

While Australia Waits.....

The New World of Connections and Talent ...and how Australia participates

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Introduction.

It's a privilege to be here today. I especially want to thank Frank Lowy and Allan Gyngell for the opportunity to address a Lowy Institute Forum²...on the eve of my return to the US after more than 38 months in this breathtaking country.

The Lowy Institute is successful and consequential because it:

- increases public awareness of the issues and forces driving change in Australia and the world,
- informs public discourse about Australia and its role in the larger world of international politics and globalization, and
- raises the level of the public dialogue in a fair and balanced way

That's why I pay attention to Lowy; read Lowy publications; attend Lowy lectures; and, from time-to-time, seek the advice and counsel of Lowy associates.

When you come to a country and a culture not your own, you are inundated with new data, new ideas, and new ways of thinking and doing. That happened to me when I came to Australia in July 2005. Since then, as the Telstra ad says, "I've been everywhere, man..." Perhaps not everywhere, but I have visited nearly 100 cities and towns over the past three

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² I also want to thank Telstra colleagues Elizabeth Bardwell, and Cassandra Scott for their comments on earlier drafts of this paper and Simone Blakeman for managing the logistics of our on-going participation in the work of the Lowy Institute. I am especially grateful to my Telstra colleague Michael Grealy and to Henry Ergas and John Kunkel of Concept Economics for helping me formulate the ideas in this paper and for their help with facts and data that are included in this paper.

years – from Brisbane and Birdsville, to Perth and Kalgoorlie, and from Hobart and Adelaide to Darwin and the Tiwi Islands – including 59 communities in the past 12 months alone.³

Throughout these many months, the Lowy Institute is the single place that most helped me to integrate what I was learning and provide perspective on what I was experiencing.

Lowy is important for another reason – because it provides a platform not just for the politicians and the bureaucrats but also for civic leaders from Australia and around the world. Australia gives a lot of airtime to pollies and bureaucrats but precious little to the leaders of civil society – business and community leaders, leaders of social movements and spiritual leaders, academics, journos, and think tank specialists...these are the non-governmental types I refer to as “civic leaders”.⁴

As a case in point, another prominent group here in Australia recently announced its schedule for the next year of forums and *each one* is headlined by a government minister...not *some...or most...but all*. That kind of an agenda – where the elected leaders are the teachers and the civic leaders are the students gets it backwards – and represents a very big problem that needs to be addressed.

We need to hear more from civic leaders in Australia and be better informed – and that’s one of several reasons why the Lowy Institute is so important.⁵

I appreciate the opportunity to share with you my observations about Australia, an exceptional country I have come to both admire and care about these past 38 months.

I have a long-standing interest in Australia through my connections with:

- Sports: It all began when I was 8 years old in the 1950s. when I took up competitive swimming – my first heroes in life (besides my two grandfathers and a couple of uncles) were Murray Rose and Dawn Fraser.
- Space flight: Then, in the 1960s, Australia showed up on my radar screen around the US space program when John Glenn circled the earth three times in Gemini 3 and the people of Perth, turned on their lights to welcome him home.
- Pacific Rim coal trade: In the 1970s, I was the director of a four-nation study of coal exports in the Pacific Rim, which included in-depth attention to Australia, the region’s leading exporter of coal.⁶

³ In fact, I just returned from a meeting in Cairns a week ago last Friday. Work was followed by a weekend of sailing around Hinchinbrook Island, where I found 15 knot winds, steady, with cloudless, blue skies and a paradise of dugong, sea turtles, dolphin, sea birds.....everywhere.....plus mossies and march flies, especially in the mangrove swamps as I motored up the creeks to do a trek across an isthmus to Ramsey Beach, one of the most beautiful I've ever seen. The bad with the good in a great part of a great country.

⁴ On the importance of civil society and civic leadership, see Philip M. Burgess, *The Two Cultures Re-examined: A Perspective on Leadership and Policy Management in Business and Government*, Background for remarks delivered at 2008 ANZSOG Public Lecture Series, Australia and New Zealand School of Government (ANZSOG), Canberra, Australia 30 April 2008.

⁵ These are also the reasons why I value the forums, trade missions, and other civic activities sponsored by the Australia-Israel Chamber of Commerce (AICC) in Sydney and Melbourne. Their work, very different from the Lowy Institute, also strengthens civil society, including cross-national connections.

- Regional development: In 1995 I did a 9-city lecture tour of Australia. After writing about Australia from a distance, it was like visiting a long-lost aunt whom everyone had talked about but never met.⁷
- Telecommunications: In July of 2005, I came to Australia with Sol Trujillo, the newly-selected CEO of Telstra. His job was to partner with the government to complete the privatization of a former government-owned monopoly, restructure Telstra and turn it into a modern, integrated telecommunications company. I came for 2 months to help with the transition. I stayed for 38 months to tell the story of the New Telstra from public policy and communications perspectives.

So, my awareness of and interest in Australia has deep roots and several different touch points. Let me give you my over-all take: Australia is a great country with a huge future if it plays its cards right.

Though most around the world are focused on Australia's natural resources and the country's natural beauty, its "ultimate resource" is its people.⁸ Most outlanders, I think, respond positively to the upbeat, curious and welcoming spirit of the people— including Australia's dominant values that are expressed through everyday expressions like "mateship" and a "fair go"; a willingness to call "rubbish" for what it is, and the "no worries" spirit that embodies a forgiving temperament and gives people a lot of latitude. The "good onya" that encourages, heartens, gives confidence and shows appreciation. The whole concept of "stuffing it" that shows an ability to impose standards without disparagement. These values are also reflected in the stories that Australians have grown up with,⁹ showing deep roots in the Anglo-Saxon tribe which includes a Judeo Christian worldview.¹⁰

⁶ For a period of two years, I spent most of my time examining the operation of coal chain industries (the production side – including mining, inland transportation, sea-lift – and user industries such as steel, electric utilities, and cement) in the US, Japan, Korea, Taiwan and Hong Kong (the study participants and co-sponsors) as well as the coal production and transportation potential of Australia, China, and South Africa. See Philip M. Burgess, *Western Coal Exports and Pacific Rim Markets*, New York: McGraw Hill, 1981.

