

Shackleton's final concern is the growing power of special-interest groups prospering from the large state-financed training expenditures. This is a mixed, but unsurprising, bag of beneficiaries. It includes the government itself, anxious to be seen to be doing something to combat high unemployment; the unions who benefit from the fact that qualifications can be used to reduce competition in labour markets while enhancing the 'rents' of existing workers; employers who might now be able to substitute government funds for funds they would otherwise have invested themselves to train their workers; and the training industry whose livelihood benefits directly from increased expenditure on training. Indeed, classic interest-group activity by the training industry is so strong that the British government has been forced to revive its own National Training Task Force to act as a counterweight. Finally, there are the trainees themselves. In periods of high unemployment, any edge gained over others, especially if acquired at zero or negligible cost, will be welcomed. For all these groups, expenditure on training becomes an end in itself. Unhappily for the taxpayer, the question of who pays, and what net benefits are gained by the economy as a whole from these expenditures, tends to recede further and further into the background.

Although this book focuses on British experience in the 1980s, Australians will have to deal with the same issues in the 1990s. Shackleton's altogether too brief account of developments in Britain provides timely warning that no one responsible for Australia's economic welfare, or for committing public funds to occupational training in Australia, can afford to ignore.

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## Settling for Mediocrity?

*David Hughes and Robert Albon (eds), Capital Ideas: Suggestions for Economic Reform in the ACT, Federalism Research Centre, Australian National University, Canberra, 1993.*

*Reviewed by Tony Rutherford.*

Considering the importance of the Australian States in the economy and in public policy formation, economists and policy analysts have proved remarkably reticent in promoting coordinated studies of State policy. But contributions to the field have increased over the last four or five years. For example, *Budgetary Stress: The South Australian Experience*, edited by Dick Blandy and Cliff Walsh, was published in late 1989. That was followed by the various Project Victoria studies, written and published by the Institute of Public Affairs and the Tasman Institute be-

tween 1991 and 1993; followed in turn by the IPA's *Reform and Recovery: An Agenda for the Next Western Australian Government*, published in 1993. This increase in attention and activity is timely. Following the Greiner revolution in New South Wales — as well as the oddly unsung success of the Bjelke-Petersen fiscal regime in Queensland — the centre of gravity of fiscal and microeconomic reform has been shifting from the Commonwealth to the States.

Now we have this very useful volume on the Australian Capital Territory. Its emphasis is slightly different from that of its predecessors: the ACT has only recently achieved its 'independence' and is still being weaned from the federal fiscal umbilical cord. An optimist might believe that it had not yet had time to develop the nasty fiscal habits of its older siblings. A realist might rather have predicted what in fact is happening: the ACT is showing every sign of being a spoilt child. Endowed with a wealthy population, goldplated infrastructure, very considerable economies of scale, low unemployment, and very little debt, it nevertheless seems to lack purpose, to be content aimlessly to squander its inheritance. So there is a common sense among the authors of urging clarity of thought and appropriate action before it really is too late.

The authors' preferences are largely for market solutions over government solutions, consumers over providers, clear rather than arbitrary property rights, and definable equity rather than 'social justice'. The chapter on education comes out in favour of autonomous schools and per-pupil funding; the chapter on urban transport recommends substantial deregulation and private-sector involvement; the chapter on public housing plumps for a tenure-neutral housing allowance scheme.

This is all clearly thought-out, unexceptionable, economically rational policy advice. One wonders, therefore, why the authors tend to be so defensive about their being charged with ratbag economic rationalism. The substance of the book is itself proof against idle criticism: until those who profess to oppose 'economic rationalism' reply with equally patient and lucid analysis of present policy and policy alternatives, they have no claim to be taken seriously. In the meantime, as with its predecessors, readers will have to tolerate a natural tendency for the preliminary analysis to outweigh the policy findings.

In *Capital Ideas*, this tendency only rarely gets out of hand. The policy end of the Health chapter is the lightest in detail. This is understandable in view of the policy constraints imposed by the Commonwealth; but likely reform models, such as the Victorian casemix experiment (briefly mentioned) and the now standard provider-purchaser split, could have been outlined at greater length. (And in view of the Commonwealth's own health finance problems, it might have been wise to add that cost-shifting from State to Commonwealth is likely to provide only short-term relief.)

There are few other conspicuous omissions. Non-ACT readers of the chapter on Urban Planning may well wonder whether there is a place in the ACT for a tier of local government, given that on a population basis it might be expected to have three or four councils, and that well-designed local decision-making might help with

some of the problems that the author raises. Perhaps no one believes any more that well-designed local government is a rational possibility.

