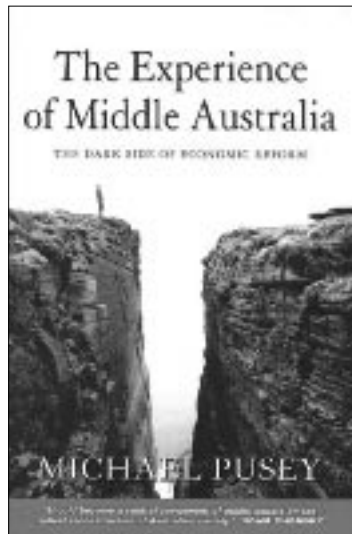


The Impossible Pusey



Michael Pusey

*The Experience of Middle Australia:
The Dark Side of Economic Reform*

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**Reviewed by
Andrew Norton**

In 1992 *The Australian Economic Review* published a survey of 81 Australian professors of economics. Most questions inquired about substantive economic issues, but perhaps a little mischievously the professors were also asked to rate the economic understanding of 18 groups. 'Academic sociologists' ranked last, below even environmentalists and the general public, with 71 academic economists judging their sociologist colleagues as having 'not adequate' understanding or being 'very ill-informed'.

In itself, this is no cause for concern. If 81 professors of physics were asked to rank other groups' understanding of physics neither economists nor sociologists are likely to do very well. That's the accepted price of academic

specialisation. Being 'very ill-informed' is only a problem when you try to write a book on a subject about which you know very little. Which brings me to *The Experience of Middle Australia: The Dark Side of Economic Reform*, by Michael Pusey, a sociologist who is presently Honorary Visiting Professor at the University of New South Wales.

The main message of this book, as of Pusey's earlier *Economic Rationalism in Canberra*, is that the economic reform programme of the last 20 years was very bad indeed. Among other

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things, it has increased unemployment including 'deliberately' reducing full-time employment, caused overwork to invade private time, made intimacy 'contingent', delayed and reduced fertility, lifted mortgage payments, eroded public schools and public transport, put small business in decline, led to the breakdown of community ('consuming civil society itself as a fuel for the furnace of the new capitalism'), fostered social paranoia and racism, created an unfair distribution of wealth, instigated more unhappiness and depression and generally made people 'angry'.

For the state-of-mind conditions in this list opinion polls are useful indicators, and these are the main form of evidence in *The Experience of Middle Australia*. Pusey's argument, however, cannot simply rest on public opinion. He needs to show both that particular economic conditions actually exist, and that these conditions were caused by the economic reform programme of the last 20 or so years. Otherwise, his economic and moral case against the economic reform programme collapses, since it cannot be blamed for things that did not happen or that economic reform did not cause.

Unfortunately for his argument, Pusey's grasp of economics will do nothing to change economics professors' minds about sociologists. Several times Pusey claims that economic reform increased unemployment. Yet Pusey's own data at the back of the book shows that unemployment went up and down during the era of economic reform, peaking above the worst of the immediate pre-reform period, but finishing well below it (Pusey wobbles on dates, but apart from the July 1973 tariff cuts no economic reform of consequence happened before the floating of the dollar in December 1983). He says that many small Western European nations enjoy prosperity without the unemployment costs of 'le modèle américain'. Little countries like Denmark and the Netherlands do have, by European standards, enviable employment records. But what about large Western European nations like France, Germany, Spain and Italy, none of which follow 'le modèle américain', but all of which have higher unemployment than countries that do, like Australia or the US? Pusey needs to explain why these large West European nations do so badly despite following his economic advice, but he doesn't even try.

Pusey repeatedly claims that economic reform reduced job security, and that job turnover is at record levels. The actual Australian Bureau of Statistics figures on this are left out of his table of 'key' economic indicators, and for good reason, because they show not a systematic pattern but normal fluctuations with the business cycle. It's useful here to compare 1976 and 1996, because in 1996 the people in Pusey's survey were asked about whether there is more insecurity now than twenty years ago (job security was not mentioned specifically, but the question was in a section on incomes and jobs). In 1976, 15.7% of workers changed jobs, and in 1996 the proportion was 15%, so no significant change there. The proportion of workers ceasing their jobs who did so involuntarily dropped from 22.8% to 19.9%. The equivalent 2002 figures were 14.9% changing jobs, 18.1% of whom left employment involuntarily.

