the right and left—who might otherwise not agree on much—when it comes to China. He does not really attempt to make any particularly domestically politically partisan points in the book. He even recognises that 'although prone to be dazzled by the economic promise, the right is more consistent in its scepticism towards China' (p.49) and at the same time is critical of many on the left's 'romantic attachment to the idea of the Chinese Revolution, despite the horrors of Maoist excess, not to mention the fierce repression of 1989 that continues to this day' (p.50). My experience certainly accords with Hamilton's when he says that 'most China apologists and appeasers sit at the soft centre of Australian politics' (p.49).

While there are sections and statements that need to be further substantiated, *Silent Invasion* is a brave book—there are commercial and other consequences for being critical of Beijing as I know from personal experience, and it would be easier just to be 'positive and optimistic' (as Bob Carr famously described his attitude to China). *Silent Invasion* contains much useful information about potential threats. It is certainly right that there has to date been too much wishful thinking, naivety and complacency when it comes to Beijing among many of Australia's political and business leaders. One also instinctively wants to back someone who is unfairly attacked by Race Discrimination Commissioner Tim Soutphommasane[2] for 'exciting an anti-Chinese or Sinophobic racial sentiment' when Hamilton is at pains in his book to avoid doing just that. Or to back an author who struggled to find a publisher, has a book launch boycotted by members of his erstwhile allies from the Greens, and to add insult to injury is then criticised by members of Australia's academic community who argued his book itself threatens free speech. Give me a break.

I have no doubt that many reading this would still vehemently disagree with Hamilton on a range of issues. One likes to believe that that it is still possible to share a common patriotism and engage in civil dialogue on important subjects with fellow Australians despite our political differences. I suspect we will have much need of that type of spirit in the years ahead.

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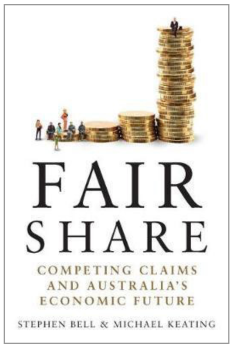
Endnotes

1 See a review by Patrick Allington in *The Australian* (3 February 2009).

2 Tim Soutphommasane, 'Beware Fanning Flames of Racism over "Silent Invasion"', *The Sydney Morning Herald* (28 February 2018).

Fair Share: Competing Claims and Australia's Economic Future

By Stephen Bell and Michael Keating
Melbourne University Publishing, 2018, $59.99 (hardcover), 408 pages
ISBN: 9780522872279



Reviewed by Michael Potter

Introspection is the stock in trade of booksellers—where would they be without books providing both personal and national self-analysis? *Fair Share* by Stephen Bell and Michael Keating ensures this market continues to be well supplied.

The authors are of substantial pedigree: Bell is a Professor of Political Economy and Keating headed various government departments under the Hawke-Keating Labor Government. Given their background, it is unsurprising that the book takes a centre-left view of the world, fitting into the dominant narrative of today. This is clear from the praise for the book from Ross Gittins, John Edwards, Saul Eslake and Laura Tingle.

Fair Share is a lengthy book, discussing many of the important problems facing Australia today including mediocre growth in wages, GDP and productivity, unaffordable housing, underemployment, and budget pressures. However, there is much to critique in the book.

Housing affordability is rightly raised as an important problem, but Bell and Keating confuse matters by using the ratio of house prices to incomes as their main measure of affordability. On this measure, Australia appears to have a major problem but this is misleading—on the better measure of the ratio of housing *repayments* to income, affordability has improved in recent years.[1] Instead, housing deposits are the main barrier to entering the market.

Fair Share mirrors the common view that housing investors are a large part of the problem, missing many relevant facts. Slashing the supposed incentives for investors is likely to have a small impact on price,[2] so how could these same incentives be causing large price increases? House prices have grown similarly in many developed countries with very different housing investor policies, strongly suggesting a different factor (likely low interest rates) has been the main cause of price growth.[3] In addition, *Fair Share* misleadingly argues investors are driving out homeowners because they have a growing share of new housing loans, but a better measure—the share of total loans held by investors—is around its historical average.[4] The book actually has a worthwhile discussion on the real problem—inadequate housing supply—but this is overshadowed by the defective discussion on housing investors.

Bell and Keating unsurprisingly advocate curtailing negative gearing and the capital gains tax discount without addressing the many arguments against these changes.[5] Most importantly, the long-term adverse impact of the tax changes on investors will be approximately zero, as they will shift out of housing investments, driving up the rate of return to its old level. And the increased rate of return can only really come from one source: increased rents; as a result, the impact is likely to be largely or wholly felt by renters.

More broadly, Bell and Keating advocate an increased total tax burden. They usefully draw attention to the fiscal train wreck heading our way—if nothing is done, the federal government will have a fiscal deficit of almost 6% of GDP in 2055, or $105bn per year in today's money.[6] But this doesn't mean we need tax increases today; instead we need policies to insulate us from this dire scenario. They suggest some policies that could restrain government spending, including moderating the inadequately justified defence spending level of 2% of GDP, curtailing the remaining industry support policies (particularly defence procurement) and including the home in the pension assets test. *Fair Share* is also not keen on increased government infrastructure spending—a welcome occasion the book runs counter to the dominant narrative—noting the overspends, poor quality, and political interference in many projects.

