

Ceteris Paribus



November 2004

Economic Society of Australia, Victoria

Political style over economic substance

Nicholas Gruen, CEO Lateral Economics, reviews the 2004 federal election

In the recent election, real engagement on economic policy was displaced by subliminal politics and political tactics.

As polling and focus groups indicated, the electorate credited the Coalition for our recent good economic performance. This identified economic management as a negative for the ALP. Given this, Labor decided that any attack on the Coalition's economic credentials would nevertheless direct debate into an area of agreed Coalition strength. ALP memories went back to the last election when it ended the campaign on the front foot over 'children overboard', wondering all the time whether winning the battle might nevertheless contribute to losing the war given the widespread belief that security was the Coalition's issue.

As a result neither side really debated economic policy, but the Coalition gained great traction with its subliminal appeal to its own reputation as a good manager. In a curious detail, this was the first election in which we were repeatedly reminded how big the economy was - \$800 billion dollars - the implication being that you needed someone pretty experienced to keep track of quite so many dollars. (I know he has help, but to this day I am still amazed that John Howard can do it. I guess we just have to hope that he can still keep track of things when we

pass the trillion dollar mark!)

In the meantime, the warning signs went unremarked - 6% current account deficits, stalling export volumes, R&D, now rising at least, but still a lower share of the economy than it was ten years ago, inflation of over 4% in our non-traded sector, and a scary level of private debt. It is certainly possible to tell a benign story of how we will manage the transition from the consumption driven growth that made sense at least whilst export demand was low, to export led growth. Perhaps it can be managed smoothly, but I have my doubts.

Six economists (including myself) tried to draw attention to some of these problems and set out a suitably bipartisan outline of the major issues. We tried all the tricks: our choice of headings - prudence, participation and productivity - allowed the unalloyed allure of alliteration. The statement made quite a splash being published, quite fortuitously, on the morning of the debate between Treasurer Costello and Shadow Treasurer Crean. But neither man mentioned it and when eventually prompted by media questions, both returned to their more familiar bickering about tax winners and losers.

Both men had good reasons for not dwelling on the potential weaknesses of our economy.

Acknowledging them would obviously take the gloss of the Government's claims to good management. And both were bidders in an auction of giveaways.

Greater fiscal prudence, and where that was not possible or desirable, a greater expenditure of outlays on investment in reform rather than current consumption, would have cramped their style.

There was another reason. Both parties were playing 'you show me yours and I'll show you mine'. Each wanted to steal the other's thunder, and both were maneuvering for the title of most fiscally responsible (by being least fiscally irresponsible!). This acquires an additional degree of difficulty when one is looking in the rear vision mirror trying to spot how much cash your opponent has littered in his wake. Consideration of the fundamentals of fiscal responsibility, and the wise expenditure of outlays that were committed, was thus displaced by campaign tactics. Though those in the 20/20 hindsight bandwagon all agree that the ALP's policies were released too late to be effective, this is ultimately driven by the news values of the media. The media will run dead on policies that are not 'new' and so a campaign must consist of a steady stream of new policies, however desirable it would have been to release them much earlier. This is a continuing problem for our democracy.

President's Parley



I am pleased to act as your President for another year. It will be an exciting one, with the

Australian Conference of Economists in Melbourne in late September (2005), including a wonderful line-up of star speakers/presenters. In addition, we will present another forecasting conference, our usual round of topic-specific briefings and of course Cet. Par. most months to keep you fully informed of our doings.

A highlight to come very soon is the Year-End Function/Party at the Reserve Bank on December 9th next when we review the year, network together, make merry and induct three new life members. It would be good to have every Cet. Par. reader there, other things being equal!

I am giving seminars to each State branch as National President on "Economists - where and how we make a difference". If you have any of your own examples (or regrets) along these lines, please tell me.

I have included an abridged version of my Branch Presidential Report for the last year.

Best wishes to everyone. NN

Mark in Diary!

Year-end Party

5.30pm, 9 December,

RBA, 13/60 Collins St

The Ethical Pricing Project

Much has been written about companies managing their stakeholders with ethical business practices, social responsibility programs, and the like. Companies that adopt such practices and programs tend to outperform those that do not.