⁷ I was invited to discuss approaches to regional economic and community development, issues I had worked on and written about in the western US, a region of the US that is very much like Australia in terms of distance, density and terrain sorts of issues. I began the lecture tour at a national conference in Melbourne and ended in Cairns – with places like Sydney, Canberra, Lismore, the Gold Coast, Rockhampton and Brisbane in between.

⁸ Julian Simon. *The Ultimate Resource*. Princeton: Princeton University Press, 1997.

⁹ These stories are found everywhere. See for example, anthologies such as Carmel Bird (ed.), *The Penguin Century of Australian Stories*, London: Penguin Books, 2000. See also social commentaries like *The Lucky Country* by Donald Horne, *Silencing Dissent* by Clive Hamilton and Sarah Maddison, *Acting on Conscience*, by Frank Brennan, and, of course, the writings of Hugh MacKay – most recently, *Advance Australia Where...?* And journals such as *Quadrant* on the Right and *The Monthly* on the Left. Playwrights like David Williamson – in fact I just saw *Don's Party* few months back at the Opera House. Children's books such as Norman Lindsay's *The Magic Pudding* (first introduced to me by our colleague, Kate McKenzie), and perhaps most importantly – for me at least, Aussie movies – like *The Castle* and *Kenny and The Dish*, and, of course, *Breaker Morant*, *Lantana*, *The Oyster Farmer*, and that classic tale of political intrigue, *Rats in the Ranks*.

¹⁰ On the concept of worldview, see David K. Naugle, *Worldview: The History of a Concept*. Grand Rapids: Wm. Eerdmans, 2002; or Ronald H. Nash, *Worldviews in Conflict: Choosing Christianity in a World of Ideas*. Grand Rapids: Zondervan Publishing, 1992 where he details the "creation, fall, redemption, restoration" worldview that dominates western story-telling — even secular story-telling

Any criticisms I've uttered over these past 38 months are those of someone who yields to no one in his desire to see Australia reach its full potential. I'm reminded of the words of one of the great US senators of the 20th Century, J. William Fulbright, who said that criticism is "more than a right; it is an act of patriotism – a higher form of patriotism ... than the familiar rituals of national adulation".¹¹

On this score, I hope to be counted as an Australian patriot. So bear with me while I indulge you with a little national adulation.

Truth be told, if I'd taken my cue from books written about Australia in the 1960s, 1970s and 1980s, I'm not sure I would have ever come here.

Australia was cast variously as:

- *The Lucky Country* (Donald Horne),¹²
- *The Land of the Long Weekend* (Ronald Conway),
- *The Frightened Country* (Alan Renouf), and
- *The Secret Country* (John Pilger)

None is exactly a ringing endorsement from the nation's chattering class or its public intellectuals.

Literature on the economy included:

- *Australia and Argentina: On Parallel Paths* (Tim Duncan and John Fogarty) and
- *When the Luck Runs Out* (Fredrick Hilmer).
- *The Search for Stability* (Ian Macfarlane)

Against this backdrop of low expectations, "brooding pessimism" and economic decline, any fair-minded observer has to see modern Australia as a remarkable success story. Let me pick three areas of achievement.¹³

and filmmaking. For a secular view, see the concept of "paradigm shifts" in Thomas Kuhn, *The Structure of Scientific Revolutions*. Chicago: University of Chicago Press, 3rd edition, 1996. For a secular application of the worldview concept, see the recent work of *Megatrends* author and futurist John Naisbitt, *Mindset*, New York: Collins, 2006.

¹¹ J. William Fulbright, a Democrat and namesake of the prestigious Fulbright Scholar program, was the highly-respected chairman of the Senate Foreign Relations Committee during the presidency of Democrat Lyndon B. Johnson. Yet, though both were Democrats and both had long service in the US Senate, Fulbright famously broke with the President on the war and became one of the nation's most outspoken critic of America's entanglement in Southeast Asia – and the leading opponent of the war in the US Congress.

¹² Hugh McKay in *Advance Australia Where?* (Sydney: Hachette, 2007) reminds us that Horne's 1964 *tour de force* about the "lucky country" was ironic and cautionary (i.e., dumb luck), not celebratory. Horne thought we were suffering from mediocre leadership, inadequate planning, and a complacent population.

¹³ Only a generation ago, the dominant view was one of economic decline, a point made by former Reserve Bank Governor in his 2006 Boyer Lectures. In the early 1990s, he writes, a "brooding pessimism seemed to affect all shades of economic and political opinion and little hope was held for our economic future".

1. Macro-economic management. Australia's macroeconomic governance is hard to fault. The strength of our public finances, the quality of our financial system and our openness to trade and foreign investment are just some of the attributes that have made Australia a pillar of growth and stability over the last decade.

In his work for the Lowy Institute, John Edwards has documented the *Quiet Boom* which saw average real incomes rise by more than 40 per cent since the early 1990s, a performance superior to the US, the UK, Canada and New Zealand.

In my time here, I've also been impressed by the way governments have led debates on issues such as intergenerational equity, and have taken steps to bolster superannuation, welfare and health systems for the long-term. These are achievements that politicians in my country would do well to emulate.

2. Social stability: The social cohesion of Australia is an enormous credit to its culture and the values of its people. Australia, like the US, is one of the great immigrant societies on earth. My time here has coincided with a new wave of immigration. Result: Today, one in every four Australians was born overseas, the highest proportion in more than a hundred years.

In my experience, no country in the world strikes a better balance between accepting people within a framework of shared values while allowing them to retain the distinctive parts of their own cultural identity. I put this down less to officially-sanctioned policies from Canberra that focus on bureaucratic abstractions like "integration" or "multiculturalism" – and more to the basic easy-going character of the Australian people and their natural live-and-let-live ethos.