By contrast, *Fair Share* dismisses the harmful economic effect of increasing taxes, but backs this up with out-of-date US research; research about the effect of welfare withdrawal rather than taxes; and research about the impact of tax on labour supply instead of the impact on taxable income, the broader and better concept.[7]

In many other policy areas, *Fair Share* frequently, and unsurprisingly, argues that more government intervention is required—including on innovation, education, health, childcare and underemployment. While markets are not dismissed, neither does the book propose using markets to their full potential in these areas, in fact arguing there is little scope for reform in some areas including the labour market. Nevertheless, the book has an important section promoting the benefits of free trade and dismissing many mistaken arguments against it.

Inequality is, naturally, discussed at length in *Fair Share*, and like much of the rest of the book there is some good material but also plenty to critique. The book usefully discusses and supports many of the criticisms made of the Piketty thesis that the main driver of inequality is the return on capital; in fact Bell and Keating correctly analyse some of the most significant reasons for growing inequality, including globalisation and government preferment/rent extraction. They do however support the Piketty argument that foolish company boards overpay CEOs, a hypothesis with many problems,[8] and like much of the left they view inequality as a problem of itself rather than a symptom of other issues (such as government preferment). *Fair Share* notes the growth in inequality has been small in Australia, but the book fails to engage with Treasury and Productivity Commission statements that there have been *no* recent increases in Australian inequality.[9]

On the macroeconomy, *Fair Share* argues current lacklustre economic growth, or secular stagnation, is mainly caused by inadequate demand or insufficient spending. But the book doesn't convincingly show that other potential explanations, such as demography and reduced innovation, are wrong. *Fair Share* also doesn't satisfactorily address a problem with the insufficient demand argument: existing policies are quite expansionary—the stimulus from large deficits and low interest rates is (largely) acknowledged, but the book doesn't sufficiently explain why demand could still be inadequate.

Maybe both monetary and fiscal policy are ineffective, or demand would have been much worse without the stimulus. But both arguments would be difficult to make, and are not adequately made by Bell and Keating. In fact, they argue that interest rates will need to rise soon, and fiscal consolidation is needed, though perhaps not right now. It is hard to reconcile these various positions.

Bell and Keating are correctly concerned with poor levels of investment; their diagnosis for this problem is naturally inadequate demand, dismissing other reasonable arguments. In dismissing tax, however, *Fair Share* veers into the ignorant. The authors are apparently unaware that the IMF and OECD, and a plethora of academic studies,[10] argue company tax has a substantial adverse impact on investment and the economy. Instead they make various uninformed and incorrect arguments including that the effective company tax rate in Australia is low; majority Australian-owned companies won't change their investment decisions due to company tax; and there is no correlation between company tax rates and GDP.[11]

This is all part of an underlying issue with *Fair Share*—doubtful claims are made without adequate citation. In another example, on page 4, we are told wage growth in Australia 'has been strong' without citation. This would come as a surprise to many including the Australian Council of Trade Unions and the Reserve Bank of Australia who have been talking about poor wage growth in Australia for some time.

Finally, a key argument in *Fair Share* is that there are competing claims for Australia's resources. While this is a truism to a large extent, Bell and Keating make this idea sound like class conflict, taking on a neo-Marxist tone that is troubling.

Fair Share is a more substantial book than many that populate the genre of national introspection. While it does cover significant ground, there is little in the book that is new and much that can be critiqued. While all parts of the Australian economy sorely need innovation, perhaps the place it is needed most is in the market for books on national self-help.

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Endnotes

1 See Graph 2 in Michele Bullock, 'Household Indebtedness and Mortgage Stress', Address to the Responsible Lending and Borrowing Summit (Sydney: 20 February 2018), https://www.rba.gov.au/speeches/2018/sp-ag-2018-02-20.html This speech also argues the overall levels of mortgage stress are low.

2 The Grattan institute argues removing negative gearing and halving the CGT discount would cut house prices by about 2%; see page 97 of John Daley, Brendan Coates, and Trent Wiltshire, *Housing Affordability: Re-imagining the Australian Dream* (Melbourne: Grattan Institute, 4 March 2018). A price fall of 2-4% is forecast in SQM Research, *Labor's Negative Gearing Policy—A Market Viewpoint* (22 June 2016). See also Adrian Lee, *Switching Gears: Addendum II—Why Housing Prices Won't Crash* (McKell Institute, n.d.), https://mckellinstitute.org.au/app/uploads/The-McKell-Institute-Switching-Gears-Addendum-II.pdf

3 Price levels relative to income are similar in Australia, Canada, UK, Ireland, New Zealand, Denmark, Netherlands, Spain, Norway and France. See Graph 1 of Luci Ellis, 'Opening Remarks', Plenary Panel at the Australasian Housing Researchers Conference (16 February 2017), http://www.rba.gov.au/speeches/2017/sp-ag-2017-02-16.html

4 Investors turn over their loans more often, meaning they have a larger share of new loans than of loans outstanding. But the share of investors in total loans is more relevant. Source: ABS Housing Finance, Australia, Cat No 5609.0, Table 12.

