The next ten years

Why it is sound economic governance – not ideology that counts

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Economic governance – The background

The interpretation of the past 30 years of reform and policy development is critical for the policy choices for 2010. Do we lock in reversion to the bigger government approach applied post the crisis emanating from the US in 2008? Do we just scale back the stimulus but keep the 'big government' model due to the alleged 'failure of the prevailing neo-liberal economic orthodoxy'? As indicated in the boxed quotation from the Prime Minister (below). Or, do we use our best efforts to revert back to the path of rigorous policy reform that has been gradually and unevenly endorsed on both side of politics, and enabled Australia to withstand recent external shocks?

In terms of the international dimension to the crisis, do we blame the US regulatory framework and policy, or do we join with the Prime Minister in an attack on the "economic orthodoxy" that has increasingly been embraced by formerly laggard economies and that most of us view as a real contributor to prosperity over recent decade?

This paper strongly endorses the pro-reform option associated with what is labelled as "economic orthodoxy". It also argues for sectoral extension of that model of accountability and efficiency to infrastructure and social program development. Improved partnership models have been evolving in public and private sectors worldwide, avoiding big government and big deficits, but demanding commitment to sound governance with more localised and private sector finance. These approaches require detailed attention to economic structure and incentives, and far less centralised spending and distorting taxation.

The next set of policy responses could define the direction of Australia's economic governance and reputation for the next decade. For this reason, rather than look at limited flashpoints of 2010, we look at options for building on Australia's already successful economic governance and extending it into the key sectors of hard and soft infrastructure.

Whether it is broadband or higher education, locally managed hospitals or insurance reforms, infrastructure or human capital investments, the beneficial contribution from government is rarely extra funding but rather sound structure and implementation. The structuring should follow independent analyses of options, and their costs and benefits under alternative models of finance. There is talk but little action of this kind to date.

While assisting persons in need – a safety net – will always be a proper role for government, the even higher obligation is a sound framework for governance of the sectors within which individuals can make sound choices. The economically "liberal orthodoxy" seeks structures through which the private sector can invest and innovate, and the mix of finance can reflect preferences rather than *dicta* from Canberra.

If the governance structure is sound, then the needs for support are reduced as people efficiently meet most of their goals. But if we have bureaucratic and poorly prepared policies and regulation, then remedial and alternative government spending has to be larger and taxes higher. Sound economic reasoning and research from the Productivity Commission and others show that the premium return from government is usually from sound governance *facilitating outcomes*, rather than from big spending *directing* behaviour.

Reform and economic resilience

Beyond the evidence of income and employment dividends from earlier periods of reform, Australia's improved economic governance has also helped us withstand the extraordinary shocks experienced in the last 18 months. Our banking, capital, product and labour markets *are* now more flexible *because of* earlier policy changes. In contrast, the US has failed to administer what is well understood as sound financial governance. For example, in knowingly tolerating

> *"The global financial crisis… is a crisis of both the developed and the developing world. It is a crisis which is at once institutional, intellectual and ideological. It has called into question the prevailing neo-liberal economic orthodoxy of the past 30 years – the orthodoxy that has underpinned the national and global regulatory frameworks that have so spectacularly failed to prevent the economic mayhem which has now been visited upon us."* [1]
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> Kevin Rudd
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> *The Monthly Essays*, February 2009

wildly over-geared and non-transparent housing and derivatives finance, including US$60 trillion of unmonitored credit default swaps (CDS – see below), the US economic expansion was more contrived and lasted for a longer period than with more prudent regulation, amplifying the correction.

Prime Minister Rudd, in his paper quoted above, may perhaps have been diplomatic in not targeting the world's leading economic manager, instead berating the so-called orthodoxy. If this was the case, he needs *publicly* to correct the balance. Sound *economic governance within flexible markets is the key* to improved economic performance in Australia and everywhere. We in Australia know a bit about it, as the Prime Minister trumpeted overseas when he wisely 'jaw-boned' foreign leaders to replace G7 with G20. But this success in gaining an expanded role for the G20 and thus a 'seat at the expanded table' for Australia (vitally, adding China and India) was most likely the fruit of our credible track record on policy reform and resulting performance. This reputation needs to be sustained, not attacked, by our own Prime Minister.

One benefit from sound governance and reforms is a lower risk premium in capital markets. For a resource and infrastructure intensive country, that runs quite appropriately a current account deficit, this is a huge cost saving. But it is put at risk by poor funding and financing strategies, such as those now embraced by the Prime Minister.

