritualised fashion, to a prescribed script, before a make-believe backdrop.

In this article we explore some implications of the 'university-research-is-theatre' metaphor, emphasising the more egregious entailments in order to stimulate a conversation. We seek to stimulate reflection on the *nature* of university research and whether the DETYA (1999) Green Paper will effect fundamental change in an enduring characteristic of research-related activity — its theatricality.

Virtually nothing stirs the emotions of academics as much as reference to *research.* At the mere mention of *research* even experienced scholars sometimes go limp, assume a grave countenance and affect a sanctimonious expression. *Theatre* at its best? Merely thinking vaguely about *research* seems almost a religious experience for some academics. Several theatrical excesses characterise much research-related activity. They invite conjecture that dubious motives influence research efforts and what is alleged to be worthwhile research.

Research Theatre and Teaching

We submit that being a performer in the university research *theatre* often attracts more acclaim than actually completing a production. Cameo, rather than completion, is paramount. The process of *doing* research assumes greater importance than achieving research outcomes likely to extend horizons of knowledge in substantive ways. Colleagues sometimes excuse themselves from extra curricular activities with the alibi 'I'm too busy, I'm *doing* my research'. This is offered as some almost Divine absolution for not doing the things the community expects of academics — creating and disseminating knowledge, being good in teaching, and being active in administration and community outreach.

Some, perhaps much, of the behaviour of research 'actors' is a result of the 'publish or perish' drama which encourages publication of even the shallowest of research. The *fact* of publication, not the content or impact, too often becomes an academic's Logie Award. Some contemporary research might be best assessed, somewhat uncharitably, as dross inspired solely by desire to advance careers. This is hardly surprising. Reviewers of the academic stage show (promotions and

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appointments committees, and external research assessment panels) persist in emphasising the *quantity* of publication. The legacy is that all too often, scholarly articles are written and cited, but are not read closely or widely. The stage show goes on, but few are in the audience?

Research theatre is also manifest in the classic incantation, *'I'm a researcher, not a teacher'*. This is intoned often in the hope it will be self-fulfilling. It is as if being a good teacher is at odds with being a good researcher. For many, teaching is a necessary evil to be performed with a mask. We are invited to believe, falsely, that teaching and research serve opposing social ends, call upon unrelated skills, entail opposing foci, engender contradictory attitudes, or pursue incompatible objectives. We submit, as do many of our colleagues in academe, that nothing could be further from the truth. The rich tapestry of the university is interwoven with teaching *and* research — often with both intertwined intimately.

We should not quarantine teaching material and curriculum design from contemporary research findings. If we do, we will lose much of the vitality of university teaching which is achieved through a sort of trickle-down effect from research activity. Indeed, much *thinking* and *preparing* engaged in by academics involves simultaneous consideration of the teaching and researching of the subject under contemplation.

Research Theatre and Intolerance

There is *research theatre* inherent in the hubristic intolerance of those in academe who regard only particular forms of enquiry as *research*. They argue that *research* is constituted only by those modes that are (supposedly) *scientific*, as they might view the term. All other modes are deemed *not research* and as *unscientific*. Ideals of open-mindedness, tolerance of the ideas and methods of others, and of personal and academic humility, get short shrift.

In theatre, characters who display hubris delight the audience when they fall from grace. Like Narcissus, the tunnelled-vision of research activity by those thus afflicted might merely reflect a deceptive self-image. In the research theatre, self-adulation for pursuing one research mode and ridiculing other modes is a common characteristic. Research requiring an open mind cannot be well-served.

Research and *Legitimate Theatre* of Research Community

Entry to what is euphemistically called the *research community* is difficult to obtain within an environment tainted by such hubris. Membership is guarded jealously by the 'grandfathers' (its inventors and foundation members) and its 'gatekeepers' (sympathetic journal editors, referees and selection committees), who often form a powerful elite of theatrical directors and producers. The ladder to the *research community* has frequently been pulled-up by some already within the hallowed lofts. Entry can be helped by supplication at ordained initiation ceremonies — an auditioning for a role. At a doctoral consortium budding new

actors are disciplined to accept the scholarly wisdom of the directors and producers in attendance.