Consumers, those that buy a company's products and services, are perhaps the most important stakeholder of all, without whom an organisation is unlikely to survive. Yet little research has been conducted into consumers' perceptions towards ethical pricing practices.

Organisational pricing practices can be said to reside on a continuum. At one end are those practices, such as predatory pricing, that are prohibited under competition and anti-trust law. At the other end, lies the concept of "dual entitlement" - a doctrine that says that a customer is entitled to a fair price and the company selling a product or service is entitled to a fair profit.

In between these two extremes of the pricing continuum lies the gray area of ethically acceptable pricing, the definition of which will vary from consumer to consumer, and from one product or service to another: What is a "fair" price to pay and a "fair" profit for a company to make, taking into account the business practices that determined the price?

Sans Prix Pty Ltd, a Melbourne-based independent pricing consultancy, in conjunction with Managing Change SIM Ltd (UK), have recently launched the Ethical Pricing Project (EPP), an online survey into consumer perceptions towards certain ethical, and perhaps some not-so-ethical pricing practices.

Launched on the 1st October 2004, the EPP survey currently features ten scenarios based on real-world pricing examples, on which respondents are asked to give their views, ethical or otherwise. A further four questions explore consumer perceptions towards the concept of "dual entitlement": a fair profit for a fair price.

In addition to those scenarios currently on the website, an additional 100 have been identified for further research.

Member of the Economic Society are invited to participate in the survey, which can be found at www.ethicalpricing.info. The survey typically takes only 4 minutes to complete, and confidentiality is assured.

Further enquiries can be directed to Jon Manning, Founder & Principal Consultant, Sans Prix Pty Ltd by phone [0405 629-141] or by email to jon@sansprix.com.au

Transport gigs: two to do

November offers those interested in transport not one, but two events.

Ogden Transport Lecture (see notice below): The redevelopment of Spencer Street, major infrastructure projects like CityLink and the Mitcham Frankston Project, the franchising of bus services and the contracting-out of tram and train services have all heralded a period of unprecedented private sector involvement in Melbourne's transport system. The arguments for and against privatised, contracted and partnership operations are loud. But many are also old and take too little notice of the empirical evidence. The challenge now is to articulate what is new here, and understand the implications in better meeting today's transport policy objectives. This lecture will review the global lessons in these arenas as well as Melbourne's experience, and examine what can be learned in terms of

implications for our transport future.

The ITS (Monash) Ogden Transport Lecture is a free public lecture initiated in 2001 to recognise the key role which Ken Ogden played in the formation and development of the transport program at Monash University. The lecture reflects the commitment of ITS (Monash) to 'progress transport knowledge and practice' through its activities which span education, research, community and professional service.

Prize winning students in ITS (Monash) education programs will receive their awards in a brief ceremony prior to the lecture.

Transport Economic Forum (see last Cet. Par. for details): Dr Colin A. Gannon considers predatory pricing.
When: 5 pm, Tuesday 16 November
Where: Level 35, 360 Elizabeth Street, Melbourne, Public inquiry room of the ACCC.



Institute of Transport Studies

The 2004 ITS (Monash) Ogden Transport Lecture

Transport in the Privatised State Professor Graeme Hodge

Professor of Law and Founding Director of the Centre for the Study of Privatisation and Public Accountability

Thursday 18 November, 2004

Lecture & Awards : 6:00 pm to 7:00 pm

Monash University City Office
Level 7, 30 Collins Street, Melbourne

Refreshments: 5:30 pm to 6:00 pm

Parking: The nearest car parking facility, Kings Parking, Little Collins St.
No RSVP required

This lecture is free and open to the public



2005 Australian Conference of Economists and Business Symposia

Robert Dixon

The Economic Society of Australia (Victorian Branch) invites you to participate in the 34th Australian Conference of Economists to be held at the University of Melbourne from 26th – 28th September 2005. Confirmed speakers at the Conference include: Olivier Blanchard (MIT), James MacKinnon (Queens), John Sutton (LSE), Patrick Rey (Toulouse), Simon Grant (Rice University), Charles Noussair (Emory College), Roger Craine (U C Berkeley), James Robinson (Harvard), James Galbraith (Texas) and David Fielding (Otago). Contributed papers will be drawn from the whole range of economic theory and policy, econometrics, Australian economic history and the history of economic thought. The 2005 Conference will also feature Poster sessions for PhD students. A call for papers will be made in December 2004. Selected papers from the conference will be published in a Special Issue of The Economic Record in September 2006. The joint editors will be Professor John Freebairn and Professor Bill Griffiths.