Thirty years of improving economic governance

Improved economic governance has been sporadically but sustainably implemented by both political parties over the last 30 to 40 years. It was in 1973, fully 37 years ago, that the nation first cut tariffs substantially and encouraged people to work where they were valued most by the world market rather than in industries whose activity was contrived by Australian governments. These policy improvements were only a beginning for removal of the pervasive intervention at that post-WWII stage of Australia's economic evolution. Yet to come were aviation competition, energy restructure and privatisation, and (poor) telecommunications reforms (see below). The transformation into regulated contestable or competitive businesses of many of our state enterprises has largely, but not always, been well done (airports, energy sector in Victoria, ports and transport). States that have done these reforms well (Victoria) have forged ahead of lagging states such as NSW in economic terms.

The reforms of labour and capital markets have greatly improved our economic flexibility and job opportunities, and internationalised our economy. Crucially, those policies usually derived from a political embrace of sound advisory and other services outside government – academia, think-tanks, and advisory commissions both at home and abroad. But as political parties predictably converge on the middle or marginal voters, policies can also be compromised by the workings of the party system.

The lesson worldwide is generally that vested interests find it relatively easy to gain a foothold in political parties and so block reforms. While this is a problem it creates a policy vacuum or gap for independent think-tanks of all persuasions to fill. To complicate these trends, as we saw post the election of the Rudd government, some still see central government as the ultimate host of ideas and forums, and talk fests and non-competitive government funding as a key to generating alternative policies.

The loss of experience

A current risk in evidence is the emergence of a cohort of senior advisors and new politicians without experience of the post 1960's reforms – good and bad – creating a possible repetition of failed centralist solutions. While the reforms of the 1980s and 1990s left some reform fatigue post the path-breaking Hawke-Keating, Kennett-Stockdale and Howard-Costello eras, the bulk of reforms seemed safe. Indeed, pre the GFC, pressure was building towards substantial pro-competitive reform in lagging areas such as telecommunications, education, health and particularly water reform.

A factor working against reform was that fiscal pressures for reform diminished with the growth of mineral exports to China, India and beyond. The resulting dramatic improvement in our terms of trade caused a government revenue explosion, with business taxes, stamp duty and other tax revenue rising sharply. The ease with which fiscal surpluses could be generated enabled undisciplined state and federal spending, with the excesses only becoming apparent post the GFC and the associated revenue slowdown in Australia.

Key aspects of sound economic governance

Sound economic governance is a subset of sound political governance requiring strong and credible institutions; transparent rule of law, constitutional and electoral processes; and the facilitation of free and efficient market-based structures and choice. Centralised or bureaucratic allocations should be avoided unless there is no other way to deal with unwanted external effects of private actions or an inability to afford needed services.

Role of markets

- What is unfathomable to a centralised government is readily achieved through impersonal markets.
- When markets are ignored or suppressed, the alternatives will generally be far worse and cost more.
- Where government seeks to provide health, welfare, education and communications it should generally be via mechanisms reflective of individual choices and possibilities.

Providing safety nets

- Governments have a critical role in providing safety nets for those unable to assist themselves because of income, circumstances or disability.
- Taxation is required to finance safety nets, to provide public goods, security and infrastructure where purely private provision will be either inefficient or inequitable.
- Administering and funding efficient and fair mechanisms for delivering a safety net should not be a monopoly of government.
- In cases where government does seek to provide services for the less fortunate, it should be via support and resources for those individuals, not by bureaucracy.

Interventions in markets

- Interventions need to be clear and transparent.
- Government should create a predictable market environment within which people can choose the best options and labour, capital and commodity transactions can best meet preferences and possibilities.
- While economies of scale and scope will indicate a role for government this should not generally mean government ownership or management of the process.
- Where natural monopoly is unavoidable, there may be a case for government regulating access and user charges of the private or public enterprise. In general user charges should reflect marginal costs, and access charges enable coverage of fixed costs.
- Where there are external effects of an activity there may be a case for a tax or subsidy on usage that reflects community costs or benefits: as in the case of congestion or emissions.
- Ensuring the stability of the currency is a critical role for government as is regulation of access by banks to money and credit: a tested policy mechanism. This requires an acute understanding of the benefits and limitations of markets as well as the moral hazard of the private sector taking *more* risks and governments guaranting outcomes.
- Public debt is not in itself a problem; however, it should only grow in proportion to accumulation of public assets such as infrastructure.

