Learning from Other Economies – for example from Somewhere Down Under

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Should economists pay much attention to the economies of small far-away countries, or should we focus largely on the big fish in the global economy – the US, the EU, Germany within the EU, Japan – and the coming big fish of China and India? Aside from Ruritanians, why should an economist care about what happens in little old Ruritania?

I first began to ponder this question with respect to Australia when I was asked to contribute to the "Bobfest" retirement party in honor of Australia's leading economist, Robert Gregory. Australia was a fine place to see Kangaroos and Coral Reefs or to party … but why should anyone besides an Australian or a Kangaroo care about this the farthest reaches of the world? Major American and European economics journals rarely publish articles about Australia or other far-away countries, suggesting that we have not much to learn from them.

Characteristics of models studied by biologists – and economists

Biologists see small far-away creatures differently. Biologists specialize in *model organisms* – slugs, bacteria, flies, yeast, squid, zebra fish, mustard plants, mice, etc. They spend years studying these creatures not because of any weird fetish for creepy crawlies but because the species provides exceptional insight into fundamental biological issues. Mendel's peas, for example, opened the door to the genetics of inheritance that no other organism could have done. By analogy, could the same held true for Australia or other small economies? Are there general lessons about economic behaviour that we can learn from far-off economies in which we have no intrinsic interest? Should we think of potential *model economies* in the way that biologists think of slugs, bacteria, mustard plants — as models that could teach us broad lessons?

To guide my thinking, I examined what determines whether a species becomes a model organism, studied by hundreds or thousands of biologists, or lives a life of quiet obscurity?

One factor is the tractability of researching the species, which depends on accessibility and the ease and cost of experimenting with extant laboratory technology. The parallel in economics is the *availability of reliable data on economic behaviour.* In modern research this means micro files on individuals and firms, longitudinal matched employer-employee files; time budget studies; matched files linking health and biological markers to outcomes; measures of workplace practices and productivity; and so on. The French and Scandinavians have been good in developing matched longitudinal employee-employer data files. The Scandinavians have good data relating biological measures, such as birth weight, to outcomes. The UK has the Workplace Employment Relation Surveys on labour practices at workplaces.

What about the Australians? Australia also has excellent statistics. Its labour market data include cross-section surveys , longitudinal surveys, a unique longitudinal survey of immigrants, workplace surveys, time use surveys, regular Censuses, input-output tables, the Household Income and Labour Dynamics in Australia.[1] But, unlike most major US data sets such as the Census of Population, Current Populations Survey, PSID, these data files are not readily downloadable on the Web, which makes them more difficult to access.

A model species in biology invariably has some distinct feature that allows researchers to make progress in a significant line of inquiry. The equivalent for a model economy would be *variation in some economic factor* that allows us to draw inferences about economic behaviour in general. The variation could be a policy change – a new tariff law, imposition of new labour laws, development of an independent central bank, rapid expansion of the supply of schooling; etc. Or it could be some global shock – a sudden rise in natural resource prices, collapse of a trading partner, the advent of China and India to the

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[1] For details on these surveys see the references in Freeman (2006).

global economy, the development of IT– that induces economic response from workers, firms, and even the government.

Third, a model species must be sufficiently linked to other creatures, particularly to humans, to allow the scientist to generalize the findings.[2] Generalizing in biology rests on the similarity of cellular processes across living creatures due to universal scientific laws and evolutionary heritage.[3] We share 96 percent of our DNA sequence with chimpanzees and are closely related to worms, flies, dingos and kangaroos, for that matter. Medical scientists work with mice because mice have immune systems similar to ours, so that finding ways to treat diseases in mice could generalize to humans. Still, there are sufficient differences among organisms that doctors invariably do human trials to see if it works on humans.

Using the biology analogy, the responses of individuals to incentives would seem similar to cellular processes, which should be comparable across economies. By contrast, interactions of people in organizations or markets or entire economies would be closer to the behavior of whole organisms. This suggests that phenomenon where independent responses by people are critical– say demand responses to price incentives – would generalize better across economies than phenomenon involving interactions among organized groups. It further suggests that there is more learned from economies that share broad similarities in institutions and history than among economies with very different modes of operating and traditions. As an advanced economy with a legal system and culture derived from Britain, Australian experiences should be relevant to economies with similar backgrounds, such as the US, UK, Canada, Ireland, and New Zealand (Freeman, Boxall, Haynes 2007), and potentially to other advanced OECD countries as well.

