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# ADVANCE

Essays, opinions and ideas on public policy

Autumn 2014

## Plain sailing or stormy weather?

The forecast for the Australian economy

### A sobering situation

How alcohol undermines children's sense of safety in their communities

### The science song remains the same

Refocusing science and innovation policy





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## ASIA AND THE PACIFIC POLICY STUDIES JOURNAL

***Asia and the Pacific Policy Studies (APPS)*** is the flagship journal of Crawford School of Public Policy and the official journal of the **Asia and the Pacific Policy Society**.

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**Asia & the Pacific**

The APPS journal is a peer-reviewed, multidisciplinary public policy journal. It delivers research that supports public policy in Australia, Asia and the Pacific and encompasses the disciplines and themes of economics, political science, governance, economic and social development, and the environment.

The journal's vision is to provide relevant and original research insights in key knowledge areas that promote better public policy making within Australia and the region.

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## Director's introduction



What does the future look like? Six months, a year, or five years from now, what policy challenges will Australia and the region face?

Policymakers have incredibly difficult jobs. How do you design policy today that meets your needs tomorrow, when you don't know what those needs will be?

This uncertainty about the future, and how we go about crafting suitable policy to cope with it, is a theme in this issue of *Advance*. Many of the contributors

highlight an uncertain future facing the economy, society and region.

Academia, and research, play an essential role in finding clarity and answers in uncertain times. Public policy-engaged researchers aren't simply concerned with understanding the past or taking a snapshot of the present. Instead, they are focused on understanding temporal elements to provide the strongest possible evidence base to inform future policy.

I'm proud to say that searching for answers to society's biggest policy challenges is something that Crawford School of Public Policy is engaged in. Throughout the school, in all the public policy disciplines we research and teach, in our work with policymakers and the public service and through our engagement with the public, Crawford School is focused on using the past and present to find solutions for the future.

I hope you enjoy this latest issue of *Advance*, which showcases the expertise, insight and ideas of Crawford School staff and students, the ANU Public Policy Fellows and researchers featured in our flagship academic journal, *Asia and the Pacific Policy Studies*.

The work here highlights why academia, policymakers and the public talking, sharing ideas, working together and engaging is essential if we're to continue to face future challenges and find answers.

Professor Tom Kompas  
Director, Crawford School of Public Policy

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# The axis of environment

**The roots of the future global environment will be planted in Asia, writes Frank Jotzo.**

**T**he future of the planet's environment will be determined in Asia.

Over the coming decades the success of global environmental policy will be decided in the region—particularly when it comes to climate change. Rapid industrialisation, urbanisation and the ascendancy of middle class lifestyles mean that energy use rises relentlessly—and with it, output of greenhouse gases.

Business-as-usual would have greenhouse gas emissions grow to entirely unsustainable levels, risking damage not just to natural environments but to many people's livelihoods and the global economy. Based on current trends China alone would quickly account for the entire global greenhouse gas emissions budget that appears within acceptable environmental limits. Business-as-usual would see India and other fast growing developing countries

follow in those footsteps, and developed countries at high and stable emissions levels.

Thankfully for the planet, business-as-usual is not the trajectory that the world is on. Breaking the link between growth and pollution is no longer just a theoretical concept, but a project that is underway in many countries, and a concrete ambition for others. China is already heavily investing in energy efficiency and lower-carbon energy supply, and its coal consumption could peak within years. Brazil's annual emissions from deforestation have fallen drastically, and a downward trajectory appears feasible also in Indonesia. Emissions have fallen in recent years in most of the large developed countries, including the United States.

Nowhere is there any evidence that moves to cut emissions have subdued economic growth rates to any measurable extent, and there are clear co-benefits including less air pollution.

To achieve the same on a larger scale, robust and cost-effective policy frameworks are crucial: policies that give investors confidence to go the low-emissions route, that foster the development and use of clean technologies, and that encourage structural change towards less resource intensive economic activity. Where the leading economies can show that economic prosperity is possible while reducing emissions, and how it can be done, others will follow. Two countries at the vanguard are China and Indonesia.

China is the lynchpin of global climate mitigation. Its annual carbon emissions doubled between 2004 and 2013. The country is now by far the largest global emitter ahead of the United States. But China's leadership is changing course. A raft of policies is in place to increase the efficiency of energy use, to boost renewable and nuclear power, and to limit coal use.

Many of these changes have taken the form of regulation and state directed investment, but China is beginning to rely more on market mechanisms, in line with a general shift to a more market-based economy. Seven large emissions trading pilot schemes are getting underway, and the Chinese government is working on plans for a national emissions trading scheme and possibly a carbon tax. To make these effective will require sector reform. A new joint research program between Chinese and Australian researchers, coordinated at Crawford School, investigates the interplay of China's policies with the broader economic reform agenda.

Putting a price tag on carbon emissions is widely seen as the cost-effective core of emissions policy in any country. The OECD, IMF and World Bank unanimously recommend carbon pricing, which could also serve as a handy source of fiscal revenue.

We do not need to search for altruistic motives to understand China's decision to limit emissions. There are clear risks from climate change for China itself, and air pollution is an immediate pressure, causing popular discontent in the cities. Coal trucks and trains clog the transportation networks, and the energy import bill is rising. It all points in the same direction: halting the growth in fossil fuel use.

For Indonesia and a number of tropical developing countries meanwhile, the big near-term challenge and opportunity is in land use. Logging of natural forests and conversion of forests to palm oil plantation and other uses is highly profitable and is often done in an environmentally destructive fashion. But much progress has been made over the last two decades. Deforestation rates have been reduced and deliberate forest fires for clearing are rarer.

Much more remains to be done to put land use on a sustainable footing. That is a big challenge, especially where decisions over land use are devolved to local governments and where corruption is still prevalent.

At the same time, choices in the energy sector cannot be ignored. As in all developing countries, power demand is rising rapidly, and fulfilling it through coal plants would lock in high-carbon structures for decades to come. Indonesia is expanding the use of alternatives, including geothermal energy, though the institutional obstacles can be daunting.

How can Australia, one of the smaller members of the G20, help on an issue of such global proportions which poses intricate challenges for policy and economics in each country? The answer is obvious; set a positive example for domestic policy settings, and make an effort commensurate with the global level of climate action that Australia would like to see.

Successive assessments, from the *Garnaut Climate Change Review* to the Climate Change Authority's draft report, have argued that Australia's commensurate action should be to turn around the trajectory of Australia's emissions and achieve reductions by 2020, moving toward deep cuts by the middle of the century. Achieving this in an economically responsible way requires effective and economically sound policy as well as integration with the international effort.



Associate Professor Frank Jotzo is Director of the Centre for Climate Economics and Policy, Crawford School of Public Policy, ANU College of Asia and the Pacific.

# The science song remains the same

**Science and innovation policy are too often the afterthoughts of Australian governments, writes Nobel Laureate Professor Brian Schmidt AC.**



**E**very year in the 19 since I emigrated here, like a skipping record Australia's science and technology policy turns in an endless circle.

Without fail the science community complains about a lack of funding, the business community complains about a lack of translation of research to commercial outcomes, and the government promotes our many achievements, offering up new programs paid for from the termination of previous ones.

There are years with large influxes of new money. Physical, human, and intellectual capital are built up, only to be lost in the bust years when programs are cancelled or curtailed. The cost is not just the loss of large amounts of capital built up in the previous boom, but also damage done to the enthusiasm, goodwill, and commitment from researchers and industry so necessary for success.

More than anything, this cycle demonstrates the lack of an overarching vision about how Australia should achieve a sustainable improvement to our capacity to undertake science, research and innovation.

Science and innovation, which happens on a multi-decadal cycle, benefits tremendously from a long-term planning environment. Some of the easiest gains to be had in science and innovation policy would come from simply having a coherent and steady policy for a decade.

Right now, every year is a surprise.

