Australian National University

# ADVANCE

## Essays, opinions and ideas on public policy

**Spring 2014**

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ASIA & THE PACIFIC POLICY STUDIES

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## Introduction

This issue of *Advance* marks the magazine's first full year of publication.

When we started the magazine, we hoped to produce a publication that brought together some of the best minds to write on public policy issues that are dear to their hearts.

We hoped that, through the magazine, the writers would have the chance to influence and add to the public conversations that are vital to the future of our region.

We also wanted, in a small way, to help bridge the gaps between researchers, policymakers and the public, through articles written for a broad audience. After all, in democracies future decisions about the direction of public policy are made by policymakers, but judged at the ballot box by the public.

In the first year of *Advance* the magazine has showcased a wide range of voices who have made important contributions to a huge range of debates and issues.

Writers have included such high profile figures as a former High Court Judge, two Nobel Laureates, a former Prime Minister and a leader of the opposition. But the magazine has also featured the voices of PhD students and early-career academics. All these people have an important role to play in helping shape the public policy of the future.

Everyone connected with *Advance* has been heartened by the enthusiasm of people to be a part of it, but also the generous and warm feedback we've had from readers.

Thanks for being a part of our first year, and here's to many more.

Professor Tom Kompas
Editor-in-Chief, *Advance*
Director, Crawford School of Public Policy

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*Cover image by Stuart Hay*

# Mixed blessings

## Naazneen H Barma surveys the various resource curses plaguing Asia and the Pacific.

The Asia Pacific region is renowned for its natural resource abundance, from exhaustible petroleum and mineral reserves to renewable stores of timber, agriculture, and fisheries. It is a well-known paradox that, instead of serving as the blessing they would appear to be, these resources are often experienced as a political and economic curse.

But—as Tolstoy famously observed about unhappy families each being unhappy in their own way—countries that are dependent on natural resources each experience the resource curse in distinct ways.

The resource curse is multifaceted; countries with abundant natural wealth grow more slowly and have higher levels of poverty, experience more internal conflict, are less likely to be democracies, and have weaker governments and poorer social outcomes. The overall syndrome is so sticky because it is a political one. Leaders are not ignorant of the resource curse and its consequences, nor of the policies they could adopt to lessen these effects. But their incentives typically lead them to act in ways that accentuate the resource curse rather than diminish it.

Two crucial features of the political environment affect the type and severity of the resource curse. It is at its worst when extractive companies and citizens do not believe the promises that governments make, and when political leaders are focused on enriching themselves at the expense of society. In countries where governments have earned more credibility and leaders have demonstrated concern for public welfare, the resource curse is much less acute. Brief snapshots of four resource-dependent countries in East Asia and the Pacific illustrate how this works in practice.

*photo by Gregory Tonon on flickr*

## Leaders are not ignorant of the resource curse and its consequences, nor of the policies they could adopt to lessen these effects.

Papua New Guinea has vividly experienced the boom and bust cycle that often exacerbates the resource curse. Political instability, civil conflict, and policy decisions—such as the government's recent decision to nationalise operations at the Ok Tedi mine—have limited the government's ability to collect a steady stream of mineral revenues. The patronage-oriented nature of the political system, in turn, means that elites typically fail to use resource riches to deliver collective social benefits to the population.

In Timor-Leste, the Petroleum Fund, put in place by the first independent government with international assistance, was intended to safeguard the welfare of future generations. But the political system has evolved in such a way that the current government is more focused on rewarding its own supporters instead of investing in public infrastructure and other forms of collective welfare. The government's policy of 'buying the peace' has meant that revenues gained from its petroleum reserves are being spent at alarming rates. The Timorese watchdog organisation La'o Hamutuk estimates that the Petroleum Fund—intended to guarantee a permanent stream of petroleum rent into the future—will run dry by 2028.

Laos has recently discovered promising mineral reserves, prompting a dramatic start-up in industrial mining in the country. Its one-party government has had mixed results in managing the country's natural wealth. Because investors know the government is stable and will honour deals made with resource developers, Lao Government coffers have quickly filled with mineral revenues.

To be sure, the country's leaders have used their unassailable privilege to benefit themselves and their associates with lucrative contracts related to the minerals sector. Yet they have also developed a reputation for being developmentally oriented and have used mineral revenues to invest in the social sectors and public infrastructure for the collective good.

Mongolia went through a vivid boom and bust commodity cycle in the 2000s. When mineral extraction first began in earnest there in the late 1990s, leaders managed policy in a way that assured investors of a steady and profitable partnership with government.

But skyrocketing mineral prices in the early part of the 2000s marked the beginning of a prolonged and energetic public debate about what constituted Mongolian citizens' fair share in the country's mineral wealth. New policies were introduced that increased the government's share of mineral revenues, making investors more wary. Mongolia felt the effects of this uncertainty when developers halted activity on the Oyu Tolgoi copper and gold project, the second largest mine in the world, leaving the country unable to take full advantage of the mid-2000s boom in copper prices.

Since the resource curse varies across countries, solutions to it must be context-specific. Policies that enhance the credibility of government policy in the natural resource sector can help to ensure countries benefit from a steady stream of resource revenues.

Timor-Leste has used, to great effect, a simple, rule-based, and transparent process for granting resource concessions to investors. Similarly, community-based participation or earmarking a portion of resource rents for social sector and public investment spending could help to ensure resource riches are actually spent on the public good.

Participatory budgeting with civil society organisations in Mongolia, social transfer schemes in Mongolia and Timor-Leste, and decentralised public investment implementation in Laos have, to some extent, helped focus government spending of resource revenues more on the collective good.

Even in Papua New Guinea, policymakers have options to avoid the worst of the resource curse. A stabilisation fund that ensures consistent government spending, along with earmarking revenue for public goods may yet improve outcomes—and Papua New Guinea's major new LNG reserves offer a window of opportunity to get things right.

The bad news is that the resource curse is a real and complex challenge for developing countries. The good news is that natural riches do not doom them to a gloomy fate.

*This piece is based on Naazneen H Barma's paper for the Asia and the Pacific Policy Studies journal. http://bit.ly/naazneenbarma*

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# Don't read all about it

## Marija Taflaga explains why good policy debate can't cut it in today's hyperactive, short-term news cycle.

"We want more policy stories!" It's the grim drum beat in the background whenever we read a newspaper's online comments sections, attend a (policy wonk's) Saturday barbecue or watch *Q&A*.

Despite the cries from the public, why does it seem harder than ever to have a sustained policy conversation in the media? Changes in Australia's newsrooms over the last 10 years—and if we're honest, the last 10 months—mean that the old ways don't work anymore.

So what's changed in newsrooms? My research into how political parties and particularly oppositions, view and use the media and how they are covered by the media, along with my experience (working as a researcher for *The Sydney Morning Herald* and *The Age*) have revealed many changes. But let's consider two.

Firstly, there's the pace of news. We've all heard that the news cycle speeds things up, but what does this really mean? Well, in a nutshell, it means that the age of the press conference transcript is dead.

Even five years ago, the daily news cycle was driven by the press conference. One side would give a press conference and produce a transcript and then the other side would respond with their own, both of which would be circulated around the press gallery. This was slow journalism; a journalist would have all day to ring around, check facts and come to a conclusion.

These days, news editors want the story right now. There is less thinking time and interest in a story for tomorrow's paper explaining what happened today. Instead, the paper wants to know what is happening tomorrow. With this kind of reporting, it's hard to get across all the details and with the train moving on, it's hard to jump in and get the debate going for long.

Social media and 24-hour news have created the 'multiple news cycle day'. The challenge for the media is to find a new angle to push the day's news stories forward to fill the void. However, the fact that Australia is a relatively boring place (safe streets, uninterrupted economic growth and bland politicians) can make this a challenge.

Secondly, there's the 'news value' (or lack of) of our news. The current structure of the news cycle is reactive and an ideal environment for critics; especially if they couch their criticism in a colourful way.

A good example of this was the former Labor government's ill-fated carbon tax. Its long-term goal was to transform Australia's economy, making it a big reform. However, the debate about the carbon tax was rarely focused on how it would actually work, what might happen to industry, what had happened, and was about to happen in other similar countries or detailed debate over alternative models that would achieve broadly the same goal. Instead, the main focus of the debate was about the politics of the carbon tax and how it related to the horse race between the Liberal and Labor parties.

A key reason for this is because the Coalition in opposition refused to engage with carbon pricing as a policy idea, opting for a strategy of blanket opposition. By refusing to engage with the government, and the opposition's effective use of media stunts, colourful rallies, simple and understandable talking points, not to mention the internal political troubles of the Gillard government, meant that the more interesting story to cover was the tit for tat political brawling and protests rather than digging into a detailed policy analysis that no one was talking about anyway.

Colourful criticism allows journalists to re-top existing stories for online, gives 24-hour news anchors something to talk about and will hopefully spark outrage on Twitter, so that too can be reported. Prosecuting the same argument that we heard this morning isn't new news even though it is—usually—a good contribution to public debate.

While any government still has an advantage in setting the agenda, it has to compete with an opponent that doesn't have to explain anything and can get away with just being negative. In the old days, this kind of carping would be left to the last line in a news story, but with 24-hour news, you can say this directly on TV to a live audience.

Although the government's unpopular budget has seen a renewed flurry of interest in policy detail, the problem for policy reform advocates remains. How do they prosecute unpopular ideas in a media landscape more suited to their opponents?

We might be getting more policy detail, but effective policy debate that leads to reform remains elusive.