The importance of immigration to a nation's future prosperity cannot be over-estimated. Reason: Immigrants bring energy, connections, and know-how and keep the host society on their toes. A recent report by the Center for Strategic and International Studies in Washington D.C., called *The Graying of the Great Powers*, provides some fascinating insights on global demographic trends and their strategic implications.¹⁴

It's hardly surprising that the developed world's share of both population and GDP will shrink further as a percentage of world totals. Already down to just 13 per cent of global population by 2005, the developed country share will slip to below 10 per cent by 2050.

But the interesting thing is what lies underneath this. With immigration and its higher rates of fertility, the US share of the developed world's population will continue to grow – from around 34 per cent today to 43 per cent by 2050. So will Australia's if present immigration trends are not reversed by public policy.¹⁵

¹⁴ Richard Jackson and Neil Howe, *The Graying of the Great Powers: Demography and Geopolitics in the 21st Century*. Washington, D.C.: Center for Strategic and International Studies, 2008

¹⁵ In terms of developed country measures of wealth, the relative shift in GDP is likely to be even more dramatic. While Europe's share of developed country output will shrink to 23 per cent by 2050 (and Japan's to 8 per cent), the US share will grow to 54 per cent. In other words, by the middle of the 21st Century, America's economic weight within the developed world will be at a point not seen since World War II. It is true that we are seeing a continual shift of economic power elsewhere – including to the so-called BRICs (Brazil, Russia, India and China). Even so, America's demographics will make it the only major developed economy whose aggregate economic size more or less keeps pace with that of the entire world's economy.

If we dig a little deeper into the demographics of countries like Japan, Germany, China and Russia, we are forced to reassess the conventional wisdom about the inevitability of American decline. While China will likely surpass the US based on total GDP some time in the 2020s, China (like Japan and Russia) will face a developed country's level of old-age dependency with only a developing country's income. In short, China will get old before it gets rich.¹⁶

Russia's demographic challenge is even more extreme. According to the CSIS report, it is expected to lose an astonishing one third of its population by 2050 due to very low fertility and declining life expectancy.

If "demography is destiny", then other major powers will be encountering their twilight years rather sooner than the United States or Australia.

Still, like any country, Australia has its share of social challenges and dilemmas. And like many other countries around the world, none is more urgent than finding answers to the difficult problems faced by many Indigenous Australians. Still, based on my experience travelling across this country and visiting nearly a dozen Indigenous communities, there is a palpable desire among Australians from all walks of life to create an "opportunity society" for all Australians, including Australia's indigenous peoples.¹⁷

3. Strategic positioning: Australia has built an impressive framework for its global and regional engagement – strategically, culturally, and economically.

This is most striking in the Asia-Pacific region, where Australia is positioned to

- take advantage of emerging economic trends in China, India, and South Asia;
- advance institutional arrangements to promote regional prosperity; and
- support regional institutions and initiatives to secure peace.

¹⁶ By 2020, China will have 400 million people age 60 and older, and 100 million older than 80. By 2050, a third of 1.4 billion Chinese will be at least 60. As well as dragging down China's labour supply and productivity growth in coming decades, the rapid aging of what is already a fragmented and fragile society will place new strains on the state's capacity to take care of retirement incomes and health care. Add to that the larger questions surrounding political reform of an authoritarian regime and the potential for serious discontinuity in China cannot be ruled out. Whereas China may be around in 25 years, India (with its chaotic, messy democracy) is sure to be. Political stability may not be the first thing that comes to mind when you think India, but equally it is hard to understand India's emergence as a nation of global consequence independent of almost 60 years of democratic government. And while it may remain less powerful economically than China, India also brings to its future challenges a more favourable demographic profile, a vibrant culture and reserves of human capital equipped with the tools of the information age. Indeed, as India overtakes China as the world's most populous nation in the 2030s, India is one of the few large economies projected to have a growing working-age population over the next 40 years. On India, see commentaries and books by Gurcharan Das, business leader and public intellectual. For example, Gurcharan Das, *India Unbound*, New York: Knopf, 2001. See also Richard Jackson and Neil Howe, *The Graying of the Great Powers*, op. cit.

¹⁷ I wrote about the success experienced in Yuendumu, an Indigenous community 350 kilometres northwest of Alice Springs. See Phil Burgess, *Jobs, Wealth and Hope: It takes a community*, Keynote address to the annual meeting of National Aborigines and Islanders Day Observance Committee (NAIDOC) meeting in Sydney, Australia on 10 July 2007.

Many outside and some inside refer to Australia's global role in terms of "bridging" relations among power blocs in Asia, North America and Europe. But, to my way of thinking, this mindset underestimates the degree to which Australia is already deeply connected with Asia.

"Bridging" is also far too passive an image. Australia now has a long history of deep economic integration with Asia. Indeed, two-thirds of Australia's trade is now with Asian countries.¹⁸

The facts speak for themselves.

Twenty five years ago, Asia accounted for around 54 per cent of the world's population, yet it produced only around one-fifth of the world's output, measured in purchasing power parity terms.

While Asia's share of population has remained much the same, today its share of world output has risen to over one-third. And projections by the Australian Treasury suggest that by 2030 Asia's share of world GDP will reach around 44 per cent.

Far from being inevitably benign, economic and geo-political transformation on this scale requires active, principled and mature leadership. It's no exaggeration to say that the region and the world can benefit greatly from leadership that can provide a foundation for regional prosperity, including the peaceful settlement of disputes. Australia is well positioned to play a major part in this process.

In my view, the real drivers are located in the human connections – for example, those that are forged from travel, tourism, and business connections – and from having 20 per cent of university students in Australia come from Asia and that more than 800,000 Australians now speak an Asian language at home.¹⁹

Whichever candidate wins this year's presidential election in the US, I suspect he will seek out Australia's counsel on how the United States should best position itself in response to the new realities of Asia.

Australia understands Asia's new realities in a way no other Western countries does, largely because Australians have lived and breathed the emergence of Asia over several decades already.

