

Game of Mates: How Favours Bleed the Nation

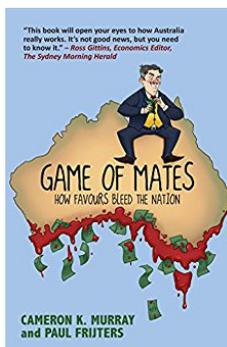
By Cameron K. Murray and Paul Frijters

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Reviewed by Gene Tunny

Australia normally scores well in international measures relating to corruption, but a new book claims the Australian economy is actually rigged by a ‘Game of Mates’ and it is costing the average Australian dearly. The authors, London School of Economics’ Paul Frijters and the University of Queensland’s Cameron Murray, allege there is a hidden culture of grey gifts—you scratch my back and I’ll scratch yours—among Australia’s well-connected business elites, who benefit from favourable political decisions and government policies. In the book, the representative member of the elites who are winning the Game of Mates is called ‘James’—after James Ruse who was a convict on the First Fleet and received Australia’s first grant of land. The authors purport to examine how the ‘game’ of grey corruption is played, with chapters on sectors of the economy that are heavily regulated by government including property, mining, banking, transport and superannuation.

As is well known, many former politicians and public servants later end up working in industries that were related to their official responsibilities, such as former federal resources minister Martin Ferguson who became chairman of the advisory board for the Australian Petroleum Production and Exploration Association. The authors allege this type of interchange between public and private sectors is part of the Games of Mates. Former government officials use their inside knowledge and connections in their subsequent careers as lobbyists, for example. The authors consider that Australia has weak laws relating to conflicts of interest and cooling-off periods for public officials before they take on lobbying roles.

The Game of Mates is well played by developers, who cultivate politicians, and officials who can benefit them through favourable decisions, such as re-zoning land or awarding major contracts. There may be no explicit corruption, but the officials somehow come to realise that if they reward one of the Jameses, they will be looked after later, possibly by a well-paying job once they leave the public sector. While this ‘game’ may fall short of actual corruption, benefits that go to the favoured elite allegedly end up costing ‘Bruce’, the average Australian, half his wealth. Here is an actual quote from the book:

It is the story of how groups of ‘Mates’ have come to dominate our corporate and political sectors, and managed to rob us, the Australian majority, of over half our wealth (p.1).

Is this at all plausible? I strongly doubt it, and *Game of Mates* certainly fails to make the case. While the book contains some interesting findings, and is highly critical of some eyebrow-raising connections and career moves among people straddling business and government, it regrettably makes some astonishing claims that cannot be supported by the evidence.

The first piece of evidence against the Game-of-Mates thesis is that Australia consistently ranks as one of the least corrupt countries worldwide. In 2016, Transparency International’s Corruption Perceptions Index ranked Australia 13th best out of 176 countries, just behind Germany and the UK. New Zealand and Denmark were in top place. Neighbouring countries Indonesia and Papua New Guinea, which have real concerns about corruption, scored well below Australia and ranked 90th and 136th respectively (with a higher rank meaning corruption perceptions are lower).

What would we expect to see if the Game-of-Mates thesis held? We would expect a highly unequal distribution of income and wealth. But Australia is not a highly unequal country by world standards, being around the middle of the OECD. Australia’s Gini coefficient—a standard measure of inequality where 0 is perfect equality and 1 is perfect

inequality—is reported by the OECD to be 0.337 in 2014. We are more equal than the UK (0.356) and the US (0.394) and much more equal than countries with greater perceived corruption such as Turkey or Mexico. Turkey and Mexico have Gini coefficients of 0.398 and 0.459 respectively, and rank 75th and 123rd in Transparency International's scoring of countries according to perceptions of corruption, thus highlighting the connection between high levels of corruption and inequality.

Frijters' and Murray's description of Australia would make us a prime candidate for a failed state which, as Daron Acemoglu and James Robinson argue in *Why Nations Fail*,¹ is characterised by the predominance of extractive institutions and rent-seeking. Yet Australia is a high-income country, ranked 19th in the world in GDP per capita, according to IMF data, with only a slightly lower GDP per capita than Sweden. And we are second on the Human Development Index produced by the United Nations Development Program, just below Norway. This Index takes into account gross national income but also other indicators such as schooling and life expectancy. This is not what you would expect from a sclerotic economy riddled with the actual and grey corruption Murray and Frijters argue is rife.