Marija Taflaga is a PhD scholar based at the School of Political Science and International Relations, ANU College of Arts and Social Sciences.

photo by Trey Ratcliff on flickr

# Crisis averted?

**Nobel Laureate Professor Joseph Stiglitz on why the world didn’t see the Global Financial Crisis coming, and what lessons we should learn from it.**

photo by Stuart Hay


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The Global Financial Crisis that began in 2008 is the worst crisis that we have had in more than three quarters of a century and, yet, the economics profession did not predict it.

Far worse than that, the standard models said it could not happen. On the basis of these models, economists and central banks argued that markets were efficient and more stable. And they said that, obviously, efficient markets do not have bubbles.

But those models were wrong. The crisis should have spurred some rethinking, and an attempt to understand why the models were wrong and how we can make them better.

For example, take Adam Smith's idea of an invisible hand. The idea was that individuals in the pursuit of profits would be led as if by an invisible hand to outcomes that would maximise the wellbeing of society as a whole. Well, now we understand that the reason that the invisible hand couldn't be seen was that it actually wasn't there.

I don't think anybody should or would claim that the pursuit of self-interest—also known as greed—led to improved wellbeing for society. On the contrary, it led to a global calamity.

Ben Bernanke, after the crisis, went so far as to say there was nothing wrong with the models that were used—just the implementation. Even after the bubble broke, he was asked: "will it have effects on the economy?" And he said, in effect, "No, we've diversified risk; we spread risk in such a way that our economy is protected and more stable".

Even putting aside the actual outcome of that 'diversified risk', the very logic of this argument is obviously wrong. Just think about it; say 100 people arrived in New York with a disease and you asked "What are you going to do about these people, all carrying smallpox?" The economists following these models would say: "Let's spread the risk. Let's send two of the people into each of the states around the country and that would diversify the risk".

**We won't have to rewrite our microeconomics textbooks after all.**

It's obvious that economists have the wrong model. In this particular case, spreading America's toxic mortgages around the world made what would have been an American disaster into a global pandemic.

The flaws in the reasoning of our central bankers and our economic officials had many dimensions. One was a kind of incoherence. After the crisis, officials and academics I spoke to always talked about the risk of contagion—but before the crisis they always talked about the benefits of diversification. They never put those two sides of the same coin together.

An example of the kind of intellectual incoherence was Alan Greenspan's observations after the crisis. He was asked to testify about what had happened and he said he was 'surprised'. He thought banks would be able to better manage risk.

But I was surprised that he was surprised, because if you looked at the incentive structures that bank managers had, it was evident that they encouraged short-sighted action and excessive risk taking. If the bank managers hadn't behaved badly we would have had to rewrite our microeconomics textbooks.

We won't have to rewrite our microeconomics textbooks after all. But the consequence of ignoring these perverse incentives, of course, is that the global economy has suffered enormously.

When it comes to the question of who is most to blame for the crisis, I think it's the banks. They engaged in excessive risk taking, they engaged in predatory, discriminatory lending, and they engaged in a host of other really bad practices.

The regulators also carry blame and should have stopped banks from doing all this. There is a 200-year history of banks behaving this way. Why regulators would think that they would suddenly stop behaving badly is a mystery, especially because they had already learnt these lessons the hard way. After the Great Depression, we passed good regulations to stop the bad behaviour of banks. And it worked. We had 35 years of economic stability; not a serious bank crisis around the world.

Nobel Laureate Professor Joseph Stiglitz is a distinguished Fellow of the Asia and the Pacific Policy Society. To join the society: http://bit.ly/APPSociety

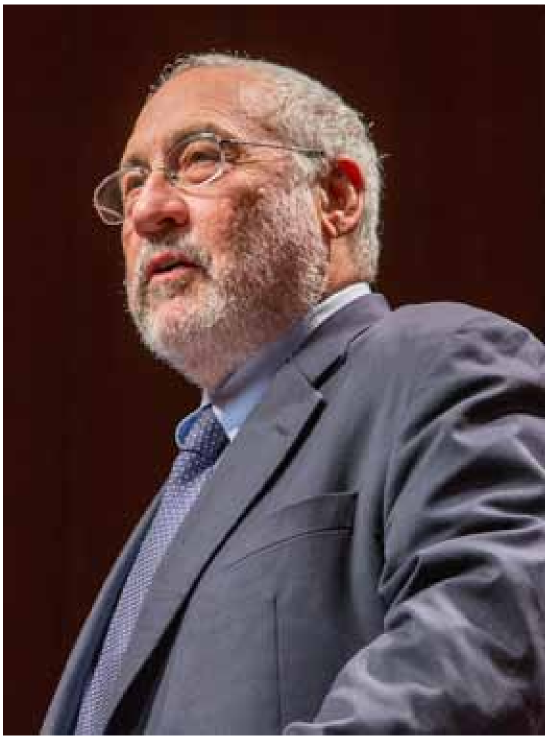

photo by Stuart Hay

And then because we hadn't had any crises for 35 years, the idea spread that we didn't need regulation, when the reason we didn't have crises was *because* we had regulation. As a result, since 1980—since the Reagan-Thatcher era began—we've had more than 100 financial crises. So deregulation worked in the way one would expect—or in the way one should have expected—and created more volatility.

I also blame economists. They propagated ideas that both banks and regulators used that led them to deregulate and to adopt the policies that added to our economic problems.

And the result is that the crisis has been long-lasting. We've now had a weak economy for more than half a decade. In the United States the recession officially began in 2007. In 2014 nobody would say we're back to health.

One way to think about where we are today is to go back to the Great Depression. We didn't get out of the Great Depression until World War II. We had to spend the money on armaments to protect the US but it was the government's spending that got us out.

The period after World War II was a period of shared prosperity where every group in our country saw their incomes increase, but the people at the bottom saw their incomes increase the most. It was also the period in which the US growth was at its highest. Since 1980, with the era of deregulation, growth slowed and instability increased. But though growth was limited, what growth there was was not shared; only the top have seen their incomes significantly grow. Today, median household income in the United States is actually lower than it was in the mid-1990s.

Even looking at that slow growth after 1980, we are more than 15 per cent below where we would have been had we not had the crisis that began in 2008—and the gap is still increasing.

The total loss for the United States is in excess of $5 trillion. If anybody talks to me about government waste, I say no government has ever wasted resources on the scale of America's private financial markets.

We still now have almost 20 million Americans who would like a full-time job and cannot get it. That's like having almost the entire population of Australia wandering around jobless.

If we look at the growth that has occurred in the last seven years after the crisis, across the countries of the North Atlantic, Europe and America, what you see is that among the large countries, only the US and Germany have had any economic growth and that economic growth has been truly paltry. In any other circumstance, paltry growth would be considered disappointing, if not a disaster.

But making things even worse is how it's distributed. In the United States, since 2009, 95 per cent of all the increase in income has gone to the top one per cent, which means the bottom 99 per cent haven't heard about recovery.

And things are worse in some social demographic groups. American males have a median income that is lower than it was 40 years ago.

So the question is: why have the United States, and many other countries in Europe, not recovered? The answer is fairly simple; it's a lack of aggregate demand.

There are several reasons for this lack of aggregate demand.

Firstly, austerity and government cutbacks. Even the United States has had a mild form of austerity. We have roughly 650,000 fewer public sector employees than we did in 2008 before the crisis. If we had normal growth with the growth of our population, we'd have some two million more employees.

With this magnitude of cut-backs, it's no wonder the economy is not performing, particularly because we haven't fixed the financial system. We not only have cut-backs on the public side, we also have weaknesses on the private side.

Secondly, we have a growing and high level of inequality.

Inequality profoundly affects economic performance, in many ways. One is very simple—those at the top don't spend as much money as those at the bottom. Those at the bottom have no choice and they tend to spend 100 per cent of their income. Those at the top are able to save 10, 15, 20 per cent of their income. And so, when there is redistribution from the bottom to the top, as has occurred in the United States, where inequality has reached a level not seen since 1928, right before the Great Recession, aggregate demand decreases—or would do so in the absence of something else happening. That is, with that kind of inequality, we're going to have weak aggregate demand unless the government and other authorities do something about it.

Bernanke and Greenspan *did* do something about it; they created a bubble. It was a short-term palliative, but it was clearly not sustainable. Because of that bubble—and the easy access to cheap credit that was both cause and consequence—the bottom 80 per cent of Americans were consuming 110 per cent of their income.

Thirdly, the lack of aggregate demand is also related to the need for structural transformation. Every economy constantly needs structural transformation but the challenges right now are particularly great and, in some ways, are similar to those that faced the global economy 80 years ago, before the Great Depression.

At that time, the structural transformation was a movement from agriculture to manufacturing. We were the victims of our own success. In the 19th century, some 70 per cent of the population had to be engaged in agriculture and related activities

**We have a growing and high level of inequality.**

in order to produce the food that we needed to survive. Now in the United States, two to three per cent of the workforce produces more food than even an obese population can consume.

That's a great success but it poses a problem. All those people that were working in agriculture had to move somewhere else. And the problem is that the markets don't do that kind of structural transformation very well on their own. And when incomes in the agriculture sector go down—and in the United States between 1928 and 1932 they went down by more than 50 per cent—people don't have the resources to move to cities, or to learn new skills that non-agricultural jobs require. So they were trapped in their own sector.

The United States is now engaged in another kind of structural transformation, but it's an even more difficult one; we're going from manufacturing to a service sector economy.

Within the service sector, the key areas are going to be education and health—two sectors largely associated with government finance. But this is just the time we are cutting back government finance, so government policy, rather than facilitating the structural transformation, is actually impeding it.

In a way, the recession has exacerbated all the problems that we have noted; it led to greater inequality, and the austerity that followed the recession impeded the ability of the government to facilitate structural transformation. The result of this is that we are experiencing a prolonged economic downturn.