But there is another factor that is in the experience of those who have worked for large multi-nationals in the US and Europe: The Chinese – but also others in Asia – are more comfortable working with Australia for political reasons. Australia, as a "middle power", gives Australian companies wanting to do business in Asian countries an advantage over companies headquartered in the EU or the US and the grief that can arise around the inevitable frictions of doing business.

¹⁸ This idea of Australia as more than a "bridge" for the West into Asia was also developed by Telstra CEO Sol Trujillo in his *New Centres of Influence: A CEO's Perspective on the Asia-Pacific Rim from Down-Under*, UCLA Regents' Lecture, February 2006.

¹⁹ During the past two years I served as a visiting professor in the business school at RMIT in Melbourne, which included visits and lectures at RMIT programs in Vietnam and India. In both cases, the best of the best from these two countries also come to Australia to study on the RMIT campus, to the benefit of both sides.

So much for my modest attempt at national adulation. I'd be short-changing you if I didn't mention some aspects of the Australian scene which have been, at times, a source of mild amazement, frustration, and the odd slanging match.

Today, I'll refer to them as puzzles that have exercised my thinking. Four come to mind and they are, in some sense, interrelated. These include:

1. Nearly unbounded faith in regulators and policy wonks – and especially their ability to manage innovation and market competition,²⁰
2. The subordination of the civic order by the public order – and of civic leaders by elected officials and bureaucrats,
3. Dangerous mindsets – like “future-proofing” and “getting it right”,²¹ and
4. Narrow and backward-looking regulation and the need for regulatory reform

1. Regulators and perverse notions of “competition”.

It's clear that, by OECD standards, Australia has moved a long way towards less regulation and government control of the economy. The reforms of the last quarter century were clearly game-changing– including:

- opening up the financial sector,
- cutting tariffs, and
- freeing up the labour market.

Each on its own and taken together have won deserved plaudits and, more importantly, have delivered steady growth in living standards to the Australian people.

Yet simultaneously there has been a steady drift towards ever more *prescriptive* government regulation of commercial society.²² In my day job of the last three years, this issue has crystallised most powerfully around competition policy.

²⁰ A “wunk” is “know” spelled backwards. Hence, a policy wunk is a very learned person who knows a lot but often gets it all backwards when s/he moves to the practical arts of application and execution.

²¹ Another dangerous mindset is “sustainability”, which I addressed in the McKay Lecture at the Institute for Public Affairs in Melbourne in 2005. The reason is this: If public policy embraces only those actions that are sustainable, then somebody, someplace has to decide what is sustainable. When a society goes down this road, it risks turning its future over to the experts. And what happens is predictable:

- issues get nationalized,
- problems get professionalized,
- solutions get bureaucratized, and
- grassroots institutions and civic leaders lose control of their lives and their communities.

In the end, the victim is democracy and self-government. See Phil Burgess, *Can the Future Be Made Future Proof?*, The H.V. McKay Lecture on Technology, Melbourne: Institute for Public Affairs, 7 March 2006.

²² Most will not object to government regulation of the commercial space if the purpose is to protect the health and safety of the consumer or to promote a healthy and competitive industry. That kind of regulation is clearly in the public interest. Micro-management of the commercial sector by unelected regulators, however, violates the public interest and should be resisted.

The confusion at the heart of Australia's competition policy is to interpret "promoting competition" as meaning "facilitating the life of certain, usually smaller, competitors, at the expense of others". This is not competition policy – rather, it is a form of industry policy which, perversely, far from picking winners seeks to convert winners into losers.²³

Today, the idea that "big is bad" permeates all aspects of Australian competition policy. It is manifest in sectors as diverse as banking, rail freight, resources, and airlines – as well as telecommunications. Yet, Australia is a large country geographically with a very small market of 21 million. For enterprises to grow and take full advantage of new technologies, they need a larger market, which means competing also outside of Australia. When they do that successfully, it benefits the Australia consumer in the form of lower prices and higher quality products and it benefits the government's treasury in the form of increased revenues.

The idea that "big is bad" rests on a fundamental confusion between ends and means. The means – a competitive market structure in which larger players do not have especially high market shares and are forced to accommodate smaller rivals – has been elevated to the status of an end.

This is the case even when it is positively inimical to the central policy objective of regulation, which should be a market structure that protects the consumer, promotes investment, ensures innovation, and can deliver efficiency.

This is important because Australia will not win the opportunities it deserves to win in the global economy if it lacks firms capable of taking on the world. And it's important because Australian firms cannot take on the world without scope and scale and without the infrastructure of a modern economy – electric power, railroads, ports, and high-speed telecommunications.

Yet, that infrastructure does not exist at the level required to ensure future prosperity.²⁴ No matter how much money the government is willing to spend on infrastructure, Australia will not have the infrastructure it requires for so long as regulation remains discretionary, unpredictable and often plain irrational.

In a different context, though relevant to debates on regulation, I've been fascinated by Australia's march toward an emissions trading scheme (ETS) in tandem with the desire to lead the international pack on climate change policy. I'm still trying to fathom the notion some put forward that this is akin to the great market-oriented reforms of the past quarter century. To me, it is more aptly seen as an act of supreme faith in government.

²³ An industrial policy is any government regulation or law — including taxes, tariffs, subsidies, and regulations — that protects, encourages investment in or otherwise promotes the ongoing operation of a particular industry (or, in some case, a particular company). See, for example, Marcus Noland and Howard Pack, *Industrial Policy in an Era of Globalization: Lessons from Asia*, Washington, D.C.: The Peterson Institute, 2003.

²⁴ More than a dozen reports on the inadequacy of infrastructure in Australia have been published in the 38 months since I have been here. For example, see Business Council of Australia, *Infrastructure: Roadmap for Reform*, A Report developed for the BCA by Rod Sims of Port Jackson Partners, 4 October 2007. Like most reports on infrastructure in Australia, the BCA report focuses on ports, transportation (road and rail), water, and energy, which have, indeed, become serious barriers to prosperity. Interestingly (and typically) the BCA report lacks a serious discussion of telecommunications or even high-speed broadband as a building block for future growth, a perverse, head-in-the-sand result of the tyranny of distance.