The Stan Kelly Memorial Lecture, to be given by Professor Peter Lloyd, will take place on the first night of the Conference.

The Conference Dinner and Economic Society Awards Night (the two events will be combined) will be on the second night of the conference (ie the night of the 27th). The venue will be the ANZ Pavilion at the Victorian Arts Centre.

Business symposia will be held on the afternoon and evening of the 28th September 2005. One will focus on 'Cartels and the Law: Identifying and Punishing Cartels'. One of the speakers will be Graeme Samuel, the Chairman of the ACCC. His topic will be "The ACCC approach to the detection and prosecution of cartels". Other speakers at this symposium will be Patrick Rey (Toulouse), Joshua Gans (Melbourne) and Stephen King (Melbourne & the ACCC). A second symposium will be on 'The Basel II standards for capital requirements and their implications for Australian banks'. Dr John Laker, the Chairman of APRA will be one of the

speakers. There will also be a Business Dinner on the night of the 28th with RBA Governor Ian Macfarlane as the likely guest speaker. The Business Symposia and the Business Dinner will be held at Le Meridien at Rialto.

For further information about the 2005 Conference of Economists and

the Business Symposia, please check the website
www.conferences.unimelb.edu.au/ace2005/

To contact the organisers, you can email ace-2005@unimelb.edu.au or Robert Dixon at r.dixon@unimelb.edu.au

new from
Cambridge University Press

EMOTIONS IN FINANCE

Distrust and Uncertainty in Global Markets

Jocelyn Pixley (University of NSW)

Fear and greed are terms that make light of the uncertainty in the finance world. Huge global financial institutions rely on emotional relations to suppress the uncertainties. Many financial firms develop policies towards risk, rather than accepting the reality of an uncertain future. They amass data in the futile hope of gaining certainty and to claim their options are more 'risk-free' than competitors.

Emotions in Finance examines the views of experienced elites in the international financial world. It argues the current financial era is driven by a utopianism – a hope – that the future can be collapsed into the present. It points out policy implications of this short-term view at the unstable peak of global finance. This book provides a timely account of the influence of emotion and speculation on the world's increasingly volatile financial sector.

Forthcoming November 2004 248 pages 2 figures
ISBN: 0 521 53508 5 Pb \$49.95

SPECIAL OFFER - USE THIS ORDER FORM & SAVE 20%

Please send me ___ copies of 0521535085 Emotions in Finance

@ \$49.95 per copy _____

Less 20% Discount _____

Plus Postage (\$6.60 within Aus, \$6.00 to NZ) _____

TOTAL _____

PAYMENT DETAILS

Cheque Enclosed

Please charge my Visa/Mastercard/Bankcard/AMEX

Card Number _____

Exp Date _____

Signature _____

DELIVERY DETAILS

Name _____

Co./Uni. _____

Address _____

State _____

P/Code _____

Ph: _____

Send to:

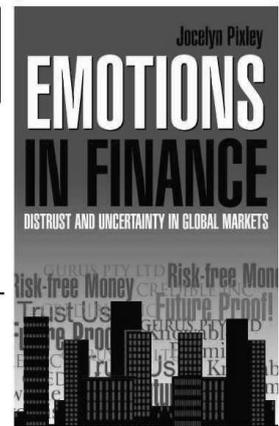
Cambridge University Press
Private Bag 31

PORT MELBOURNE VIC 3207

Fax (03) 9676 9955

Web: www.cambridge.edu.au

ABN 28 508 204 178



President's Report – AGM

Victorian Branch of the Economic Society of Australia,
for the year ending 26th October 2004. (abridged)

In the last year we inducted Max Corden and Joe Isaac as **Life Members** of the Society. We have announced three new life members to be inducted this December – Maureen Brunt, Ern Boehm and Jim Perkins. It is thought unlikely that the recent flood of inductions will continue at this pace, as we do understand the main corollary of the law of scarcity. Some tasks to be performed as President have their difficulties; but none is more pleasurable than seeing the faces of esteemed life members light up when a President announces it to them.