Surprisingly, distinguished economic journalists such as Ross Gittins and Peter Martin have praised the book.² Martin cites a previous research article by one of the book's authors (Frijters) that argues only 5% of Australia's 200 richest people (according to the *Australian Financial Review's* list) were 'superstars or top innovators', which I suspect is difficult to judge. And half of Australia's richest people made their fortunes in sectors such as property and mining where political preferment is relevant.³ Martin also quotes a US study based on the Forbes rich list showing Australia has an extremely high proportion of billionaires with political connections. What that finding could actually reflect is the large amount of regulation Australian governments have put in place, which forces business people to cultivate political connections.

There is a big difference between business people having acquaintances in politics and actual corruption. Regarding the 'Jameses' of Australia, the authors note 'In the strict legal sense, they may not

be corrupt' (p.16). In which case, it is difficult to know what exactly they are complaining about. The whole idea of grey gifts and inappropriate behaviour short of legally defined corruption is rather nebulous and promotes ill-founded moralising. What is essential is to have mechanisms that help expose corruption such as a free press and independent judiciary. These mechanisms may work imperfectly, but there have been some high-profile cases lately, including those of former NSW government ministers Eddie Obeid and Ian Macdonald, which mean the public should not be as completely discouraged as Murray and Frijters would suggest.

To an extent, there are elements of envy and the tall poppy syndrome in the book. Highly successful property developer Maha Sinnathamby is criticised for lobbying to help get Springfield, between Ipswich and Brisbane in Southeast Queensland, developed and supported by public investments in a highway and rail line. Typical of the book's over-the-top tone is the assertion—without any real proof of wrongdoing or impropriety—that 'The fact that he could proudly write about his exploits instead of writing his memoirs from jail tells you that James is currently winning' (p.16). It is bizarre to criticise a developer for doing his best to get a new development currently housing over 34,000 people from up and running and it is unclear why residents of the development would not deserve some of their taxes spent on infrastructure to support that growth.⁴

The book makes some rather odd claims—for instance, that 'James' has taken over universities, even though having a distinguished academic career is typically a requirement for being a Vice Chancellor. The authors tell a story—without identifying any particular university, although hinting they might have a Queensland university in mind (p.135)—about how the 'Jameses' have done deals with universities to develop land on campus, including for dormitories and car parks, which have allowed them to earn large profits, particularly since the surge in overseas enrolments since the 1990s. In their story, 'James' has managed to push out academics from the top of university hierarchies by 'ingratiating himself with politicians' (p.135). It is all very titillating and makes for a good conspiracy theory, but where is the hard evidence

of any actual wrongdoing by specific individuals? It is not in this book.

The book ignores the great progress Australia has made since the 1980s in eliminating the rent-seeking that was associated with industry protection and the tariff wall. Rather than benefiting a small bunch of spivs, the 'Jameses', Australian policy settings appear overwhelmingly directed toward pleasing middle-income households, which is what would be expected in a democracy, even if the results end up being highly inefficient from an economic perspective. Political science tells us that political parties tend to pitch toward the median voter. In Australia, the expansion of middle class welfare, comprising various family and childcare benefits and tax concessions, has created the situation where only around three out of five Australian families are actually taxpayers in net terms.⁵ And we have a highly progressive tax system. ANU Professor Peter Whiteford has observed that 'Australia and the United States collect the most tax from people in the top decile relative to the share of market income they earn.'⁶

The authors make some legitimate and well-known points about excessive costs in superannuation, 'gold-plating' of utilities that leads to higher user charges, problems with Public Private Partnerships and large-scale infrastructure projects, and concern that the big four banks enjoy a privileged position which underpins their high profitability. These are not issues that are being ignored in the mainstream policy debate, and current Productivity Commission and Australian Competition and Consumer Commission inquiries are investigating superannuation, banking, and electricity pricing, for example. The policy debate and deliberation we actually see are difficult to reconcile with the Game of Mates conspiracy theory.

The book does contain some interesting proposals worthy of further consideration. Its suggestions around land taxation and resource rent taxes in the mining sector have sound bases in economic theory, although they are politically challenging and difficult to implement in practice. On land taxation, the ACT's method of extracting 75% of the windfall gain that comes from rezoning decisions, the Lease Variation Charge (LVC), could be explored by other jurisdictions, but given the costs

of making applications and the risk involved, such a policy may unduly deter development. Indeed, a 2012 study by Allen Consulting was highly critical of the LVC, forecasting it would raise the cost of housing, discourage urban renewal and reduce investment in the ACT.⁷ The book also argues for longer cooling-off periods for politicians with fewer exemptions, which may be desirable, but it should be recognised that some politicians need to earn a living after they have left public office.