The fourth factor that contributes to a species becoming a model is a cumulated body of knowledge about it that helps experimenters design and interpret experiments. The social science equivalent is the strength of a country's research community. Researchers with knowledge about how things work in an economy can be critical in assessing data and behavior, particularly relating to broad-ranging institutions and practices, which outsiders may misinterpret. Australia has a strong research community that is sufficiently confident and forthright to let transient economists know when they get matters wrong.

Australia as a model economy

In sum, an economy that combines good information with natural experimental variation in practices/policies relating to economic behaviour broadly is a viable candidate for model economy in the areas in which it offers distinct experiences. Since Australia has good data, a strong research community and close links to other Anglo-American economies, the critical question, it is a good candidate model economy. The key issue is where Australia has made unique innovations in policy/practice or had distinctive economic experiences whose findings could generalize to economics broadly. As a labour specialist, I latched onto three: the country's changing mode of labour relations; use of market mechanisms to deliver public services in higher education and employment services; and reliance on immigration and natural resources as sources of growth.

Labour relations

"Australia needs a workplace system geared to the future, not to the past" (Australian Prime Minister John Howard 2005).

When I first learned that Australia used an awards system to determine wages, I reacted as early settlers to Oz must have reacted on seeing the platypus or emu – utter disbelief. Markets are supposed to set wages, not judges on industrial tribunal court proceedings. Judges aside, the Australian systems of awards resemble European mandatory extension systems of determining pay, by guaranteeing that collective bargaining covers workers outside the organized sector as well as those in it. This contrasts with countries like the UK or US where collective bargaining covers only those in the bargaining unit.

By extending institutionally determined wages to most workers, the awards systems lower the dispersion of wage. From one perspective, it does what the Invisible Hand seemingly fails to do in the job market: establish a single price for a given type of labour. From another perspective, it risks reducing incen-

[2] A model organism "must not only be convenient to work on, but it also has to be related to other things that are useful" (John Sulston,www.welcome.ac.uk/en/genome/genesandbody/hg05f003.html, p. 2).
[3] Nature did not "completely reinvent the wheel and come up with a new set of molecular rules for each phylum". (Thomas Carew, specialist in Aplysia californica, cited by D. Steinberg, 2003).

Percentage of workers with wages set by different mechanisms, 2004

Mode of wage-setting	Percentage covered
Awards	20
Collective bargaining	41
Individual	34
Proprietors	5

Source: Australian Bureau of Statistics (May 2004, cat no 6306.0).

tives and depressing the employment of low wage workers. The Australian awards system helped make the country's equal pay legislation more successful than similar legislation in the US (Gregory 1999).

In the 1990s–2000s, led by the trade unions, Australia shifted to more enterprise level bargaining. The Labour Party's 1993 Industrial Relations Reform Act strengthened enterprise bargaining. The Howard government's 1996 Workplace Relations Act encouraged individual arrangements, ended union shop agreements, and limited the authority of Industrial Relations Commission to make awards. Many firms and workers preferred the status quo of collective contracts and awards to the alternative of individual contracts. The Table shows that 61 percent of employees had their pay institutionally determined as of 2004.

In November 2005 the government enacted legislation to privilege individual contracts over collective contracts and weaken labour market protections for workers further. The new legislation allowed firms to require that employees sign an individual contract and give up the right to be covered by a collective agreement as a condition of employment. Enterprise agreements could not override individual contracts. The "no disadvantage test" that required that contracts give workers pay and conditions at least as good as the relevant award was weakened. The law excused firms with less than 100 employees from unfair dismissal laws; narrowed the Industrial Relations Commission's role in labour relations; and established a new commission to set minimum awards over a smaller domain of issues. Finally, the new law made it more difficult for unions to strike while allowing management freedom to lockout workers. To impose the law throughout the country, the federal government claimed the right to override state labour laws which the Australian Supreme Court declared constitutional in 2006.

The government's "Work Choice" program is the most radical anti-union policies enacted by an advanced democracy. The changes go beyond anything conservative governments in the UK or US ever proposed, or that New Zealand enacted in the 1990s. A comparable change in corporate law would be to privilege private equity over publicly owned corporations by removing the limited liability protection given to shareholders. The changes are also remarkable in that government has proposed them in a period when the Australian labour market and economy are functioning well, with low unemployment and accelerated productivity growth. Australia is not in Great Britain's 1980s Winter of Discontent nor the US air traffic controllers 1981 illegal strike against the Federal Government.

Given the weakened state of Australian unions, the new legislation could be the death knell to collective labour arrangements. Or it could produce sufficient backlash from unions and workers to overturn the government at the next election. Public reaction to reports of unfair practices by employers under the new rules has been so negative that in 2007 the government withdrew the Work Choices brand name under which it publicized the new law.

