

looking' approach not only lacks the transparency and auditability of Ergas's preferred historical cost approach, but also places Telstra at the risk of having its assets 'stranded'—that is, removed from the asset base on which regulated prices are calculated—during periodic regulatory 'optimisation' processes.

Ergas comments:

Exposing the regulated firm to such unnecessary income risk seems inefficient. After all, it involves subjecting the firm to what is at best a random risk of reward or punishment, which – being unrelated to the firm's actual performance – cannot improve its incentives to perform well. (p. 94)

While many policy makers have curbed the threat of stranding risk in setting regulated prices, the threat has not been eliminated for new investments. One reason it remains is that exposing a regulated firm to the risk of asset stranding at an ex post review can provide it with an incentive to utilise its superior information to make efficient investment decisions in the first place. Ergas acknowledges this argument but his refutation is not entirely convincing, suggesting that regulation ought to reward cost reductions rather than penalise inefficient over-building. Why not both? Ergas also overlooks the fact that in the gas and electricity regulatory regimes against which he unfavourably compares Part XIC, firms are required to undertake and publish comprehensive cost-benefit analyses to justify any major proposed investment for which they wish to receive a regulated return.

In the chapters on access issues, and another on the chimera of monopoly profits, there is a pattern in which Ergas briefly—too briefly—states the ACCC's approach in one or two sentences and then follows up with a lengthy refutation. The case Ergas

makes is often ostensibly persuasive, but relies heavily on Ergas's brief characterisations of the ACCC's approach. Ergas doesn't reassure his readers enough of his fair-mindedness to win their faith in his side of the story. So despite the many apparent misuses of regulatory power by the ACCC outlined by Ergas, the reader is unwilling to take them at face value or to share his palpable frustration.

*Wrong Number's* final main chapter discusses popularly proposed solutions to the current regulatory impasse such as 'structural separation,' and explains Ergas's own preferred 'light-handed' approach. Ergas's proposals are worthy of consideration, relating mainly to changing the institutional allocation of roles under Part XIC so that the ACCC is not both rule-maker and rule-enforcer. However, his response to the frequently mooted separation of Telstra's retail and network activities is weak, relying on his assertions that the extensive complementarities between these two types of activities are too great to sacrifice.

In this context, it seems odd that his own reform proposals are so modest, in that they retain scope for ongoing regulated access. One would expect that *any* regulated access would undermine those same complementarities, so it is not clear whether Ergas's acquiescence to continuing access is a concession to the benefits of regulation or an acceptance of practical realities.

Having said all that, *Wrong Number* does flow well. In true consultant fashion, Ergas previews the key points of each chapter, explains the link between each chapter and the previous and later chapters and reiterates the key points again at the end of the chapter. This leads to repetition but does make it easy to follow the thread of the argument.

Ultimately, this book is not written for the casually interested layperson; it is plainly directed at Federal policy

makers keen to make visible progress on the rollout of broadband services. What is not clear is whether, even if legislators did all *Wrong Number* asked, Telstra would not continue to hold out for an even better deal.

1. *Pacific National (ACT) Limited v Queensland Rail* [2006] FCA 91, paras 997, 1015.

## Reviewed by Rajat Sood

### *Calculating Political Risk*

by Catherine Althaus

UNSW Press, Sydney, 2008

\$44.95, 304pp

ISBN 9781921410536

Politics is a risky business. Crises erupt unpredictably. Unforeseen consequences can derail clever policies. Governments can be broken by events outside their control. An otherwise trivial issue, such as the tax status of a candle, can be a political tipping point.

Surviving in this chaotic landscape demands unusual skills. Politicians must be agile, persuasive and, strange to say, even principled opportunists. Voters respond to policies that satisfy their self-interest and their sense of what is right. Successful politicians are adept at finding ways to present their policy solutions in these terms. They can distil complex issues into simple loaded policy choices that resonate with voters.

But perhaps the most essential skill for any politician is the survival instinct which quickly detects political risk. Contrary to the famous moment in *Yes Minister*, astute politicians rarely need to be told when a decision will be courageous.