Take for example the funding of research infrastructure. In 2005 the National Collaborative Research Infrastructure Strategy (NCRIS) was launched to provide research infrastructure and operations for Australia. In 2007 NCRIS was augmented with the Higher Education Endowment Fund (HEEF), which then a year later transitioned to the Education Investment Fund (EIF). EIF has provided several rounds of funding, each with a different set of goals, but new funding from EIF has been unavailable since 2012. In addition, EIF (and HEEF) provided capital, but no running costs, with running costs to be found from other sources. Even before NCRIS was terminated in 2011, much of this new capital was without sufficient operating funds.

So dire was the situation that Australia's universities agreed in 2013 and 2014 to forgo funding from the government, instead directing it to the Collaborative Research Infrastructure Scheme (CRIS), which is currently keeping the nation's research infrastructure operating. While NCRIS has been re-funded to mid-2015, covering the running costs of research

infrastructure only, the sector is none-the-wiser about what will happen 17 months from now.

This boom-bust mentality wastes money, incapacitates human capital, and leaves our global reputation in tatters after high-profile international recruits are forced to move on because their research programs are left in a shambles from a lack of resources.

Fixing poor policy is a good place to start. But to be truly internationally competitive, Australia will need to look across the entire education and research sector, to figure out how to support sustained research excellence and build up the structures needed to convert knowledge into future prosperity.

The first link in the chain is primary and secondary education.

Australia continues to have a good education system, but cracks are emerging. Achievement, especially in numeracy, as measured by the OECD's Programme for International Student Assessment (PISA) tests is falling rapidly, fewer and fewer people are taking maths and science in their final years at school, and there is an increasingly large tail of underachievement.

Education has been the focus of intense political debate over the past two years, with much attention paid to a national curriculum and to equity of funding. The OECD's PISA report highlights the importance of improving teacher quality, granting schools greater autonomy and resourcing education equitably. While political debate surrounding the 'Gonski' recommendations has focused on the issue of funding equity, far more effort needs to be directed to how this money can drive improvement in the quality of teachers.


The next link is how education takes place within the university sector.

By world standards, Australia has a significant number of medium-tiered, large universities that offer little diversity for prospective students. Funding agreements with the Commonwealth currently allow uncapped entrance, with fees paid depending on the course and number of students.

This system provides incentives to universities to offer large numbers of course places in low-cost areas (not science!), and then teach these areas as cheaply as possible. A university wishing to concentrate on excellence, with restricted numbers of high-performing students, is financially punished for their efforts. With this policy in place, it is hard



Professor Brian Schmidt AC is a Nobel Laureate and ANU Public Policy Fellow in the ANU College of Physical and Mathematical Sciences.



## Some of the easiest gains to be had in science and innovation policy would come from simply having a coherent and steady policy for a decade.

to imagine how Australia will ever develop a globally top-tiered university.

The problem is exacerbated by the fact that for every research dollar earned competitively, universities need to raise an additional 66 cents from other sources to pay for the overheads associated with research.

Since research excellence is a key driver of both reputation for a university and its ability to foster innovation relevant to the nation, it is unfortunate that it needs to be cross-subsidised by the teaching of large numbers of non-research students—an act which itself limits research excellence. This set of perverse incentives of government funding will spell the end of my university's ability to concentrate on excellence, and unless rapidly changed, will doom ANU to international irrelevance.

Finally, there is the very tricky issue of successful translation of research excellence to economic benefits for the nation.

The culture of innovation is absent in large parts of the academic research sector of Australia. There is no contact with industry, no role models for moving ideas out of the academic environment, and therefore few industry players are interested in partnering with universities.

Nor are academics rewarded for moving between industry and academia. Indeed the system strongly discourages such mobility through tenure, hard-

to-transfer superannuation, and research quality measures. Universities themselves receive no tangible benefits from working with industry, meaning that all effort in this regard ultimately hurts the bottom line of an organisation.

One exception is within the biotech industry where several major research-driven international-scale companies have emerged over the past two decades. These companies' success depends on their synergy with the research sector, and this has helped form an ecosystem where research and industry co-exist to the benefit of both.

While far from perfect, the success of this sector (it exports A\$4 billion of manufactured goods annually) has resulted in (and is arguably a result of) an environment of relatively stable research funding and policy. Expanding this culture within biotech into other areas needs to be a focus of our science and innovation policy.

In addition to Australia's university/research institutes, CSIRO has a mission to work with industry, and has successfully translated research findings and discoveries to real-world uses.

But CSIRO can probably do better in its interactions with industry, and there is untapped potential for it to engage the rest of the research sector and play a catalytic role. How CSIRO might best fulfill its mission to the greatest advantage for Australia has received surprisingly little attention over the past 20 years, and should be explored.

As the value of Australia's natural exports wane over the coming decades, we will need to innovate to create high value goods and services—particularly if we want to retain our high living standard compared to the rest of the world. This process cannot simply be turned on; it requires decades to build the skills, knowledge, relationships, and innovative culture that underpin a high value-adding economy.

These outcomes require a focus on our science and innovation policy covering primary, secondary, and tertiary education, the research sector, and industry. Failure to act will probably not cause an immediate crisis, but rather will see Australia slowly fall behind, leaving our future nation a shadow of its current self.

With the right policy settings (and adequate funding) a culture of innovation can emerge and blossom within Australia that will not just be self-sustaining, but will be the driver that keeps Australia prosperous for the century to come.

And that's a cycle we'd all like to see.

# Water war—what is it good for?

**Absolutely nothing, writes Paula Hanasz.  
In fact it may not even exist at all.**

**T**he term ‘water war’ conjures up post-apocalyptic scenes from films like *Waterworld*, *Tank Girl* and even *Rango*.

It’s a frightening vision, made all the more alarming by the apparent imminence of international water wars.

In his recent book *Water, Peace and War*, the prominent geo-strategist, Brahma Chellaney, wrote that water wars are no longer just the stuff of Hollywood melodrama. He paints a picture of growing global zero-sum competition and the emergence of a ‘new Great Game’ over interstate water resources. As the world’s population burgeons, so does demand for water, and a crisis of scarcity seems inevitable—especially when combined with the harmful effects of climate change. Scary stuff.

But there is no such thing as a water war.

The traditional understanding of war as a military clash between two or more sovereign states is a facile and futile response to the plethora of nuanced tensions, economic interdependencies, environmental implications, multilevel political considerations, and other complexities of trans-boundary water management.

All-out war over water is not strategically rational, hydrographically effective, or economically viable. And questions remain about what could constitute a water war. If military force was used to address water-related tensions, would it qualify as a water war only if one or both sides declare it as such? Does water need to be the central element or can it

be simply a significant factor in armed actions?

Water conflict, like water itself, can take an almost infinite number of shapes and sizes, even if water wars per se are a myth. Water is also a stress multiplier. The lack or inequitable distribution of clean freshwater can lead to social instability that, in turn, can create an environment more conducive to political or even military conflict. Water-related discontent can also cause civil disobedience, acts of sabotage, violent protest, and national or international disputes even though the parties are not fighting explicitly about water.

Brahma Chellaney argues that water wars can be fought and won without firing a single shot, for instance by using hydroengineering to change natural flows to the detriment of downstream neighbours.

The problem with this understanding of water wars is not only that the definition becomes too broad to be useful, but also that the alarmism implicit in it is dangerous; it muddies the complexity and very broad spectrum of water interactions.

Conflict is not merely the opposite of cooperation. Rather, cooperation and conflict coexist in every relationship in various configurations. More importantly, ostensible cooperation, such as the signing of a water-sharing treaty, can cement inequalities in the status quo while conflict can lead to the airing and resolution of grievances.

Water interactions, in short, are much more complex than the simplistic and alarmist fear of water wars would suggest. Therefore, categorising business-as-usual inter-state power plays as



Paula Hanasz is a PhD scholar in Crawford School of Public Policy, ANU College of Asia and the Pacific. She is a recent winner of a Prime Minister’s Endeavour Award and is currently in India studying water-sharing relationships in South Asia.



## Water interactions, in short, are much more complex than the simplistic and alarmist fear of water wars would suggest.

