

14 of 112 DOCUMENTS

The Australian

June 3, 2008 Tuesday
1 - All-round Country Edition

Kevin 24-7 or 7-11

BYLINE: Henry Ergas**SECTION:** FEATURES; Pg. 12**LENGTH:** 1440 words

The PM must stop confusing activity with progress and focus on real reform, advises **Henry Ergas**

IF Australian public policy formulation is rarely a dignified process, the FuelWatch debate has plumbed new depths. Australian Competition and Consumer Commission chairman Graeme Samuel emerged as the white knight for the Government from which he is seeking reappointment, brandishing an econometric study that claimed to find support for the scheme.

Seizing on the ACCC's support, Kevin Rudd -- self-proclaimed economic conservative and champion of deregulation -- resurfaced as the crudest of populists, casting the issue as a titanic battle against big oil. A bemused public would have been forgiven for thinking that never had so much been made of so little.

This is all the more the case as it is a mystery worthy of the finest detective writers, if not a fitting subject for psychiatric investigation, that the ACCC study could have been given any weight, much less made the foundation on which one of Australia's largest industries would be subjected to costly, intrusive and internationally unprecedented regulation.

In effect, the ACCC released virtually nothing: not the specifications it had used, nor the tests of statistical significance that routinely serve to assess the robustness of the results.

Additionally and importantly, it refused to disclose the underlying data, making it impossible for others -- including the Opposition -- to actually assess the ACCC's approach, examine whether its claimed results could be replicated and test whether other explanations of the trends in that data might prove superior.

That such scant information, selectively disclosed, would provide the basis for a massive expansion in regulation begets the imagination.

But even putting that aside, the ACCC's own results, for whatever they are worth, gave little or no support to its claims. Thus, the main result to emerge from the econometric study is that petrol pricing behaviour in Perth changed, relative to elsewhere, in early 2000: that is, well before FuelWatch came into effect.

There is no earthly reason why FuelWatch's effect would have been felt before it was up and running: indeed, it is more reasonable to expect the opposite, that it would take a year or so for those effects to materialise, as consumers and retailers learned to use the information provided. Rather, the most logical explanation for the ACCC's result is that the change in price relativities was the combined effect of changes in market structure, the response in Perth to the early 2000 reductions in fuel excise associated with the GST

and, most importantly, the acceleration in local economic growth.

As the ACCC does not appear to have tested that possibility, it is simply incapable of saying what effect, if any, FuelWatch had.

In short, the ACCC's intervention is not an instance of evidence-based policy. Rather, it exemplifies what London economist John Kay, reflecting on the Tony Blair years in Britain, has aptly termed policy-based evidence: the tawdry process in which studies are disclosed by government not because they genuinely test the proposals being put, but because they support the decision already taken.

As Kay puts it, with only facts and arguments that support the desired policy being disclosed, the analytical basis of decision-making is eroded, not enhanced.

That this should have been done to support FuelWatch is all the more bizarre. In effect, even FuelWatch's strongest supporters accept that its benefits, should it have any, will be very slight indeed.

The best that can be said for it is that at least it shows the Government cares. It is as if King Canute, rather than distress his subjects by admitting he could not control the waves, had sought to appease them by building sandcastles. Had that been his choice, who today would know his name?

That is the choice this Government must make: whether it will genuinely engage with the difficult issues or descend into a policy of shallow palliatives that do nothing to advance the ends other than give the illusion of having found a means.

So far, the indications are not promising. Impossibilities, such as controlling the price of petrol and food, are pursued long after any rational belief in them has ceased, out of what seems like exasperation and a petulant obstinacy.

As for the means themselves -- be it the threatened controls over banks and supermarkets, or the FuelWatch scheme -- their main merit is said to be their very smallness and unimportance, although their economic costs may end up being anything but trivial.

All of this suggests an underlying lack of substance, also evident in the ill-fated computers-in-schools program and in the many poorly considered decisions presented in the federal budget.

What makes those decisions poorly considered is their detachment from any wider, properly thought through framework. Changing the arrangements for private health insurance, for example, may well make good sense. But it makes no sense at all to undermine its viability before having found a sustainable architecture for the health system, defined the role that private health insurance will play in that system and devised the means by which that role will be fulfilled.

It is for this reason that the changes to the Medicare levy surcharge were far worse than a mistake; they were a blunder. Blunders such as these can occur in any government but the Rudd Government seems especially prone to them.

This is partly because, to its credit, it is trying to address some of the most complex governance issues Australia faces: issues without easy answers and where progress depends on intricate and interwoven steps.

But it is also because of Rudd's approach, which centralises far more than the centre can effectively cope with. At the same time, the Government seeks to give the impression of frenetic activity, even when the reality is that formulating good policy -- policy that can stand the test of implementation -- takes more than the bright ideas of consultants or the overnight cogitations of the Government's advisers.

As these forces collide, decision-making degenerates into a chaotic process marked by an ever higher ratio of dust to motion.

Even the best governments, when they overcentralise, fall into this trap. Margaret Thatcher, for example,

was a great centraliser, but her extraordinary forensic skills allowed her to master and clinically dissect complex briefs, quickly exposing their weaknesses, except when the ideas to be tested were her own. Thus was born the disastrous poll tax that was to be her undoing, an idea poorly conceived from the start, then made worse by a distorted process of policy development and finally implemented well before it was ready to be.

Blair, who lacked Thatcher's drive and sharpness of mind, then took an already too centralised structure and made it even more so. Blair's rhetoric extolled the management style of major corporations, but firms such as BHP Billiton or Woolworths are not run by their communications consultants. Blair's government was -- as that was all an ever-more-harassed centre could effectively do -- in the process robbing the government of any ability to develop sensible, sustainable policies.

Like Blair, Rudd does not have the kind of mind Thatcher brought to the administration of government. His ideas often lack focus, and unlike a Paul Keating, a Bob Hawke or a John Howard, there is no defining centre to his thinking that can orient the policy process. The result is a fuzziness -- a desire to cover all bases and tick all boxes -- that can impede the ability to distinguish right from wrong, better from worse, other than by the politics of the moment.

No amount of energy or ability for hard work can overcome such a weakness. Rather, by confusing activity with progress, that energy makes it worse. Rudd's counterpart, French President Nicolas Sarkozy, prides himself on being at work by 4am and hitting the airwaves by the time the first commuters pile, bleary-eyed, on to the Paris metro. But all his long hours do is give him more opportunities to make mistakes.

There lies the risk for Rudd. As he presses on, making government by self-exhaustion a proof of virility, the much-vaunted Kevin 24-7 could readily degenerate into Kevin's 7-Eleven: open all hours, good for a bite, but far from the substance today's challenges require. Were that to happen, it is not only the Government's aspirations for reform that would be lost, but also the opportunity to make some of the many changes Australia's future prosperity clearly requires.

Henry Ergas is the chairman of Concept Economics.

LOAD-DATE: June 2, 2008

LANGUAGE: ENGLISH

PUBLICATION-TYPE: Newspaper

JOURNAL-CODE: AUS