ECONOMIC ANALYSIS AND POLICY: 
A THIRTIETH BIRTHDAY RETROSPECTIVE

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Economic Analysis and Policy (or EAP) has contributed to the economics profession for 30 years, and in so doing has attempted to carve out a niche for itself in focusing both on local issues and more generally on policy oriented articles with an Australian relevance. This retrospective overview finds that EAP has generally been successful in fulfilling its goals, and that—apart from contributions to a variety of miscellaneous topics—ongoing contributions have been made in areas of significance including tax reform, environmental economics, governmental intervention in the economy, and the Queensland economy.

1. INTRODUCTION

Economic Analysis and Policy was the brainchild of Professor Ron Gates, who served as Head of the Department of Economics at The University of Queensland in the early 1970s. The first issue appeared in March 1970, under the editorship of Dr Percy Harris, who soon moved to Townsville to take the chair in economics at James Cook University, leaving Ron Gates himself to then assume editorial responsibilities. Assistant editors were Alan Dubs and Richard Temple-Smith. In the course of time the editorship then rotated from University of Queensland—where Colin Clark served as co-editor in the 1980s—to Griffith University to QUT and back to University of Queensland in late 1997 under Associate Professor Steve Harrison.

One constant in the 30 years since inception has been the statement of EAP’s threefold objectives of
(a) advancing the study of economics and allied subjects
(b) investigating local and general economic problems and
(c) issuing publications of economic interest.

This paper therefore asks whether Economic Analysis and Policy has been successful in achieving those goals.

In its 30 year history Economic Analysis and Policy has carried papers by prominent and influential economists including Heinz Arndt, Bruce Chapman, Colin Clark, Max Corden, Peter Dixon, Ted Evans, Alan Fels, John Freebairn, Geoff Harcourt, Fred Hilmer, Warren Hogan, J.G. Head, Wolfgang Kasper, J.O.N. Perkins, John Pitchford, Russell Mathews, David Smythe, John Quiggin and Clem...
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Tisdell. All in all, EAP has canvassed a wide variety of economic themes, and attracted papers from diverse Australian and overseas sources. Overall it has carried some 316 papers, about 14 per cent of which have related directly to the Queensland economy. Some 58 per cent of papers have related more generally to the Australian economy. About 65 per cent of papers have been empirically based.

2. ONGOING THEMES

Some themes have been prominent throughout the 30 years, particularly taxation reform, environment and natural resource issues, desirability of government intervention in the Australian economy, and analysis of specific local economic problems.

2.1 Taxation Reform

EAP's contribution on tax reform started in its first issue with Percy Harris's paper on changes in the burden of personal income tax. A special theme issue on tax reform was produced in 1985 in the wake of the Hawke government's tax summit and, as might be hoped given the ongoing importance of the tax reform debate in this country, a continuing series of articles has addressed aspects of the tax situation throughout the 1990s. Russell Mathews (Volume 20/2, 1990), for example, set the tone for subsequent contributions in addressing the review of the NSW Tax Task Force. He found it no exception to the rule that—despite homage to the principles of economic efficiency and equity—real-world tax changes are governed instead by politics and expediency. Mathews lamented that Australian governments have failed to introduce significant tax reforms "despite the fact that the existing tax system is so demonstrably unsatisfactory in terms of its effects". Sadly, the only significant changes in Australian tax systems in the last 50 years "have been very much concerned with promoting sectional interests for political purposes". What has occurred—to 1990—are massive increases in tax levels and in the relative importance of income taxes, resulting in a shift in the burden to wage and salary earners and to low income groups relative to other taxpayers. The existing system does not achieve the redistribution, social and economic purposes which are proclaimed as its rationale. Mathews concluded that the NSW report would not result in major structural changes in the NSW tax system, although it may help with some issues of simplification and with abolition of nuisance taxes.