'war' is dangerous. Use of the term 'water wars' establishes an adversarial relationship (if there is a war, there is an enemy) and sets the parameters of the interaction as zero-sum negotiations. The securitisation of water through the water wars

idea is not conducive to developing meaningful cooperation or multilateralism.

The United Nations International Year of Water Cooperation (2013) may be over, but two lessons about cooperation should remain with us.

First and foremost, let's not be the boy who cried wolf about water wars. Certainly there are many water-related issues that need all the attention they can get, but alarmism is counterproductive. Perpetuating an 'us-versus-them' attitude toward water rights is downright irresponsible because it sets the foundation for adversarial conflict and diminishes the scope for the non-zero-sum thinking required to bring about mutually beneficial outcomes.

The second lesson is that the idea of conflict or cooperation is a false dichotomy. Not all cooperation is good, and not all conflict is necessarily bad. Once we develop a more sophisticated understanding of water interactions we will be able to move away from the moot argument about water wars and concentrate on the myriad of real and highly complex water policy problems.

After all, that is enough thirsty work in its own right.



# A sobering situation

## Alcohol abuse undermines children's sense of safety in their communities, writes Sharon Bessell.

**T**he shocking and tragic death of 18-year-old Daniel Christie following an unprovoked attack on New Year's Eve, placed—once again—the issue of alcohol-fuelled violence in the spotlight.

The subsequent debates that played out in the media—like past debates following similar incidents of alcohol-related public violence—focused on adults and teenagers, who are most often the victims and perpetrators. The impact on children was given relatively little attention.

That's disappointing. Our recent research into children's views and experiences of their communities has found that overuse of alcohol in public spaces has a devastating effect on children's sense of safety and severely damages their sense of community. This is a dimension of excessive public use of alcohol that has, to date, been overlooked.

'Children, Community and Social Capital in Australia' is an Australian Research Council funded Linkage Project which I have worked on for the past four years with Professor Jan Mason from the University of Western Sydney, in collaboration with The Benevolent Society and the National Association for Prevention of Child Abuse and Neglect (NAPCAN). The research adopted a rights-based, participatory approach to gain insights into how children define community, what they think makes a strong and supportive community, and what they would like to change in their communities.

We worked with over 100 children, aged between eight and 12 years, in six communities across eastern Australia. All communities were in urban areas; four were classified as highly disadvantaged, one was a middle-income community, and one was identified as socio-economically advantaged. We did not begin the research with a definition of community—rather we asked children how they thought community should be defined.

In defining and describing community, children overwhelmingly spoke of the importance of relationships—not only with their families and friends but with a range of people including child and adult neighbours, teachers, police and paramedics, bus

drivers and shopkeepers. While the children who participated in this research considered family and close friends to be *most* important, they also emphasised the importance of inclusive, respectful relationships between all members of a community. Many children wished for, but did not experience, such positive relationships. Many spoke of feelings of exclusion and described being treated with disrespect and sometimes hostility—often because of their youth.

One of the most striking—and confronting—findings arising from our research was the extent to which children felt unsafe in their communities. Children's concerns for their safety whilst in public spaces were particularly strong in the four disadvantaged communities. While there were several reasons for children's concerns, one issue was raised by children again and again; the overuse of alcohol by adults in public places.

In the two more advantaged communities, a significant proportion of children also identified excessive alcohol use as a problem. These children were, however, far less likely to have experienced or witnessed first-hand public drunkenness and alcohol-related violence.


In the disadvantaged communities, the majority of children had witnessed excessive alcohol use in public and many had witnessed associated public violence. The result: children were frightened, often very frightened. Children also observed that when adults are drunk, they act in unpredictable ways.

While several children noted that not all adults are violent when drunk, all those who raised the issue of excessive alcohol use said that adults *could* turn violent (often unexpectedly) when drunk. Many children said they worried most on 'celebration days', such as Australia Day, New Year's Eve, and ANZAC Day, because on these days adults are most likely to drink heavily.

Children who lived close to pubs, clubs and other venues where alcohol was sold in large quantities described the problems of drunken people breaking glass, vomiting, yelling, arguing and sometimes fighting in their street.



Dr Sharon Bessell is the Director of the Children's Policy Centre in Crawford School of Public Policy, ANU College of Asia and the Pacific.



## In one community, a pub was located very close to the primary school. Here, children described the after-effects of a ‘big night at the pub’ as broken glass, cigarette butts and sometimes vomit in their school playground.

In one community, a pub was located very close to the primary school. Here, children described the after-effects of a ‘big night at the pub’ as broken glass, cigarette butts and sometimes vomit in their school playground. Children also described feeling concerned about the presence of the pub so close to their school; it made them feel vulnerable to violence from drunken people.

It is important to note that during the research we found no incident of children being subjected to alcohol-related violence at school as a result of the close proximity of the pub. What we did find were very high levels of anxiety among children, who understood only too well what drunkenness can mean.

What is particularly concerning about our findings is that the research did not ask children for their views on these issues. Children were not prompted to talk about alcohol use. Rather, children themselves identified alcohol as a major problem in their community, and excessive use of alcohol as one thing they would like to change.

To date, research on the impact of alcohol on children has focused primarily on the home and family. This is a focus that must be maintained.

However, our findings suggest that the focus of research also needs to broaden. We know too little about the impact of public alcohol use on children’s lives, their sense of safety, and their sense of community. We know too little about the ways in which excessive public use of alcohol shapes children’s own behaviour and values. The findings of this research tell us that the ways in which alcohol is consumed in Australia have highly damaging effects on children. However, we need to know far more.

As debates continue about how best to respond to excessive use of alcohol and to alcohol related violence, the findings of this research make four points clear.

First, we need to know more about the ways in which the public overuse of alcohol impacts on children, including on their own sense of well-being and safety.

Second, initiatives and efforts to strengthen and build supportive communities for children, which have been adopted by both state and Commonwealth governments in recent years, must take greater account of the harmful impact of the excessive *public* use of alcohol by adults within communities.

Third, evaluations of the restrictions adopted in Newcastle over five years ago suggest tighter regulation of opening hours and the amount of alcohol sold (and consumed) reduces assaults. However, such restrictions tend to be focused on specific geographic locations identified as popular drinking venues for (usually) younger adults. They do not address the problem of drunken public behaviour beyond inner city bar and club precincts.

Finally, we need to know far more about the social factors that lead to excessive alcohol use and drunken violence. Responding to the symptoms is not enough.

The tragic death of Daniel Christie spurred the New South Wales Government into action, passing legislation introducing a mandatory minimum sentence of eight years for anyone who fatally punches someone while under the influence of alcohol or drugs and places restrictions on bars and clubs in central Sydney. The restrictions now in place in central Sydney are based on those introduced in Newcastle in 2008: 3am closing for bars and clubs; no admission of new patrons after 1.30am; and restrictions on the type and amount of alcohol sold.

That governments are taking seriously the overuse of alcohol in public spaces is welcome, but the often-quiet voices of our community’s children are telling us that there’s more to do before they get the cities and towns they want and deserve.



# The price is rice

## The high cost of food security.

**T**he stability of rice supply and prices has determined the outcome of elections across East and Southeast Asia for many years, but is food price stabilisation really in the best interests of the poor in Asia?

In a paper for the inaugural edition of *Asia and the Pacific Policy Studies*, Professor C. Peter Timmer of Harvard University and Crawford School of Public Policy explores the political and psychological pressures that see governments continuing to provide price support for rice, even though this hurts the majority of the poor.

"Access to rice has very deep cultural roots. It is hard to overestimate how important rice is in the psychology of Asian nations," Timmer says.

"Whether or not a government is democratically elected, a dictatorship, or communist, the leadership knows they have to keep rice available and the price stable. Governments, for centuries, have worried about making sure rice is accessible and reliably available in markets.

"Yet a fundamental disconnect exists between the policies being pursued by government and what they state their policies are. The policies are supposed to protect the poor. Yet many farmers are actually net rice buyers, so they're vulnerable both ways.

"If the price rises they can't afford to buy rice for their family. If the price for rice collapses then their wages from off-farm work are threatened."

Timmer says the political reality for governments is that the people still associate food security with government control over the rice market.