Whatever happens what is critical for this essay is that the new legislation provides a "natural experiment" that makes Australia the model economy for assessing collectivism in the labour market. What more could a social scientist ask for than an extreme change in law with no apparent motivation beyond the government's ideological vision of "the workplace of the future"?

Market mechanisms for public services

In 1989 Australia developed the world's first income contingent mode of funding much of higher education – the Higher Education Contribution Scheme (HECS; Chapman 2001). The HECS differentiates tuition by field, gives students the option for paying fees up-front or through deductions from future earnings; offers a more equitable way of funding student education than taxing citizens; is less risky for students than loans; and gives greater autonomy to universities to determine the student contribution amount within the specified ranges.

Shifting the cost of higher education from the state to students has helped Australia increase university enrollments while reducing state funding of higher education relative to GDP. In addition, it induced

Australian universities to raise revenues by selling undergraduate education to the citizens of other countries. It has not discouraged low income Australian students from going to universities or reduced the overall rate of university attendance. If detailed data on the system were readily available on a web site, analysts in other countries would download the information and perform the types of studies that would fit their country's concerns, and thus spread this innovation.

Australia has also marketized government-funded employment services. In most countries, the state aids job seekers through state agencies. Until recently, some European countries restricted private employment agencies so that the state monopolized employment services. In 1998 Australia chose a different route. It privatized or outsourced employment services to non-profit and profit-seeking agencies, as well as to competing public agencies – 'a radical transformation of employment service delivery ... without parallel in OECD countries' (OECD 2001, 15). By opening the market for employment services to competitive bids, Australia sought to unleash the forces of competition on what had been an administrative function of the government. The result was a large drop in the cost of employment services, with no apparent loss in quality, which won laudits from the OECD. Independent researchers have, however, been more skeptical, withholding judgment until data from providers of services are open to public scrutiny (Webster and Harding 2001). Australia's outsourcing of public employment offers a unique opportunity to examine the success of different government, private and community agencies in delivering a traditional government service.

Growing Oz: Immigration and natural resources

As a "settler economy" Australia has grown through immigration and the application of modern technology to natural resources and to agriculture. Since not all settler economies have been economic successes – Argentina is often viewed as Australia's errant twin economy in this respect – and since natural resources have proven to be a curse to many economies – Australia's success as an immigrant-receiving and natural resource dependent economy merits attention.

On the immigration side, in 2000 approximately one fourth of the Australian population were immigrants – twice the proportion in the US, making Australia a model economy for understanding the impact of immigration on macro-economic outcomes and economic growth. Immigrants appear to have had little adverse effects on the wages or employment of natives (Addison and Worswick 2002) while contributing to growth. An immigration policy based on points for skills arguably contributed to this effect. Until the early 1970s, Australia subsidized passage for Europeans from some countries. Since then it has used the point system to encourage immigration of skilled workers (Miller 1999). It gives points to persons who attend Australian universities, which presumably both attract students to Australian universities and encourages their immigration.

On the natural resources side, Australia has developed despite being highly dependent on minerals/fuels and agriculture for the bulk of its exports. The country fell from near the top of the GDP per capita league tables – 5th in the OECD in 1950 to a much lower position – 15th in 1990, but rebounded in the 1990s to reach 7th spot in 2005, in part due to the boom in natural resources. In the 1990's the mineral share of exports rose to 40 percent of Australia's exports. But the country surmounted the "Dutch Disease" (known as "Gregory curse" in Australia) problem in which a booming resource sector boosts the real exchange rate and erodes the competitive position of manufacturing. If China keeps demanding natural resources as it grows rapidly, more countries will find that natural resources are critical to economic growth, and should look to the Australian experience here.

Make your economy a model economy

The argument that economics has much to learn from behaviour in *model economies* just as biology learns from model species directs attention at the experience of economies regardless of location or size. The requirements for a model economy are adequate data; interesting variation in policies/practices; sufficient similarity to other economies to allow findings to be generalized; and a knowledgeable set of home grown economists.

Australia's policies and practices and accessible data make it a model for illuminating labour relations, market provision of public services, and development via immigration and natural resource. If the country's political leaders create additional extreme policy experiments, there will be a lot for the rest of us to learn from Australian experience.

Finally, while I have made Australia my prime model of a model economy, you do not need Kangaroos to serve as a model economy. Data, variation in policies/practices, some similarity with other economies, and a base of knowledge. Fellow economists, if you determine the areas where your economy is a good model and follow the lesson from biology to study those areas, perhaps we can accelerate our rate of progress as biology has done.

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