

*The Sweet Spot:
How Australia Made Its
Own Luck and Could
Now Throw It All Away*

By Peter Hartcher

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Peter Hartcher is one of the more interesting members of the Canberra Press Gallery, in no small part because he has spent much of his career outside Canberra. His reporting from Tokyo and Washington for the *Australian Financial Review* was first rate, and that international experience enhances this book.

Few of the vast array of book-length treatments of the goings-on in national politics add much to the policy debates they chronicle. The journalistic strengths that drive the daily newspaper grind—lively narrative informed by top-line sources—can get in the way of developing a sustained argument.

In *The End of Certainty*, Paul Kelly was able to weave fly-on-the-wall accounts of 1980s party politics into grand themes of national re-invention. Many, including Kelly in *The March of Patriots*, have tried to repeat that formula to little effect. This is partly because post-Keating Australian politics has been, shall we say, more comfortable and relaxed than the 1980s.

The Sweet Spot escapes the genre by using international comparisons to add weight to its account of national economic policy. The sweet spot of the title

is Australia's balance between freedom and equality. As the OECD put it, Australia manages 'American freedom with European fairness.' This might depend on one's interpretation of fairness, a more malleable term than freedom or equality.

Hartcher promotes Australia as a model for others to follow instead of the United States, where a surfeit of freedom gets in the way of social mobility, or France, where *egalite* has clogged up the economy. Just who will be following Australia's example is not clear. Each nation follows its own path of political and economic development. Political leaders might pinch particular

ideas from overseas but they face domestic political limitations, as Hartcher notes in describing the Howard government scrambling to roll back Work Choices in the face of an electorate at odds with the prime minister on freedom and fairness.

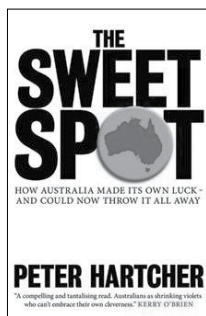
Policy readers will be familiar with the long-term economic history covered by the book, which could easily have been truncated. On a similar note, the international comparisons are sometimes laboured. A quick aside on the importance of ideas illustrated by the respective fates of North and South Korea would have sufficed.

Hartcher clearly finds Australia's balance between freedom and equality ideologically appealing, but his argument is mostly about the effectiveness of these arrangements. Encouraging us to rise above the side-effects of

the mining boom that have dominated the national mood in recent years, Hartcher thinks we should recognise the unique benefits that decades of economic reform have brought. As the current Labor government has found, doing better than the rest of the world produces no electoral dividend. Ungrateful voters credit the strength of the economy to the mining boom but blame cost of living rises on the government. Hartcher puts the mining boom in perspective and discusses some of the side-effects of a strong currency, which have only become more acute since the book went to press. Recent debates about industrial policy strengthen his analysis of a swing towards a more interventionist approach to the economy beginning with Howard's retreat over industrial relations.

Bracketing the Howard government as part of a reformist era begun by Hawke and Keating is rather generous. To take nothing away from Howard—who, as Hartcher notes, played an important role during the Hawke years in making many economic reforms bipartisan—difficult political decisions require an urgency that Howard rarely faced as prime minister. Indeed, it is unlikely that Howard's response to the economic crisis would have differed much from that of Rudd, except for perhaps a greater bias towards tax cuts over spending increases.

It is interesting that the relative size of Australia's stimulus was second only to that of China. This reflects the strong budgetary position of those two countries compared to the Americans and Europeans. In our case, mark that



down to the mining boom rather than any fiscal discipline on the part of government. Repairing the budget in the good times is the part of Keynesianism that many of his followers ignore.

The book presents as good a popular account of the global financial crisis as I have read, dismissing the notion of government intervention in the US mortgage market as the genesis of the problem. Beliefs about the causes and solutions to the crisis are important in assessing whether the shift from freedom to equality that Hartcher describes will turn out to be durable or just a short-term response to plunging credit and demand. Presidential politics in the United States looks set to be dominated by these distributional issues in 2012. Here, Tony Abbott's populism taps into public concern about growing debt, yet he offers costly interventionist policies on everything from climate change to asylum seekers.

The episodic nature of the book leaves a lot of gaps in the argument. The major themes go missing for chapters on end. Hartcher points out that the political legitimacy of free markets rests on perceptions of equality of opportunity, but doesn't provide a sustained interrogation of the extent of opportunity here. He presents mining magnate Andrew 'Twiggy' Forrest as proof positive of Australia's equality of opportunity. This may be true but the reader doesn't get enough of Forrest's story to make an assessment. I was pleasantly surprised to read that Australia ranks highly in the OECD in social mobility, well ahead of the

United States and the United Kingdom.

Considering how often our economy is compared to the two countries, this is an important finding. Classical liberals sometimes pay lip service to equality of opportunity, agreeing that it is essential but bristle against some of the measures that might bring it about. This feature of national life is likely to have come from a particular set of conditions rather than some arbitrary balance between freedom and equality. Countries at the top of the list, such as Canada, show that a dynamic economy combined with government guarantees of universal health and education seems to do the trick. Which brings us back to the mining boom and its discontents, as well as our track record of wasting the proceeds of the booms of the past. Perhaps we should enjoy our status as a model nation while we can.

If the argument of *The Sweet Spot* is unconvincing, it is a fun one to engage with. Hartcher provides a breezy but intelligent read. His discussion of fairness ranges from the toilet queues at the SCG to the relative happiness of Chileans and Hondurans. The lighter material is complemented by a range of studies and statistics. Best of all, the author's optimism makes a pleasant change from the poisonous mood of contemporary politics.

Reviewed by Wayne Errington

Government versus Markets: The Changing Economic Role of the State

By Vito Tanzi

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How big? At least one famous economist believes so. According to this economist, '25 percent is probably near the maximum tolerable proportion' of government's share of the economy. Considering that many European governments now command more than twice this size of the economy, one has to assume that John Maynard Keynes, quoted above, would be flabbergasted. How ironic when Keynes and his theories are so often evoked by proponents of a bigger state.

Conversely, what kind of economist would assign to the state the roles of law enforcement, defence, protection against natural disasters, provision of standards of measure, certification of the quality of some goods or services, assurance of a minimum income for everyone, and—more generally—provision of a number of services that

for various reasons cannot be provided, or cannot be provided adequately, by the market? No, this comprehensive list was not drawn up by (socialist) Karl Marx but by (classical liberal) Friedrich Hayek.

The two examples demonstrate that when it comes to determining