"Rice is no longer nearly as important as it used to be for food security. But how are you going to enable this discourse to bring together a political and cultural system which was set up around rice fundamentalism and the new economic and food security reality?" Timmer says.

"This issue of what to do on rice policy still affects the 95 per cent of the population of the region who continue to eat rice two to three times each day. In Asia, rice is a staple for nearly every meal.

"For many of the rural poor in Asia it is not unusual for 70 per cent of their calories to come from rice every day. It's remarkable how important it is and obviously the poor are more dependent than the rest of the population.

"In the 2009 elections in India and Indonesia, both of the leaders ran on the fact they had 'dodged a bullet' in avoiding the world rice crisis of 2007/08. Polling showed the people were really happy their country had avoided the crisis.

"We have to help policymakers in Asia to find and implement more efficient ways to stabilise domestic rice prices—to make people feel they are food secure."



C. Peter Timmer's article is published in *Asia and the Pacific Policy Studies*.

To read the paper: <http://bit.ly/1f53j2H>



# Been there, done that

**Feeling a strange sense of familiarity about a new welfare review? Sue Regan explains why.**

**D**éjà vu—in French literally ‘already seen’—is the strong feeling that an experience happening now has already happened in the past; an unsettling sense of recognition.

It's a feeling you may have felt earlier this year when the Government announced a review of the welfare system. Haven't we been here before? Hasn't there already been a review? Maybe even more than one? Or did you just dream it.

You didn't dream it. Remarkably, over the last 40 years there have been more than 20 reviews relating to different aspects of welfare policy. So are we stuck in some kind of loop? The short answer is no. While there have been many reviews they've been instigated for a wide range of reasons and purposes, with diverse terms of references and mixed results.

The government spends over A\$70 billion a year on welfare payments, with one-in-five Australians receiving some form of income support. And we know getting more people who are unemployed back into work has economic and social benefits for individuals and the nation. These bare facts can make review and reform of welfare seem an attractive proposition.

But why the reliance on independent reviews?

For government, reform of the welfare system is always contentious. Governments of all persuasions have turned to independent reviews to scrutinise the evidence, consult the public and help navigate a way to policy change. New governments in particular take comfort in commissioning a panel of experts to provide advice, leaving the door open to accept or reject their recommendations.



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The evolution of Australian welfare policy contains many examples, each a reflection of its own historical context. In the 1970s, the Commission of Inquiry into Poverty (headed by Professor Ronald Henderson) operated during a fraught economic period following the 1973 oil price crisis, with both unemployment and inflation rising. Its focus was alleviating poverty, and a minimum income guarantee was one of the Inquiry's main welfare proposals.

In the 1980s, the Social Security Review (headed by then Associate Professor Bettina Cass) responded to changing family patterns and promoted 'active welfare' through a series of reforms relating to lone parents, people with disability, the aged and families with children.

By 2000, government was concerned with the persistence of long-term unemployment despite sustained economic growth. The Reference Group on Welfare Reform (with Patrick McClure, then of Mission Australia, as chair) focused on payments for people of workforce age and recommended a new 'participation support system', with a strong focus on 'mutual obligation'.

Hidden in their apparent diversity are some recurring themes. Links between the social security system, employment and the labour market; the obligations of welfare recipients; the financing of social security; targeting and means-testing of payments; incentives and disincentives to work; and the relationship between the tax and transfer systems. These are all issues that emerge in the various reviews, right back to the early days of the 20th century, and are likely to be evident in future reviews.

So are reviews worth it?

Reviews are usually public processes and their papers and reports are published. These documents provide a rich source of information to assess their value and impact. There is no doubt that reviews vary in the quality of their processes and advice, and the influence they have. But, from analysing their use in the welfare domain, it is clear that reviews can, and often do, add value in three ways.

First, they often promote public debate and understanding through their consultation activities, and public profile and commentary. This can help dispel myths and raise awareness of the complexity of policy choices.

Secondly, they enhance the evidence base for policymaking with a number of reviews undertaking seminal new research as well as the synthesis of domestic and international analysis and practice. Both of these influence policy over the medium to long-term.

## Over the last 40 years there have been more than 20 reviews relating to different aspects of welfare policy.

Thirdly, they can directly influence policy with a number of reviews having recommendations accepted and acted upon, particularly when they come with a broad constituency of support.

Evaluating welfare reviews also illuminates where they might be of most value; in areas which are highly contentious; where evidence is weak or disputed; where long-term thinking is required; and which have cross-government responsibility or oversight.

Different welfare payments are interrelated — changing the rate or basis of eligibility for one payment has consequences for take-up of other payments. The welfare payment system is also interconnected with the personal tax system and the range of services that enable people to work or care or maintain their well-being. Furthermore, changes made to some welfare payments today have implications for individuals and public finances long into the future. What, therefore, seems most remarkable is not how many welfare reviews there have been but how few have been broad, cross-cutting and strategic.

Of course reviews are sometimes purely political devices to delay action or provide cover for decisions already made. But reviews can also seriously and independently scrutinise the evidence, seek community views, offer sound advice and lead to positive policy reform. History gives us some great examples. Let's hope the future does too.

So next time you feel a sense of review *déjà vu* it's worth remembering, again, that what may seem the same is actually as different as the time in which it was undertaken. Like flared pants in the 1970s or the Rubik's Cube in the 1980s, each review should be a valued product of its time.

# **Boom or bust: where to Australia?**

**Storm clouds on the horizon, or  
plain sailing ahead? Quentin Grafton  
checks the economic forecast.**



**F**or the better part of two decades the Australian economy has been sailing. On a glistening ocean of global growth, terms of trade and fair fiscal weather, the economy has truly had the wind in its sails.

Even when the Global Financial Crisis (GFC) storm blew in, causing many Western nations to flounder in choppy seas, Australia navigated to safety, carried along in the wake of the Chinese boom and stimulus, a depreciated dollar and sensible made-in-Australia monetary policy responses.

But despite the apparent economic success, I'd argue that Australia is like a yacht in a gale—its policymakers can change direction, but only within certain boundaries and only after carefully aligning the sails to take account of the direction and strength of the global winds. Unfortunately, what's ahead is unlikely to be as good as what we've enjoyed over the last ten years.

To understand where we might be headed, we first need to understand what challenges we face.

Australia confronts two types of economic risks and opportunities: the made-in-Australia variety, and global threats Australia cannot influence.

## Made-in-Australia: risks and opportunities

### The three Ps

A useful framework for understanding the key supply determinants of level and trend in economic performance at a per capita level is the three Ps—Participation in the workforce; Productivity and Prices (terms of trade). Australia has been fortunate that in the 1980s it benefited from a sustained increase in labour force participation, in the 1990s enjoyed a surge in productivity growth and in the 2000s a dramatic increase in its terms of trade.

Over the past three decades Australia has enjoyed solid growth in real per capita incomes. In the decade to 2023 per capita income growth will decline, labour force participation will be static or fall, and the terms of trade will be a drag on income growth.

I expect that only productivity is expected to make a positive net contribution to income growth over the next decade, but this will be at a level below the stellar performance of the 1990s.

### Government revenues and spending

Nominal GDP growth, a key determinant of growth in government revenues, has dropped sharply since the boom peaked, declining from eight per cent in 2010–11 to about two per cent in 2012–13.

Slower and lower growth means that the expectations of Australians and the policy settings of the Commonwealth and state governments need to change from their GFC levels. The most immediate impact, which is already being felt in 2014, is the effect on government revenues and budgets. The bottom line is that current projections are that payments will exceed receipts for the next decade, as will the underlying cash balance of the Australian Government.

Sustainable budgets over the business cycle require much more than reducing the growth in spending. They demand tax and transfer reform. The current tax system disconnects revenue raising from spending responsibilities at the state and federal level and includes many inequities and inefficiencies. A good place to start tax reform is the *Henry Tax Review* that was released in 2010.

### Productivity growth, human capital and infrastructure

Beyond the immediate budget challenge to rein in spending growth, an increase in per capita Australian incomes over the coming decade will depend almost entirely on productivity growth.