A global or US financial crisis?

Despite the apparent emerging consensus on the causes of and remedies for the GFC, a key issue in 2010 will be the debate not over its origin but over appropriate (but differing) forms of financial governance in all countries, but notably the US and China. Assuming the Australian economy continues to improve, and the US remains stagnant with high unemployment and limited growth, the debate will be more on how the US should respond to the acknowledged failures of US financial governance and how Congress may resist the lobbying from sectors, such as housing finance, that have blocked reforms in the past. The extreme exposure to debt and derivatives in countries as diverse as the US, UK, Dubai, Ireland and Iceland, with catastrophic consequences, and the expansion of most debt as part of stimulus (Keynesian) packages in the majority of economies, have reactivated debates on debt and fiscal management. The apparent paradox of countries *expanding* debt to deal with the consequences of excess debt abroad and at home has called for a rethink, not so much of classical liberalism but of public and private sector gearing.

The surplus countries on the other side of this debt now have control over vast net US$ balances. In the case of the lead player, China, the differing standards of governance and financial monitoring also raise new questions. Exactly how patterns of financial ownership and control evolve in the coming years will prove interesting, ideally with deepening and more open Chinese capital markets creating what could be a more predictable global financial structure.

The extent and targets of the fiscal stimulus will also be debated, along with the extent to which government should *not* be spending but rather competitively structuring and facilitating infrastructure, such as the NBN.

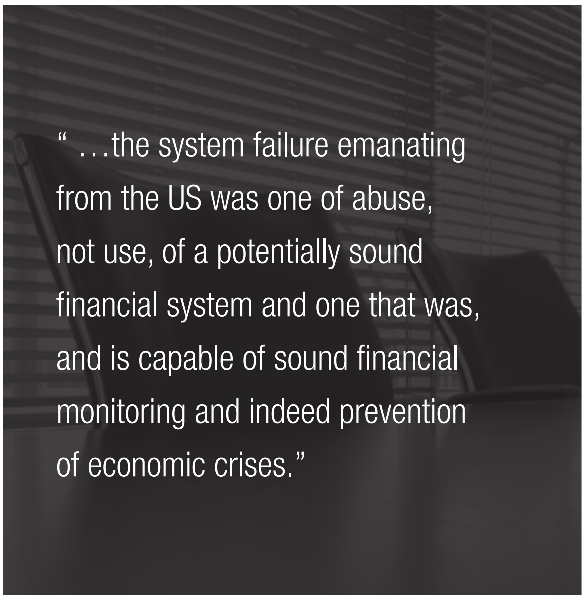
The point in regards to the origin, if not the impact, of the GFC is that the US had in fact not applied sound regulatory nor financial governance. This was knowingly so in the case of former Federal Reserve Board Chairman, Alan Greenspan. As a result, and to illustrate but one example, about US$60 trillion of gross credit default swaps existed at the time of the September 2008 crash of Lehman Brothers – an amount larger than world GDP. These swaps, like many other derivatives, were deliberately mislabelled minus the more appropriate words ‘guarantee’ or ‘insurance’ whose accurate use would have brought forth some regulation and sound monitoring. These parcels of toxic and conditional debt, guarantees and insurance had, and many still have the capacity to bankrupt those institutions and lenders who provided guarantees for a fee.

The fact that the impact of the US housing and derivatives policy failure and bust had a truly global and catastrophic impact does not make it an excuse to berate a structure for financing and investment that had worked. The same structure will still work very well to allocate international and domestic capital and so facilitate economic growth. Yes, there will be cycles, fashions and problematic herd instincts, and they will cause problems. The dynamic fundamentals of investment will invariably cause swings; gluts will follow shortages. But the system failure emanating from the US was one of abuse, not use, of a potentially sound financial system and one that was, and is capable of sound financial monitoring and indeed prevention of economic crises.

Structure and level of local debt is the concern

While debt has been issued in ways that have been deeply problematical, it is worth getting straight that debt itself is just fine, if used to fund projects with higher rates of return than service costs. While world net debt must be zero, the mix of net debt (eg US) and net credits (eg China) now raises questions of financial and economic governance in the private and public sectors. It is now Chinese state enterprises that are dominating world financial markets at the margin – where terms are set.