Sampford (Volume 21/2, 1991) continued in this critical vein, and argued that high effective marginal tax rates (EMTRs) are not limited to those who directly face high nominal rates. All lower income earners face "cumulative ETRs" which exceed the current top marginal tax rate. Consistent with Mathews' theme regarding political expediency in tax reform, Sampford argues that "most of the popular directions for tax reform tend to exacerbate the problem. Even those initiatives which are specifically designed to reduce effective marginal tax rates frequently merely shift the peaks of effective rates, leaving the average unchanged for most".

Campbell and Bond (Volume 27/2, 1997) likewise calculated effective marginal tax rates via the 1988-89 ABS Household Expenditure Survey and found that EMTRs were generally higher for households in the bottom half of the household
disposable income distribution. They found that the structure of EMTRs is highly regressive as a result of Australia's targeted welfare system, which is broad enough to mean that at least half the households in the country are beneficiaries of one scheme or another.

Creedy (Volume 29/1, 1999) likewise argues that it is most unlikely that the current effective tax rates correspond to any type of "optimal" tax system, given the "apparently arbitrary and complex nature of the indirect tax system". In an earlier paper (Volume 23/1, 1993) on selectivity in consumption taxes, Creedy examined the use of exemptions combined with a higher rate on goods which form a large proportion of expenditure for higher income groups. He concluded that non-uniformity is a "blunt instrument" and that the adjustment of the direct tax and transfer system - as part of a shift towards consumption taxation - therefore becomes relatively more important than the use of selectivity.

Commonwealth-State financial relations have also been covered, and in a paper on that theme Row and Dubs (Volume 28/1, 1998) ask whether a State Personal Income Tax surcharge would facilitate a reduction in vertical fiscal imbalance, which according to the Queensland Commission of Audit, must now be characterised as "extreme and dysfunctional".

All in all there is no doubt that EAP has followed broad professional (and public) interest in the tax reform issue, and that EAP has played its role in advancing the study of tax matters and in issuing a string of "publications of economic interest" in relation to what is obviously one of the major issues of the day. Given EAP's goal of concentrating on policy oriented articles with an Australian interest - as was made clear in an expanded statement of editorial goals in Volume 5, No. 1 - the published series of papers on tax reform plainly helps stake a worthwhile claim to the achievement of that goal.

2.2 Environmental and Natural resource Issues

Apart from this series of papers on taxation policy, a second policy theme which has been conspicuous throughout EAP's 30 years is the focus on environmental economics and natural resource economics. EAP was an early entrant to professional debate on ecological themes, with the appearance in 1973 of Clem Tisdell's paper on the management of kangaroos as a common property resource. Subsequent debate on this kangaroos theme in Volume 5, 1974 has been followed by a series of articles on sustainable development, soil degradation, forest management, the use of national parks, the community value of lakes and such like. Clem Tisdell's kangaroos papers have been more recently followed up by his further papers investigating the optimal Australian dugong population and associated conservation plans (Volume 29/1, 1999). In this context he objects that ecologists advocating extensions of dugong protection areas in Queensland have ignored economic considerations in doing so. More generally, in addressing the concept of sustainable development (Volume 24/2, 1994), Tisdell concludes that despite the optimism of the World Bank it is still unclear whether global economic growth is compatible with improved environmental quality.

Hone (Volume 22/2, 1992) somewhat similarly looks at economics as an
instrument in assessing the cost effectiveness of alternative conservation strategies. He looks at the private costs of soil degradation and concludes that conventional measures of private soil degradation costs (including the cost of repair) are unreliable. He concludes that the efficacy of public policy decisions would be increased by the refinement of measures of soil scarcity as a guide to more reliable cost estimates. The value of lost production and the cost of repair focus attention on only one aspect of the possible soil cost and there is no consistent relation between the economic value of total soil costs and the values of lost production or repair costs.