Long-term growth in productivity, beyond tax reform, requires special attention to skills, training and education. Higher productivity is needed to justify Australia's high wages. The challenge is that Australia is not only a high-cost economy relative to developing and emerging economies, but is high-cost compared to major developed economies such as the United States.



Professor Quentin Grafton is Executive Director of the Australian National Institute of Public Policy in Crawford School of Public Policy, ANU College of Asia and the Pacific.

# Sustainable budgets over the business cycle require much more than reducing the growth in spending. They demand tax and transfer reform.

By itself, skills and education may not be sufficient to raise productivity growth to the levels of the 1990s, but they are absolutely necessary to ensure higher long-term productivity growth. Without a highly-skilled and productive workforce, Australia will not be able to take full advantage of the so-called Asian century.

Multiple improvements to long-term educational and workforce performance are required. But above all, improved teacher selection, training and pay must be a priority. Recruiting teachers who have some of the lowest entry scores to university, providing them with little specialised subject-matter knowledge and inadequate mentoring and support to learn how to teach has, and will, serve Australia poorly.

Other ways to raise working population capabilities include: curricula that support the fundamentals of numeracy and literacy, high-quality and available vocational learning, life-long opportunities for retraining, and equitable and needs-based funding

to ensure high-quality teaching across Australia in both government and non-government schools. Building school gyms, or simply lowering entry or graduation standards at university, are not answers to Australia's declining educational performance.

The deficiency in Australia's capital stocks is not so much in physical assets, but rather in its human capital. Indeed, I would argue (and contrary to many commentators) that with the exception of public transportation networks in its faster-growing cities, Australia does not have a deficiency of infrastructure. At an annual average spend of six per cent of GDP over the past four decades Australia has invested in infrastructure at a rate about 50 per cent greater than its industrialised peers. Further, the enormous past and current private-sector investments in Australia's resources and energy sectors on infrastructure, and also in the electricity and water utility sectors, show that, when needed, infrastructure can and does get built by the private sector or with private/public sector partnerships. By contrast, the equally important need for Australia to invest wisely in training and education is not being met, at least as judged by our relative educational performance.

## House price growth

One significant risk in terms of asset price growth is the housing sector. Australia is not alone in facing these risks, but it has had the most rapid growth in nominal house prices of all developed economies since 1997. While Australia has enjoyed one of the highest increases in real incomes and also population within the OECD during the boom, it ranks one of the highest in terms of price to income ratio, and the household debt to income ratio at about 150 per cent is close to, but not yet at record levels.

While I am cautious enough not to claim there is a 'boom' that inevitably implies a bust, the recent growth in the national median house price of nine per cent in 2013 (14 per cent in Sydney) is a concern, especially when it is about three times greater than nominal wage growth. Should the

house price growth spurt continue for much longer there will be an overshoot that will likely create an 'overhang'. Given that Australia's major banks borrow about 30 per cent from offshore capital markets, any rapid fall in house prices would pose a dilemma for the big four banks and would likely result in an Australian-made credit crunch.

The risk is that if Australia were to continue its historically low interest rates the housing price surge would continue. The challenge remains to ensure low interest rates are in place to support economic growth and to depreciate the Australian dollar while trying to maintain price stability. Successfully achieving all of these policy objectives simultaneously while avoiding a housing price boom, and in the midst of competitive devaluations from key trading partners, is a 'big ask' of any central bank.

## Global risks and opportunities

### Asset prices

The GFC is not, and cannot be considered 'over', until the policy settings implemented over the past five-and-a-half years return to 'normal'.

Currently very high equity prices do not reflect the prevailing risks but, if prices were to fall sharply, it could trigger another global economic downturn. This disconnect between asset prices and global risks is identified by the IMF, and others, and is a real indication that the world economy is not yet built on solid foundations. Should another downturn occur, the ability of developed economies to respond has become greatly diminished because of the conversion of private debt to sovereign debts and fiscal stimulus as a direct result of the GFC.

While some important measures have been implemented since 2008 to reduce financial risks in the global banking sector, long-standing trade imbalances remain.

Credit and liquidity factors are the most important cause of severe recessions. If the liquidity 'tap' stops, or even starts flowing at a slower rate, those

# Australia must 'trim it sails' in terms of its policy levers to ensure government spending and revenues converge.

countries dependant on international capital inflows for domestic loans and credit, such as Australia, could be squeezed.

### China

Rapid credit growth in China itself represents another global risk. Business and household debt levels have increased in proportional terms by 60 per cent in the past six years and at 200 per cent of GDP is larger than the debt level in Japan in the late 1980s. Fortunately, Chinese authorities are aware of the risks and since June 2013 have responded by changing the policy levers to constrain credit. Such rebalancing, should, over time, support greater levels of consumption and help China maintain sustainable growth rates, albeit at levels well below the past two decades.

The challenge for Australia is that rebalancing the Chinese economy to proportionally less investment and more consumption will impose costs on resource exporters.

China has undertaken annual infrastructure investment equivalent to about 13 per cent of GDP since the mid-1990s, its annual growth in expenditures in 2013 on transport was over 20 per cent (annual growth was less than five per cent in 2011), and it already has the highest proportional and actual spend on infrastructure in the world with an already sufficient infrastructure stock at 76 per cent of GDP. So it seems likely that its infrastructure spending will decline in proportional terms by 2020.

Reduced investment and infrastructure spending as a proportion of GDP will accelerate expected declines in the price of some of Australia's most valuable exports: iron ore and metallurgical coal. China now accounts for close to 40 per cent of our merchandise trade, so structural adjustments by China will have an impact on Australian exports well beyond the decline in commodity prices.

### Trade

Australia's income levels are based on trade. It is advantaged by location as Australia is placed in the fastest growing part of the world: Asia and the Pacific.

As a result of decades-old policies that have allowed migrants to come to Australia on the basis of their skills, rather than ethnicity or background, Australia now has a diverse and multicultural population with strong ties to Asia. Australia's geographical proximity, its sizable Asian diaspora, and also long-standing diplomatic relationships with the region, provide Australia with export opportunities, especially in tourism, education, financial services, technology services, and also agriculture. While important, the growth potential in any one of these sectors alone as China restructures will not likely substitute for expected declines in commodity prices and reductions in capital investments in the Australian resources and energy sector.

What opportunities that are available can be enhanced by additional free trade agreements, provided they give greater market access to Australia's agricultural and services sectors.

## Boom or bust?

It seems unlikely that the older generation of working Australians will ever again enjoy the size of the decade plus boom Australia has just experienced. It would seem, therefore, that Australia must 'trim it sails' in terms of its policy levers to ensure government spending and revenues converge, not diverge, so that when conditions get worse governments can respond effectively to manage negative shocks.

Like a competitor in the Sydney-Hobart race, Australia must compare itself with its peers. This demands that Australia has a sailing plan, but one sufficiently responsive that if conditions and our competitors change, it can alter course. If Australia's terms of trade are in decline and labour force participation is static, it must have a coherent and useful plan to increase productivity growth to have rising per capita incomes. Such a plan must be pragmatic and be responsive to what works. It should not be based on unsupported assertions, but use empirical evidence and cross-country comparisons to support policy interventions.

Finally, Australia must navigate its way to avoid rocks and be prepared should the gale become a storm. The recent history of what happened to the US and the global economy when regulators were 'asleep at the wheel' should make Australia doubly vigilant to avoid its own home-made credit crunch and to take advantage of its currently growing economy to become more resilient to unexpected shocks.

Australia is not the sole master of its own destiny, but neither can it simply hope for the best or bet on its famed luck. Australia will navigate less friendly economic conditions in the years ahead to 2020.

Inaction or the wrong sort of actions, will make Australia more vulnerable and greatly increase the chances of a 'hard landing' for its economy.

Timely and effective action will be the difference between dropping anchor in the port of prosperity, or being lost at sea.