In general, the answers to challenges on the levels and mix of world debt will focus on financial and economic governance, sector by sector in the US, China and elsewhere. Moralising on debt or various ‘isms’ will not move the debate forward. There is no credible disagreement with the proposition that we need markets more than we need centralised economic dictatorship, prices more than controls, competition more than centralisation or collusion, and most importantly, sound governance not big government. There is also little professional disagreement with the view that the hard yards of policy are all about defining and separating the appropriate roles for markets, prices, private sector players and regulatory frameworks, with markets being the generalised system of choice in most things.



A failure of central banking?

We now know even more clearly that financial markets will not naturally reveal all, or even be available to provide liquidity just when we need it. There is a renewed need to affirm the fundamentals regarding central bank lending conditions. We also need to review the instruments that are the subject of financial regulation, given the scope for wireless financial intermediation to issue credits and debits, and assign funds instantaneously across any jurisdiction.

We also need to remember lessons of classical central banking, á la the famous author on central banking and later editor of *The Economist*, Walter Bagehot. He focused on the need for lender-of-last-resort facilities for banks, with extreme circumstances specifically in mind, such as runs on banks. The rules governing central bank lending to banks, in this model would allow the banks in turn, to apply their own commercial standards of governance to non-banks, creating a channel for management of runs on liquidity of non-banks.

However, bank guarantees are not a necessary feature of our financial system, nor are guarantees of 'non-banks'. What we do need is what we always had and still have: a discount window of central banks serviced ultimately by the treasuries that print debt and money, and that can indeed finance the withstanding of attacks on bank deposits. The reason we don't need guarantees is that this very 'window' enables virtually unlimited, but monitored, capacity to meet bank demands at a price. It is through this window that banks in turn may indirectly lend to non-banks in trouble, using their own financial expertise to judge whether and at what price to lend. When banks decide not to bail out customers, including non-bank financial institutions, that is what insurance, bankruptcy and financial expertise is all about. Once it is perceived that all manner of financial and non-financial institutions (car companies in the US as an example) may officially be bailed out, then the distinctions between public and private sector are being seriously compromised – and moral hazards are ablaze.

Importantly, both Federal Reserve Governors Greenspan, and now Bernanke, say they see the light in terms of the need to document derivative trades, counterparties, packages and separation of bank and non-bank balance sheets. Whether the US Congress will be able to legislate required reforms is a moot question. What there have been are apologies all round from the US and notably Alan Greenspan! It is arguable that should the US have behaved rationally in relation to housing derivatives and the mortgage industry, the GFC would not have occurred, and we would have had a 'normal' recession.

So, rather than tearing it up and starting again, as could be interpreted from the Prime Minister's recent commentary, the US and other key countries, including Australia, need to act in a manner more consistent with sound principles of national finance. In the Prime Minister's case, this suggests he abandon rash promises to spend tens of billions of dollars on unsound and unevaluated policies, promises which suggest to capital markets that Australia has moved backwards after decades of progress. The risks of higher capital costs are very real.

As the immediate shockwaves of the GFC subside and concern over a global meltdown drops, there will be greater opportunities for economic arguments for prudent fiscal management to be successfully prosecuted. As the debt and capital markets return to a more normal pattern, albeit with greater risk premiums and caution, the extent of the continuation of stimulus spending and capital investment in 2010 by the Rudd Government will be a decisive test. Should the trend continue toward unsound and unevaluated policies, it will entrench a higher level of government involvement in the economy than is needed, raise interest rates and hurt economic growth.

While the Australian media has generally viewed the Obama presidency in optimistic and even deferential terms, 2010 could throw up surprises that will reverberate across the Pacific. The 2010 mid-term US Congressional elections, and changing numbers in the Senate are occurring as US unemployment remains near double digits and with voter volatility high. These events may weaken Obama's attempts at reform of US economic governance and prevent measures to make the US economic and social system more robust.

The Australian budget and sectoral governance

Spending on any scale should be conditional on having thought through the governance arrangements for the sector under which services will take place. While short-term needs for stimulus may be real, the problem with expanded spending and service programs is that they tend to 'lock in' constituents who then potentially become a block to more rational and efficient systems of service delivery.