The following may help crystallise the nature of our problem.

Back in the 2008 Obama Administration, a lot of people thought: "well, we've had a bump, our banks are a little sick—all we need to do is give the banks a few trillion dollars, to help them heal and make them feel better. Don't scold them too much—that would upset them, impede the healing process, and might lead them not to lend—and in 18 months the banks will be healthy and we can pick up where we left off in 2007".

That was obviously wrong. We gave the banks a lot of money. The banks are now healthier—but not perfect.

The government is still underwriting more than 90 per cent of our mortgages, but the profits are pretty good; they're paying big dividends, even bigger bonuses.

But our economy is not back to health.

As I've explained, we had simply papered over our deeper problems with a bubble. The economy in 2007 might have seemed good when you looked at GDP and the stock market, but without the bubble, we would have had a weak economy—which is exactly where we are. The difference now is that our banking system—our financial system—is still not healthy, and inequality has gotten worse, as is the ability of the government to deal with structural transformation. Austerity has exacerbated the problem.

To conclude: the market economy is not working the way it's supposed to. It's not delivering for most citizens.

This dramatic failure is not an inevitability. These failures of growth and inequality are not a result of inexorable economic forces. They are a result of politics and policies.

We used to say: "Yes, inequality is bad but if we were to get rid of inequality it would reduce our growth and impede our economic performance".

Now we realise that inequality, to the extent that it has grown, is imposing a cost. We are paying a high price for this inequality. This is a view that is now becoming mainstream.

The lesson of this is that we ought to be working for shared prosperity, the kind of shared prosperity that the United States had in the decades after World War II.

And I hope that, as one looks back on these experiences of the Global Financial Crisis and what we've learned in the last seven years, that we take to heart the lessons of the crisis; that we try to create an economic framework that will lead to more stable, more prosperous, and more shared economic prosperity.


*This article is a modified and condensed transcript of Professor Stiglitz's Crawford Oration at ANU on 30 June. Watch the video of the lecture at http://bit.ly/crisisaverted*

*photo by Stuart Hay*

# The non-governmental organisation

## Will social organisations improve local service delivery and grassroots democracy in China, asks Bingqin Li.

Over the last year, Chinese society has seen the slow and steady rollout of a new era in democratisation, as the government relaxed its previously tight control of non-government organisations (NGOs).

The process began in March 2013 after successful earlier pilots in several southern cities. It is championed officially as a way to promote public participation and a step to further exercise local democracy. But after one year's practice all over China, is it delivering a new dawn in democratisation?

The liberalisation has several aspects. NGOs and non-profit organisations which previously had to be registered as enterprises can now get registered as 'social organisations' (SOs). These can include industrial associations, science and technology SOs, charities, and rural and urban community services.

The level of government control is not the same as in the past. Before the reform, NGOs needed to be endorsed by the government departments that govern the relevant activities. These NGOs had to 'invite' government officials to 'guide' their practices, even if the officials were not playing an active role in the daily operation of the organisations.

New regulation for SOs requires no such official guidance and the approval procedure was simplified. SOs now only need to register with the Ministry of Civil Affairs.

All of this has led to increasingly relaxed government control and regulation. By the end of 2014, the total number of SOs reached 547,000, up 9.6 per cent from the previous year. More than 3,000 charitable foundations were set up to support the operation of SOs and the sector provided more than 6.37 million people with jobs.

Whether or not the Chinese Government thinks the introduction of SOs has been a success, the booming number of these organisations mean that even if the state wanted to monitor the daily operation closely, it would not have the capacity.

SOs are expected to become an important actor in public sector reform. The idea is that in some social service provision in China, local governments would shift from service providers to fund-holders and regulators only, in particular those at the community level. SOs would bid for the licence to be service providers. This is in essence a quasi-market.

In some other services, the state would not even be the fund-holder. SOs would need to rely on funding from the private sector or the charitable funds to get resources.

There are, though, some disputes over this from observers, with some claiming that many services provided by SOs were originally the responsibility of the government. Given that the state continues to collect tax as before, the funding of these services should continue to be funded by the state.

Bingqin Li is an Associate Professor at Crawford School, ANU College of Asia and the Pacific.

*photo by Dimitry B on flickr*

**As users are expected to be involved in the monitoring process, they also need to be empowered. Failing to do so may lead to funding misuse or even corruption.**

The possible impact of a quasi-market aside, the introduction of SOs in China has an added-value given the current governing constraints. SOs do not need to work locally, and service providers can operate across regions and provinces. Strict boundaries imposed by the public administration system can partially be broken down as the funding of the SOs could be from outside the local government.

In theory, this breakthrough could help to overcome the long-lasting local protectionism within the government system and reduce exclusions against the migrant population.

A number of ways for user involvement have been trialled. Vouchers have been introduced in many community based services, in particular those related to pensioners and the disabled. In these systems, users are able to choose between different providers. For locational goods and services, the selection has been done through community voting. Users select from different packages of social services and if they are not happy, they can vote to change the provider in the next round.

However, it is also important to note that there are not yet detailed regulations on public disclosure of information in all places. Given that quite a large proportion of these people were not really served in the past, any service would generate positive feedback. As a result, they may not exercise their monitoring power as much as policymakers would like to see.

As users are expected to be involved in the monitoring process, they also need to be empowered. Failing to do so may lead to funding misuse or even corruption, as has already been exposed in some cases.

A perhaps surprising side effect of the new system is that it has exposed a serious shortage in well-trained social workers. The transition from a state-run to a society-driven social work system has left the best qualified social workers still working in the government system, where they enjoy better salaries and higher social status. The university system has been able to produce a large number of graduates and postgraduates from a social work background. But the reality is that after graduation the majority of them look for jobs outside the sector.

The workers needed by SOs are professional on-the-ground workers who would benefit from professional accreditation, which is falling far behind the demand in the Chinese education and training sector.

As a result, SOs may not yet be able to provide good quality services that would fulfil a socially acceptable standard. In this sense, it is still too early to replace all public sector service providers with SOs.

Obviously, these reforms are still at a very early stage in China and the pace of change is so fast that one can hardly anticipate what it may look like in another two years.

The reform could potentially change the relationship between the state, civil society, the private sector and individuals profoundly. It may also end the long era of production-driven society and mark the beginning of a more socially friendly society. But before the system is able to deliver long lasting improvement all over China, there may be a long and bumpy ride which will be mixed with difficulties as well as opportunities.

# Doing defence policy better

**Australia needs to decide what it wants its defence forces to actually do in order to get policy right, writes Hugh White AO.**

Bad news again from Defence.

Over the past few months it has become clear that Australia's biggest local defence project, spending $8 billion to build three Air Warfare Destroyers, is in deep trouble. There is an uncomfortable sense of 'here we go again'.

When anything goes wrong as regularly as these big defence projects seem to do, it is wise to ask where the trouble really lies. Are we suffering a series of unrelated problems that are specific to each project that goes bad? Or is there a deeper systemic issue here?

The more often such problems arise, the more any prudent policymaker would look carefully at this second possibility. And the less surprised they will be to find a whole raft of factors which turn up again and again helping turn projects into problems.

And so it proves. Some of them relate to the way projects are managed once they are underway, but many of them relate to the way they are initially conceived. Some of these problems of conception relate to decisions about the kind of design to go for—whether it should be new and blue-sky, or tried-and-true, off-the-shelf. Some relate to how it is acquired—whether to build here or buy from overseas.

These decisions often sow the seeds for trouble because we decide to buy something that is newer, more innovative and therefore more risky than we really need. Or we decide to build here rather than buy overseas because we assume, wrongly, that this is vital for through-life support, or simply want to use the defence budget to buy jobs and votes. And often, of course, both kinds of mistake are made at once.

*photo by Alex de Sousa on flickr*

Hugh White AO is a professor of strategic studies at the Strategic and Defence Studies Centre, ANU College of Asia and the Pacific and an ANU Public Policy Fellow.

A lot of problem projects—including the Air Warfare Destroyers—would not have run off the rails if these decisions had been more carefully made before contracts were signed.

But to make these decisions better and more rigorously we have to address another, even more fundamental and systemic problem in our defence policy—we do not know what we want our defence forces to be able to do. In other words, we do not know what the defence force is for.

To most people that sounds like a strange thing to say. Everyone knows that the job of the defence force is to defend the country and its people. But what does that really tell us? In terms of a classic public policy analysis of outcomes, outputs, and inputs, it may tell us the outcome we want. But it tells us nothing about the outputs we should produce in order to create that outcome.

Many people assume that the outputs in defence policy are the armed forces themselves. But a moment's reflection will show that this is not right.

The outputs are the operations that the armed forces undertake. The armed forces are just the inputs. And as anyone in the public policy business should know, before you can decide what inputs to acquire, you must first decide what outputs you need to produce the desired outcomes.

This outputs step is almost entirely missing from our defence policy process. That means we have no robust, defensible basis for deciding what kinds of forces we need. And that means we have no robust basis for making sensible decisions about whether to buy blue-sky or off-the-shelf, and whether building locally rather than buying overseas is worth the extra cost and risk. Without that, it becomes all too easy for enthusiasts or rent-seekers to persuade uncertain politicians to do things that make no strategic or economic sense.

It also means, of course, that we have no robust basis for deciding what kind of capabilities we should be buying in the first place, which leads to even bigger policy failures and wasted money than failures in acquisition projects.

You can waste a lot of money buying a ship through an ill-conceived, badly implemented project. But you can waste a lot more if you buy a ship you don't need in the first place. And there is a real risk that we are doing that right now, and in more than one major project.