Walpole, Sinden and Yapp (Volume 26/2, 1996) subsequently address land quality as an input to production, and seek to supplement production function analysis of the impact of land quantity on output with analysis of the effect of land degradation on agricultural output. They question why Landcare grants to remedy water erosion and salinity in New South Wales are greatest in zones where the problem is least. Landcare grants are greatest in the zone where private expenditures to combat water erosion are least and not in the zone where the opportunity cost of these kinds of erosion is greatest. They similarly question whether acidity is receiving the attention it deserves relative to other forms of degradation which appear to have lesser economic impact. In brief, they give cause to reflect on whether excessive attention is being paid to particular forms of degradation, in areas where there may be little justification.

Flatley and Bennett (Volume 26/2, 1996) use contingent valuation methods regarding Australian tourists and forest conservation in Vanuatu. Their goal was to estimate the value of a non-market environmental benefit in a developing country. They found that Australian visitors would be willing to pay about $400,000 per annum to protect two rainforest sites, and that this is sufficient to more than cover the cost of lease agreements to exclude logging from the areas. Another paper to use contingent valuation methods is Windle and Cramb (Volume 23/2, 1993) in the context of the conservation of natural bushland in Brisbane. While they concluded that respondents did appear to value the area of urban bushland and were willing to pay to preserve and upgrade it, they concluded that the evidence suggested the presence of various biases. Respondents were unfamiliar with valuing environmental goods and appeared to use cues in the bidding process to formulate their answers. Consequently their estimated willingness to pay was not considered accurate.

2.3 Desirability of Government Intervention in the Australian Economy

Consistent again with the pendulum swings of broad professional debate, a third ongoing EAP theme can be found in debate on the extent and desirability of government intervention in an economy such as Australia's. A series of broad overviews distinguish the Economic Analysis and Policy contribution to that debate. Two of the Colin Clark Memorial Lectures — by Heinz Arndt in 1992 and Ted Evans in 1999 — stubbornly defend the free trade position. Two other papers — Ted Kolsen's Colin Clark lecture in 1994 and John Quiggin's 1998 review of microeconomic reform — provide a more iconoclastic, institutionalist critique which argue that the orthodox neoclassical position is not always thought through.
as fully or as carefully as it could be.

Arndt’s paper endorses the continuing movement towards freer trade, on the ground of the static gains, dynamic gains and cleaner politics likely to be derivative from that move. He endorses continuing deregulation regarding tariffs and financial and other markets. In contradistinction to Kolsen and others he objects to the protectionist argument that if other countries have tariffs then we must have them too – for example as a bargaining chip in trade negotiations. According to Arndt such a stance has now come to be recognized as “counter productive.”

Ted Evans (Volume 29/2, 1999), the current Commonwealth Treasury Secretary, offers a similar stubborn defence of the free trade position. In joining both Heinz Arndt and Colin Clark in this mission, Ted Evans highlights the role of increased competition in Australia over the last 40 years, and particularly increased international competition. That increase in competition has served to spur a lift in national economic performance towards global best practice by focussing our investment on the things we do best. By way of evidence he notes that only in the decade of the 1990s has Australia’s growth performance exceeded the OECD average. Earlier protectionism was detrimental to employment in Australia as a whole and we should also remember that Australia has always borrowed abroad and that our prosperity has been built on foreign investment. Recent statistical evidence about capital productivity suggests that there has been serious resource misallocation indeed in respect of Australia’s investment record throughout the postwar period, and that this has been reversed only with the more outward-looking policies of the last decade or so. Evans therefore concludes that there is good cause for confidence in the performance of the outward-looking policies that Australia has pursued in the 1980s and 1990s but which it lacked in the 1960s and 1970s. The results are most evident in the improved performance of our capital stock, a result that reflects better price signals coming from better policies. Moreover, the proof of the pudding is in the eating, and the evident fact is that the newly remodelled Australian economy rode out the Asian crisis of the late 1990s remarkably well.

