

## In this issue...

### Convenors' column

### Q & A

Andrew Leigh answers our questions about economics and sociology pages 2-3

### Research snapshot

Jo Barraket. pages 4-6

### Teaching economy and society

Ben Spies-Butcher pages 6-7

### Everyday exchanges

Grazyna Zajdow pages 7-11

Zuleika Arashiro pages 12-13

### Books

In this issue we feature an extract from John R Talbott's book *The 86 Biggest Lies on Wall Street*, pages 13-15

### Editors

Dina Bowman  
Lee Glezos

### Contact us

[exchange@economicsociology.org.au](mailto:exchange@economicsociology.org.au)  
[info@economicsociology.org.au](mailto:info@economicsociology.org.au)

### Check out our website

[www.economicsociology.org.au](http://www.economicsociology.org.au)

Copyright notice: copyright remains with the authors unless otherwise stated.

Exchange  
ISSN 1836-6325

## Convenors' column

*Dina Bowman and Lee Glezos*

Welcome to the fourth edition of Exchange!

In this issue we continue to feature research that examines the connections between economic and social relations.

In our Q & A Dina and Lee ask Australian economist, professor **Andrew Leigh** (Research School of Social Sciences, ANU), about the ways in which economics and sociology can learn from one another. Andrew reflects on a recent TASA plenary session, where he and sociology professor Michael Gilding engaged in a highly constructive dialogue about the intersection between the two disciplines.

In our research snapshot we feature associate professor **Jo Barraket** (Social Enterprise at the Australian Centre for Philanthropy and Nonprofit Studies, QUT), whose work examines social enterprise in Australia. She argues that social innovation and social entrepreneurship 'provide fertile ground for advancing theoretical understandings of social action in a network society. They also produce imperatives to empirically examine the practical legitimacy of emergent forms where they become part of new policy prescriptions for social and environmental wellbeing'.

In a new section on teaching, **Ben Spies-Butcher** (lecturer of 'Economy and Society' at Macquarie University) writes about his experience of developing an 'economy and society' unit, and his approach to teaching subjects at Macquarie that draw on economic sociology. The 2010 TASA conference is being hosted by **Macquarie University** in December, which provides a wonderful opportunity to showcase economic sociology. We encourage exchange readers to consider submitting papers to the 'Sociology of Economic Life' stream (see last page for details).

In everyday exchanges we feature two pieces. The first is a paper by **Grazyna Zajdow**, which she presented at last year's TASA conference. In that paper Grazyna traces some of the historical, cultural and economic changes in developing a market for alcohol in Victoria. We also feature Dr **Zuleika Arashiro** (Research and Policy manager, Financial Inclusion at the Brotherhood of St Laurence), who builds on **Supriya Singh's** contribution in issue 3 of exchange, to examine the effect of economic fluctuations on the lives of immigrants.

In our books section, courtesy of Scribe publishing, we feature an extract from, 'The 86 Biggest Lies on Wall Street' by **John R. Talbott**, former Goldman Sachs investment banker and UCLA business management scholar. Talbott compellingly unmasks how the Wall Street economy works, by offering what he sees as 86 fallacies that have traditionally guided the dominant market logic of Wall Street actors.

On a final note, we would like to direct exchange readers attention to two recent articles by **Ross Gittins**. Economics Editor, *Sydney Morning Herald*. 'They know who you are ... and how you think' (April 2 2010) and 'Motivate staff by ignoring economists' (April 5 2010) both discuss how mainstream economics can be enriched by adopting insights from 'Identity Economics', an emerging field that draws on some key sociological concepts.

Don't forget to check out our website – it's updated at least once a month. We welcome your suggestions and feedback:

[info@economicsociology.org.au](mailto:info@economicsociology.org.au)

Best wishes,

Dina Bowman, Lee Glezos,

Editors

## Q & A with Andrew Leigh



*Andrew Leigh is a professor in the Economics Program, Research School of Social Sciences, Australian National University. Dina and Lee asked him about economics and sociology.*

You can contact Andrew at [andrew.leigh@anu.edu.au](mailto:andrew.leigh@anu.edu.au) and learn more about his work at [www.andrewleigh.com](http://www.andrewleigh.com).