One rather peculiar thing about the book is that the authors suggest public sector solutions to a number of the problems they identify. This is somewhat strange given that they argue public preferment of the Jameses is the underlying issue. If the problem appears to be caused by government, why not have less government? Competition is generally considered one of the best antidotes to preferment and corruption, so it would be odd to suggest big government institutions as solutions. Experience around the world shows that state-run businesses tend to be inefficient and can promote corruption. Yet the authors seem to believe that new public institutions, such as a default state-run super fund (p.58) and a state bank to compete with private banks (p.115), would necessarily produce better outcomes. They appear unaware of the historical failure of state banks in Australia, or the risk of government unduly influencing the investment mandate of a state-run super fund.

Game of Mates is not a scientific analysis of important policy issues. Instead it relies heavily on back-of-the-envelope calculations and hyperbole. For example, its final chapter is a Communist Manifesto-style call to arms titled 'Rise up Bruce'. While the book addresses some legitimate policy concerns, it generally takes them to the extreme to support its radical thesis and conclusions. This is disappointing, given that the authors have previously published original and credible academic research in the *Journal of Urban Economics* highlighting the linkages among developers which appear to be correlated with favourable rezoning decisions.

But the authors go too far in making a more general argument that the whole of the Australian economy is rigged. To an extent, a lot of what the authors

have identified is obvious. Well-connected people do better in life. That has been observed for a long time, at least since the days of Dale Carnegie (of *How to Win Friends and Influence People* fame) and Napoleon Hill (whose study of over 500 self-made millionaires culminated in the 1937 bestseller *Think and Grow Rich*).

Finally, I accept there are many things wrong with our policy settings in Australia. But we also do many things well, and we are progressively catching those people who are rotting the system, so there is hope for the future. We should avoid emotive critiques such as *Game of Mates* of the whole of our economic and political systems, based largely on suppositions and flimsy evidence reminiscent of university student newspaper rants.

Gene Tunny is the Principal of Adept Economics and is a former Australian Treasury official.



Endnotes

- 1 Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (Crown Business, 2012).
- 2 See Ross Gittins, 'Meet James, the Man Who Always Wins Australia's Game of Mates', *The Sydney Morning Herald* (29 November 2016) and Peter Martin, 'Game of Mates: How Billionaires Get Rich at Our Expense', *The Sydney Morning Herald* (28 May 2017).
- 3 Paul Frijters and Gigi Foster, 'Rising Inequality: A Benign Outgrowth of Markets or a Symptom of Cancerous Political Favours', *Australian Economic Review* 48:1 (2015), 67-75.
- 4 <http://www.greaterspringfield.com.au/us/key-facts-about-springfield/>
- 5 Peter Whiteford, 'Should We Be Worried About "Zero Net Taxpayers"?', *Tax and Transfer Policy Institute Policy Brief 5/2016* (Canberra: ANU, Crawford School of Public Policy, November 2016), 13.
- 6 As above, 24.
- 7 ACIL Allen, *The ACT Lease Variation Charge: Implications for Housing Affordability, Development and Growth in Canberra*, Report to ACT Division of the Property Council of Australia (2012).

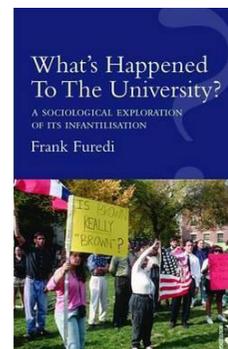
What's Happened to the University?: A Sociological Exploration of its Infantilisation

By Frank Furedi

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Reviewed by Robert Forsyth

Frank Furedi's answer to his own question is that the university, at least in its American and British form, has traded robust academic freedom for the treatment of its students as vulnerable children. Not that freedom of speech or open intellectual inquiry is openly repudiated. It is just that in practice it has become, in Furedi's own words, 'a negotiable commodity that is subordinate to other concerns' (p.179). Chief among these concerns is the safety and emotional well-being of students, who are treated as 'not quite capable of exercising the responsibilities associated with adulthood' (p.7). This has led to what Furedi characterises as the 'infantilisation of the university'.

Furedi's approach in the book is to give the reader, as his subtitle indicates, 'a sociological exploration' of the phenomenon. As such he provides a wide-ranging description of various elements of what he regards as problematic, although without a great deal of rigorous historical or conceptual analysis.

Furedi argues that treating people as essentially emotionally vulnerable leads to what he calls 'the weaponisation of emotions'; that is, where the language of emotional harm—'I am offended' or 'I am traumatised'—is used to legitimate political causes in campus politics. Significantly, Furedi links this extreme sensitivity about people's vulnerability to emotional harm to the downsizing of expectations regarding human agency, along with the normalisation of the sensibility of powerlessness' which is 'intimately linked to the wider mood of cultural pessimism afflicting Western societies' (p.21). Unfortunately this very interesting insight is not further developed, although Furedi does refer us to his earlier work *Politics of Fear* (2005).