Kolsen on the other hand (Volume 24/2, 1994) is less convinced that pro-competition policy is all that is involved, since the reality of diverse market structures must also be considered. He is more concerned with the forgotten lessons of the theory of second-best and concludes that “too much is done in the name of competition, and not enough in the name of economic efficiency.” Apart from second-best problems, Kolsen’s concern is that the leap from theory to practice often forgets that: we don’t have pure competition everywhere; prices are not equal to marginal costs; there really are externalities in public good issues; economies of scale and scope dominate firms’ size; and it is not economically efficient to restrain the growth of firms impelled by such economies merely because this increases the level of competition in a structural sense. He further objects that the effects of alternative policies on income distribution have been neglected, and economic efficiency criteria are in any case drawn from static theory, which is an insufficient guide to long-term goals. Kolsen’s critique is given an interesting contemporary dimension by the 1999-2000 debate over milk price deregulation, which has recently seen Queensland retail milk prices increase, not decrease, to the consumer’s
disadvantage. As he put it in 1994, in rural industries, as elsewhere, it is not unusual for the output of a highly competitive industry sector to be bought for further downstream processing by an industry sector consisting of a small number of large firms. Market power is asymmetric, favouring the oligopoly sector. These differences in market structures reflect differences in basic technology, which result in fundamental constraints. While government intervention to increase market power of the weaker party has sometimes been introduced as “equitable”, Kolsen argues on second-best grounds that such intervention may also be economically efficient. He accordingly concludes that in the presence of prices above marginal costs in the non-highly competitive sectors, it is not economically efficient to pursue a policy which induces prices approximating marginal costs whenever market structures happen to make that feasible. Kolsen would therefore not be surprised that contemporary milk deregulation has resulted in higher prices for consumers, and rising pressures at the farm gate, together evidently with wider margins for oligopolistic milk processors and major retail chains.

Quiggin effectively joins Kolsen in objecting that there is ambiguity about the term “effective competition” in the context of different market structures. Their conjoint concern is therefore with economic efficiency requirements in the presence of constraints. On this logic, if some non-competitive arrangements are necessary to address uneven distributions of market power, nationally or internationally, such arrangements should be encouraged, not discouraged. According to Quiggin, who addresses the theme of the gains from microeconomic reforms in the last decade or more (Volume 28/1, 1998), the benefits of much vaunted microeconomic reform have been modest and have been overestimated by official studies. He concludes that overstated benefits of microeconomic reform have distorted Australia’s economic priorities and, replicating Kolsen, have “encouraged an uncritical acceptance of economically unsound policies proposed in the name of competition”. For him, a claim that “greater competitiveness equals greater efficiency” derives support from the ambiguous interpretation of both “competitiveness” and “efficiency”. Like Kolsen, he objects that the tension between market competition and the achievement of scale economies has been played down or ignored, and adds that while increased work intensity will produce gains in measured productivity, such gains are in reality transfers from employees, and do not constitute net increases in social welfare. Quiggin’s conclusion – no doubt unpopular in Canberra – is that microeconomic reform has been driven more by ideological commitment than by rational economic analysis. In the particular case of reforms to the tertiary education sector, he would say this tension will be manifested in increased efficiency as measured by such misleading indicators as cost per student, while the effectiveness of the overall education system is diminished to the detriment of economic growth.