**Q.** *At the recent TASA conference your presentation was titled 'What can economics and sociology learn from one another?' for those who missed out on that session, what were the key parts of your argument?*

**A.** My impression is that economists are a little more confident in the definition of their discipline than sociologists. Within economics, many of us use Gary Becker's definition: 'The combined assumptions of maximising behaviour, market equilibrium, and stable preferences, used relentlessly and unflinchingly, form the heart of the economic approach as I see it.'

For sociology, I offered three definitions, one of which was the C Wright Mills description of sociology as 'the intersection of biography and history'. I find this a little woollier, though I do confess that the dashing motorcycle-riding Mills makes a better cult figure than the rather more austere Becker!

I then spoke about the influences that sociology has had on my own research, through R.W. Connell (a good family friend) and Christopher Jencks (my thesis chair). Much of my current research draws inspiration from sociology. I gave three examples:

1. In work with Alison Booth and Elena Varganova, we have researched racial and ethnic discrimination at the interview stage by sending out 5000 fake CVs. This strategy draws on earlier work by UK sociologist Roger Jowell in the 1970s and US sociologist Devah Pager in the 2000s. We find substantial discrimination against job applicants with non-Anglo names. To get as many call backs as someone with an Anglo name, Italians have to put in 12% more applications, Indigenous people 35% more, Middle Easterners 64% more, and Chinese 68% more.

2. My work on social mobility draws on surveys fielded by Australian sociologists Leonard Broom and Frank Lancaster Jones in the 1960s (and overlaps with more recent work by Mark Western). Using information on parental occupation, I impute earnings to fathers and estimate the father-son earnings elasticity. I estimate a number between 0.2 and 0.3, meaning that a 10% increase in fathers' incomes is associated with a 2-3% increase in sons' incomes. This suggests that Australia is more socially mobile than the US, but less socially mobile than Scandinavian countries.
3. My work on child gender builds on recent research by sociologists Dalton Conley and Rebecca Warner. Because child gender is random, we know that any association between child gender and outcomes is causal. In the Australian context, I look at the relationship between child gender and marital status. I find that parents with a boy and a girl are more likely to get married (and stay married) than parents with two of a kind (either two boys or two girls).

Concluding, I suggested that economics could learn from sociology in three ways: (a) Recognising that conversations with real people can be informative, (b) Carrying out initial testing of models to help refine the theory, and (c) Better integrating theory and empirics, so that empirical work tests clearly defined theories, and theorists respond to empirical findings.

In the opposite direction, I argued that sociology could learn from economics by: (a) Using large-scale datasets, (b) Using multiple datasets (in the same research paper), and (c) Better identification of causal effects, using approaches such as differences-in-differences, instrumental variables, regression discontinuity, and randomised trials.

**Q.** *The panel session on economics and sociology with you and Michael Gilding was a very lively session. What parts of the dialogue with Michael and audience of sociologists did you find most interesting?*

**A.** Perhaps the most interesting question was about whether economics had become too confident (I think the implication was cocky, but the questioner was more polite than that). There's probably something in this: we like to think that we use formal models to bring clarity, but I can see that this often looks like oversimplification. If you ask an economist about a policy question, they're unlikely to start their answer with the words 'Well, it's very complex...'

**Q.** In your TASA presentation you quoted Gary Becker who is well known for his application of neo-classical economic principles to family life. This approach has been criticised for ignoring the social and cultural processes that frame possible choices, and its insensitivity 'to power relations that transcend and define the rubric of short-term transactions'.<sup>1</sup> What is your response to such criticisms?

**A.** This criticism could be applied to any context in which we use formal models to look at problems. I think of an economic model as being like a road map. It is true that my street directory doesn't show the beautiful trees in my neighbourhood. Worse, it omits the hill that rises at the back of my suburb. But if you're interested in visiting my home, it turns out to be a pretty good guide. Similarly, Becker's work on human capital, crime and the family has produced important predictions that can be confirmed in the data.