Gary Banks of the Productivity Commission has described an ETS as “the biggest regulatory challenge Australia has ever faced”, cautioning wisely that, while Australia has an impressive track-record in economic policy development, the performance “has not been so good in the more practical art of regulation-making”.

Beyond the potential regulatory costs of an ETS, I find some of the current thinking around the international politics of climate change rather novel to say the least. The notion that there are significant benefits from Australia positioning itself as an “early mover” towards large emission reductions seems more a product of theology than of any rational understanding of international regime negotiations. I have been unable to identify a single case in the history of international negotiations where a country gained leverage over other countries from policies that resulted in a net cost to itself – what Hans Morgenthau called policies of “self-abnegation”.

2. The subordination of civic leadership.

Sitting atop the issue of regulation is a second puzzle. I’ve been surprised in Australia by the degree to which (what political scientists call) the “*public order*” – including government and public authorities at every level – tends to dominate the “*civic order*” – which includes business, as well as voluntary and non-profit groups (everything from churches and cultural organisations to sporting clubs and neighbourhood associations).

The timidity of civic leadership and the lack of robust civic institutions was the central theme of a lecture I gave earlier this year at the Australian National University.²⁵ Compared with other liberal democracies, government leaders in Australia have a very high capacity to frame and control public the public dialogue by virtue of agenda-setting, money and expectations management.²⁶ Counterbalancing voices of legitimacy and authority in the civic order are, by contrast, often muted and ineffectual compared to other democratic political cultures, a point made only a few weeks ago by Don Watson in a review of his recent book, *American Journeys* in a Lowy Institute lecture here in Sydney.²⁷

²⁵ See Philip M. Burgess, *The Two Cultures Re-examined*, op. cit. On the distinction between the civic order and the public order, see the writings of Harold D. Lasswell – for example, Harold D. Lasswell and Abraham Kaplan. *Power and Society: A Framework for Political Inquiry*. New Haven: Yale University Press, 1950; Daniel Lerner and Harold D. Lasswell. *The Policy Sciences: Recent Developments in Scope and Method*. Stanford: Stanford University Press, 1951; Myres McDougal, Harold D. Lasswell and Ivan A. Vlasic. *Law and Public Order in Space*. New Haven: Yale University Press, 1963; Harold D. Lasswell. *A Preview of Policy Sciences*. New York: Elsevier, 1971; . Robert Rubinstein and Harold D. Lasswell. *The Sharing of Power in a Psychiatric Hospital*. New Haven: Yale University Press, 1966.

²⁶ The recent 2020 Summit is a monument to a government run operation disguised as a civic exercise. The government set the agenda, selected the participants, shaped the panel reports and – to make sure that no one was confused about who was in charge – placed a minister behind the civic rapporteur, with the minister stepping up to tell everyone that the panel and its rapporteur did well. There is nothing wrong with this kind of exercise, but it is not an example of a robust civic order speaking to government .

²⁷ Don Watson, *American Journeys*, Sydney: Knopf, 2008.

No one would claim that Australia lacks capable civic leadership or capable civic leadership groups. The Lowy Institute for International Policy is a living testament that such groups exist.²⁸

What's missing, in my view, is a healthy tension between the public order and the civic order. From my observation, civic leadership groups in Australia tend to focus on influencing Canberra – and to play an insider's game on Canberra's terms – while key publics are left to fend for themselves on the side-lines. But an insiders' game only works for the powerful – and the power of government in Australia is substantial.

My time in Australia tells me that biting your tongue and playing the backroom game only diminishes the voice and authority of civil society – including business – in the long-run. It also makes for arcane and remote debates – where issues are left to government, the bureaucrats and their “experts” in a world of impenetrable jargon.

3. Dangerous mindsets.

Telecommunications is famous for incomprehensible debates involving impenetrable jargon with phrases like “unbundled local loops” and “operational separation” not to mention acronyms such as “PSTN”, “ADSL 2+” and “DWDM” – while the ordinary citizen is left scratching her head in bewilderment as she tries to untie the tongue.

These narrow, jargon-loaded debates among lawyers, economists and other experts are flush with intellectual conceit and muddled thinking. At their base these debates in obscuranta reflect more than an attempt to exclude the unwashed through specialized language. Their language represents a more fundamental and dangerous mindset.

One of the most perverse examples of a dangerous mindset is the banality that says, “We've got to get it right”. Who is “we”? What is “right”? In fact, “We've got to get it right” is really a way for governments and regulators in Australia to fob off any serious questioning of their inability to act. Result: Dithering reigns supreme.²⁹

We encounter dithering everywhere – but nowhere more so than in the debate over the National Broadband Network (NBN) and the roll-out of Fibre-to-the-Node (FTTN) to 98 percent of the homes and businesses in Australia. While Australia waits for communications minister Stephen Conroy or ACCC chairman Graeme Samuel or the so-called Expert Panel to “get it right”, costs in terms of lost time, delayed investment and lagging productivity continues to mount.

As Telstra CEO Sol Trujillo said in July last year, “every day of delay and inaction on a broadband policy starts building a millstone around the neck of Australia's future – the other inconvenient truth”³⁰.

²⁸ For a discussion of this point, Philip M. Burgess, *The Two Cultures Re-examined*, op. cit. and Phil Burgess, *So, What's New? A Journey Across Political Cultures*, Address to the Annual Dinner of CRA International meeting in Canberra, 8 December 2005.

²⁹ It should also be noted that the phrase is also used by private sector leaders prone to process over decision-making, especially those in large enterprises. It is noteworthy that the leaders of SMEs don't have the luxury of dithering. Inaction is not an option to them.

³⁰ <http://www.nowweareretalking.com.au/features/speeches-from-telstra-ceo-and-executives>.

Since when has an ambitious, market-oriented, entrepreneurial country made its economic lode-star the notion of governments and bureaucracies “getting it right”?