Essentially the same debate is replicated in microcosm in the context of the series of papers on deregulation of the taxicab market. Two papers by Gaunt and Black (Volume 24/2, 1994; 26/1, 1996) fall into the “stubbornly defending free trade” camp. They object that “total and immediate deregulation” is superior to the deregulation procedures recommended by the Industries Commission. According
to Gaunt and Black there should be freedom to use any type of vehicle and provide any type of service, and those who choose to operate a cab licence should not need to be a member of any organized cab company. In the context of the Brisbane taxi market their estimate is that consumers presently lose $20 million per annum as a result of higher fares and reduced service. These consumer losses are the consequence of the present government regulations which fix the number of cab licences and set fares, and, in the interests of economic efficiency, Gaunt and Black therefore advocate immediate deregulation without financial compensation. Schuurmans-Stekhoven (Commonwealth Grants Commission, Volume 26/2, 1996), however, is unpersuaded, and – rather in the Kolsen and Quiggin style – concludes that Gaunt and Black have failed to demonstrate that taxi regulation is the result of politics rather than rational economics. His argument is that deregulation brings with it some probable social costs – including imperfect information, policing costs and fraud – which should also be recognized. Given the constraints, the goal should be economic efficiency subject to those constraints, much as Kolsen and Quiggin argue. Accordingly, he is unsurprised that post-deregulation evidence is available that is inconsistent with pro-deregulation rhetoric – just as seems presently to be the case with milk market deregulation. For Schuurmans-Stekhoven, as for Kolsen and Quiggin, increased competition is not synonymous with increased economic efficiency. Methodological implications are tacitly raised about the extent to which policy conclusions derive from personal values rather than from economic analysis, and EAP readers find themselves treated on the local scene to the cut and thrust of the same sort of professional debate as has enlivened economics elsewhere.

2.4 Analysis of Local Economic Problems

As for the EAP goal of investigating local economic problems, treatment of Queensland policy themes has been a constant, including papers in the 1970s on Brisbane’s controversial metropolitan transportation studies, the politically contentious Cooloola sandmining dispute, Queensland tourism, restructuring of the Queensland sheep industry, phosphate mining, and reforms to Queensland’s retail trading hours. In the 1980s, fewer papers focussed on Queensland, although papers still ranged across road taxes on the transportation of petroleum products, the future of the Queensland economy, comparisons with Western Canada, and a theme issue on Queensland economic development in March 1985. A second theme issue on the Queensland economy appeared in 1999, and indeed 18 per cent of papers in the 1990s retained a Queensland focus.

Specific Queensland papers in the 1990s covered such topics as consumer expenditure, the export of tertiary education services, the corporatisation of the Port of Brisbane Authority, regulation of taxis in Brisbane, national parks policies, the prospects of joint ventures in natural resource development in Queensland forestry, and an overview of Queensland public finances in the 1990s. The overview of the Queensland economy presented in the most recent Special Issue of May 1999 depicts an economy which has had rapid growth while yet showing evidence not of increasing internal complexity but of a hollowing-out process. Peter Crossman’s 1996 Colin Clark lecture regarding problems for the Queensland Government’s
economic adviser suggests that for the next two decades to 2016 the Queensland economy will still be dependent on agriculture and mining – and associated manufacturing – plus the tourist industry, albeit with increasing export diversification into education, health and engineering. Duhs and Duhs (Volume 27/2, 1997) find that the export of tertiary education services now rivals wool and wheat in importance. Mules (Volume 27/1, 1997) considered changing trends in the tourism industry and found that the length of stays has been decreasing while real expenditure has nonetheless been increasing as a result of a more than compensating increase in tourist numbers and increasing daily expenditure. Mules concluded that further disaggregated work is still needed to determine which industries are benefiting from this increase (for example accommodation, transport, entertainment, retailing). Harrison, Milano, and Anderson (Volume 29/1, 1999) addressed natural resource development and investigated the use of joint ventures in Queensland forestry and found that joint venture arrangements help overcome investment constraints. They also found that further opportunities exist to develop joint ventures between government and private firms with respect to other natural resource based enterprises where market failure is apparent. Public finance issues have an ongoing importance for any economy and Mark Robinson (Volume 26/1, 1996) provides an overview of Queensland’s public finances in the 1990s. He argues that Queensland’s debt policy goes beyond what is required for financial responsibility and has hampered effective policy-making. Indeed he argues that Queensland’s stringent debt policy has been overdone to the point that there are strong prima facie grounds for the view that public capital expenditure in Queensland has been inadequate in the face of rising population pressure and that there is now a marked imbalance between capital and current expenditure. Historically, Queensland governments have been much quicker to proclaim Queensland to be a low tax State than to concede that it is also a low service-provision State.