So how do we fill in the gap in our defence policy processes with defined outputs needed to achieve our outcome? Well, it is no surprise to hear that this is very difficult. In fact there are two separate sets of questions to be addressed.

**We have no robust, defensible basis for deciding what kinds of forces we need.**

First, we have to decide what kinds of threats to Australia's security we want our armed forces to be able to deal with. That involves some big questions. Are major wars still a problem, or do we only need to worry about terrorism and cyber-threats?

If we face a major war, do we assume we'd be fighting alongside the US? Or do we want to be able to operate independently? The answers to these questions are highly debatable, and becoming more so in the Asian century.

Second, we need to decide what kind of operations would best—that is, most cost-effectively—manage those threats. Do we just need to defend our own air and sea approaches, or do we need to be able to deploy forces to distant conflicts? If the latter, would land or maritime forces be most cost-effective?

Both of these sets of questions need to be answered over a 30-year timeframe, because that's when the forces we decide to buy now will be in service. That means we have no choice but to base our decisions on judgements which, by their nature, must be highly contestable. So to make these judgments as robust as possible they must be made as transparent as can be, and we must subject them to rigorous examination.

Only then will we have a reasonable level of confidence about the outputs we are seeking in Defence, and hence be able to make good decisions about the inputs we need to provide, and how best to provide them. There will still be plenty of scope for defence projects to go wrong, but the most common sources of the biggest mistakes will have been reduced.

This is what the government's new Defence white paper, due out sometime towards the middle of next year, should be trying to do. Let's hope they get it right.

*photo by US Pacific Air Forces on flickr*

# A meeting of the minds

## Developments in Pacific policy-making offer a ray of hope for positive policy change, Tess Newton Cain writes.

A ni-Vanuatu friend with whom I often drink kava has said to me on more than one occasion: "The difference between you Westerners and us Pacific Islanders is that you share your knowledge and hold on to your wealth but we share our wealth and hold on to our knowledge".

In the Pacific, people hold on to knowledge because to share it would undermine an individual's or organisation's power base. But a number of stars are aligning (albeit slowly) that may see this beginning to change and, as it does so, the prospects for quality policy-making in the region are brightening.

Perhaps the most significant emerging force is the growing clamour for 'home-grown' policy development rather than imported solutions, driven by the imperatives of bilateral and multilateral donors.

In order to satisfy the demands of politicians and voters that programs and projects are context-appropriate and relevant to the current needs of communities, there is a need for consultation. This is leading to increasing numbers of spaces in which people from all sectors are coming together to share their concerns and ideas about what should happen next in any given area.

Recently, the government of Vanuatu undertook a week-long consultation to inform national development planning in which they heard from non-government organisations and private sector representatives, among others.

Of course, the increasing availability of Internet access means that policymakers can collect information from a much wider range of sources than might previously have been the case. However, in the Pacific, there is still a lack of information from individual countries or the region as a whole.

Government departments and agencies in Pacific Island countries still struggle to provide detailed, current information about population, trade, employment and many more policy issues. The development of local content of all types is key for informed and participatory policy-making. In Vanuatu, it is one of the eight core principles of the national information and communication technology policy.

However, there is a bigger challenge for Pacific policymakers who want to make use of increased access to knowledge not only from within the region but from outside as well. And that is how the knowledge that is available can best be filtered, synthesised and translated to be of use.

It is certainly possible to overplay the 'Pacific exceptionalism' card and there are important global conversations about development, including how to use donor funds, which have application in the region.

But in order for policymakers to be able to make use of a wealth of academic, technical and other knowledge, they need access to a process by which information of all sorts can be collated and presented in appropriate formats to be of most use. In countries with small resource endowments, this is a lot to ask—in fact, in many cases, it is too much to ask.

It would be easy to become subject to some sort of decision paralysis, overwhelmed by the enormity of the tasks associated with effectively managing knowledge to support policy-making. However, there are opportunities to work in small, strategic but effective ways and use knowledge sharing as a way of enhancing policy-making processes and skills in the Pacific.

I hear of numerous instances of public servants meeting together informally to discuss common areas of interest and share information they have gathered, whether through study or otherwise. In Vanuatu, I have convened a number of dialogue events in which researchers present their work for discussion to people drawn from all sectors: government, the donor community, academia, civil society, and the private sector.

Each time something like this happens, connections are formed and trust is built. And as these relationships are built and developed, people share their information, their thoughts and ideas.

It means that policymakers can get access to people they might not otherwise meet, introducing them to a wider range of knowledge resources which they can draw on when making decisions. And isn't that something worth raising a shell of kava to?

Dr Tess Newton Cain is a research associate at the Development Policy Centre at Crawford School, ANU College of Asia and the Pacific and a non-resident Fellow of the Lowy Institute.

*photo by Thinkstock*

# Getting better by design

**Carbon trading markets and carbon taxes both have their problems, but the answer could be somewhere in-between, writes Warwick McKibbin.**

*photo by NASA on flickr*

Australian politics is yet again at an impasse on climate policy.

But while the politicians may struggle to find answers, economists agree that pricing carbon needs to be a core part of a comprehensive and low-cost approach to managing climate uncertainty.

The failure of Australia's carbon pricing mechanism and the problems in the European trading system demonstrate how faulty design can destroy many of the benefits of carbon pricing policy

There are many ways to price carbon, including carbon trading markets and carbon taxes. So far the record of successful carbon pricing mechanisms in many countries has been disappointing. They have failed because of high economic costs and small environmental benefits.

A key feature of any carbon pricing policy is an ability to generate a credible future carbon price to encourage development and adoption of new ways of abating carbon emissions. In addition, the markets created need to have appropriate institutions for monitoring and enforcement. The policy should also create constituencies throughout the economy that reinforce the existence of the framework.

Uncertainty and risk management should be at the core of the design of national and global climate policies. Climate policy should be designed to better manage risk by creating a framework that balances expected environmental benefits against the economic costs over time, and inspires innovation in activities that reduce greenhouse gas emissions and encourages adaptation at the lowest possible cost.

'Science' doesn't produce a precise target for concentrations. Even if a global target was available, the way in which each country should share that target is not at all scientific. The entire climate change issue at the national level is a balance of competing interests across a range of areas.

Addressing climate change calls for a whole range of policies but carbon pricing needs to be at the core of the lowest cost approaches. However, the carbon pricing regime has to be designed and implemented very carefully.

There is no doubt that a short-term carbon price is a cost to the economy. On the other hand, a long-term carbon price provides an opportunity for potential benefits to the economy. These two time dimensions are frequently not distinguished. Many argue that there should be a high carbon price today because that is the only way to encourage abatement actions, particularly in encouraging the development of alternative energy. A high initial carbon price is more likely going to hurt the economy in the short run.

What matters for alternative energy sources, though, is not the price of carbon today, but the price that people expect over the next many decades. This information will enable individuals and countries to manage their domestic costs of carbon abatement to suit their self-interest.

Effective climate policy should have a *short run price goal*—a stable price of carbon in the economy—and a *long run emissions goal*—atmospheric carbon concentrations which when traded through a market would generate a clear long-term carbon price that will drive greenhouse gas-reducing technologies and investment. The economy would then transition from the short-term to the long-term, adapting to new information over time but incurring minimum economic costs.

This idea is at the centre of the model a colleague and I have developed—the McKibbin Wilcoxen Hybrid. It's a model that can be implemented as a global system if countries ultimately agree to take coordinated action, but one that does not require that agreement as a precondition for implementing it as national policy.

The Hybrid model consists of a number of key components: a long-term concentration target for a country converted into long-term emission permits; and a central bank of carbon within a country which intervenes in a spot market for carbon to maintain pre-announced fixed carbon prices.

For the long-term goal, the aspirational emissions target for many years into the future is converted into a number of annual emission permits dated with the actual future year they are valid. Each year there would be fewer permits than the year before. These annual permits would then be bundled together with less annual emission rights included for future years. This bundle of permits would be a long-term emission permit, and the total amount of long-term permits would be the long-term emission concentration target.

These long-term permits would be freely allocated to households and to industry within a country—partly as compensation for cost increases and partly as a way to self-fund emission abatement activities. The long-term permits can be traded in a market and are owned by consumers and firms who can sell them to generate the revenue needed to reduce their emissions.

Professor Warwick McKibbin is a Chair in Public Policy at Crawford School, ANU College of Asia and the Pacific.

## Changing of policy has been the biggest reason for the collapse of the Australian carbon tax.

Ownership of the right to emit, embedded in a financial asset, creates a constituency throughout society who are financially driven to resist any government backsliding on future policy commitment, making the policy more credible. It also enables those who reduce emissions to gain financially from doing so. There is no international trading in these national emission rights.

These long-term permits would provide annual coupons equal to a specified amount of carbon that diminishes in quantity every year. Thus, if a company owning these emission rights does nothing to change its emissions, the quantity of the coupons disappears in time and more and more rights would need to be purchased to continue under business-as-usual emissions.

The second component of the policy is a central bank of carbon (CBC) which would manage the entire system independently of government. The CBC would print annual permits in order to maintain a pre-announced price of carbon in the current year. Every few years, the price would be reset based on observed emission reductions or as part of a global agreement on the carbon price. If an emitter cannot get enough emissions from the coupons in its long-term permit, it can obtain an annual permit for a fixed price from the CBC for that year.

The perfectly elastic supply of annual permits at a fixed, pre-announced price acts like a safety valve. It means that in any given year an emitter can reach its legal emissions requirement either by using an annual coupon from the long-term permit or by buying an annual permit—effectively paying a fine—from the CBC.