# The new, final frontier

**Cyberspace is transforming into a vast, complex universe, and we need new tools to understand it, writes Roger Bradbury.**

**A**fter a muddled start at the turn of the century, cyberspace now feels normal to many policymakers—even old and comfortable. Western society has gotten used to harvesting the social and economic benefits of cyberspace. It has become just one more thing that needs to be managed domestically and internationally.

After a decade of work there is a feeling in the West that cybercrime is, if not actually under control, capable of being brought under control—a hard, but manageable, policing matter. Similarly, the threats of cyberwar and cyber-espionage are being mainstreamed as types of conflict or spying respectively, and each responsive to the well-oiled machinery of a state's defence and intelligence apparatus.

But this view of cyberspace is dangerously deceptive because it linearises a dynamic process that is highly non-linear.

The evolution of cyberspace is not settling down as some steady incremental process easily accommodated by tweaking this or that policy. Indeed, the disruption visited on the world by the arrival of cyberspace is but a taste of what is to come.

There are several non-linear, dynamic processes in play that are driving the evolution of cyberspace as a complex system. And like many complex systems, it is inherently unpredictable.

The first process is the shift to a new addressing system for objects in cyberspace. The old one—a thing of threads and patches—served us well through the early days but, like an address book with only so many pages, it's now full. This put an effective limit on the size of cyberspace; much less than we needed to do the things we want to do today, let alone tomorrow. The new system is vastly, almost

unimaginably, larger. It is so large that it has created a significant change in the dynamics of cyberspace.

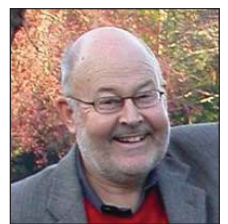
The old address system had a few billion addresses—4.3 billion to be precise or  $4.3 \times 10^9$  (that's 43 followed by eight zeroes). The new system has  $3.4 \times 10^{38}$  addresses (that's 34 followed by 37 zeroes).

To set some perspective, consider that there have only been  $4.3 \times 10^{17}$  seconds since the Big Bang. With the new addressing system, we are creating a constructed complexity that is more or less of the same order as the universe.

Search engines—our starships—were able to traverse the old addresses pretty well and the old universe was densely packed, like a CBD. The new universe will be mostly empty, more like the reaches of interstellar space. No search engine will ever be able to systematically visit all possible addresses to see if they are used or not. Cyberspace itself will behave as if it is naturally encrypted. Vast regions of it will remain unknown and unknowable to most users.

The second process is the takeover of cyberspace by machines. Social media emphasises that the purpose of cyberspace today is mostly about using machines to connect people to people. In tomorrow's cyberspace, the emphasis will shift to connecting machines to machines so the part involving people, though much larger than today's, will be trivially small in the scheme of things. Cyberspace will become a vast array of machines collecting, transforming and distributing data, interacting with each other without human intervention.

The last process will be the emergence of autonomy, perhaps even something like self-awareness, of cyberspace. The machines that make up cyberspace will increasingly need to become self-organising and self-repairing and they will do



Professor Roger Bradbury heads up the new Strategy and Statecraft in Cyberspace research program at the National Security College, Crawford School of Public Policy, ANU College of Asia and the Pacific.

# Cyberspace will become a vast array of machines collecting, transforming and distributing data, interacting with each other without human intervention.

this collectively. They'll be more intimately connected with each other and with the 'real' world through all kinds of sensors. Surveillance—just another word for awareness, really—will be pervasive. It'll envelop not only cyberspace, but also society and the environment. And, contrary to Edward Snowden's

claims, most of it won't bother humans. Instead it will be more concerned with stewardship of the Earth system—a kind of planetary self-awareness.

These processes will interact, feed on and amplify each other, and no doubt be overtaken soon enough by further disruptive technology. So, how can policymaking ever hope to cope with such a world?

The solution—or, better, the approach—lies in understanding cyberspace as a complex system. And the path to that understanding is through simulating the vast ensemble of possible cyberspaces. Simulation provides one of the few, and perhaps one of the best, methods of systematically exploring policy options in such complex and fast-changing situations.

We can model the technical, social and policy forces that transform one cyberspace into another, sometimes smoothly, sometimes abruptly. We can explore whether any particularly configured cyberspace is inherently stable, is likely to shift suddenly, or indeed collapse. We can also examine how different policy settings are likely to nudge a cyberspace this way or that before they are applied.

Until recently, such an endeavour—simulating a complex system with interacting 'hard' technical and 'soft' social and policy components—was beyond our scientific capacity. But today, with advances in the theory and practice of complex systems science—and especially in visualisation—this work is accessible to researchers and policymakers alike.





# Stalling democracy

**Study paints a pessimistic picture of international relations.**

**M**any international and foreign policy experts have long held to the theory of liberal internationalism — that international order grows with the spread of democracy, the power of institutions and the positive effects of economic integration.

But a new *Asia and the Pacific Policy Studies* paper by prominent University of California academic, Stephan Haggard paints a more sober picture of future international relations where democracy has stopped spreading, international institutions are deadlocked and economic integration isn't yielding expected political payoffs.

"The march of democratisation has slowed. It is clear that the 'third wave' of democratisation that began in the 70s has peaked and a number of the world's emerging powers are not democratic," Haggard says.

"It is an open question whether new mechanisms such as the G20 can generate concerted collective action or will simply gridlock over the wide differences that sometimes emerge among them.

"The argument is that as countries become more integrated into the world economy, they come to favour peaceful resolution of disputes and common institutional commitments. But rising powers form their own economic networks through which influence can flow in quite different directions.

"North Korea and Syria have been able to survive in part through support from their Chinese and Russian patrons; they are economically integrated, but not with the advanced industrial states.

"So democracy is not spreading, international institutions can deadlock and the advantages of economic integration do not always accrue to the advanced industrial states. So there are at least these three sources of caution if not outright pessimism."

In his paper, Haggard looks at the changing relationship between Russia and the United States from the Cold War period to now.

"The dynamics between the US and Russia are partly of America's own doing; the expansion of NATO to Russia's doorstep raised red flags and we have not done all we could to integrate Russia into the coalition of advanced industrial states," Haggard says.

"That said, Russia exemplifies some of the problems that arise between the advanced industrial states and semi-authoritarian regimes.

"Moreover, the conflicts over Syria suggest that liberal hopes that international institutions can play a role in resolving these issues are increasingly misguided. Looking forward, the US and other advanced industrial states will increasingly face difficult choices over whether to operate through existing international organisations or to go outside them."



Stephan Haggard's article is published in *Asia and the Pacific Policy Studies*.

To read the paper:  
<http://bit.ly/1gSoySg>

# Sharing benefits, sharing costs

**We need to have an informed debate about who wins and who loses from tax and welfare reform, writes Peter Whiteford.**

**A**rising tide lifts all boats, they say. Looking back over the fortunes of the Australian economy in the last four decades, you could be forgiven for thinking the saying might be true.

The reality for those in the welfare system, though, is that some have coasted on the high seas of prosperity, while others floundered in increasingly heavy weather.

Since 1993, Australia has been one of the fastest-growing advanced economies in the world, enjoying 21 years of unbroken growth.

The benefits of this growth in income appear—at least on the surface—to have been widely shared. Although the poorest ten per cent of households haven't done as well as higher-income households, their real disposable incomes are now more than 40 per cent higher than they were in 1995. Middle-income households are more than 50 per cent better-off.

Although it may be unwise for any politician to say it, it remains the case that most Australians 'have never had it so good.' However not everyone has benefited equally.

Inequality in disposable incomes—after taxes and welfare benefits—increased significantly up to 2008, and the richest ten per cent of Australian households enjoyed the highest real increase in their incomes of any OECD country.

Since 2000, however, inequality of market income (from wages, self-employment and property

and investments) has fallen, mainly because of increased employment and earnings among lower income households.

But if market income inequality has fallen, why has disposable income inequality risen? The answer—by definition—is that Australia's redistributive system of taxes and welfare spending has become less effective at reducing inequality.

Combined with Australia's income-tested social security system, rising employment below the median income meant that the welfare safety net contracted during the period of high-income growth.

Good times and reform meant that from the early 1990s onwards there was a very large reduction in the share of working-age people who relied on government benefits for their main income.