**Q.** With the rise of sub disciplines like behavioural economics and information economics, there seems to have been a recent wave of debate overseas regarding the validity of the rational actor model as characterised in neoclassical economics. To what degree has Australian economics accepted these lines of criticism?

**A.** My understanding of most of behavioural economics is that it's seeking to adapt the rational actor model, not throw it out the window. For example, work on hyperbolic discounting argues that we tend to apply a higher discount rate to 'tomorrow' more than we do to future events in general (put simply, you're hyperbolic if you would take \$10 today over \$11 tomorrow, but you'd take \$11 on December 2 rather than \$10 on December 1). But this insight doesn't overturn the view that people seek to maximise their utility; merely that they think about the future differently than our standard models thought.

**Q.** A recent article in *Theory and Society* by Olav Velthuis, described how prices in the New York and Amsterdam contemporary art market were formed. He adopted qualitative in-depth interviews with gallery owners as his main method, and thickly described how key norms around pricing within the art field, were a better explanation for

price formation than was supply and demand. Given the centrality of supply and demand to economics, is this a conclusion that economists would accept? Also how legitimate is the prospect of an entirely qualitative study of economic phenomena for an economist?

**A.** I enjoyed Velthuis's article, which discussed a number of oddities in art pricing. Some of these apply in other markets too, a point that Velthuis overlooks. Just as art dealers are slow to change the prices of paintings, so too restaurants face 'menu costs', so don't adjust the prices of their dishes as often as their costs change. Just as art dealers are reluctant to drop the price of a painting, so too workers will rarely accept a pay cut (unless it occurs by stealth, such as via inflation).

In other contexts, Velthuis' interviewees seemed to be engaging in 'cheap talk'. For example, one claims that similarly sized artworks from the same artist in the same era must have the same price. But if that dealer was selling *Les Demoiselles d'Avignon*, would he really price it the same as another one of Picasso's 1907 paintings?

Reading Velthuis' article, I was reminded of the analogy that Milton Friedman used to draw with expert pool players. In an interview, they might say they played by instinct rather than by using the rules of physics and mathematics. But if you observed such players' actions, those rules are a pretty good guide as to how they'll aim the next shot.

---

<sup>1</sup> R. Friedland and A.F. Robinson (eds) (1990), *Beyond the marketplace. Rethinking economy and society*. Walter de Gruyter, New York p. 23.

## Research Snapshot



*In this issue we feature Dr Jo Barraket whose research examines social enterprise. Jo is Associate Professor of Social Enterprise at the Australian Centre for Philanthropy and Non-profit Studies, Queensland University of Technology.*

### Social enterprise in Australia: conceptual developments and empirical evidence

Over the past fifteen years, there has been growing interest by policy-makers and practitioners in a number of countries in the possibilities of 'social enterprise' to facilitate economic, civic and social participation. Definitional debates about just what constitute social enterprise have played out over this time and remain unresolved. Here, I define social enterprise as organisations that exist to fulfil a public or community benefit and trade to fulfil their mission. Defourny & Nyssens (2006) suggest that social enterprise combines the economic traditions of the cooperative movement with the public or community-focused missions of traditional charities.

The objectives and business models of social enterprise are diverse. They include: charitable trading ventures that earn income to reinvest in the mission of their auspicing non-profit organisation; work integration ventures, which are explicitly concerned with creating employment or pathways to employment for those who are disadvantaged in the labour market; and service models – including collectively owned and mutual businesses – that respond to gaps in service delivery created by government or market failure. In addition, we have recently seen the emergence of social enterprise models that are explicitly concerned with aligning every aspect of their economically productive activity with their mission in order to promote social or environmental innovation. Examples of these newer forms of social business include some community supported agriculture ventures, such as the Australian business, Food Connect. Social enterprise usually takes a non-profit distributing or limited profit-distributing form. However, a growing number of 'profit for purpose' businesses are adopting profit-distributing structures, often to avoid real and perceived regulatory limitations on non-profit trading activity and access to capital.