David Hughes and Robert Albon end the book on a pessimistic note. 'The question now is whether or not we will respond to this increasing financial pressure with imaginative reforms. The experience of the States and the ACT so far suggests that we will not embrace reform, but rather settle for mediocrity in government or, worse, end up in crisis. If mediocrity or worse proves to be the extent of our political horizons, we will have no one else to blame but ourselves' (p.241).

That may well be more true of the ACT than of the other six States and the Northern Territory: it must surely have the wealthiest and best-educated population of all eight entities, a population surely more capable than most of doing the right thing. But it would seem to be untrue in some important respects. Voters may often seem to do silly things, to vote, indeed, against their own (and their children's) long-term interests. Until it is proven otherwise, however, we would all be much better off assuming that they do so not because they are silly or selfish or perverse, but because they are required to vote on the basis of the most imperfect information imaginable. The relationship between the cost and the benefit to any given voter of any given policy is never explicit. The cost of any given platform of policies is even less ascertainable (although *Fightback!* was an unusually brave step in the right direction). How voters should rationally respond in these circumstances is possibly, in the end, an insoluble problem; but it is one we should all bear in mind.

One partial solution is, of course, steadily to reduce the domain of government policy, so that fewer activities are subject to the hazards of imperfect information. Another partial solution is to make costs as transparent as possible. This is a consideration which has relevance here to, for instance, Robert Albon's chapter on Taxation. It can be argued that the traditional criteria of taxation design — such as efficiency and equity — should come well behind visibility. Whatever — to take an obvious example — economists eventually decide about the final incidence of payroll tax, it is an unhelpful tax in that it is essentially visible only to members of the local chamber of commerce. Given the limited tax bases available to the States, and the Commonwealth's present unwillingness to discuss alternatives, Albon's preference for beefing up property rates and taxes is probably sound.

One more example. There has been a lot of good, economically rational advice over recent years on such matters as user charges for public-sector services, and how to improve the operations of public trading enterprises. Much of the advice has been successfully implemented; the efficiency of many of our electricity utilities, say, has been dramatically improved. But *cui bono?* The Business Council of Australia has recently calculated that 'almost 100% of the gains from the very successful microeconomic reform in Pacific Power have been captured by its shareholder, the NSW Government' (Bruce Kean, 'The Need for Reform: Private Sector Views', *Business Council Bulletin*, 105, January/February 1994, p.26). Indeed, this year, dividends and similar statutory payments by public trading enterprises to Australian governments will grow by A\$1.2 billion or 60.9 per cent; user charges will grow by 1.5 per cent to \$12.9 billion. This is not accompanied by a commensurate

decrease in standard revenues. So at the end of some years of reform, it is not easy to see how far any of us is actually better off; and the tenuous link of accountability between taxing and spending is certainly weaker.

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## **Founder and Critic**

*H. W. Arndt, 50 Years of Development Studies, National Centre for Development Studies, Australian National University, 1993.*

*Reviewed by Clem Tisdell.*

This is a valuable selection of 24 papers written by Heinz Wolfgang Arndt over a period of a little over 50 years on major issues in economic development. The new preliminary material with which the author introduces each paper greatly enhances the volume because it sets each paper in its historical and institutional context and relates it to the historical development of thought about development studies. This is particularly appropriate for this volume, the fourth in the History of Development Studies series of the ANU's National Centre for Development Studies.

The first paper, written in 1942, discusses the agricultural labour surplus problem in eastern (including south-eastern) Europe. In 1937 a very large surplus of agricultural labour existed in eastern Europe and this was predicted to increase significantly in 1952 in the absence of countermeasures or fortuitous developments. Thus the absorption of surplus agricultural population was expected to be an important economic issue in eastern Europe after World War II. Of course, as events transpired, it became largely a problem for the former Soviet communist 'empire' to deal with, a development that could not have been foreseen with any certainty in 1942.

Arndt covers the difficulties and problems involved in defining and measuring the size of the surplus agricultural population. These issues and the problem of absorbing the surplus agricultural labour force remain important issues in many developing countries today, such as China. It has been estimated that approximately a third of the Chinese agricultural labour force is surplus in an economic sense. In fact, it seems likely that past communist systems both in the east and the west of Eurasia did much to exacerbate the agricultural labour surplus problem.

The last essay in this book (written in 1993) involves a discussion of the environment and economic development centred around the concept of sustainable development and the question of the appropriate discounting of future benefits and costs. The catalyst for this contribution is a review of D. Pearce, E. Barbier and A. Markandya, *Sustainable Development Economics and Environment in the Third*