Looking at the Rudd government's big ticket items, the task of restoring fiscal balance is now substantial in the context of promises made during the GFC. It will become more difficult as withdrawal of funding streams becomes politically challenging. In general, instead of coercive expenditure programs, society is generally better served by the accountability that flows from consumer charges and sovereignty, insurance or other self-finance elements. Examples of where a significant or even 100 per cent private contribution to full-cost funding makes sense include broadband, water, tertiary education and training, a large part of hospital care, pharmaceuticals, child care and transport. However, this is precisely the opposite direction to that which the Rudd government appears to be taking.

Although there are obvious financing, equity and affordability issues, in general it is desirable and feasible to separate the financing and pricing issues, with efficient and two-part charges (such as access charges to fund investments or fixed costs and user charges to fund marginal costs). In most cases the need is not for billions of dollars of government spending, but for sound governance and applied expertise.

While each sector of the economy is different, as outlined below, the general principle on which there has been almost universal agreement is that prices and charges should be used to achieve efficient use of transport, water and broadband, for example. Only where there is a social issue with access should government commit to providing the service. On this model, families can benefit from lower taxation, and more control over their resources, but with a safety net for those who have temporary or permanent incapacity to fund essentials. What is critical at the moment, and as highlighted by the Productivity Commission and others, is that a slackening of project evaluation discipline has occurred under the guise of the GFC.

The integration of sound price and charging models into economic governance and regulatory models is an issue which CEDA will be addressing through 2010. As 2010 sees the official release of the Third Intergenerational Report, along with further discussion points stemming from the Henry tax review, individual sector performance will be placed in the spotlight. The impact of the GFC and the immediate need for stimulus should cease.

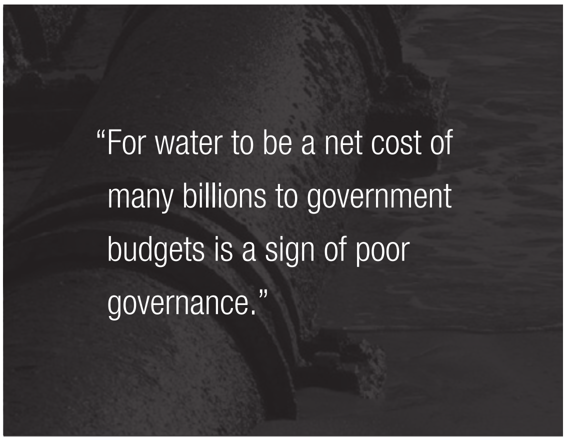
The path ahead

In hindsight, recent government expenditure levels have been poorly targeted and excessive; but the fears were real post September 2008. Given the major shock was to international *debt* markets, and that financial guarantees were invoked not least on foreign borrowings, challenges remain in those areas as well as on the priority of a return to fiscal surplus.

The sectors needing reform in the 2010s, in a rough order of potential fiscal waste will include: telecommunications, broadband, emissions trading, water, hospitals, tertiary education, public transport and key infrastructure which will now be briefly reviewed.

Telecommunications

In telecommunications, the governance or policy failures have been vast over three decades with a dominant player – Telstra – in all four components of broadband: wired, mobiles, HFC cable, and until recently, fibre-based systems. In general, regulation cannot fix structural problems, hence our focus is on promoting competition across alternative forms of telecommunications infrastructure. Successive governments have unwittingly, or worse, enabled the incumbent (Telstra) to use resulting market power to



"For water to be a net cost of many billions to government budgets is a sign of poor governance."

reduce the competitive dimension, first from satellite (AUSSAT) then cable (Foxtel), and through backhaul (intercity) linkages into mobile coverage across most of Australia. While there has been an understandable subsidy for remote service, the failure of pro-competitive governance in telecommunications has been profound, yet the policy response looks like another government centred telecommunications 'solution' – the NBN.

Broadband

In the case of broadband, CEDA over 2008–9 has advanced revenue positive and highly competitive restructuring schemes that would *raise* not cost revenue, through auction of redundant bandwidth from release of analogue TV and other bandwidth. The proposals would achieve the government's broadband objectives within a more competitive structuring across what we have labelled 'Four Doors' of broadband competition: copper, wireless, HFC cable (eg Foxtel), and fibre optics. This is in stark contrast to the proposed spend of up to AU$43 billion on extending universal (99 per cent) access to fibre-based or wireless systems, that may end up reducing competition from the three other broadband infrastructure systems already in place. While the 'threat' to spend up to AU$43 billion may be seen as part of a game to extract better terms from a powerful Telstra, what should really be the target of policy is the pro-competitive *structures* for the telecommunications, broadband and media industries.