As a field of action, social enterprise is not new. European Australia has a well-established history

of charitable trading and collective self-help businesses (Lyons 2001). However, the language of social enterprise is relatively new, and signifies new ways of understanding certain configurations of civil society in the contemporary era. Drawing on neo-institutional theory, some writers suggest that recent fervour for social enterprise represents a quest for legitimacy by non-profit organisations in a society dominated by market logic (see Dart 2004; Nicholls 2009).

While I do not dispute that this quest is playing out in some contexts, I would argue that the language of social enterprise also poses significant ruptures to presumed binaries between 'social' and 'economic' action, as well as challenging the boundaries of civil society by contesting traditional demarcations between non-profit and market activity. My research team's recent attempts to define social enterprise in the Australian context have also shed light on the inadequacies of applying to diverse cultures and demographics definitions of public and community derived from the white European traditions of charity law. For example, notions of public benefit that exclude from definitions of charitable purpose benefits that flow principally to family members are very limiting when applied to businesses that are concerned with supporting geographic communities comprising family groupings based on diverse kinship structures. In all of these senses, the language of social enterprise poses new conceptual and empirical challenges and suggests both progressive and conservatising impulses for social action that require wider exploration by sociologists.

While social enterprise activity has a well-established history in Australia (Lyons 2001), it has in the past been largely ignored by policy-makers (Barraket 2008; Lyons & Passey 2006). This now appears to be changing, with social enterprise development supported by a number of local and state governments, and invested in by the Federal Government through the Community Jobs and Innovation Funds established as part of the stimulus response to the 2008 'global financial crisis'<sup>1</sup>. As an object of policy social enterprise in Australia has to date been principally interpellated as a vehicle for employment specifically, and 'social inclusion', more generally. Interestingly, policy support for social enterprise has emerged despite very limited empirical evidence of the scope, scale or impacts of social enterprise in this country.

1. The call for submissions for Round Two of the Community Jobs Fund (a component of the Australian government's economic stimulus package) specifically invited proposals for social enterprises.

In 2009-10, we have been working with an Australian social enterprise development organisation called Social Traders to identify and scope the activities of Australian social enterprise. The *Finding Australia's Social Enterprise Sector (FASES)* project represents a first attempt to conceptualise and map our social enterprise sector. This project forms part of a wider program of applied and scholarly social enterprise research led by Queensland University of Technology with support from the Westpac Foundation, and it reflects Social Traders' commitment to strategic development of the policy environment to support a strong social enterprise sector. The complete findings of the FASES project will be forthcoming in May 2010 (see [www.socialeconomy.net.au](http://www.socialeconomy.net.au)). Here, I provide some preliminary comments on the findings from the study.

There is no known population of social enterprises in Australia, because of the various legal forms they take and the range of industries in which they operate. We used an inductive approach to identify social enterprises, utilising existing databases and a systematic online search. To date, we have identified more than 5,000 organisations that are, or run, social enterprises. However, some of these run multiple ventures. Extrapolating from available evidence from the *Giving Australia* research (see FACS, 2005), we suggest there may be more than 20,000 social enterprise ventures operating in Australia.

Based on an online survey we conducted in late 2009, in which 303 social enterprises participated, it is clear that Australian social enterprises operate in every industry in our economy. The sector appears to be both mature and sustainable, with around 62% of our sample having been in operation for more than ten years. Survey participants include small, medium and large social enterprises, with annual turnover ranging from \$0 (for start-ups) to tens of millions of dollars. They vary in terms of their commercial sustainability but, as a group, are 'multi-resource' organisations, drawing on a mix of earned income, in-kind and voluntary contributions and, to a lesser degree, government and philanthropic grants.

In terms of their trading activity, Australian social enterprises operate in local, regional, state-wide, national and international markets, although they tend to be more predominately located within local and regional markets. Similarly, in terms of the fulfilment of their mission, their geographic focus ranges from local to international, but with a stronger emphasis on local and regional commitments.

