

Vale Phil Burgess

(A shorter version of this appeared in Exchange newsletter on 26 September 2008)

Phil Burgess has been on his “farewell” tour, including a column in the *Sydney Morning Herald* and a speech to the Lowy Institute¹. While these have been reported on² it has been left to Phil to do the talking, no one has written a valedictory.

There is much to admire about Phil Burgess, including his heritage as an academic and leader of a think tank. As he was introduced at the Lowy Institute by Allan Gyngell he is a voracious reader, listener and debater.

When he first came to Australia he observed the absence of public discussion of important policy issues. He observed Australia in the late phases of the Howard era, an era that was typified by a Government, and particularly a Prime Minister, that took retribution on critics. However, the rot has been developing slowly.

Phil made a hallmark of attempting to change that, an approach he has detailed in his Lowy speech. But in the end his one man contribution has stunningly failed, the Australia he leaves is much the same as the one he found. The campaign of the Broadband Australia Campaign, the twelve thousand Telstra Active participants and the whole nowwearetalking experiment has ultimately failed to achieve any shift in outcomes.

The unbridled attacks on regulators, policy makers and, especially, on foreign shareholders haven’t achieved the outcomes he claimed to seek. There are two possible interpretations of this – either the positions are so entrenched that they couldn’t be changed, or there was something wrong with the message. I think it was the latter – and it wasn’t the manner of the delivery of the message, but its content that failed. The content remained filled with inherent contradictions and at times simple untruths.

Phil’s heritage is the great American conservative movement of the late twentieth century. His academic work included an analysis of student protest in the late sixties and the conclusion there was no such thing as the “student movement”³. His think tank, the Annapolis Institute,⁴ is built in the tradition of the conservative or libertarian think tanks created after William Buckley. His message on the need for the civil order to engage in healthy tension with the public order is part of his reaction against the concept of “planning” from the centre.

However, Phil’s civil order winds up being pretty tightly limited to the business community. And his message of the need for “healthy tension” is what got written up by Richard Farmer in Crikey as;

[His] real message should be that most Australian companies are far too timid in their dealings with governments. The Burgess style was to directly confront both public servants and ministers on behalf of the telecoms giant and to ignore the scarcely veiled threats of punishment they replied with. There was none of the fawning before politicians that is the technique of most senior company executives of my experience who are so desperate to be liked.⁵

Phil married this rejection of centralised planning with the idea that we should rely on the ability of people to make good choices. However, he and his organisation have at the same time been peddling the line that the vertical integration of Telstra is

important because of the need for one “firm” to coordinate the investments in the market and in services.

He and the Telstra chairman both like to use a comparison of the coal and iron mining industries as arguments for the supposedly inherent benefits of the co-ordination that can come about through the vertical integration of the infrastructure. But the example continues to miss the fact that in coal there are multiple firms mining the stuff around Newcastle, not one. Vertical integration in this industry would either require the development of multiple ports or first the horizontal integration of all the miners. Further, the presence of a queue of ships outside a port is not *per se* evidence the port is failing. Shippers get to choose how many ships they build and where they send them, the queue can be perfectly rational behaviour in scheduling. As can be found in one book of pricing theory “The crucial point is that queues have a rational, economic foundation, grounded in the costs and benefits of people waiting in them.”⁶ Such a conclusion shouldn’t really surprise anyone in telecommunications because the mathematical study of queue theory is founded in telecommunications traffic management.

What Phil and his former colleagues at Telstra miss is the real message of one of the leading lights of conservative thinking, Friedrich Hayek, in his critique of central planning. Hayek in his 1945 paper “The Use of Knowledge in Society”⁷ first outlines the inability of any central planner to know all the information necessary to make decisions for the optimal organisation of society, and he notes that the Pure Logic of Choice is the way this occurs, and that is the price system.

It does not make the central planner any more adept at managing the information if he is employed by the shareholders of a firm or if he is employed by the government. The planning system of modern capitalism as describe by Galbraith in *The New Industrial State*⁸ shares more in common with twentieth century communism than it does with market capitalism.

So this is Phil’s first inconsistency. It is the inconsistency that argues against “planning” as a concept but argues for the ability of the large firm to undertake that planning.

Phil’s second inconsistency is also about the importance of big business. He opened his Lowy remarks with some comments about the need for Australian firms to recognise their competition is global, not local. His point was to argue for the need for the infrastructure to support these firms, and hence the need for Telstra and other infrastructure firms to be unfettered in serving them.

