

Seeking the elusive town and gown dialogue: the inaugural Australian Economic Forum

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Academic disengagement

The town and gown dichotomy sounds anachronistic. Yet in the field of economics there remains surprisingly little direct engagement between economists from business and academia. This disconnect was evident at the inaugural Australian Economic Forum held in Sydney on 19–20 August 2009.

The Forum was a laudable attempt to establish a more productive dialogue between economists from all sectors. As the brochure said:

Although there are a number of forums that focus on different aspects of the Australian economy, none provide the opportunity to discuss current and future economic policy or an open forum for rigorous economic debate across sectors. Under the auspices of the Economic Society of Australia (NSW Branch), the Forum will provide an annual opportunity for economists, business professionals, academics and public servants from all levels of Government to come together and discuss targeted economic issues.

Yet very few academics came. It was dominated by business and government economists, and economic consultants (I put these three groups under the umbrella 'business economists', representing economists from sectors other than academia).² Of the 130 registrations, about 5 per cent were academics, 60 per cent were from government (mainly state and federal treasuries) and the remainder were from consultancies and other private organisations.

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2 The distinguishing role of academic economists is that of educating students and creating new knowledge as a public good. However, the day-to-day process of creating the latter, through research, can be quite similar to the work of some business economists.

This registration mix is true to form. By and large, academic economists go to academic conferences and business economists go to business forums such as CEDA³ events and now the Australian Economic Forum. Rarely the twain shall meet.

Is this a bad thing? If not, it should be of no concern to anyone, including organisers of such forums in future. On the other hand, if it is an undesirable state of affairs we should look to the causes and possible remedies.

There are reasons to think it is undesirable — that there should be more cross-fertilisation of ideas and perspectives among academic and non-academic economists through direct public dialogue.

We could start with the global financial crisis (GFC), one of the themes of the Forum. Almost all mainstream economists from all sectors were completely blindsided by the GFC — in particular, its depth and speed of contagion (*The Economist*, 2009). They relied on economic models, whether for forecasting or analytical purposes, that have their roots in the academic literature. The essential building blocks of such models, including assumptions, are created in academia and disseminated through academic journals and books. The reasons why these models failed to predict the GFC are beginning to be appreciated (see, for example, Colander *et al.* 2009). They include the failure to properly model the implications of leverage, the mis-pricing of risk, financial market ‘imperfections’, and confidence. Regulatory shortcomings were also partly responsible, but these regulations or lack thereof were largely a product of the economic orthodoxy. Some prominent mainstream economists have been scathing. Eichengreen (2009) says: ‘The Great Credit Crisis has cast into doubt much of what we thought we knew about economics.’ One need not go that far (see the counter-view by Lucas 2009, in defence of economic modelling) to acknowledge that it is time for a more open, collaborative dialogue from economists from all perspectives and related fields such as finance, accounting and even management and psychology.⁴ It might therefore be helpful for the builders of economic models to engage more with the end-users: those developing policy in government agencies, consultants, bank economists, and so on.

3 The Committee for Economic Development of Australia holds regular events in various formats. The aim is to provide ‘An independent, open platform to discuss and understand economic, business and policy issues. See http://ceda.com.au/public/events/about_ceda_events.html.

4 In fact, the views of Eichengreen and Lucas are not as divergent as first appears. Eichengreen acknowledges that the causes of the GFC can be found in the extant economics and finance literature — for example, agency theory, information asymmetry and behavioural finance. Lucas just goes further to argue that economic and financial crises are not inconsistent with the efficient markets hypothesis, nor is it reasonable to expect that such crises be predicted or prevented by the macroeconomic models used by central banks. These models provide ‘forecasts of what could be expected conditional on a crisis not occurring’.

Closer engagement of academics with external stakeholders would also make sense from the universities' point of view. In the last decade or so 11 Australian universities have sought and achieved international accreditation for their business/management education programs with one or more of the three major accrediting bodies: EQUIS⁵, AMBA⁶ and AACSB.⁷ The criteria for accreditation typically include evidence of an interface with the corporate world, especially the EQUIS criteria which include: 'a balance between high academic quality and the professional relevance provided by close interaction with the corporate world. A strong interface with the world of business is, therefore, as much a requirement as a strong research potential.'⁸

Accreditation is one driver of a relatively new desire by universities to engage with external stakeholders, especially (in the case of business and commerce faculties) business stakeholders such as future employers. Another driver is the AUQA quality-assurance process which requires, among other things, truth in advertising — if degree programs say they offer relevant and applied education then there must be processes in place to ensure this is achieved. Business Advisory Boards have an important role in this regard.

Also, as Australian universities nowadays typically receive at least 50 per cent of their income from fees and other private sources (OECD 2008), and have more freedom to set fees, the competition for students has become more intense. Students want to see that their education provides good career preparation for the 'real world' — hence we now have a university officially marketing itself as 'the university for the real world'.