Re-establishing the August **Forecasting conference** was a daring move and required huge organisational effort. It was helped by a good venue, a useful partnership with the Australian Industry Group and excellent presenters, not least Reserve Bank Deputy Governor Glenn Stevens. Glenn's penetrating speech is published in the Bank's recent Bulletin. There are continuing issues on whether economists should forecast, how they should do it or qualify their messages from such an exercise. Given that these activities are going on in any event, it is right that economists are involved.

The NSW Branch held the **national conference** (ACE 04) in Sydney in September. It followed a previous conference that had attracted criticism. ACE 04 was an excellent conference as I have reported in Cet. Par. ACE 05 was to be held in Tasmania. After a process that does not need repeating, the national council meeting in late March dropped on us the bombshell that either Victoria ran the 2005 conference or the series would slip into abeyance. Emergency meetings and frenetic but thorough procedures enabled us to assign host-institution rights to the University of Melbourne in May. The national council has recently undertaken procedures to limit the chances of any repetition of such pressures. Since then, everything has turned positive. Robert Dixon

and his team at Melbourne have put together a galaxy of local and international stars and in general a great product that should attract every economist within range to it between September 26 and 28 next year.

We are grateful to Dee Hanek and the Productivity Commission for years of fine service publishing **Ceteris Paribus** and to Kevin Fitzsimons who has come into this position of editor and brought a fresh and energetic approach to our newsletter.

We took the initiative of making economics honours students at Victorian universities honorary members for one year.

During the year it became evident that administrative matters were being handled less effectively than we would have hoped and changes were needed. I am pleased to welcome PAMS – Professional Association Management Services – to the task as Branch administrators. Richard Gerner has worked superbly to get things back on an even keel. Despite the process we have maintained members and balanced our books.

I thank every member of your Council for their dedicated work. It is a great team to work with and we are evolving with new and younger members coming through into service. I am grateful for the efforts of our retiring Treasurer, Barbara Carpenter. My predecessor Philip Norman has been of inestimable support and assistance, and I thank him specifically. During the year Maurice Glover passed over the reins after years of service to the Society as Secretary. I am delighted that Maurice remains on Council where his contribution is not only valued but at times is absolutely essential.

The hardest, most intensive, least-recognised role has this year been taken by a long-time servant of the Society who has so often gone well beyond the call of duty in so many respects. Well done, Wes Maley, our dedicated Branch Secretary.

Neville Norman

Farewell and Welcome to the Very Bright

Farewell to our Economics friend the late Janie Wettenhall (nee Lawrence) who topped the Melbourne University Commerce economics class lists around 1968 and 1969, ahead of other bright minds including Robin Hocking and Peter Jonson. Janie later worked for Robin as his research assistant, helped me as a computer guru for about a decade, and attended the Society AGM last year to acknowledge her friend and colleague Daina McDonald as a Life Member.

Welcome to Economics to the Shadow Minister for Employment and Workplace Participation, Corporate Governance and Responsibility, Senator Penny Wong (ALP, South Australia). Her focus seems to be closely aligned with the research agenda of the Melbourne Institute into welfare to work issues. Penny's media release on being appointed to the Shadow Cabinet includes the sentence:

“There is no greater marker of economic responsibility and prosperity than finding a way to get a person from welfare to work”.

Penny reads Amartya Sen in her few spare minutes at the conceptual level, but requires a little longer to grasp his underlying mathematical economics. Her formal qualification is in Law and she was Dux of Scotch College, Adelaide.

Philip Norman

Key Contacts

Contact the Council:

Neville Norman, President

University of Melbourne, tel: 8344 5327

Email: n.norman@unimelb.edu.au

Wes Maley, Secretary

Reserve Bank of Australia, tel: 9270 8601

Email: maleyw@rba.gov.au

For membership enquiries:

PAMS (03 9895 4495).

Email: ecosoc@pams.org.au

For contributions to **Ceteris Paribus**:

Kevin Fitzsimons, Editor

SDA Strategic

Email: kfitzsimons@sdastrategic.com.au