The missions and targeted beneficiaries of social enterprises that participated in the survey were

extremely diverse. While acknowledging this diversity, the aggregate picture suggests that Australian social enterprises view themselves as facilitators of social inclusion and social innovation. The primary purpose for operating cited by respondents was 'to provide opportunities for people to participate in their communities', while the second-most frequently cited purpose was 'to develop new solutions to social, environmental, cultural or economic problems'. While the creation of employment opportunities for people from different social groups and locales attracted a significant response, it is notable in relation to current public policy agendas that this was not the dominant mission reported by our respondents.

The first wave of the FASES project constitutes an initial attempt to document the features of the social enterprise sector in Australia. We hope that future waves will include developing our understanding of those social enterprises operating within the diverse economy that are not easily captured through the online search and survey process. While large-scale surveying tells us something of what social enterprises do, it tells us little about how they do it and what their impacts relative their missions are. Additional longitudinal and qualitative research will allow us to better understand the impacts of a diverse range of social enterprises and the conditions under which they occur.

To date, the social economy has been largely overlooked by sociology. The emergence of new forms and discourses of social enterprise test traditional conceptual and empirical boundaries between states, markets and civil society, as do emergent ideas of 'social innovation' and 'social entrepreneurship'. These concepts provide fertile ground for advancing theoretical understandings of social action in a network society. They also produce imperatives to empirically examine the practical legitimacy of emergent forms where they become part of new policy prescriptions for social and environmental wellbeing.

## References

- Barraket, J., 2008. Social enterprise and governance: Implications for the Australian third sector, in J. Barraket (ed) *Strategic Issues for the Not-for-Profit Sector*, Sydney: UNSW Press, 126-142.
- Dart, R., 2004. The legitimacy of social enterprise. *Nonprofit Management and Leadership*, 14(4), 411-424.
- Defourny, J. & Nyssens, M., 2006. Defining social enterprise. In *Social Enterprise*, Routledge, 3-26.
- FACS (Department of Families and Community Services) 2005, *Giving Australia: Research on Philanthropy in Australia*, Summary of findings, Canberra

Lyons, M., 2001. *Third sector: the contribution of nonprofit and cooperative enterprise in Australia*, St Leonards, N.S.W.: Allen & Unwin.

Lyons, M. & Passey, A., 2006. Need Public Policy Ignore the Third Sector? Government Policy in Australia and the United Kingdom. *Australian Journal of Public Administration*, 65(3), 90-102.

Nicholls, A., 2009 'We do good things, don't we?': Blended Value Accounting' in social entrepreneurship. *Accounting, Organizations and Society*, 34(6-7), 755-769.

Note: Part of this article is based on research funded by Social Traders and Queensland University of Technology.

Thanks to May Lam for her feedback on the draft. The ideas expressed are the author's own.

## Teaching economy and society

*Economic sociology is still a small field in Australia. In this column Ben Spies-Butcher, who teaches 'Economy and Society' at Macquarie University about his experience of developing an 'economy and society' unit, and his approach to teaching subjects that draw on economic sociology.*



### Economy and Society at Macquarie University

After a couple of years at Macquarie, I can see a program around economic sociology developing. It reflects a commitment to pluralism, both within and beyond sociology, and a philosophy within the department that seeks to extend the conversation in new directions.

There were always elements of economic sociology at Macquarie, but in the last few years there has been a more explicit attempt to formalise this. In 2007/08 two new appointments were made in the area, including a position in 'Economy and Society', which I took up in early 2008.

The focus on economic sociology is growing in both our undergraduate and postgraduate programs, through a Masters in Policy and Applied Social Research, and a more limited postgraduate program offered through Open University Australia. The core units are an introductory course in Economy and Society, second year units in Work and Employment and Social Policy and third year courses in Care and Human Services as well as one entitled the New Spirit of Capitalism.