These drivers have led universities to encourage academics to engage more closely with their stakeholders. This is sometimes called, in the jargon of the annual performance review, 'community service' or 'external service'. Academics earn 'points', implicitly or explicitly, for external engagement activities.

In fact, academic economists *have* responded to these incentives *to some extent*. For example, academic economists are now more inclined to express their views in the print media and through blogs. For example a number of them write occasional articles in the *Australian Financial Review*, *The Australian* and the *Courier Mail*, among other outlets. Not so long ago academic economists were all but invisible in the media and the public space. If a media outlet wanted a comment on the economic news story of the day they went to 'market'

5 EQUIS (European Quality Improvement System) accreditation is managed by the EFMD (European Foundation for Management Development).

6 Association of MBAs.

7 Association to Advance Collegiate Schools of Business.

8 Available at: <http://www.efmd.org/index.php/component/efmd/?cmsid=041004geyi>. (Last accessed 29.August 2009.)

economists from banks and the like. This has changed to some extent due partly, one suspects, to the signals from university managers that this sort of activity is valued.

Economists are also trying to reach out to the 'real world' through books; and this is apparently an international phenomenon. There is a plethora of books in airport bookshops popularising economics, including *The Undercover Economist*, *The Airport Economist*, *The Economic Naturalist*, and *Freakonomics*.⁹ The university curriculum too has a more applied focus nowadays. Witness the number of courses in business economics, economics for managers, and specialist fields such as environmental economics, sport economics, tourism economics and media economics.

There is, however, one very important driver working in the opposite direction, creating disengagement. This driver is what Bruno Frey (2009) has called the PITS (Publication Impossibility Theorem System), which is a modern version of the old 'publish or perish' injunction. Frey's variant derives from the relatively new phenomenon of journal rankings and the more explicit linking of rewards with publication outcomes in 'A' journals. He argues that this is a tournament in which by definition most academics will fail, implying a huge amount of wasted academic activity. Even the few that are published, with vast amounts of time and effort, are rarely cited — the median number of citations of economics articles is zero or close to zero (Laband and Tollison 2003, in Frey 2009). Frey argues that the excessive effort on fruitless research is driven in part by the inadequate measurement of, and reward for, other activities of academics that are purportedly valued by universities, including 'informing and advising the public' on pressing public-policy issues. This echoes Guest and Duhs (2002) who analysed the distortion of academic effort due to inadequate measurement of performance in other areas, notably teaching.

Productivity Commission Chairman Gary Banks (2009) recently lamented that academics nowadays don't seem to be interested in consulting work with government agencies. Clearly they would prefer to devote their time to writing papers for 'A' journals. This is, of course, the very same reason they are not interested in participating in forums such as the Australian Economic Forum — it is perceived as unlikely to further their prospects of academic publication. Gary Banks recalls an era when:

the involvement of academics was instrumental in developing the evidentiary and analytical momentum for the first waves of microeconomic reform. Examples from the trade and competition policy

9 Tim Hartford, *The Undercover Economist*, London: Abacus, 2006; Tim Harcourt, *The Airport Economist*, Sydney: Allen and Unwin, 2009; Robert Frank, *The Economic Naturalist*, New York: Basic Books, 2007; Steven Levitt and Stephen Dubner, *Freakonomics*, New York: Harper Collins, 2005.

arena alone include Max Corden, Richard Snape, Fred Gruen, Peter Lloyd, Bob Gregory, Ross Garnaut, Fred Hilmer, among others. Where are the new academic generation's equivalents in support of the 'Third Wave'?

Banks argues that this is a crucial loss because public-sector agencies need to develop evidence-based policy, where academics offer certain advantages over private consultants to whom agencies have increasingly had to turn. For example, 'consultants often cut corners' and 'their reports can be superficial'.

If Banks is right about a sub-optimal level of academic input into public-policy development, and if this is due to the incentives facing academics, then there is a case for public policy itself to redress these incentives. Research grants could play a role here. Targeted research-grant schemes would be one way of incentivising academics to work with government in public-policy development. One option would be to create a special category of ARC Linkage Grants to promote collaborative research between government agencies and academia. Of course, such projects can already be funded through the current ARC Linkage Grants system, but a special category with extra funding would be helpful. Another option would be to create a new ARC Special Research Initiative in public-policy development; or perhaps even an ARC Centre of Excellence. Priority areas for research collaboration could be aligned with the ARC National Research Priorities. A difficult yet important issue is how to know whether initiatives that shift the mix of economic research toward public-policy development yield net positive social value. Possible indicators might include better public policy and higher academic citation rates.