At a national level, the Hybrid approach controls the short-term cost of carbon abatement policy given uncertainty about global actions. If the rest of the world does nothing, the carbon price can be kept low until action is taken. However, if a global agreement eventuates and countries implement policies consistent with it, the short-term price would be stepped up over time. Coordination of national policies into a global regime would be done through carbon price agreements rather than (or in conjunction with) uniform emission targets.

There are two critical differences between the Hybrid approach and the standard cap and trade approach or a carbon tax. First, the Hybrid creates long-term returns for short-term actions. The existence of the tradable right to emit carbon over a long period means a change in behaviour in the short run which reduces emissions. Second, the Hybrid creates transparent constituencies—corporations and individuals—who own the long-term rights to carbon in the economy.

Thus, any government that tries to change carbon policy is more likely to face the wrath of the voters. Changing policy has been the biggest reason for the collapse of the Australian carbon tax.

There are better ways to generate carbon prices than the approaches usually proposed either in a conventional carbon trading market or through a pure carbon tax. Trying to avoid a carbon price system through subsidies can also work, but it'll come at an even higher economic cost relative to the alternatives. Any policy needs to be able to ramp up quickly if the evidence suggests more action is needed. The flexibility in the Hybrid approach to adjusting to uncertainty gives it an overwhelming advantage over more popular approaches.

In the end, the significant investments that will be required to move Australia towards a less carbon intensive future will be more likely to emerge under the stable and credible policy environment provided by a Hybrid policy approach to carbon policy than any of the more promoted, but so far unsuccessfully implemented, market-based alternatives. And a new solution might be just what's needed to find a way through the political impasse.


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元気
七輪焼肉
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2·3F
4F
海鱗丸
油そば
ITS'DEMO

# The reform narrative

**The narrative used to support economic policy reforms for the last 30 years needs to change to drive Australian success in the Asian century, writes Ken Henry AC.**

Narratives matter.

Policy reform proposals are unlikely to be implemented, and even less likely to prove resilient, unless accompanied by a compelling narrative. But compelling narratives can also be dangerous.

So it is with the core narrative that has been used to support economic policy reform efforts in Australia for the past 30 years. The narrative goes like this: reforms that enhance productivity and cut costs, including labour costs, build international competitiveness; international competitiveness drives exports; exports drive growth; growth drives jobs; and jobs support living standards.

This narrative is neither uniquely Australian nor modern. With its focus on exports as the foundation of living standards, it is strongly redolent of the mercantilism that Adam Smith set out to discredit in *The Wealth of Nations* published in 1776.

All economists reject mercantilist nostrums. But most of those engaged in Australia's economic reform program since 1983 demonstrated little aversion to harnessing mercantilist rhetoric in the pursuit of loftier goals.

We were delighted by the emergent public support for tariff reform in the late 1980s and early 1990s, even though the case that was being argued was classically mercantilist; tariffs on imported equipment had to be removed because they undermined the international competitiveness of exports, especially agricultural exports. And there were many other structural reforms in the two decades from 1983 for which the mercantilist narrative proved equally expedient, including labour market deregulation and indirect tax reform.

But we are paying a price for past expedience. The mercantilist narrative is so deeply entrenched that it is crippling sensible attempts to deal with some of our biggest challenges.

For example, in the past decade, as the international competitiveness of all trade exposed businesses has been damaged by a real currency appreciation caused by spectacular increases in world prices for minerals and energy commodities, we have found it impossible to have a sensible conversation about public policy requirements. Reform proposals have been presented tentatively, they have been poorly understood, and they have not proved resilient.

Similar difficulty is evident in the past decade's experience of climate change policy.

The fact that major policy initiatives in these areas have proven fragile has been cause for some questioning of our policy reform capacity. But really, given our national fixation with a simplistic reform narrative constructed on concepts of 'international competitiveness', 'exports', 'growth', and 'jobs', we should not have had high expectations of policy success in these areas.

And things could get worse.

If the mercantilist narrative has undermined sensible attempts to deal with the economic consequences of the mining boom and to contribute to international efforts to lower carbon emissions, that might be nothing compared with its crippling of efforts to position Australia for the Asian century.

According to the narrative, our prospects will be compromised by a set of Australian attributes developed over generations: excellence in governance; incorruptibility; safe working conditions; a concern with environmental sustainability and animal welfare; and institutions that support social harmony, economic and social opportunity, and tolerance.

All of these attributes support opportunity and freedom for this and future generations of Australians. They improve the wellbeing of the Australian people by enhancing their prospects of choosing a life of value. But a mercantilist might want to argue that all are costly; that Australia's international competitiveness could be improved by ditching any or all of them. And let's not kid ourselves; all are at risk.

Dr Ken Henry AC is Chair of the ANU Public Policy Fellows program. He was Secretary of the Treasury from 2001 to 2011.

*photo by Richard Schneider on flickr*

In contrast, in the development of the *White Paper on Australia in the Asian Century*, in consulting with hundreds of people in all walks of life in Australia, and with dozens of senior people in government, business and other sectors in the region, I was encouraged to see how each of these attributes might prove vital to Australian success in the Asian century.

And I was encouraged to appreciate that we should be making further investments now to add to the set of national capabilities that will support Australian futures in our region, including investments in Asian languages and the teaching of Asian cultures, history and geography. It is the strength of our Asia-relevant attributes and capabilities that will drive Australian success in the Asian century, not our ability to cut wage rates, nor even to boost average labour productivity or to grow exports faster.

Of course, the case for reforms to lift productivity is strong. Indeed, it is much stronger than implied in simplistic appeals to 'international competitiveness' and 'exports'. Whether they boost exports or not, productivity enhancements should be pursued because they expand opportunities, enhance freedoms and, in so doing, improve the wellbeing of the Australian people.

The same is true of much of the rest of the economic reform program implemented in Australia from 1983, including: the floating of the currency and liberalisation of cross-border capital flows; the broadening of the income tax base; an independent Reserve Bank pursuing low inflation; labour market flexibility; fiscal policy anchored by a bi-partisan commitment to balance over the course of the economic cycle; a sophisticated model of financial system regulation; low levels of protection against imports; world-class competition policy; and transparent and effective corporate regulation. The mercantilist narrative, with its preoccupation with international competitiveness, diminishes the efforts of a generation of Australian policy reformers who have been focused on more respectable goals.

It is about time Australian economists started articulating a more honest narrative; a narrative, even, that Adam Smith would have felt comfortable advancing.

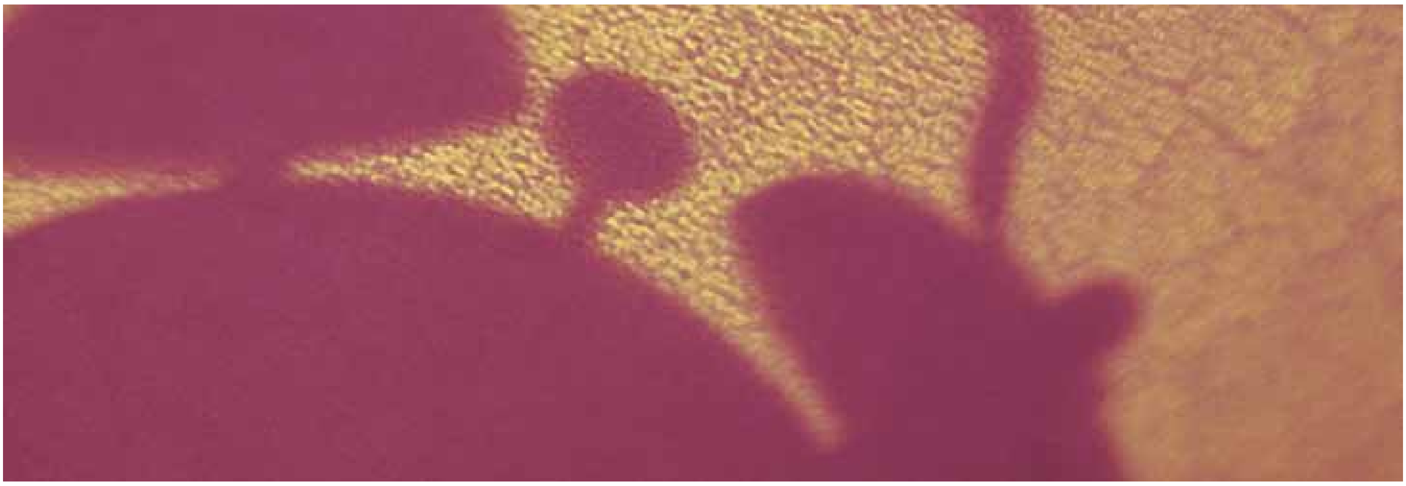
We might start by explaining that the economic, social and environmental outcomes of a nation rest upon its set of endowed attributes. Some of these national endowments are a consequence of nature, others of nurture. In the former category are a set of natural assets, including geographic location; the workforce capacity of the human population; energy, minerals and soil deposits; and native flora, fauna and ecosystems.

**Reform proposals have been presented tentatively, they have been poorly understood, and they have not proved resilient.**

In the latter category are to be found the products of foundational investments, including those made by previous generations, in such things as our rich Aboriginal and Torres Strait Islander cultures; modern multiculturalism; the visual and performing arts; our legal and regulatory structures; education and health facilities; systems supporting research and innovation; other economic and social infrastructure; policy frameworks that promote freedom and economic security; and working conditions that support human dignity.

National endowments are not the sole determinants of economic, social and environmental outcomes, of course. External drivers and shapers also impact national outcomes. Notable among current shapers of Australian outcomes are the information and communications revolution; global climate change; and the industrialisation and urbanisation of China. And outcomes are impacted, too, by all of the current policy settings of government, only some of which would properly be characterised as foundational investments.