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Subjective data on job security does not help Pusey. Most years Roy Morgan Research surveys people on their perceptions of job security and their prospects of getting a job, if they lost their current position. In 1976, 78% thought that their present job was safe, and 57% thought they could find a new job quickly if they lost their job. In November 1995 (there was no 1996 poll) 74% thought their job was safe, and 58% thought they could get a new job quickly. At both times, the vast majority of workers felt secure. In December 2002 the figures were 79% thinking their job was safe, and 54% confident of getting another quickly. Notice too, by comparing figures in this paragraph with the last,

that many fewer workers actually lose their jobs than worry about being out of work. Pusey cites the high proportion of casual workers as evidence of insecurity, but this confuses their formal contractual status with actual practice. Nearly two-thirds of casual workers in the first wave of the Household, Income and Labour Dynamics (HILDA) survey rated their probability of job loss in the next year as zero or less than 10%. While the people in Pusey's survey may genuinely believe they are less secure, most of them (and Pusey) are wrong.

Pusey believes that economic reform occurred at the expense of ordinary wage and salary earners, and his survey suggests that this view is also held in 'middle Australia'. Several times he asserts that wages have been held down. In one paragraph, however, he casually notes that 'there *may* have been some improvement in the latter half of the 1990s' (emphasis added), but a table buried in the appendix *definitely* shows real wages went up over that period. Instead of accounting for evidence contradicting his theory, Pusey drops this partial admission into a discussion of increased income inequality in the 1980s. Since most economic reform occurred in the 1990s, 1980s income distribution patterns are just a diversion.

Pusey reverses the academic burden of proof, and declares economic reform guilty until proven innocent. In Pusey's book, the problem is not just that correlation is causation, but that convenient correlation is causation. In a book from an academic publisher, this isn't good enough.

Causes and effects

Even where Pusey gets his facts more or less right, he refuses to deal with the old social science maxim 'correlation is not causation'. Simply because things happened at around the same time or in sequence does not mean that one caused the other. While he recognises the problem, his response is very inadequate: 'it's all economic reform unless and insofar as others can demonstrate that it is something

else'. Pusey reverses the academic burden of proof, and declares economic reform guilty until proven innocent.

Any balanced assessment would acknowledge that the economic reform programme was hardly the only thing affecting the economy over the last 20 years. Technological advances, social change affecting workforce participation, entrepreneurial activity, shifts in consumer demand, increasing levels of education, varying international trading conditions, and natural disasters all also occurred during this time. Economic reform accelerated some of these factors, but a policy status quo would not have stopped them.

For instance, in 1998 the Industry Commission tried to estimate the causes of employment change in various manufacturing industries, and in many cases the major reform, a reduction in tariffs and other industry assistance, was not the most important cause of falling employment. In the textile and motor vehicle industries, technical change had a greater effect. In the clothing and footwear industry, it was consumer preferences. I don't expect Pusey to give us precise figures on the relative effects of various economic factors. Economists will disagree on these matters. What I think we should expect, though, is much greater acknowledgement of the complex chains of economic cause and effect.

At times, Pusey seems quite naïve. In a section complaining about the hollowing out of the middle class he notes that the 'winners' in the economic reform period include 'two-income families'. Most readers, I expect, would find it less than surprising that two-income families tend to earn more than one-income families. What is surprising, though, is that Pusey seems not to realise that this complicates his story, since while economic reform may have encouraged women to take jobs, it certainly wasn't the only factor at work. He tells us elsewhere in the book that labour force participation by women aged 25 to 34 increased by nearly three-quarters in one generation, between 1970 and 1996. As these dates suggest, the process was well underway before economic reform commenced. Also well underway was rising university education for women, who achieved majority status on Australia's largely state-funded and controlled campuses in 1987, early in the reform process. More than half of university educated women's male partners also have university

degrees, so the potential for households with two high incomes is obvious. Even if no economic reform had occurred, social and educational changes meant that largely numbers of highly affluent two-income households, and the 'inequality' they create, were near inevitable.

Though as a sociologist Pusey should be more familiar with these social trends than with economic trends, because they don't fit with the tale he wants to tell he ignores them. In Pusey's book, the problem is not just that correlation is causation, but that convenient correlation is causation. In a book from an academic publisher, this isn't good enough. If Pusey wants us to believe that economic reform has negative effects, he must both show the causal connection and account for other factors that might plausibly affect outcomes.