Business and government economists demonstrate a keen interest in academic work. When economists in government treasuries, government agencies such as the Productivity Commission, or private consulting firms, are faced with an issue to investigate the first place they tend to go is the academic literature. The literature typically provides them with the analytical framework and the extant empirical evidence, internationally and domestically, on the issue at hand. The Henry tax review is a good example. At the Australian Economic Forum, the Chairman of Australia's Future Tax System review and Treasury Secretary Ken Henry talked about the 'good, bad and ugly' taxes. Stamp duty qualified as a 'bad' tax on both efficiency and equity grounds. He was drawing on tax theory, well established in the academic literature. It is clearly essential that academics create this literature. But it is also true that the social value of the research endeavour depends on the use to which it is put, which in turn depends on the relationship between the creators (academics) and the end-users. In this relationship one side, it seems, is not pulling its weight. That is not a criticism of individuals who are simply responding to the incentives facing them, but of the incentives themselves that drive the allocation of academic time and effort.

Format of the sessions at the Australian Economic Forum

The aim of the two-day Forum — ‘the opportunity to discuss current and future economic policy or an open forum for rigorous economic debate across sectors — is worthwhile in filling the gap between academic conferences and events run by organisations such as CEDA, the CIS, the Melbourne IAESR, NATSEM¹⁰ and Australian business economists. Their events have narrower themes that reflect their particular missions. Under the auspices of the Economic Society of Australia, the Forum was able to cover a wide range of subject matter (see the section below).

Overall, the Forum was a success. However, it could have been even better. Apart from the noticeable absence of academics, the other disappointment was the format of the sessions, which were generally rather sterile. With one exception, the sessions were run like conference sessions. This applies to both the plenary sessions and the streamed sessions. The presenter stood at the lectern and delivered a Powerpoint presentation, followed by about 10 minutes of questions from the audience. This can be an efficient format for delivering information to an audience. But it is not very stimulating or engaging — not the best forum for achieving ‘rigorous economic debate’.

The one exception, which in my view turned out to be the best session, was the final session: ‘The Premier’s Panel’. This panel session was chaired by Quentin Dempster, whose media experience and expertise enabled him to get some lively interaction between the panel members and also to engage the audience. More sessions like this would have provided variety and more stimulating debate. The very first session on the fallout from the global financial crisis, with a panel of speakers, was an attempt to generate debate but didn’t quite succeed.

Having said that, the traditional presentation format can work well if the speaker is sufficiently engaging and well-prepared. Special mention in this category goes to two people: Stephen Mayne, founder of Crikey.com, and Tim Harcourt, Chief Economist at Austrade. Both gave thought-provoking and entertaining presentations,¹¹ although different in style. Stephen Mayne spoke virtually without notes, while Tim Harcourt had elaborate slides.

¹⁰ The Committee for the Economic Development of Australia, the Centre for Independent Studies, the Melbourne Institute of Applied Economic and Social Research, and the National Centre for Social and Economic Modelling, respectively.

¹¹ Tim Harcourt presented on Australia’s export performance in recent years (presentation available at <http://www.australianeconomicforum.com.au/LinkClick.aspx?fileticket=5P%2bhJWFLw%2fM%3d&tabid=56>); and Stephen Mayne spoke about lessons from the GFC for shareholder activism (electronic copy was not available on the Forum website as at 10 September 2009).

There were one or two poor presentations in which speakers simply read out a prepared speech verbatim, with head down for most of the time. Some high-profile speakers seem to think that simply being there is sufficient — no need to engage the audience who are enthralled by their very presence.

In future, a mix of formats among the sessions would probably work best and this might include one or two more traditional keynote addresses. Two alternative formats that might be worth exploring are to be found at the annual 'Consilium' run by the CIS, and the debates held by Intelligence Squared Australia.¹² At the Consilium, more than a hundred participants sit around a very large table. In a given session a number of participants are given three minutes to speak on an invited topic. A general moderated discussion follows under Chatham House rules. The advantage of this is that a greater number of people have an opportunity to present their message and there is more time for debate, with Chatham House rules being less inhibiting. At Intelligence Squared Australia, the format is a debate led by prominent speakers but with audience involvement.

Subject matter

The subject matter itself was well-chosen. Most of the important and controversial public-policy issues in Australia today were on the agenda: the GFC, climate change, tax policy, infrastructure reform, housing affordability, water security, and policy issues in education, health, energy and transport. International trade policy was perhaps a notable omission (except for the export opportunities from climate change). In fact, there was a lack of international perspectives on other policies, climate change being an exception. All of the speakers were Australian; one or two international speakers would have provided a useful perspective

.The subject matter was so wide-ranging and topical that it presents a challenge for next year's forum, assuming there is one. Many of the above issues will no doubt remain prominent in the public debate, so it would be appropriate to revisit them. The challenge will be to find a fresh perspective and some different yet high-profile speakers. An alternative format would do the trick.

¹² See <http://www.iq2oz.com/>. Intelligence Squared Australia is an initiative of the St James Ethics Centre and is based on the program which began in London in 2002. The Australian program is produced in partnership with *The Sydney Morning Herald* and is supported by the City of Sydney.

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