In *Calculating Political Risk*, Catherine Althaus seeks to define how politicians identify and manage political risk. She asks whether

political risk offers a fresh way of 'understanding and appreciating politics and public policy making.'

The result is a serious, academic book offering a literature review, a quantitative survey, and numerous case studies.

The literature review is heavy going. Althaus reports on an arid debate between political sociologists about what defines political risk. Much concern is expressed about the lack of clarity surrounding the concept. At times, the prose slips into ponderous phrases such as 'risk explains, shapes, delineates and defines society and vice-versa; and we can only understand society if we understand risk.' We are warned that 'unless politics becomes reflexive, accommodates a risk mentality and redefines itself, it will disempower itself.'

At the end, we return to the sensible conclusion that political risk is the unknown potential for political damage arising from a decision. Politicians will choose and design policies to minimise risk. But in practice how do politicians make this calculation?

The next chapter is meant to answer that question. Althaus interviewed more than 100 political players and spectators she calls 'practitioners.' Unfortunately, politicians can be elusive subjects: with nothing to gain, they usually duck participating in academic research. So sadly there are few active politicians in Althaus' sample, and almost none with experience as ministers. Political advisers are well represented. But otherwise the sample has too many bureaucrats and media commentators.

The practical wisdom of the people interviewed is, well, practical. The main finding is simply that calculating political risk is intuitive, a gut instinct honed by experience.

The final chapters of *Calculating Political Risk* are devoted to national and international case studies. As a former state public servant, Althaus chooses strategic plans from six states for analysis. The choice is odd. As Althaus herself notes, the state plans were largely marketing strategies intended to create a positive political brand for incoming premiers. The rhetoric about long-term planning rarely led to substantive policy change or shifts in funding. Most of all, the development plans did not entail any significant political risks.

There are more interesting issues that could have been tackled. Reform is typically a high risk venture in Australian politics. Some reforms—tariff reductions, the GST—have been unlikely successes; others such as industrial relations reform have failed.

But this criticism cannot be made of the two international case studies—the UK government's handling of the 'Mad Cow' crisis and US security policy after 9/11. The UK crisis is the more interesting (perhaps because it is less familiar). Althaus shows how the UK government underestimated the likely reaction of the public and media to what experts assured them was a remote risk to public health. Cabinets contemplating what Jim Hacker would call 'open government' should take note.

Althaus tackles an important subject—the intersection of policy and politics. She poses many interesting questions but, unfortunately, *Calculating Political Risk* falls short of fulfilling its promise of providing a fresh approach to understanding politics.

**Reviewed by Malcolm Roberts**

### *The Henson Case*

by David Marr

Text Publishing, Melbourne, 2008

\$24.95, 149pp

ISBN 9781921520037

In May 2008, the Roslyn Oxley9 Gallery in the Sydney suburb of Paddington sent out invitations for an upcoming Bill Henson exhibition, featuring a nude photograph of a thirteen-year-old girl. On Thursday 22 May, a column by Miranda Devine in the *Sydney Morning Herald* and Chris Smith's afternoon talkback show on radio station 2GB sparked

public outrage. They also drew the attention of NSW police, who visited the gallery that afternoon and prompted the owners to cancel the opening scheduled for the evening. The next day, officers seized Henson photographs from the gallery.

'In a little over twenty-four hours,' David Marr writes in *The Henson Case*, 'a blast of public disapproval had seen one of the nation's leading commercial galleries closed; the Prime Minister take his place at the head of a phalanx of angry politicians (he called them 'absolutely revolting' on Channel 9's *Today* program); pictures taken into police custody; a lavish art magazine pulped; and pictures stripped from a public gallery's walls.'

Marr credits Michael Heyward of Text Publishing for thinking that 'these bizarre events deserved a short quick book,' and he delivered just that. This is an expanded journalistic account of the affair, of a length you can easily read in a few days using time snatched at the edges of a full working and domestic life. There's no padding here. Readers already aware