The quality of public policy and its resilience will be assisted by the acceptance of a more honest reform narrative; a narrative that comprehends contemporary challenges and the important role to be played by government in nurturing national endowments that will ensure that individuals, faced with those challenges, have the capabilities to pursue lives of value.



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# Against the clock

## Helping governments flourish rather than fail drives Asia and the Pacific Policy Society Fellow Professor Ngaire Woods. By Belinda Thompson.

Policymakers and academics move at a different pace. For policymakers it's the pressure of a speedy solution to a pressing problem. For academics it's the painstaking and patient accumulation of evidence.

For Professor Ngaire Woods, the intersection between policy-making and academia is like the movement of the clock's hands. It helps explain why the two are often out-of-step.

The Asia and the Pacific Policy Society Fellow, Dean of the Blavatnik School of Government at Oxford University and Professor of Global Economic Governance, says the disconnect is an issue she thinks about deeply.

"Policymakers desperately need answers quickly. They are the seconds' hand of the clock, moving with pressing urgency and having to deal with major decisions on a wide range of things," Woods says.

"Then there are the civil servants, the commentators and the think tanks, who are the minutes' hand.

"Academics are the hour hand of the clock, in that they move more slowly. What they can bring, when it works—and it too seldom works for my tastes—is real depth of knowledge on specific issues.

"So when policymakers are trying to make a specific decision, they need that depth of knowledge from the academics. For people in government and policy-making there is never time to acquaint themselves with the full history or research view of a decision."

Professor Woods' own research focuses on global economic governance, the challenges of globalisation, global development, and the role of international institutions.

"The place I try to assist is when policymakers from the IMF or World Bank are making decisions on the future structure and the impact of proposed policies.

"The focus of my research has been how those organisations work historically and their governance structures so I can be a resource for policymakers when they want to know can we change this or that, and what would happen if we did this or that."

The lack of clear communication between policymakers in government and regional institutions, and their academic peers is a significant barrier stymying strong collaboration.

"From the policymakers' side, the questions being asked of academics are often not clear enough," Woods says.

"There are three mistakes academics tend to make. Between academics and policymakers the conversation is that all too often the government official comes with a problem they need to answer and the academic says you're asking the wrong question and you need to reframe the question (to what they're doing research on).

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"The second thing is to say the world is far more complex than you think and the academic goes into all the details, inadvertently paralysing the process; the policymakers have to make a decision quickly.

"The third thing academics do is to say, furthermore none of the options on the table can work. Academics need to ask themselves how useful is that when a decision has to be taken in a very short space of time?"

In her distinguished career, which began in New Zealand and saw her win a Rhodes Scholarship to study at Oxford University, followed by a period teaching at Harvard University before returning permanently to Oxford, Woods has never laid out a 'grand plan'.

"I didn't have a 'plan' but the one thing I was very clear on, right from when I began university, was that I really wanted to contribute to public policy and government," she says.

"It comes from a desire to make other people's lives better and a recognition that governments play a huge role in that. They can make people's lives a whole lot worse and also a whole lot better".

A career highlight for Woods was the opportunity to contribute to the work of the developing and emerging countries group in the International Monetary Fund (IMF) and World Bank, helping them to frame their governance reform.

"They wanted to change the structures but no one had asked whether it would be to their advantage," she says.

"In the same stretch of years I was also doing a television series for BBC (on public policy). When I sat down at the end of that three years and thought about what was the most rewarding, for me personally, it was the work for the Developing Countries Coalition in the IMF and World Bank. It just struck me as having greater impact.

"That work led me to start a workshop of policymakers from emerging and developing economies here in Oxford to help forge their agenda in the then newly created G20 Finance Ministers' Group. I found it more rewarding working with policymakers themselves and trying to help them."

Woods has little patience for those who criticise policy-making and governance without seeking to raise the capacity of government.

"If you want better government for every country in the world we have to work out how we support government and not just stand back and constantly criticise," Woods says.

"People talk about governments needing more capacity; for example in Britain, the United States and Europe in terms of financial regulation. That doesn't mean more money, more institutions, more agencies. It means more expertise, being more nimble, more capable.

"Whether it's a private organisation, a not-for-profit, or the government, if you want to attract very bright

**If you want better government for every country in the world we have to work out how we support government and not just stand back and constantly criticise.**

people, you need that organisation to be perceived as successful, and project success. If you constantly berate the civil service, the government and the people who work for government you create a vicious cycle and it's going to be very difficult to attract the best people."

To those disdainful of government, Woods lays down the following challenge: what are you doing to improve it? We need better government to flourish.

"It's far better to tackle incompetence at the right level, the individual level," she says.

"When the current British Government came and disassembled government agencies they very quickly found themselves creating the same functions in new agencies; it's a huge waste of public money. Many politicians like to do something highly visible, radical, whereas the reforms that are more successful use a process that is forensic and much less visible."

While Woods has been an advisor to major institutions, it is her role educating the policymakers of tomorrow that gives her the most satisfaction.

"There is no job in the world that I'd rather be doing. I see all the students in their first and last terms and you can tangibly see the difference," she says.

"They leave with the ability to reach out to somebody on another continent if they need specialist advice on issues policymakers in their home countries are facing."

If the future for academic and public policy collaboration is people like Ngaire Woods, then it won't be too long before all hands on that policy-making clock align, for the triumphant chime of midday.

# The North Korea challenge

## There are some clear and realistic steps the West can take when responding to the UN report on human rights in North Korea, writes Tessa Morris-Suzuki.

The report of the UN Commission of Enquiry on Human Rights in the Democratic People's Republic of Korea (DPRK or North Korea), chaired by Justice Michael Kirby, has provided a chilling and compelling account of widespread human rights abuses.

Writing in the last edition of *Advance*, Michael Kirby urged us to pick up on the inquiry's mandate and demand real change from the North Korean regime.

But, how should other countries and bodies like the UN respond to the evidence presented by the Commission? The dilemmas are obvious, the answer less so.

Armed intervention would spark another Korean War with potentially devastating human consequences. Further economic sanctions by Western countries would have very limited effect, since the North Korean leadership seems impervious to international condemnation.

Despite these dilemmas, there are immediate and practical steps that could be taken, and that Australia could and should be involved in putting these into action.

First, some brief comments on the current situation in the DPRK.

The DPRK is a desperately poor country and beneath tight state controls that operate on the surface, it is also a chaotic country. A large share of economic activity occurs in the 'grey market'. North Koreans, simply to survive, flout the law on a daily basis; everyday corruption oils a system where the authorities regularly turn a blind eye to a wide range of illicit economic activities, while clamping down fiercely on any signs of political dissent.

Since Kim Jong-un came to power, relations between the DPRK and its most important ally and trading partner, China, have deteriorated (although some major new economic projects with China continue to be launched). The North Korean Government is trying to diversify the country's international connections. One step in that process has been the re-opening of negotiation with Japan about various bilateral problems, including the fate of Japanese citizens abducted by North Korea—a problem which had led to a complete freeze in Japan-North Korea relations for more than a decade.

Against this background, there are three steps that the international community could take in response to the findings of the UN human rights report.

Firstly, as the report points out, major human rights abuses arise from the Chinese policy of returning refugees to North Korea, where they are generally imprisoned in terrible conditions. Given the noticeable chill in relations between China and the DPRK, now is a good time for strong but careful, quiet and diplomatic representation to be made to China to stop this practice of *refoulement*.

China is unlikely to make a public change to its policy, but is has already shown a willingness to turn a blind eye to the transport of a small number of refugees from its territory to safe destinations. A carefully coordinated international strategy on North Korean refugees could encourage China to extend this practice.

Secondly, this strategy would require more countries of the region to be willing to accept North Korean refugees. South Korea defines North Korean refugees as its citizens, and as a result, countries like Australia refuse to accept North Korean refugees for resettlement on the grounds that they have a home (South Korea) to go to.

But abundant evidence shows that many North Korean refugees have great difficulty settling in the South. Just as the international community cooperated to seek solutions to the problems of Indochinese refugees in the 1980s, there is a need for international cooperation to devise better responses to the present and future problems of North Korean refugees

Thirdly, the UN Commission recommends that states and civil society should foster people-to-people contact on social and cultural issues. This would promote internal change by helping to break down the barriers that separate North Korea from the outside world.

There are some fine existing models of small-scale cooperation between European and US NGOs and North Korean communities on health, agricultural and other projects. Australia's current policy of avoiding all contact with the DPRK and denying visas to all North Koreans hinders rather than supports the development of such dialogue, and should be reconsidered.

Meanwhile, as Michael Kirby emphasises, the outside world must continue to make known and speak out about human rights abuses in the DPRK. The long-suffering citizens of North Korea deserve nothing less.

Professor Tessa Morris-Suzuki is a North Korea expert based at ANU College of Asia and the Pacific. In 2013 she won the Fukuoka Prize for her work and research on politics, history and human rights in Northeast Asia.

photo by Clay Gilliland on flickr

# The beginning of the end?

## Is the proposed co-payment the first step towards dismantling Medicare, asks Laurann Yen.

It may never have delivered on the promise of free and universal health care, but Medicare still holds a treasured place in Australian policy.

In the past 30 years, beyond tinkering at the edges, no government has been game enough to risk the public's wrath by altering it.

But in the most recent budget, the Abbott government proposed a significant change to Medicare policy—a mandatory $7 co-payment for visits to the doctor. The justification was that the payment would create a pool of funds for medical and health research, a new twist to the principle of 'user pays'.

Opposition from the Liberal party to Medicare is not new. The Fraser government removed the original Medibank in 1981. However, the Howard government sensed that removing Medicare carried an unacceptable electoral risk.