It is perhaps an unfortunate choice for Phil, because he may not know that the previous Labor government reason for merging Telecom with OTC was to create a firm of sufficient scale to take on global competitors.⁹ As it transpired the US telcos who came to Australia soon left, leaving us to suffer only their second hand executives (running Telstra not the competitors). At the same time Telstra has spent sixteen years since the merger just fighting in its own backyard with few attempts to take on international markets. In fact the CEO now uses the idea that he might get around to fulfilling the original policy intent as a threat.

In answer to a question Phil got around to trumpeting the line that Google, Yahoo and Microsoft are its biggest competitors. This is a line now commonly used by incumbent telcos to suggest they still face serious international competition and continue to underpin the “national champion” argument. These are firms aren’t

primarily competitors; they sit inside the telcos ecosystems as unrecognised partners who create the reasons why there is continued growth in telco services.¹⁰

These inherent contradictions are matched with simple untruths. Twice in his Lowy address Phil suggested that Telstra had been “stopped” from building its broadband network. It has never been stopped, it has simply not achieved regulatory outcomes it sought.

Phil criticises the process of going to Government to play the “insiders game” on policy, but ignores the fact that Telstra did just this twice on broadband – once directly with Government and once with the ACCC; both times seeking to conclude a deal. Never has Telstra tried the alternative of an approach to its wholesale customers about ways the industry might do this together (but on this I don’t blame Phil, it is his CEO and Chairman who refuse to consider an alternative).

Phil’s judgement I think has also erred on the way he chose to play the xenophobe card in demonising foreign shareholders (while Telstra courts them) and of “playing the man”, especially his criticisms of Senator Lundy and Graeme Samuel.

Finally in his Lowy speech Phil touches on some of the aspects that go beyond the formal laws to what a heterodox economist would call an institutional approach. It is a pity that some of these thoughts weren’t more explored by him over the last 38 months, for it is in the institutional approach that some of the conundrums can be solved.

The reliance by industry on the ACCC as a price setter is a flawed model. The chorus of those telcos that want reference prices and commonality have cast the Government in the guise of the ACCC as a central planner of the highest order. There was a logic to the negotiate/arbitrate model, there was also a logic to the “baseball arbitration” approach considered briefly by the Productivity Commission in 2000. This logic is the attempt to get the regulated wholesale market to “mimic” the price signalling of a competitive market and achieving the power of that Logic of Choice. However, the rejection of the role of the regulator is as wrong as the placing of the regulator at the centre of planning.

But while I have these criticisms of Phil and the positions he advances, I have unending respect for his position that like Peter Finch exhorts in Newsfront he wants us to stick our heads out the window and shout “I’m as mad as hell and I’m not going to take this anymore.” He has been a keen student and participant in the national dialogue, and has read more about us than most of us have.

Phil I think will understand if I say (in the Australian vernacular and the Fullbright sense) “Mate, you are a great Australian patriot, but you’ve been wrong about a few things.”

David Havyatt

¹ Phil Burgess “Over-regulated and underdone over here” *Sydney Morning Herald* 23 September 2008. <http://www.smh.com.au/news/opinion/overregulated-and-underdone-over-here/2008/09/22/1221935537196.html?page=fullpage#contentSwap1> and Phil Burgess “The new world of connections and talent” address to the Lowy Institute. 23 September 2008. <http://www.lowyinstitute.org/Publication.asp?pid=897>

² For example Richard Farmer in Crikey on 23 September and Communications Day on 24 September

³ Philip M. Burgess and C. Richard Hofstetter “The ‘Student Movement’: Ideology and Reality” *Midwest Journal of Political Science*, Vol. 15, No. 4, (Nov., 1971), pp. 687-702 Midwest Political Science Association

⁴ <http://www.annapolisinstitute.net/>

⁵ Richard Farmer “The unusual lobbyist goes home” Crikey 23 September 2008-09-25

⁶ Richard McKenzie *Why Popcorn Costs so Much at the Movies & Other Pricing Puzzles* Copernicus Books. 2008.

⁷ Friedrich Hayek “The Use of Knowledge in Society” *American Economic Review* XXXV No. 4 September 1945 519-30

⁸ John Kenneth Galbraith *The New Industrial State* Princeton University Press. New York. 1967.

⁹ See “McEwenism at its very worst – Treasury” *Australian Financial Review* 16 August 1990 P.63.

This was a transcript of a Treasury briefing paper outlining Paul Keating’s position to be considered by the Structural Adjustment Committee of Cabinet.

¹⁰ See Adam Brandenburger and Barry Nalebuff *Co-opetition* Profile Business. 1997. The whole book is available on an interactive website at <http://mayet.som.yale.edu/coopetition/index2.html>.