Emissions Trading

In relation to emissions trading, CEDA proposed a carbon tax on root sources of emissions to be used to finance new technologies, reduce taxes on effort and savings, and to aid countries less able to afford compliance in a lower carbon world. Incorporating these taxes into the GST would both pass on costs to the consumers of emissions intensive items and exempt exports from the tax in Australia in exchange for a tax liability in the importing country.

A carbon tax proposal remains highly relevant post the Copenhagen ETS fiasco. The carbon tax via the GST would increase rather than reduce revenue to the government, and so facilitate lower taxes on effort and savings. Billions were conditionally committed by the Rudd government to compensate emitting entities and their consumers, through the creation of an easily corruptible international trading system for carbon derivatives. An alternative, transparent and graduated tax would add rather than subtract revenue and encourage substitution away from emissions intensive consumption through price incentives.

The lesson from systems of carbon trading that are already in place is that while the concept of trading emissions under the agreed and declining cap is a fine principle, it necessarily involves trading across jurisdictions with poor financial governance, and a process of monitoring credits and debits that will either be politically and bureaucratically intrusive, or ineffective and open to corruption and mismeasurement. The evidence for this view is mounting.

Water

Water is increasingly like any other form of capital, that is, available at a price of production (including desalination) and transportation.

CEDA is assembling expertise to prepare strategies that will facilitate genuine markets in water across rural-urban divides, saving irrigation water through optimised gate releases and pricing, using water grids, supply-side competition and making use of the capacity to price both volume and risk. The introduction of scarcity-based prices for water, trading across rural-urban divides and the addition of supply-side competition can all be self funding solutions to water problems. For water to be a net cost of many billions to government budgets is a sign of poor governance. Far better that we allow water to be priced by season, by degree of security or flexibility of supply, by time of day and catchment situation, all under regimes that involve tradable and priced water usage rights.

When something is scarce, the (economic) disciplines and institutions for efficiently and fairly handling scarcity need to be invoked, and water has now ever more clearly joined that scarcity class.

Health and hospitals

In the case of hospitals, the community wants and can largely afford quality care: what we cannot afford is the waste that comes from centralised controls external to the hospitals, whether state or federal. That government should support those unable to afford quality care or insurance is undisputed. Similarly we see a case for assisting competitive research in tandem with best international practice. Medical expertise and technology is keeping people alive and fit far longer, raising life expectancy and lifetime potential productivity and incomes. When we compare additional health costs with the benefits of say a decade longer working life, the once ‘high’ health care costs become relatively small. How much are extra lives worth in terms of income and satisfaction? So much that government should get out of the road of hospital management and stick to targeted financial assistance and lifetime insurance reform. Aging is not really a fiscal problem but an extended fiscal opportunity; it is a solution so long as retirement and working rules do not get in the way! True, some may need training for the longer world of work and leisure, but expanded working lives can finance that if preventative measures, health systems and lifestyle opportunities are well priced, and efficiently and generally locally managed.

Tertiary education

In the case of tertiary education we have seen a revolution in terms of finance, with consumers and their parents now paying more than half the direct financial costs, assisted by loan schemes of the HECS variety. But control of tertiary institutions is predominantly from Canberra and the gap between best practice in say the US colleges and graduate schools is ever wider, despite big dollars and brilliant efforts from individuals and institutions in Australia. What is needed are localised and largely private and accountable boards that can hire and fire, recruit the best, and increasingly form teaching and research contracts with best-practice educational institutions worldwide – as happens across the rest of our global community.

It is highly likely that the private sector will indeed wish to spend far more under improved governance arrangements, so this proposed shift away from Canberra control is not a ‘slash and burn’ model. On the contrary, it is a model where competitive grants from taxes, competitive fees, productivity benefits and customer-focused competition within an international model can give the Australian federation the institutions and services we deserve.

Summary – Actions and understanding, not buzz words

We all want value and accountability from government and not least from taxes – whether they be to fund bail-outs post the GFC or on broadband, health insurance, water, tertiary education, acquisition of state hospitals or trade of carbon credits internationally. Rather than attack the very basis for our progress, it is economic and financial governance, state and federal, about which we should be concerned. Buzzwords and labels such as “neo-liberal economic orthodoxy”, left, right, conservative, neo-classical or liberal conceal rather than reveal substance.