In terms of its Queensland theme however EAP earlier missed an opportunity to publish Tom Riha’s lengthy but valuable 1992 review of the evolution of the Queensland budget which, largely on space grounds, was left to the QUT journal Queensland Economic Forecasts.

2.5 Other Focal Points

Apart from the four recurrent themes identified above, an assortment of other policies has of course also been canvassed in EAP. Health economics, transport economics, industry studies, agricultural protectionism and competition policy have all been given prominence. Not all newly emergent areas of professional importance have made their mark, however. One such exception, it must be conceded, is evolutionary economics.

In the context of health economics, Darrel Doessel (Volume 20/2, 1990) examined the treatment of managed competition in health care and noted that cozy institutional arrangements protect some practitioners. Under existing Australian arrangements — unlike the counterpart US arrangements — psychiatrists have been given a monopoly of medical benefits for psychotherapy items, for example, despite the fact that there is no empirical study to indicate that the health outcome
from their psychotherapy services exceeds that from non-medical providers, including social workers and clinical psychologists. An important prerequisite for pro-competitive health reforms simply doesn’t yet exist in Australia, as distinct from the US.

Transport economics featured prominently in the earlier issues with papers offering a critique of the Brisbane traffic studies, and a theme issue on transport economics in Volume 3, No. 2, 1972. In the 1990s some coverage of transport economics has been maintained, for example in the Freebairn and Trace paper on rail freight for coal (23/1, 1992), and in Denniss and Toner’s paper regarding the contracting out of rail maintenance (Volume 29/2, 1999), which reflects changing times and the widespread moves towards privatisation or commercialisation of public enterprises, along with growing attention to problems of information asymmetry.

There has also been considerable treatment of competition policy and of industry studies – as one might expect in the 1990s. Likewise a Forum and series of papers on the 1997 South-East Asian Crisis is perhaps to be expected. Expected or not, it was certainly provided as Jon Stanford and other local economists brought insight to the issues for EAP readers. Among the more miscellaneous but interesting themes to be covered were John Mangan’s treatment of workplace injuries and John Rolfe’s paper on ethical issues and the market for free-range eggs. Comment on the adequacy of Australia’s international reserves appeared in Hunter’s paper in Volume 1 No. 1 and reappears in Makin’s 1999 treatment. Concern with agricultural protectionism first turned up in Lougheed’s article about agricultural protectionism in world trade in Volume 3, No.1, 1972, and again is still there in Volume 29, No. 1, 1999.

3. CONCLUSIONS

Has EAP achieved its tripartite goals of advancing the study of economics, investigating local and general economic problems, and issuing publications of economic interest? Has EAP contributed in a worthwhile way to both professional and popular debate? Has EAP moved with the times in reflecting the rise and fall of new professional interests?

Against the background of the above historical sketch of some of EAP’s accomplishments it seems reasonable to answer “yes” to all these questions. It seems reasonable to conclude that EAP has covered a wide territory, that it has provided pointed policy advice in respect of many issues, that it has contributed to sometimes sharp professional debate, and that it has fulfilled its goal of investigating local – both Queensland and Australian – and general economic problems. Doubtless there have been some hiccups along the way, including some printing and marketing problems and some missed opportunities, but EAP can stake a reasonable claim to having fulfilled its goal of concentrating on policy oriented articles with an Australian interest.

Successes in the 1990s include the Colin Clark Memorial Lecture series, featuring papers by prominent economists on public finance and macroeconomics, foreign debt, trade policy, industry policy and social accounts. Other successes
include symposia and special theme issues on modelling the Queensland economy, the South-East Asian crisis of 1997, Australia's external debt and national competition policy. EAP stands as one of the more conspicuous contributions of the Economic Society of Australia (Queensland) which is now a much more broadly based and vigorous organization than it was 30 years ago when Economic Analysis and Policy was first spawned.