Receipt of a competitive research grant may push the entry door ajar, perhaps quite properly. But research *output* rather than research *input* should accord greater rights to membership. Winning a research grant seems to carry almost as much weight as does achieving something with it. Applicants for academic appointments make a big play of grants they have received. Universities that do well in terms of sums of money awarded in the annual large research grant round by the Australian Research Council thunder their success in a blaze of public self-adulation. Celebration takes place in anticipation of favourable reviews and before performances are completed. Rarely do universities and applicants explain why so little substantive research emerges from some grants. Some research that does emerge is often at a high cost.

Broadway Versus Off-Broadway

But the term 'the research community' itself is misleading. It implies a monolithic, unitary intellectual village or theatrical movement of like-minded persons living within a common world-view. It ignores the ongoing wars between disparate and largely incompatible research sub-communities.

One consequence of such incompatibility is a proliferation of new niche journals. Many emerge as a reaction to 'research capture' by those who denigrate all but their own view of research. Theatrically, this is akin to only one type of play, or interpretation, being 'legitimate' in the eyes of those within the ramparts of such a community. The excluded 'put on their own play' or launch their own journal to disseminate their ideas, have peers test them, and enter in debate. To have the mainstream of Broadway continually challenged by the non-mainstream ideas of off-Broadway seems to have creative potential — perhaps fresh theatrical innovations might result. However, this synergy may have little hope of ultimately affecting mainstream performance if a discipline's academics currently running the major house of theatrical production adopt an exclusive and siege mentality. In such a climate, off-Broadway may always remain at the margins, until a major crisis erupts.

The Language of Research Theatre

A special cabbalistic language has developed within the research community, *research-speak*. It has a private and specialised vocabulary. By its use the 'true' researchers are taken to reveal themselves as worthy of entry to the research community, somewhat like the members of a secret society. Those who ignore it are exposed as uninitiated and unworthy of membership. Adoption of *research-speak* has nothing to do with the likelihood that research results will advance a discipline in any perceptible way. Nor has it anything to do with the originality, depth and breadth of research enquiry. Much of it is a form of gibberish.

But *research-speak* is an important part of *research theatre*. Budding researchers seeking a role would be wise to indulge in its compulsory clichés and to abuse such words as 'paradigm' and 'methodology'. They will be encouraged to indulge in ghastly euphemisms and jargon — a 'questionnaire' is now a 'survey instrument'. They are impelled to *operationalise* nouns as verbs and to display their stage manners and acting prowess by *workshopping* their research.

The Theatre of Research

All this may seem curious to lay observers. There are few grounds for researchers of any genre or employing any particular method to adopt sanctimonious poses or to bask in hubris. Some theatre is allegedly solely to entertain — often the actors as much as the audience. Some is motivated by desire to enlighten, inform, prod thought, appeal to base instincts and spur action. Unquestionably, many of the principal actors in the research theatre have the same motives.

Much contemporary research activity seems to be scripted in order merely to 'survive' before critical audiences in a harsh academic jungle. It is debatable whether the DETYA Green Paper has helped to take us beyond these existing scripts, motivations and theatricality to better things.

The Green Paper itself might be viewed as part of the research theatre. Minister Kemp, for example, might be characterised as an impresario, giving notice that review plaudits will be awarded for improved higher degree completion performance and for pursuing research with allegedly immediate economic utility. His priorities might be regarded by some as akin to putting the commercial appeal of a production before its aesthetic merit — to maximise box office takings. For soap opera, not opera?

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This essay draws upon and extends parts of Clarke, Craig and Amernic (1999). The authors freely admit that they have more than likely indulged in theatricality and the other inapt behaviours mentioned here.