Given the changes put forward by the government, we should consider whether the underlying policy intention of the proposed co-payment is a first step in the removal of a taxpayer-funded health insurance system.

The proposed co-payment has raised concerns for consumers and for consumer and welfare advocates. They highlight the risks of delayed attendance and reduced use by income-sensitive consumers, often the sickest, poorer members of the community.

General practitioners have also flagged their opposition to the co-payment, despite government belief that the proposal had their support.

Additionally, it has been suggested that it would cost around $17 to collect the $7 (factoring in any collection of bad debts). Since only $2 of the fee goes to the GP, it's hard to see that they could be supportive of the process, even setting aside the concerns they share with patient and advocate groups.

Cutbacks to the welfare state, including tax-funded support for health care, are a feature of contemporary Western economies—even the UK's NHS is facing the prospect of increasing privatisation. This trend is especially prevalent when governments feel that they are facing hard times and the long-term bills of welfare support with a shrinking taxpayer base.

Treasurer Joe Hockey has spoken of just such hard times and of the need for the community to face-up to the consequences of a sense of entitlement, particularly when it comes to services that government believes are not sustainable under current taxation and financial arrangements.

In a country proud of its 'fair go' culture, how is it that a policy that appears to be so directed towards the least well off can be floated? For low-income earners, $7 makes a real difference. How can this be made acceptable in the eyes of the electorate?

Governments have a number of strategic choices when reversing 'common good' policies, like universal health care. They can change the policy and brazen it out, arguing that the policy is necessary (hard times), beneficial (reduction in frivolous use) or not of their making (the decisions of the previous government have created the economic hardship).

Alternatively, a government might change the policy by default, altering the way benefits are granted or increased; as it does when raising the retirement age or linking pension increases to markers that give a less generous result.

Either way, the outcome is the same; reduced costs to government and reduced tax-funded benefit to some citizens.

Government can also change the policy arena by cost-shifting, in this case so the states become responsible for more Medicare costs with those who can't afford the surcharge going to hospital emergency departments instead.

With Medibank Private now offering preferential access in primary care for those with insurance, does the co-payment mark the beginning of the end for Medicare? Will we all move from tax-funded to personally-funded insurance that will include primary health care?

This may be the opportunity to revisit the dual insurance system that Australia has operated since 1974, but care is warranted—Medicare has, in all comparisons of cost, quality, equity and effectiveness, served us well.

It'll be a brave politician that performs major surgery on this system.

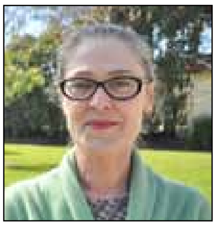

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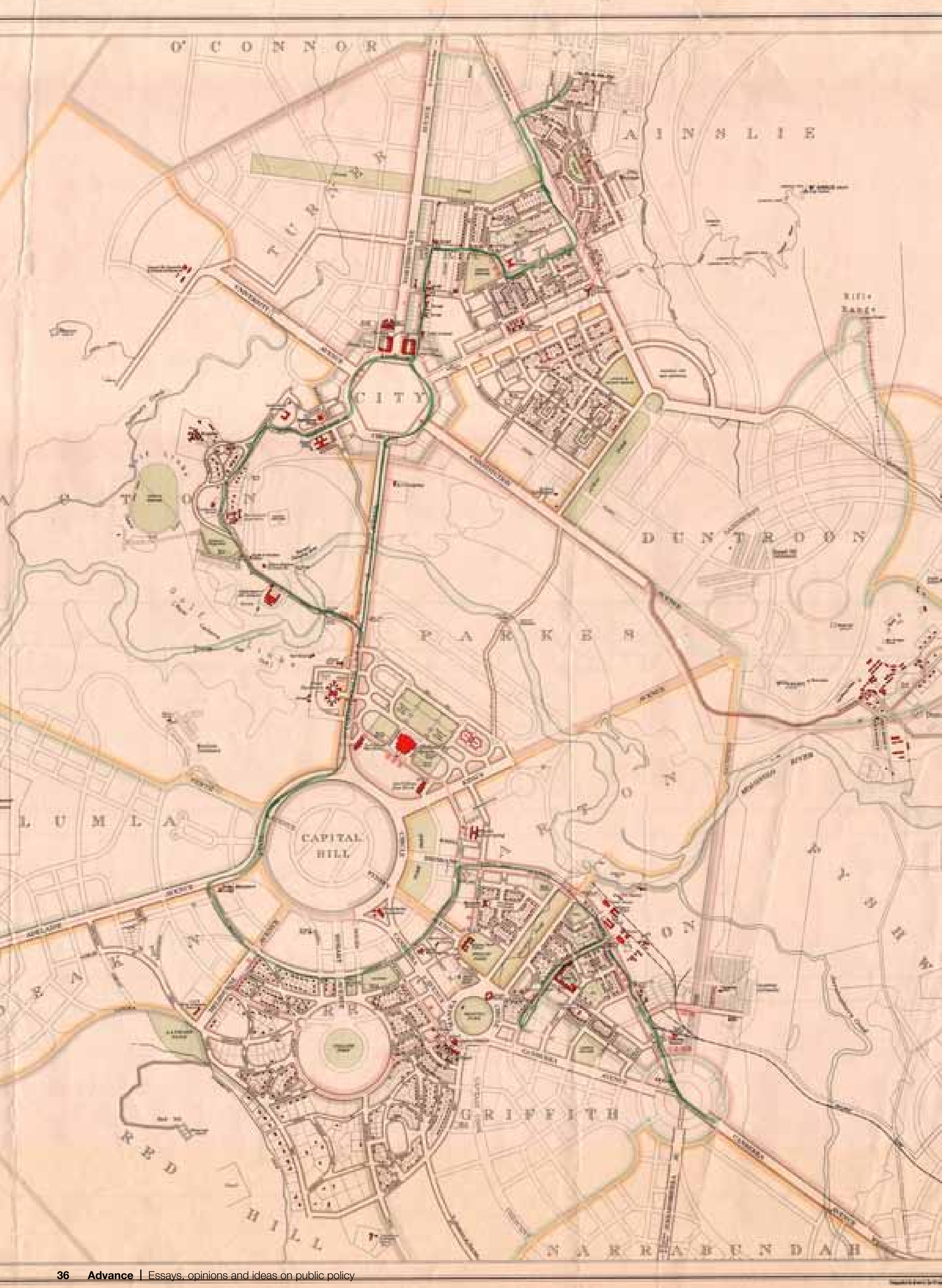
*photo by EdSos.de on flickr*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# Unlocking policy potential

## There are six crucial steps to success in delivering collaborative public policy, writes Mark Matthews.

If you've ever wondered why tackling major policy challenges is such a slow and laborious process prone to debilitating compromises and political fixes, it's enlightening to ask the public service and academics their views of each other.

Many in the public service will talk of the slow speed to gather evidence from academics, or a lack of understanding of the political realities they have to contend with in their decision making. Academics, meanwhile, will complain about a culture of 'quick fixes' or their work being ignored by policymakers.

Of course, the system can produce spectacular and successful policy, but more often than not it fails to deliver the ideal outcome.

This was one of the reasons behind the establishment of The HC Coombs Policy Forum—an experiment in building capacity in *collaborative public policy*; activities that bring together the distinctively different but complementary capabilities that exist in government and in academia. This type of collaboration jointly deploys government and academic resources to address complex and intractable policy challenges.

Delivering collaborative public policy is different from what traditional policy 'think tanks' do.

Think tanks work best when they are independent from government and can offer constructive criticisms and creative suggestions because they are offline from internal politics and structural constraints.

In contrast, collaborative public policy sets out to be *interdependent* rather than independent. It focuses on better exploiting the synergies between the enormous breadth and depth of the expertise in universities and, in government, on the political realities of governing. Universities that build capacity in collaborative public policy are able to provide a tangible demonstration of public value via policy impact. How is this achieved? In the experience of the HC Coombs Policy Forum there are six keys to success.

Collaborative public policy requires an *appetite for risk*; being able to deliver exploratory and experimental work useful to policy formulation. It is hard for government and (increasingly) for academia to take risks. Hence, a unit with that distinctive mission is well placed to make a difference.

For example, in 2013 a partnership between the Forum and a state government in Australia completed work that developed a faster and more cost-effective methodology for evaluating government spending. This method is based on the use of structured hypothesis testing—as used by the intelligence community. These advances are now attracting attention internationally, including from the OECD.

Achieving those advances required risk taking; when the opportunity emerged the state government agreed to a contract variation that allowed an experimental pilot project to take place. Their reward for this risk taking is sustained long-term cost savings in delivering internal evaluation activities.

A clear focus on maximising the return on investment *for governments* is critical.

Avoid trying to approach the return on investment symmetrically by trying to maximise the returns for *both* government and academia. What constitutes success is not necessarily shared.

The incentives in academia tend to focus attention on peer-reviewed excellence, teaching and income generation (to fund research). That stance is unlikely, directly, to give governments what they seek.

Maximising the return on investment for government avoids conflicting strategic priorities, and gives a clearer demonstration of the value of academic expertise than if attempts are made to maximise the immediate returns for *both* government and academia.

Dr Mark Matthews is an Adjunct Associate Professor at Crawford School, ANU College of Asia and the Pacific. He was Executive Director of the HC Coombs Policy Forum until June 2014.

photo by ArchivesACT on flickr

## A clear focus on maximising the return on investment for governments is critical.

An explicit focus on partnerships provides an effective means of building the trust and reciprocity that is critical to collaborative public policy. Bilateral arrangements involving government funding for specific purposes can provide a particularly effective basis for building these partnerships because handling investment risks involves both parties working together to make the arrangement work.