But, as the social security system contracted, it also became less effective at reducing inequality.

For people of working-age a further important factor in this contraction of welfare was the decision to continue to link payments for the unemployed to the consumer price index rather than to wages and household incomes. As a result, the incomes of people receiving unemployment payments stayed the same in real terms during a period of unprecedented real income growth.

In contrast, from 1996 pensions for the aged, people with disability, carers and parents were linked to wages, so that to a much greater extent these favoured groups did share in the benefits of economic growth.



Peter Whiteford is Director of the Social Policy Institute at Crawford School of Public Policy, ANU College of Asia and the Pacific.



In the mid-1990s a single person receiving Newstart would have been about \$10 per week (in current terms) below the 10th percentile of the income distribution. By 2011–12 they would have been close to \$160 per week below that percentile. What we are seeing is the continuing impoverishment of the unemployed.

So most—but not all—Australians have just lived through a period of exceptional growth in prosperity. But as the dog days loom, are we ready to face the challenge of slower growth in living standards?

This challenge coincides with the desire to balance the budget, and the scale of the Federal Government's fiscal challenge has been a notable theme since the election.

How equally should the costs of adjusting to lower growth and balancing government budgets be shared across Australian households? It is worth noting that Australia has the most targeted social security system in the OECD. As a result, the OECD has estimated that across the board cuts in social security spending would increase inequality in Australia by more than any other OECD country.

Moreover, present policy settings are already acting strongly to reduce some areas of social spending. Current indexation arrangements for Newstart mean that working-age social security recipients will fall further and further behind community living standards.

The impact of this will be accentuated by the decisions of successive governments to move parents from the parenting payment to Newstart

once their youngest child turns six (if partnered) or eight (if single).

On top of this, family tax benefits are now indexed to prices where once they were effectively indexed to wages. The inevitable outcome will be to reduce the effectiveness of family payments in reducing poverty and inequality.

These and related trends pose the risk of residualising social security recipients and fundamentally changing the nature of the Australian social security system. Working-age welfare recipients are increasingly being seen as the undeserving poor. In effect, we are saying to many working-age recipients that they will never enjoy the future improvements in living standards that the rest of Australia will enjoy. We are also saying this to the children of parents moved onto Newstart.

It remains true that the best form of welfare is to get a job. But not everyone can get a job. The rising tide of employment has lifted many but not all boats: a small minority have remained jobless, as welfare recipients, for much of the last decade. While the size of the group in this position appears to have shrunk, its distance from the mainstream has widened.

Given the projected size of the budget gap in coming years, it seems sensible to consider all options on both the spending side and the revenue side. Reforms that encourage labour-force participation can also help by maximising the number of taxpayers relative to the number of people requiring support. Most importantly, it will be necessary to have a well-informed debate about who wins and who loses from welfare and tax reform.

# First among equals

**Health inequities aren't just seeing specific social groups die younger, they are also costing the country dearly, writes Sharon Friel.**



**M**odern society has done much good for people's health—the average global life expectancy has increased by more than two decades since 1950.

In spite of this, health issues are constantly in the news: early death and escalating health care costs from diabetes, cancers and mental illness; deaths and injury from traffic and extreme weather events; famines; and the prevailing communicable disease killers keep the world busy.

But such life and death experiences are not distributed evenly between countries or across social groups. In countries in the Asia Pacific region, life expectancy at birth ranges in males from 58.8 years in Papua New Guinea to 79.1 years in Australia and among females from 61.7 years in Timor-Leste to 86.2 years in Japan.

Within a prosperous country such as Australia it seems remarkable that the richest 20 per cent of the population can expect to live on average six years longer compared to the poorest 20 per cent. Australians who are more socially disadvantaged (by income, employment status, education) and Indigenous Australians also have a higher risk of chronic disease, including depression, diabetes, heart disease and cancers.

In our cities, suburban areas are marked by concentrations of extremely disadvantaged residents, leading to very poor physical and mental health outcomes. The health experience of people living in rural and remote Australia is often worse than the urban average.

Does it have to be this way?

No. Social differences in health outcomes at the population level are not explained by genetic variation or because of some mythical deviant behaviour that is particular to socially disadvantaged groups. The existence of systematic social inequities in health tells us that there is something about society that is creating the unequal distribution of the opportunity to be healthy. These health differences are in fact avoidable and unfair.

And for those not convinced by the argument that health inequities are unfair, the fact that they are also incredibly inefficient should stimulate action to reduce them.

## In Australia, preventing health inequities would mean 170,000 extra Australians could enter the workforce, generating A\$8 billion in extra earnings.

In Australia, preventing health inequities would mean 170,000 extra Australians could enter the workforce, generating A\$8 billion in extra earnings; annual savings of A\$4 billion in welfare support payments could be made; 60,000 fewer people would need to be admitted to hospital annually, resulting in savings of A\$2.3 billion in hospital expenditure; and 5.3 million fewer Pharmaceutical Benefits Scheme scripts would be filled each year, resulting in annual savings of A\$184.5 million.

Health inequity is such an important issue internationally that in 2005 the World Health Organization established a global commission, the Commission on the Social Determinants of Health (CSDH), to identify what could be done to improve the lives of people globally, including in Australia. In 2013 we had an Australian response to the CSDH, when a bipartisan Senate Community Affairs Reference Committee Inquiry reviewed extensive domestic evidence on social determinants of health inequities and called for a concerted national policy approach and coordinated action across sectors.



Professor Sharon Friel is an ANU Public Policy Fellow and an ARC Future Fellow in the ANU College of Medicine, Biology and Environment.

While we know more than ever about the causes of health inequities, what is clear from the many policy discussions that I have been involved in is that we don't have all of the answers about what policies and programs are needed and how to make action happen.

My work examines the social determinants of health inequities, seeking to provide evidence on how actions in different policy domains affect health inequity, and what can be done to improve people's circumstances, lives and health.

These social determinants are vital for health for a number of reasons. People need the basic material requisites for a decent life, they need to have control over their lives, and they need active participation in decision-making and implementation processes.

All three things are influenced by the fundamental environmental, political, economic and cultural characteristics of contemporary societies which shape how people are born, grow, live, work, age and die.

Clearly, the global natural environment affects how societies survive and prosper through its provision of life-sustaining natural resources. Economic and social policies generate and distribute political power, income, goods and services between and within countries. These, plus environmental pressures, mean who you are will affect your exposure and access to—for example—quality and affordable education and health care, sufficient nutritious food, good conditions of work and leisure, affordable quality housing, and built environments. Together these factors constitute the determinants of health and health inequities.

A social determinants approach suggests that health inequities are produced (and prevented) by policies, programs and actions within the health sector, as well as areas like trade, transport, agriculture, education and employment.

Recently, I have been looking into the effects of trade agreements on health and health inequities. Trade agreements can assist national economic development and improve living and working conditions including income security, adequate nutrition and access to affordable quality healthcare. Done badly, trade can create economic, social and health system conditions that are detrimental to health.

A recent trade-related threat to public health comes from the Trans-Pacific Partnership agreement (TPP), a large regional trade agreement currently under negotiation, involving 12 countries around the Pacific Rim—Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

The TPP aims to extend foreign investment liberalisation and intellectual property protection beyond provisions in the multilateral World Trade Organization agreements. The TPP is also likely to include strong investor protections, introducing major changes to domestic regulatory regimes to enable greater industry involvement in policymaking and new avenues for appeal.

A trade agreement such as the TPP could limit the ability of governments to regulate industries that produce health-harming goods such as tobacco, alcohol and highly-processed foods (the consumption of which is highly socially graded). Governments need to be able to raise the prices of unhealthy goods, to restrict marketing and advertising, sale and distribution, and to regulate labelling of these products. It is vitally important, for example, to retain the ability to introduce new rules around nutrition labelling and advertising for food.

Reducing health inequities will not be achieved overnight—it requires a long-term view, political will at the highest level, and support by an empowered public sector based on principles of equity. The inter-sectoral nature of the determinants of health equity demands an inter-sectoral response. Hopefully the Prime Minister and Minister for Health will ensure ministers for trade, agriculture, education and employment, for example, each consider the impact of their decisions on the health of all Australians.