Pusey's survey

The core of this book is survey work Pusey and his colleagues did of areas classified as 'middle Australia'. There were two surveys, one of around 400 people in 1996, and then a follow-up on about 200 of the original group in 1999-2000, along with some focus groups. This information is sometimes supplemented by polls done by other organisations. There are problems with Pusey's survey instruments. The sample size is small, particularly for measuring opinion among sub-groups within it, and is skewed to people living in Sydney. Compared to the general population, it has twice as many people with university degrees or working in the public sector. Pusey nevertheless describes the surveys as 'more than adequate for modest inferential purposes that are ultimately more heuristic than scientific'.

Pusey does not keep his promise of 'modest inferential purposes', since his conclusions go well beyond what the data tells us. One question asked 'How would you rate economic reform (things like deregulation of business, privatisation, job restructuring, more competition etc.)?' The results, using a feeling thermometer that pollsters sometimes use to get grades of opinion, was 29% 'warm', 45% 'neutral' and 26% 'cold'. Pusey rates this as 'not a very sanguine endorsement of reform'. True enough, it is not very sanguine—but nor is it consistent with the catastrophic picture he paints

of Australian society. How could 74% of those he polled be neutral or in favour of economic reform if they seriously believe it has been as harmful as Pusey maintains?

Selectivity also helps Pusey paint a more negative picture than his own poll evidence warrants. For example, he dwells on 59% support for national wage indexation, but leaves unexplained minority opposition to enterprise bargaining and individual contracts, instead just quoting someone from a focus group who was unhappy with his enterprise bargain. Other polls, less affected by the public sector bias in Pusey's sample, point to different results on this issue. In 2001 the Saulwick Poll asked employed people which kind of industrial coverage would make them better off. Some 38% said an award,

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21% a workplace agreement, and 37% an individual contract. Saulwick's analysis was that people tend to believe that they are better off under whatever arrangement they have already. There is no great desire to return to the old centralised wage fixing system.

Repeatedly through the book Pusey tells us that people are 'angry' about economic reform. His regular tirades against economic reform and reformers show that this is true of him at least. But his actual survey results, discreetly placed in an endnote, show that only 10% of his sample described themselves as 'angry and resentful'. Another 54% were 'a bit unhappy'. There's a large gap between being 'angry and resentful' and 'a bit unhappy', but Pusey blurs the two, and anyone not checking the references would miss it.

Sometimes Pusey recognises contradictions between his argument and the data and attempts to explain them. He routinely denounces corporations and the way work is creating more

stress and invading other spheres of life (he seems particularly upset about people being rung on their mobile phones out of hours, which he mentions several times). Yet he admits that only a quarter of private sector workers complain of bad relations between management and workers. He rationalises this as workers having sympathy for their line managers, who are also overworked and struggling. The more obvious conclusion is that most private sector workers are happy enough with their work circumstances. More awkwardly, dissatisfaction with management is much greater in the public sector which is shielded from the market. This Pusey puts down to Australia having a relatively small public sector. But equally it shows that his beloved public sector gives workers no guarantees of an easy time, and he offers no comparative evidence, either with Australia at an earlier time or overseas, to suggest that a large public sector improves satisfaction with management.

Even if, like Pusey, you believe the leftist cliché that the Liberal Party is ‘little more than the front desk for the Business Council of Australia, for CEOs and vested interests’, why were two successive Labor governments the main economic reformers?

Why did it happen?

Though Pusey exaggerates his findings, the raw data minus Pusey’s spin usually tells a story that is roughly consistent with other and better surveys. Specific economic reform policies, where we have polls on them, often show minority support. This is most obvious on the issue of tariffs and protection, with around two-thirds of voters supporting protection over a long period of time. Privatisation of highly visible publicly owned companies rarely receives majority support, though a 1997 Morgan Poll found 55% of respondents supported at least one privatisation. Before the shift from awards most people did not want to change, but after the event, as we’ve seen, there is little evidence of widespread dissatisfaction. The 2001 International Social

Science Survey, like Pusey’s sample, shows lukewarm feelings about the current economic system, with 31% saying it has brought the majority of Australians more benefit than harm, 33% as much benefit as harm, and 36% more harm than benefits.

Given the lack of demand for reform policies, why did politicians, so often accused of being poll-driven, take no notice of them? Pusey never gives a convincing answer, and instead provides us with a conspiracy theory. Consistent with his earlier book *Economic Rationalism in Canberra* he believes that policymaking has been captured by ‘narrowly trained neo-classical economists’ in the bureaucracy and the senior ministers they advise. They were aided and abetted by ‘New Right business-funded think-tanks’, including The Centre for Independent Studies, and by Arthur Andersen, the now defunct firm of accountants, which Pusey, fancifully even by his standards, describes as the ‘thought police for institutional and other large shareholdings’.