Since when do any of us operate in a fantasy world where we sit down and consciously determine to “get it right”? Life isn’t like that. Life is about dealing with the reality of imperfect information, making trade-offs and accommodating where we have to, pushing back where we can. And importantly, it’s about learning by doing.

As Saint Augustine said, we come to know by doing.³¹

You “get it right” by acting; by doing; by engaging; by putting a stake in the ground; by getting results and assessing whether they are good enough...and if they aren’t figuring out how to do it differently so it comes out better (not necessarily “right”, but “better”) the next time.

The whole notion that a government needs an inquiry, or review, or central planning “to get something right” rests on a very top-down, hierarchical, 20th century and bureaucratic way of operating that shows unbounded faith in the rule of reason and the tyranny of experts in everyday life.

Another part of the political discourse that I have found especially jarring is the whole notion of “future proofing” – a term I’d never heard before I arrived in Australia.³² There are lots of things I want to be “proofed” from. I want to be:

- bullet proof
- fire proof
- burglar proof
- water proof
- fool proof – especially fool proof

But “future proof”? Those words suggest you don’t want to be surprised or that somehow you want to control the future. It’s like saying you don’t want anything to change.

If that were the case, life would be a very boring existence, indeed. Imagine, no more:

- surprise birthday parties
- inventions
- revolutions
- marriage – or for real surprises, marriages
- kids
- family life
- work and bosses
- politics

Almost everything that makes life interesting and challenging involves surprises. Sometimes even big surprises.... Example: Exactly 20 years ago, we were worrying about the US micro-chip industry being devoured by Japanese industrial policy. Learned articles in the *Harvard Business Review* warned that US microelectronics would be “reduced to permanent, decisive inferiority within ten years”. There were calls for a government-directed plan to

³¹ St. Augustine, *The Confessions*, [cite]

³² “Future proofing” is an issue I also addressed in my IPA lecture in 2005. op. cit.

rescue what was derided as the “fragmented, chronically entrepreneurial industry” of Silicon Valley.

The problem, of course, was that too many smart people thought they knew more about the future than they really did. In the end, the writer in the *Harvard Business Review* simply couldn't envision innovation – and an industry driven by microprocessors, software, and networks rather than memory-chip manufacturing.³³

Therein lies the problem: Policies required by future proofing will inevitably prevent innovation and stifle creativity. Static, defensive, micro-managed notions of the future are bewildering to my way of thinking, because man was created – or evolved, depending on your point of view on these matters – to make the world a better place. That means:

- to change things
- to invent things
- to upgrade, advance and perfect, and
- to engage in a process of continuous improvement.

As I've noted elsewhere, we should not be afraid of change. We should not be afraid of trying things that may work now but may not work forever...or even next year. Instead, we should have confidence in our ability to find proximate solutions and then to adapt and to change things that are not working. We should never over-estimate our ability to know the answers. Reason: Because answers are more likely to result from an incremental process of trial and error.³⁴

4. Regulatory reform

We need to get serious about regulatory reform.

We need to bring our thinking and our processes into the 21st century.

Specifically, we need to rethink the notion of regulation. We have to get over the idea that regulation is achieved only through the law. In fact, in telecommunications (as in most other areas), technology is regulated by a combination of institutions and processes – what I call LAMS Effect.³⁵

LAMS stands for:

- Laws and regulations
- Architecture
- Markets

³³ New technologies are almost always surprises, but, even more importantly, they typically have impacts and consequences that were never anticipated by their inventors and pioneer users. The technologies that run the world today – like the Internet, the computer and the laser – are not used in the way intended by those who invented them. This is the case even in medical research. One of my favourite examples is that research into hypertension drugs led to Viagra.

³⁴ See Phil Burgess, *Can the Future Be Made Future Proof?*, The H.V. McKay Lecture on Technology, Melbourne: Institute for Public Affairs, 7 March 2006.

³⁵ I got the idea for what I call the “LAMS Effect” from reading Gregory Pottie and William Kaiser, *Principles of Embedded Network Systems Design*, New York; Cambridge University Press, 2005, especially Chapter 16, pp. 475-493. See particularly their discussion of “Regulating Information Technology”, p. 480 ff.

- Social norms

And the point is this. “Rule sets”³⁶ that shape and constrain the behaviour of individuals and enterprises are not limited to formal laws and regulations. As we have seen in the financial meltdown of the past two weeks, what we might call the “*architecture*” of the institutions and products that have been developed in the financial community is a big part of the problem in the current global financial crisis. Reason: Markets are imperfect in any case, but markets work best when information is perfect and complete...and transparency is sorely lacking in these new institutions and products.

Of course, information is never perfect or complete, so people and institutions participating in markets participate with some *risk*. But the risk in recent years has been greatly increased by the complexity of the institutions and the new financial products that investors use – many of which are too complex for any investor to fully understand. Hence the *architecture* of the institutions and/or the financial products reduces transparency and thereby shapes and constrains the behaviour of individual and enterprises without formal laws and regulations.³⁷

- On the institutional side, in addition to conventional banks and investment banks, we now have private equity firms, nonbank banks, hedge funds, global banks and a host of other institutions that are relatively new to the scene. We also have more traditional credit card networks, mortgage companies and payday lenders.
- There are also many new financial products, developed especially during the era of low interest rates – first in Japan and then in other OECD countries, especially after the dot.com bust. Examples: credit markets, debt securities, junk bonds, derivatives, short selling, default swaps, and the like.

As a consequence, what central bankers think might not have as much influence on behaviour as it did in the past – at least until a central bank like the Federal Reserve Board (Fed), European Central Bank or the Reserve Bank of Australia (RBA) actually does something.

So the “rule sets” that shape our behaviour have many sources and it is increasingly important for us – and for governing authorities – to look beyond the formal laws and regulations.