As researchers we have a responsibility to provide timely, scientifically robust multidisciplinary evidence that is fit-for-purpose. We need to keep shining a spotlight on health inequities. But we also need to identify action that can effectively reduce health inequities and we need better understanding of the dynamics between policy processes and use of scientific evidence under conditions of multiple policy agendas, power inequities and stakeholder engagements.



# A late arrival

**Academia needs to find new ways to keep up with the pace of demand for evidence from policymakers, writes Belinda Thompson.**

**I**n the age-old race between the slow and steady, wise old tortoise of academia and the quick and nimble policymaking hare, the tortoise was supposed to come out on top. After all, evidence-based policymaking needs deep consideration; raw data mulled over, crunched, shaped by the confounding factors before a conclusion can be reached.

But today, the policymaking hares are crossing the finishing line of implementation before academia has even got off the starting blocks. Research is a country mile behind the policy agenda, rendering it a tool for the 'told-you-so' chorus after the fact.

The 24-hour news cycle has changed the landscape, not least of all the politics of policymaking. Instant gratification is the new norm. Whatever the problem, we want a solution, and we want it now.

If academia does not start adapting to this new reality, it runs the risk of going the way of hardcopy newspapers—on the pulp heap.

While that might leave the academic world shuddering, there is an even greater challenge ahead for the policymaking community.

As the evidence trickles through, policymakers are busily making decisions that affect our collective future. The pressure on our policymakers is significant. They have to do it with less time for critical reflection, with less data, more raw emotion and the baying of the loudest and best organised groups within the community. These pressures end up skewing the balance to 'popularism' policy.

The other great risk to policymakers is that in making decisions without well-thought out and reviewed research, they get caught up in misunderstandings, misprints and misrepresentations. Or worse, they simply do not know there is another policy path open to them

other than the one suggested by the incomplete information at hand.

My research is focused on not-for-profit, non-government hospitals and large clinics in developing countries. It should be a topic that has inspired a thousand PhDs. It has got all the elements: civic engagement, community responsibility, direct meeting of community needs, not to mention that it's a sector that saves lives.

In terms of fitting into the aid agenda, it should be front and centre as financial imperatives bring the notion of small government back into vogue. But to position it there takes evidence. And of that, there is precious little.

The hospitals and clinics are not new. There is a long history of operation of both faith-inspired institutions like mission hospitals and secular hospitals such as the Addis Ababa Fistula Hospital. It is a complex and diverse sector, which includes institutions funded through the spectrum of avenues from corporate social responsibility ventures to rattling tins on street corners.

And yet academia as a whole has not seized the opportunity to provide solid data on an area that could strengthen developing countries' health systems and cause a strategic re-think on whether aid funds are best channelled through governments for optimum impact.

Indeed, as Jill Olivier and Quentin Wodon demonstrated in their study 'Playing Broken Telephone' published in the journal *Development in Practice* in 2012, policymakers have been left to rely on faulty anecdotal data about the proportion of the African health system that is provided by faith-inspired institutions. As Olivier and Wodon say, even the then World Bank President James Wolfensohn repeated the common view that the church does half the work in healthcare and education in Africa.



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## In the aid agenda not-for-profit, non-government hospitals should be front and centre.

Yet the research simply does not exist to prove or disprove this for Africa as a continent. There are a few smaller scale surveys looking at individual countries, but these do not use the same parameters so they cannot be validly combined.

So how can policymakers weigh the overarching policy questions, including whether not-for-profit, non-government healthcare facilities should be considered for funding at all? And what if their country's government does not include these facilities as part of their overall strategic priorities for aid? Do they have enough value in terms of the proportion of people they serve overall, or the proportion of the poorest they reach, or just in terms of raw numbers of lives saved, to justify aid from policymakers considering their applications for funds?

The answers are down to the individual policymaker's own value judgements and whatever anecdotal evidence they can round up because academia has failed them on these questions by not providing impartial, well-researched data.

Internal reports, news stories and alike often do not include the details of how they got their information. How much is spin? While I am a big proponent of grey literature, when the vast majority of that literature on some issues comes from vested interests, it is down to policymakers' own experiences, knowledge and cultural context to judge its validity—which should be far too much subjectivity for anyone's liking.

A significant number of not-for-profit health facilities do not have the deep pockets or the political clout to effectively lobby for their cause. They are

competing with other, better-established causes in a noisy, crowded world where everyone says they need more money. They may be the best providers of healthcare; they may be the best placed to reach the most vulnerable communities and to achieve the strategic objectives of aid agencies and they may be the best institutions to ensure money is not siphoned off for other purposes; but we do not know that because there is no impartial research to support or disprove any of these statements.

So what should policymakers do? My advice is start screaming, loudly, for data where it does not exist. Call out academia on its shortcomings, including its reluctance to take on fast-moving issues and research them before the dust has settled. Reject the traditional approach of journals and academics not to publish research that either does not have a firm result or shows a hypothesis did not work in the way the researcher anticipated. Demand these studies are available via open access. They can be invaluable, not least because they show you what has already been tried. Sometimes no result is exactly what you need to know when you are shaping sound policy

Acknowledge good research where it exists and when it has helped frame policy. Be explicit about why it was useful so academics know what works. Do not assume that academics have policy front-of-mind when they are conducting research; but also do not assume they would not be willing to accommodate your information needs. Researchers may have the answers in their raw data but if they do not know there is an interest in a specific aspect it may well end up on the cutting room floor when it is being shaped into a pithy journal article or op-ed piece.

And where all else fails, do as I did and stop trying to push for change without evidence. Sign up for a PhD instead and do the hard yards to provide the impartial research data that is needed for great policy decisions. Test your hypothesis and see what happens. You never know, you might just change the world for the better through your work.

At the very least you will come out with a strengthened appreciation of the value and importance of academic research and its role in policymaking, and perhaps even help the wise, old tortoise of academia to get its nose back in front in the policy race.



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# Upcoming courses

Introductory		Presenter(s)
1 – 3 April	Policy processes for practitioners: an introduction	Robyn Hardy, Trish Mercer, Wendy Jarvie and Kristen Connell
8 April	A beginner's guide to microeconomics for the public sector	Robert Breunig
9 April	A beginner's guide to macroeconomics for the public sector	Robert Breunig
15 – 16 April	Demystifying statistics for policymakers	Nicholas Biddle
23 April	Writing policy: a workshop for practitioners	Kristen Connell and Robyn Hardy
29 April	Evidence-based policy: a workshop for practitioners	Trish Mercer and Wendy Jarvie
7 May	The art of successful policymaking	Trish Mercer
8 May	Primer on cost benefit analysis	Leo Dobes
9 May	Essentials of cost benefit analysis	Leo Dobes
14 May	The art of the policy narrative	Kristen Connell
Intermediate		
1 April	Strategic thinking and planning for managers	Gary Saliba
16 April	Environmental and resource economics for non-economists	Paul Burke and Quentin Grafton
16 May	Aid policy: insights for policymakers and practitioners	Stephen Howes
27 May	The art of stakeholder engagement	Paul Porteous
Advanced		
3 – 5 June	Data and evidence for effective decision-making	Nicholas Biddle and Peter Whiteford
Masterclasses		
6 May	Trade policy and agreements in the Asia Pacific for policymakers	Phillippa Dee
20 May	Understanding productivity performance and trends for policymakers	Dean Parham and Quentin Grafton
22 May	Economics of taxation and social security	Patricia Apps
27 May	Energy fundamentals and policy for policymakers	Frank Jotzo, Quentin Grafton, Paul Burke, David Stern and Karen Hussey
17 June	Agricultural production and food security for policymakers	Quentin Grafton, Kym Anderson and Peter Warr
Special course		
4 June	China: an overview (one day synoptic overview and compendium)	Jane Golley, Geremie Barmé, Chunlai Chen, Meng Xin, Andy Kennedy, Ligang Song and Richard Rigby

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