The major villains responsible for Australia’s woes, however, are ‘corporations’ and their representatives, such as the Business Council of Australia. Here Pusey offers at least some evidence—himself—that economic reform triggers ‘social paranoia’. Pusey thinks the economic reform agenda has been all about increasing corporate profits. Indeed, the people driving economic reform in Australia ‘believe the central purpose of politics should be to confer the greatest possible advantage on large business enterprises that electoral tolerances will allow’. If Pusey is to be believed, in the 1980s the BCA was writing national budgets ‘almost line by line’.

This conspiracy theory is very unsatisfactory. Even if like Pusey you believe the leftist cliché that the Liberal Party is ‘little more than the front desk for the Business Council of Australia, for CEOs and vested interests’, why were two successive Labor governments the main economic reformers? By going against elements of their own Party and public opinion they took considerable risks.

The explanation is complex, but there are two main reasons. First, Labor wanted to reduce unemployment. The Accord moderated wage increases to make keeping existing employees or taking on new employees more affordable for business (Pusey complains about wages being held down, but just ignores the fact that wage growth was slowest under the last phase of the centralised system

of wage fixing he believes should be resurrected). In the 1980s there was a strong link between a growing economy and increased demand for labour, so economic growth was also a key policy objective of the reformist Labor governments.

Second, Labor knew that rising demand for welfare and social services was very difficult to control over the long term, but that there was resistance to paying extra tax. The only way out of this dilemma was to target spending more tightly on areas of greatest need and to ensure the economy grew quickly enough to generate more tax revenue on the same tax rates. In its goals, if not its means, Labor's reform agenda was 'middle-of-the-road social democrat', as Pusey unconvincingly describes his own political beliefs (the back cover blurb from leftist polemicist Noam Chomsky that the book 'should become a central component of public debate on the radical reconstruction of Australian society' is closer to the mark).

Labor's objectives were well within the mainstream of public opinion. The Morgan Poll measure of most important issues for the federal government shows that throughout the 1980s people rated economic issues as most important, with welfare and social service issues becoming increasingly important as the decade went on. Labor's leaders presumably calculated that they would be judged more on the results of their policies than the details of how they achieved them. With a record five consecutive ALP federal election victories, this was a very successful gamble.

Why debate with Pusey is impossible

At one point, Pusey remarks that to the 'greater detriment of the national conversation, people of goodwill on both sides of the fence never talk to each other'. This suggests that he is willing to talk seriously with people on the other side of the ideological fence. But Pusey has a habit of making reasonable sounding statements that are not supported by his actual behaviour. We've already seen how he claims to be a middle-of-the-road social democrat while condemning the economic policies of the actual middle-of-the-road social democrat government we had between 1983 and 1996. In the sentence after this claim, Pusey says of his book that 'one axiom is that a flourishing nation needs strong, well-functioning markets'. That statement

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appears on page 12, and he then spends the next 173 pages criticising attempts to create those 'strong, well-functioning markets'.

If Pusey genuinely wanted to engage in a 'national conversation', he would listen to what other people have to say. Yet he shows little sign of paying any attention to criticism. Since 1991 he has been telling us, as he does again in this book, that 'our own economic rationalist prescription proceeds from the extreme assumption that economies, markets, money and prices can always, at least in principle, deliver better outcomes than states, governments, and the law'. Aside from a few anarchists with no influence on Australian government, nobody believes this, and no policy proceeds on its basis. Unfortunately Pusey will neither accept assurances that nobody believes that markets are fit for all purposes, nor provide evidence that anybody believes this in principle or follows it in practice.

With serious debate impossible, all that can be done is to issue consumer warnings about books like *The Experience of Middle Australia*. Its appearance under the prestigious Cambridge University Press brand, its endorsement by prominent people in 'advance praise', and the positive reception it received in the mass media all give it a credibility it does not deserve. Robert Manne described the book as a contribution to 'Australian self-understanding', but in reality it is a contribution to Australian self-misunderstanding. The reasons for economic reform, its consequences, and the public's reaction to it are all, to varying degrees, inaccurately portrayed in this book. Readers should not bother with books that will leave them less well-informed at the end than they were at the start.