Consider the following:

³⁶ A “rule set” is a collection of rules that delineates or shapes how some activity normally unfolds. Rule sets may be expressed in law or custom. They may be embedded in market behaviour or in social norms that define an institution or political culture. But whatever their source, we all live by “rule sets” that guide, constrain, and shape our behaviour and give us a benchmark for what is right or wrong, or what works or doesn’t work. A “rule set reset” occurs when you realize that certain kinds of rules are not working owing to a change in the environment or a change in purpose. A “rule set reset” is what is going on now in financial markets in the US, Australia and around the world. For example, this past week, both the US and Australia have created new rules temporarily halting so-called short selling. As Thomas Barnett says, “Such a rule set reset can be a very good thing. But it can also be a very dangerous time, because in your rush to fill in all the rule set gaps, your cure may end up being worse than your disease.” See Thomas P.M. Barnett, *The Pentagon’s New Map: A Future Worth Creating*, New York: Putnam, 2004. It now appears that market forces are about to trump laws and regulations regarding short sales as huge pressures are being created to create all kinds of exceptions to the new “rules”.

³⁷ On this point see George Soros and Judy Woodruff, “The Financial Crisis: An Interview with George Soros”, *New York Review of Books*, 15 May 2008 about his recently published *New Paradigm for Financial Markets*.

Laws and formal regulations – refer to formal and *authoritative acts of government*, such as the Trade Practices Act – or sections that apply to telecommunications, such as Parts XIB and XIC,³⁸ or laws targeted at one company, such as the *Local Presence Plan* for rural telecoms service in Australia;³⁹ or laws that touch an entire industry, such as the Universal Service Obligation (USO) that creates a funding approach that applies to the entire telecommunications industry.

In every market-based economy, laws and formal regulations have four purposes:

1. Protect public health and safety,
2. Increase choices to the consumer
3. Promote investment – in part to encourage innovation so the consumer will have more choices
4. Foster a healthy and competitive industry.

Regulators should always be judged by how well they achieve a balanced approach and acceptable results in all four areas. If you apply these criteria to the impact of regulations on the iron ore, coal, electric power or telecommunications industry, the regulator will not get a good grade.

Architecture – refers to the importance and persistence of *design* in anything human beings do. In the financial services industry, as we have seen, architecture refers to financial products such as swaps and other forms of derivatives.⁴⁰

In telecommunications, architecture refers to embedded code and how embedded code affects what we can and cannot do with the technology.

- Perhaps the most vivid example of the power of architecture is the QWERTY keyboard – originally designed for manual typewriters so the keys would not lock up. Now we can't get rid of it – even though alternative lay-outs have been shown to speed up typing.
- Another is the Apple iPhone, which has embedded code that makes it hard to import material from outside the “walled garden” of the instrument.⁴¹

³⁸ Part XIB defines the rule sets for anti-competitive conduct; Part XIC defines the rule sets for the so-called access regime (giving the regulator the authority to force a carrier to supply service to another carrier).

³⁹ A law that applies only to Telstra.

⁴⁰ Derivatives are financial instruments – such as futures, forwards, options, and swaps – used to reduce risk as their value changes in response to changes in underlying variables in different asset classes, such as commodities, equities (i.e., stock), bonds, interest rates, exchange rates, or indexes (such as the Dow Jones, ASX or consumer price index).

⁴¹ In the digital world, a “walled garden” is an environment that controls or strongly influences the user's access to content and services. In effect, the “walled garden” directs the user's navigation within a designated areas, thereby facilitating access to some content and preventing (or making more difficult) access to other content. Although the “walled garden” does not actually prevent users from navigating outside the walls, it makes it more difficult than staying within the environment. ISPs want to fence in users for a number of reasons. In 1999, for example, America Online (AOL) UK's Kid Channel established a “walled garden” to prevent access to inappropriate Web sites. However, the more common reason for using “walled gardens” is for the profits they generate: vendors collaborate to direct consumer's Internet navigation to each others' Web sites and use “inconvenience” as a way to

Markets – refer to the way *consumer preferences* shape products and services. Markets also include capital markets – and what investors will fund and the kinds of returns on investments they will demand before they give you their money.

It should also be noted that markets and architecture interact in the ecosystem:

- Apple iPod – you can get the same functionality on all kinds of MP3 players, but most people want Apple’s iPod owing to its design. It is “cool”. “Cool” is a market concept that is hard to negate with formal laws and regulations, at least in a democratic society.⁴²
- People will not invest in ventures where they cannot make a return. That’s what happened in the US wireless space. The government sold too many licenses and so fragmented the market that no one could make money by investing. So they haven’t – and the US lags the rest of the world in the development of the mobile internet.
- Market “rule sets” are also operating in Australia where we now have negative investment growth in telecommunications owing to formal laws and regulations that are backward-looking (i.e., pre-internet, pre-Web) along with pricing policies and practices of a regulator (the ACCC) that are destroying the market for investors.
- Market “rule sets” will also undermine plans for the National Broadband Network (NBN) – unless Australia’s elected leaders rein-in an out-of-control regulator.

Societal norms – refer to the “dos” and “don’ts” and “oughts” and “shoulds” that shape everyday thinking, *the normative mindsets drive human behaviour*. These mindsets create expectations and are very powerful shapers of “acceptable” business behaviour and product development (regardless of laws and regulations) – and what we are required to do.

Examples abound – including

- Voluntary codes for rating violence, sexual content, and foul language in movies, TV and music.
- Voluntary practices for displaying so-called “adult magazines” in news shops.
- Equity between urban and rural areas – for example, price equity for telecommunications services – the idea that everyone, no matter where they live, should have equal access to basic telecommunications services at equal prices.⁴³

discourage users from accessing the Web sites of competitors. Because wireless devices such as smart phones (e.g., Apple’s iPhone) are often limited to the content provided by their carriers, the portion of the Web that is available to wireless users is also generally called a “walled garden”. In the past, AOL has been considered the major - and most successful - practitioner of the “walled garden” approach.

⁴² The Internet is also “cool”, but as we have seen in China, authorities use the coercive power of the state to limit access.