The key reforms to our labour markets, financial and exchange rate management, state enterprise and privatisation reforms have emerged from governments which adopted sound advice that was largely external to either political party.

The Whitlam and then Hawke governments embraced tariff and trade reforms, educational and health reforms and a more international economy. They drew on independent academics and think-tanks – then via the Tariff Board, the Industry Assistance Commission (and later the Productivity Commission), pushed by courageous independent politicians in both parties. These policy advances built on decades of lessons from research that in their implementation have made our markets world competitive, and removed wasteful areas where we could not match others.

The state of Victoria in the 1980s faced entrenched state debt and a population migrating to Queensland in large numbers because of poor economic growth under the big government model. By the 1990s, Victoria led the way in restructure and reform of state enterprises, and then a sequenced privatisation process that expanded productive capacity in areas led by consumers not politicians, reducing the public sector and largely wiping out state debt. Productivity

The 2010 challenge

In 2010 and beyond, the nation needs more competition, not just for goods and services, but for sound ideas in economic governance. Ultimately, it is our economic governance, our regulatory rules of the game, which are the source of efficiency or inefficiency in generating income and wealth. Attacks on proven principles, from those who loosely spend the fruits of others efforts, are indeed part of the problem, not the solution.

When it comes to the sectors of Australia's economy, what we are seeing in 2010 are the fruits of spending absent evaluation, and increasing centralisation of funding and regulation in Canberra, despite poor performance of the centralised model of delivery. There is talk, but not a track record of *evidence-based policy*. Already there is evidence that the pro-market, decentralised and governance reforms of the recent decades have worked well and should be further refined, not undermined.

The decision and justification of the $43 billion National Broadband Network (NBN) is symptomatic of this broader problem and of Canberra's departure from previous economic discipline. The spending decisions on broadband preceded the structure and competition decisions regarding the allocation of old bandwidth and mobile phone licenses, for example. There were, and still are, clear pro-competitive options. But rather than framing a competitive environment for telecommunications and broadband, building on existing HFC cable, wireless (mobiles) competition, and copper and existing fibre – we see a grandiose un-costed broadband rollout proposed at a cost of up to $43 billion to force-feed fibre down streets, many of which already have underutilised HFC cables.

Hopefully, reality will be better than what was promised. We should get smaller spending on gaps in the system, more competition across different infrastructures and a Telstra that is obliged to compete with others rather than being allowed a dominant foot in each and every mode. We should, as a result of these pressures, see expenditure on only a pro-competitive structure and on enabling those who have poor access to at last get both speed and competition (probably via wireless).

Beyond the next federal election, which will occur at some stage in 2010, the prospect for more NBN-type projects and initiatives is likely. This centralising, big-government trend is not unique to Prime Minister Rudd; the last term of the Howard government relaxed the prior discipline.

grew; and unemployment fell, despite dramatic reductions in public sector employment.

Across the world the quality of economic and financial governance is revealed as diverse, just as economic governance over the last 30 years has been diverse across Australia. Various experiences have created a convergence on fiscal and market orthodoxy, something that is healthy and well understood. Measured by quite orthodox standards, it is indeed possible to explain growth successes and failures largely in terms of the accepted models of sound economic governance such as those which have ascended in Australia since the 1980s.

In countries that are lagging, including the "failed states", and countries suffering acutely post the GFC, we hope the lesson is learned regarding what makes for sustained prosperity and a capacity to ride out crises. It is not large chunks of physical resources. It is what broadly comes under the mantle of "sound governance" discussed above. Those countries with poor forms of economic governance may not have either the rule of law or a sound judiciary; they may not have vital and competitive institutions and markets; and they may endure persistent corruption at the highest levels in ways that prevent beneficial competition. These countries and their leaders should, we hope, start to see in Australia an illustration of just how liberal economic governance can indeed work very well. And let's hope this lesson will continue to be demonstrated, not least by our Prime Minister.

Endnotes

1. Prime Minister Kevin Rudd's *Monthly* essays critiquing economic orthodoxy were not an aberration. At the Parliamentary launch of Paul Kelly's *The March of Patriots* on 7 September 2009, the Prime Minister expanded the debate over the respective roles of Labor and Liberal Parties during the reform process. In particular, his commentary was very much in the vein of a social democrat who seeks to control markets rather than facilitate a fairly structured but competitive economic environment.

The views in this article are those of the author and should not be attributed otherwise.