The interface between government and academia is most effective when the mix of specialists and generalists found on the government side is matched by specialists and people with generalist skills on the academic side. Generalists in academia are important because they are able to achieve the twin functions of 'translation' while also mitigating the risk that the specific interests of government do not readily match those in the academic research base.

It is very useful for government officials to recognise when available internal information, research capacity and expertise is limited in a particular policy area.

Awareness leads to a clear sense of governments' perceived 'value add' from specific government-academic collaboration projects. The partnership between the Tasmanian Government and Crawford School of Public Policy that produced the Tasmanian Government's *Tasmania and the Asian Century* white paper in 2013 illustrates this.

This was the Tasmanian Government's first white paper in over a decade and, on their own admission, would not have been possible without an effective partnership with academia because they did not have the available information, research capacity and expertise to inform policy development.

An exclusive reliance on the concept of 'evidence-based policy-making', contrary to what many people assume, is not necessarily the most compelling means of framing the value proposition for collaborative public policy. A reliance on empirical evidence alone can limit governments' ability to make decisions quickly when there are substantive uncertainties and information limitations with consequent risks to effective policy-making.

We need to move beyond the limitations to evidence-based policy-making by focusing on ways of articulating how 'intelligence-based policy-making'—based on structured, hypothesis testing applied to patchy and ambiguous information, and to weak signals of potential future occurrences—can operate at a more general level in government.

As in science in general, the all-important ingredient of *creativity* in the policy formulation process is achieved by suggesting hypotheses that can be tested empirically. It is far easier to focus attention on the importance of creativity in public policy when there is a more explicit emphasis on generating hypotheses and on selecting between competing hypotheses on the basis of available evidence (even if very limited).

The intelligence-based approach encompasses evidence-based policy-making—but is not limited by the constraints of the latter. Formal hypothesis testing methods may be far better suited to coping with the need to make decisions quickly when there are uncertainties, risks and information limitations.

Universities can contribute to intelligence-based policy-making by making methodological advances in how to deal with the ever-present challenge of making decisions under uncertainty. This results in a broader and richer landscape for useful government-academic collaboration than is implied by the narrower notion of evidence-based policy-making.

The bottom line is that the greatest potential for universities to demonstrate 'impact' in public policy lies in developing capacity in collaborative public policy by paying attention to these six key success factors.

This results in a stronger emphasis on advancing the *technical methods* used in public policy than is commonplace in most policy think tanks. It also takes a serious step towards bridging the gap between academic evidence and policy implementation success.


# Beyond free trade agreements

## What comes next for Asian trade strategy, asks Peter Drysdale AM.

Negotiations on the Trans Pacific Partnership (TPP) (led by the United States in APEC's backyard) and the Regional Comprehensive Economic Partnership (RCEP) (under the umbrella of ASEAN) dominates thinking about regional integration.

These agreements are designed in part to leverage value out of the plethora of bilateral free trade agreements (FTAs) negotiated over the past 15 years. Yet trans-regional FTAs, like the proposed TPP, are only a small step, incidental to realising the potential of Asian economic integration.

Asian economies are already highly integrated. Their interdependence grew under the global trading regime, not through bilateral or regional trading arrangements. Deeper regional economic integration remains a principal objective, but involves more than mega-regional trade deals.

In the next stage of Asian integration, RCEP governments need to go beyond negotiating a single-undertaking trade deal along TPP lines.

The region is characterised by growth and dynamism that requires continuous structural change and adjustment. A comprehensive RCEP can aspire to be a model for a global set of principles-based rules for managing trade and other forms of international commerce in the 21st century.

The many bilateral FTAs signed to date have not brought significant commercial or domestic reform in the region and, with difficulties in concluding the Doha Round, the hiatus in trade reform puts weight on regional trade initiatives. While these initiatives can be used to prosecute regional economic and political cooperation, they are unlikely to succeed unless also directed to strengthening the global economic system.

*photo by Hakan Dahlstrom on flickr*

Peter Drysdale is Emeritus Professor of Economics and Head of the East Asian Bureau of Economic Research and *East Asia Forum* at Crawford School, ANU College of Asia and the Pacific. He is widely recognised as the leading intellectual architect of APEC.

The rapid growth of trade and investment in East Asia was driven by unilateral trade and investment liberalisation. This was the foundation for the deep integration that emerged in Asia around the development of global supply chains. China and other Asian economies are integral parts of supply chains driving economic integration and growth in East Asia and globally. It is through these supply chains that emerging economies in Southeast and South Asia can join the globalisation process and embrace the rules of an open trade and investment regime.

APEC led this process and was the forum that promoted concerted unilateral liberalisation, including China's massive liberalisation before its accession to the World Trade Organization. APEC also laid the foundation for the Information Technology Agreement that was critical to building Asian supply chains. These were the foundations of comprehensive Asian and trans-Pacific economic integration and multilateral cooperation.

Until recently, China was not ready for an active leadership role at regional or global levels, but that is changing. While China needs to remain open to eventual participation in TPP, the immediate best way forward will be through RCEP, which provides a framework for mobilising middle powers to strengthen regional institutions.

RCEP must be shaped so that it sets principles-based rules for managing contemporary international commerce and entrenches routine regional cooperation. If emerging economies in other regions see merit in sound rules agreed by China, India, Indonesia and other ASEAN+6 economies, those rules can form the basis for a global regime, rather than advanced economy standards and rules set under other arrangements like the proposed TPP.

RCEP must aim to have the region's developing countries commit to high standards in reasonable timeframes, not exclude them for not having developed country standards to start with.

RCEP, unlike TPP, involves all Asia's major economies. It is a way forward on economic cooperation, underpinned by the ASEAN framework. Bringing together the ASEAN+1 trade agreements with Australia, New Zealand, and India will be difficult even with ASEAN as the fulcrum. But it need not mean pursuing drawn-out negotiations in the manner of the TPP or traditional FTAs.

RCEP is also a strategic opportunity to create a more favourable geopolitical environment in the region. It will need re-branding to engage high-level political effort to that end, and it will need elevating quickly around the ASEAN Economic Community (AEC) in the form of an Asian Economic Community conception of RCEP.

**Until recently, China was not ready for an active leadership role at regional or global levels, but that is changing.**

A streamlined economic cooperation agreement is a key step towards RCEP's objectives, embracing an agenda of comprehensive regional economic integration, development and political cooperation. That would parallel the strategy for realising the AEC.

Upgrading the 1990s ASEAN Free Trade Agreement (AFTA) to the more comprehensive ASEAN Trade-In-Goods Agreement (ATIGA) was one of the first steps taken to implement the AEC, alongside a broader program including the Master Plan for ASEAN Connectivity. An innovative umbrella FTA among RCEP participants to supersede the five ASEAN+1 FTAs can be negotiated in parallel with other steps needed to achieve deeper economic integration, regional development and political goals.

In this conception, the most effective strategy will be a creative combination of agreed and binding targets for 2025; commitments negotiated by 2015, and further cooperation to implement these targets by all members from 2015 within a newly established institutional framework for regional cooperation. The down payment can include extending best offers within the ASEAN+6 to all RCEP members.

This regional trade strategy will deliver most if it is ambitious, inclusive and organised around principles-based rules that strengthen the global system as well as regional outcomes.

*photo by Thinkstock*


# Tackling corruption

## What makes an effective anti-corruption organisation? By Belinda Thompson.

Think of an anti-corruption body in Australia's neighbourhood and you are almost certainly envisaging an organisation with the word 'independent' in its name.

The model for many of these is Hong Kong's Independent Commission Against Corruption (ICAC). But is independence the key to the success of anti-corruption bodies, or is autonomy more important?

Emeritus Professor Martin Painter from the City University of Hong Kong has done a study on anti-corruption bodies in the Asia Pacific region which is published in Crawford School's journal, *Asia and the Pacific Policy Studies*.

"I think the notion of independence tends to stress freedom from interference by politicians or by other bureaucratic agents where I would rather stress the importance of capacity," Painter says.

"Autonomy has a more positive sense of the kind of things that need to be associated with a successful anti-corruption campaign; autonomy in a sense they can take direct action and follow up investigations and have the resources and the capacity to do that effectively.

"It needs to have capacity as well as some form of neutrality."

Given corruption among police forces, Painter says it was important to have a specialised body external to the police to investigate corruption.

"One of the reasons that an agency needs autonomy is that they're going to be in a fight, it's going to be very dirty and bloody, and if the police in particular are one of the agencies it is fighting against it'll need all the power and muscle that it can get," he says.

Taking key lessons from other established agencies and determining what about their success could be applied in other contexts was an important step for countries in the region, Painter says.

"If you have an independent commission or some kind of powerful anti-corruption commission, I think the most important thing to do in that context is to set it up in a place and with resources that give it power and effectiveness, not worry about the niceties of judicial independence.

"There is no point having that capacity in a location where it will be undermined. So for example in Hong Kong it was deliberately taken out of the police department for the very reason that in the police department it would have been undermined.

"There may well be similar contexts in other places where you'd move it out of the normal context of investigation and put it somewhere else and give it the specialised powers and capacities to do its job. Where that somewhere else is may be less important than if you give it those capacities."

*Watch a video of Martin Painter discussing his paper: http://bit.ly/corruptionvid*

Martin Painter's article on corruption is published in Crawford School's journal, *Asia and the Pacific Policy Studies*.
To read the paper visit: http://bit.ly/martinpainter

*photo by Ken Teegardin on Flickr*

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| 3 Oct | Introductory | A beginner's guide to macroeconomics for the public sector |
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