⁴³ In fact, if it were not for the “gag” order, I would comment that this societal norm is embedded in the FTTN tender offer. Still, it is a matter of common knowledge that the cost of a network depends primarily on three factors: Distance, density, and terrain – what I can the DDT factor in network costing. The longer the distance, the lower the density, and the more difficult the terrain, the more it costs to serve (e.g., in locations in regional, rural, and remote Australia – in the bush) and it costs much less in high-density locations such as the CBD of Sydney and Melbourne. Still, it is a widely accepted social norm that the prices should be the same even though the costs of service are very different.

So there are many ways that society applies “rules sets” to technology...and almost everything else we do.

- Using laws and regulations and the coercive powers of government is just one way – and in many if not most cases is not the most important way.
- Architecture, embedded code, markets, and societal norms have a lot more to do with the choices that consumers get to make than all the ACCCs of the world put together.
- Yet we pay almost exclusive attention to the L (laws and regulations) and very little attention to the AMS – architecture, markets, and societal norms
- And almost no attention to the interaction effects among the four – for example, how laws and regulations affect markets...and in the case of telecommunications, the market for investment capital.⁴⁴

A focus on the wider range of “rule sets” needs to be achieved if the national interest is to be served in this new environment.

In the 30 days since the announcement that I was stepping down at Telstra and returning to the US, I have been asked by many of my friends and colleagues, what difference did it make that you were here. I always say, and I believe, that is for others to decide. But I will tell you the messages we have delivered have changed the conversation, and that has given me great satisfaction.

- Shareholder rights must be respected. Reflecting the views of my CEO and the Board, we spoke widely and often about shareholder rights, and the obligation of government and the regulator to respect 1.4 million mums and dads who have invested life savings in Telstra. Those savings and investments should be respected by public authorities and government should not pick the back pockets of shareholders to serve a public purpose. A public purpose should be paid for by the public; Telstra is not a “magic pudding”.⁴⁵
- Telstra is not a community property. The government sold Telstra to 1.4 million mums and dads. Telstra exists to serve its customers and shareholders...and thereby the public interest. The government gained \$75 billion in benefits from selling Telstra – including both direct sales revenue and foregone interest payments by paying down the public debt. You can’t flog something one day, and then claim the right to manage it the next.

⁴⁴ For example, when a regulator has a history of setting prices below cost, then that (negatively) affects capital markets, undermining the willingness of investors to invest.

⁴⁵ I have been gobsmacked by how many people, including journalists and government officials, find it unsavoury (if not a matter of greed) that shareholders should want to earn a competitive return on the savings they have invested in Telstra. I think that is beginning to change as people come to realize that Telstra is no longer a community property.

- Taxpayer funds should not be used to subsidize competition.⁴⁶ I was astonished when the Howard Government gave nearly \$1.0 billion of taxpayer money to fund a foreign-owned company (Optus/Opel) to build a wireless network that duplicated Telstra's Next G™ wireless network.⁴⁷ The Telstra network – the world's largest, fastest and most advanced mobile internet – was paid for by 1.4 million mum and dad shareholders of Telstra. Yet when the government decided to subsidize competition – and that is exactly what the last government did⁴⁸ – nobody said anything. Not one editorial, not one BCA comment, not one comment from CEDA. Nobody cared. It was like, “Don't worry. Be happy” mixed with a little “She'll be right” – the complacency of the business elite noted by Donald Horne in *The Lucky Country*.
- We need to strengthen civil society. Strong democracies have governments that are fair, civic institutions that are strong, and civic leaders who are self-confident, vocal, assertive, informed, and unafraid. Strong and self-confident democracies promote public dialogue and see value in the healthy tension – and even on-going stoushes – between the public order and the civic order.⁴⁹
- We need to trust the capacity of ordinary people to make good choices. As the newspaper headlines reveal, week after week, elected officials do not have monopoly on wisdom or ethics – not even close. Australia has many assets and a great future if a dynamic, open-ended view of Australia's future opportunities can win against those who want to centrally-direct and micro-manage change from above. The coal industry and telecommunications are both good examples where investment and innovation have been stifled because of this impulse...and there are more. At the same time, new social technologies – such as blogs, Web 2.0 and other internet-based media⁵⁰ – are moving against those who would pretend to make decisions that are uninformed or that benefit special interests.

If I had to offer some advice to my friends in Australian civil society it would be: Don't get too cosy with government. You are unlikely to do your organisation any favours. I suspect you don't end up doing the government any favours in the long-run. And more to the point, democracy surely suffers if our politics become too clubby.

And finally, if I had to venture a hope for the future, it's that Australians – with their natural creativity, adaptability and willingness to call a spade a spade – place a bit less trust in

⁴⁶ When government subsidizes competition, you get “lazy competition”. That's what is emerging in Australia, as many competitors to Telstra have invested too much in PR professionals and too little in engineering talent – and it is beginning to show.

⁴⁷ It is interesting, in passing, to compare the nearly \$1.0 billion the government was willing to give a foreign-dominated consortium to build a *duplicate* mobile internet with the \$50 million the government is willing to invest in fixing the Murray-Darling basin.

⁴⁸ It would be like if the government said to Qantas, “we're not going to let you buy Airbus 380s because we don't think you should be deploying this new technology”. And then they would go to Singapore Airlines and say, “We'd like to give you \$1 billion so you could buy some Airbus 380s”. And then they'd say, “Oh, by the way, if you want to come into Australia and compete with Qantas in the interstate space, that's okay too. In fact, if you want some of their gates out of Sydney and Melbourne Airports, we can arrange that for you as well”.

⁴⁹ The reticence of civic leaders to speak out is attributed by some to the “tall poppy” syndrome. I think there is some truth to that, and the effect is a corresponding “hunker down” syndrome.

⁵⁰ As we did with our Broadband Australia Campaign (BACK), which reached tens of thousands of Australians about the need to broadband Australia.

bureaucratic direction and a bit more faith in the spontaneous forces of their own society and culture. A country that is itself a remarkably successful experiment, can afford to be a bit bolder in its own policy experiments in the future.

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