5 Some other arguments are in Robert Carling, *Right or Rort? Dissecting Australia's Tax Concessions*, CIS Research Report 2 (Sydney: The Centre for Independent Studies, 3 May 2015) and Michael Potter, 'Negative Gearing Debate Off Track', *The Australian* (11 May 2016).

6 Page 47 of Joe Hockey, *2015 Intergenerational Report—Australia in 2055*.

7 Significant income at the top doesn't relate to labour supply, but is still affected by tax rates such as capital gains. Tax at high income levels also affects decisions to innovate and migrate, for example Enrico Moretti and Daniel Wilson, 'The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists', NBER Working Paper No. 21120 (April 2015). All these impacts are included in estimates using taxable income as the comparator.

8 See Michael Potter, '*Capital in the Twenty-First Century*: A Critique of Thomas Piketty's Political Economy', *Agenda* 21:1 (Canberra: Australian National University Press, 2014).

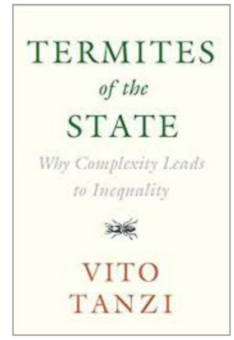
9 See Treasury briefing released under Freedom of Information: https://treasury.gov.au/foi/2180/ and page 30 of Productivity Commission, *Shifting the Dial: 5 Year Productivity Review—Inquiry Report* (24 October 2017).

10 For example Oguzhan Akgun, Boris Cournède and Jean-Marc Fournier, 'The Effects of the Tax Mix on Inequality and Growth', OECD Working Paper 1447 (2017); Page 48 of International Monetary Fund, 'IMF Fiscal Monitor: Acting, Now Acting Together' (April 2016); Box B.5 of OECD, 'Tax and Economic Growth' (2010); Lars Feld and Jost Heckemeyer, 'FDI and Taxation: A Meta-Study', *Journal of Economic Surveys* 25:2 (21 February 2011), 233–272; and Simeon Djankov, Tim Ganser, Caralee McLiesh, Rita Ramalho and Andrei Shleifer, 'The Effect of Corporate Taxes on Investment and Entrepreneurship', *American Economic Journal: Macroeconomics*, 2:3 (July 2010), 31-64.

11 The IMF states the corporate effective tax rate in Australia is in the upper third of the rates for developed countries: see page 21 of IMF, *Australia: 2017 Article IV Consultation—Staff Report*, IMF Country Report No. 18/44 (20 February 2018); the domestic ownership argument completely ignores where the *marginal* (or new) dollar of investment comes from, and ignores investment into new businesses; and a correlation of two variables (GDP and tax rates) is uninformative about the direction of causation, and is likely to be very biased due to the absence of controls. Some studies showing company tax adversely affects GDP are listed on page 15 of Michael Potter, *Fix It or Fail: Why We Must Cut Company Tax Now*, CIS Research Report 20 (Sydney: The Centre for Independent Studies, October 2016).

Termites of the State: Why Complexity Leads to Inequality

By Vito Tanzi
Cambridge University Press, 2018, 447 pages, £22.99 (hardcover)
ISBN: 9781198420938



Reviewed by Robert Carling

This is a book about state (meaning government) intervention in democratically governed, market-based economies from one of the world's foremost scholars and practitioners in public finance. He has made it more topical by paying a lot of attention to inequality. To those who might be put off by yet another tome on that subject, I would say don't be—because it's much more than that, and in any case offers valuable new insights into the role of the state in relation to income distribution.

Vito Tanzi's writings appeal to a wide range of readers, being just technical enough for academics but not too technical for the general reader. *Termites* is no exception. There is not a single table or graph, let alone algebra or equations—just 400 pages of text that are generally easy to digest, if somewhat marred by repetition that should have been edited out.

Whether it is Trump's protectionism or Turnbull's bank executive accountability regime, state intervention with a populist twist has gained momentum in the past ten years. Tanzi puts this into context by tracing the history of philosophical and economic thought in Britain, Europe and the US as it relates to government intervention since the *laissez faire* era of the late 1800s. This is a valuable narrative in its own right, though I can't help feeling that what Tanzi describes as the 'market fundamentalism' (p.35 passim) of the 1980s and 1990s is part caricature. It is clear from Tanzi's historical narrative that he is acutely aware of the flaws and limitations of state intervention in practice, as well as its power to do good. He is also well aware of the potential disincentive effects and other flaws in high taxation and welfare. He thinks many governments spend more than they need to, and is