Reflecting the history of the department there is an emphasis on policy, particularly within the welfare state, although this is increasingly being supplemented by a broader theoretical approach. The Masters program is somewhat more applied and targeted to those either currently working in, or looking to work in, social research and policy roles.

My background is in both political economy and economic sociology, having studied at Sydney University's Political Economy (PE) Department. And the Economy and Society unit is an attempt to integrate some of the developments in both disciplines. Sociologists benefit from an understanding of economic processes, and a sociological understanding certainly aides a political economy analysis.

Discussions with both colleagues at Macquarie and at Sydney University's PE department led to broader questions about the way these two disciplines relate to each other. This is something I am currently taking up with two colleagues at Sydney, Damien Cahill and Joy Paton.

A number of us across both Macquarie and Sydney PE Department are interested in what we see as a subtle disconnect. Economic sociology we believe has more clearly engaged in recent developments within orthodox economics – such as game theory, bounded rationality and institutional analysis – as well as taking more seriously some of the social theoretic concerns of the Weberian tradition and developments in post-structural analysis. However, the mainstream of the discipline, represented by scholars like Mark Granovetter and Richard Swedberg, tends not to focus as much attention on some of the more interesting work in the Marxist tradition.

Alternatively, much of political economy remains hostile to the rational choice tradition, and so tends to ignore what are significant developments, as well as marginalizing other more traditionally sociological concerns. However, political economy has developed a number of new and interesting intellectual tools coming out of the regulationist school and debates over financialisation, both with obvious applications to understanding the welfare state, inequality and employment. The focus on accumulation also adds, we felt, an important element to the analysis of capitalist economies.

Of course, this is not universal. Post-Keynesian and institutional political economy has a particularly interesting engagement with sociology. The centrality of risk and uncertainty in post-Keynesian political economy is reflected in sociological work on risk, exemplified in analysis like that of Jocelyn Pixley – a new and very

welcome (part-time) addition to the Macquarie Department.

Within both traditions there had been a growing pluralism. The successful development of the Society of Heterodox Economists, based out of the University of New South Wales, with its embrace of both Marxist and post-Keynesian strands is one sign of this. Likewise the blurring boundaries between economics, sociology, law and political science, all incorporating aspects of the rational choice tradition but also open to serious and enlightening critiques of rational choice approaches, shows a similar trend.

We were keen to find resources that would expose students to both the circuit of capital, crisis and supply and demand curves as well as to rationalisation, bounded rationality models and the different perspectives on institutions, laws and norms. The current attempt in the Economy and Society course is still very much a work in progress. We do explore Marx's analysis of production, as well as Weber's understanding of market society. We look at different (class, gender, spatial, institutional) perspectives on inequality, as well as debates reflecting Granovetter's work on economic action and social structure – and more recent work on risk related to finance, climate and social insurance.

However, the three of us – Damien, Joy and I – have also begun work on a text with Cambridge University Press that seeks to better integrate some of the developments from these different traditions in a way that is accessible to undergraduate students. We hope this book, *Embedded Capitalism: Market Society in Theory and Practice*, will be available next year.

The interdisciplinary approach is also reflected more broadly in the program. A strength of the Department is both its collegiality and its diversity. We have academics trained in anthropology, gender studies, sociology, urban planning, cultural studies, political economy and political philosophy. And we work together on our courses, team teaching or giving regular guest lecturers across the program, to ensure students have access to different perspectives on similar concerns.

It remains early days. The department is still in a renewal phase with a number of recently appointed and younger academics – like me. But it does feel like a department – with some common cause and an excitement about teaching sociology, both in its economic and other varieties. Hopefully that will remain, while the program develops further.

## Everyday exchanges

In this section we present two pieces. The first is a paper that was presented by Dr Grazyna Zajdow at the TASA conference in Canberra in December. Given the interest in 'alcohol-fuelled' violence, her paper provides some useful historical analysis of the shift from social to economic frameworks in alcohol regulation in Victoria. The second piece is by Dr Zuleika Arashiro, research and policy manager, financial inclusion, at the Brotherhood of St Laurence. Zuleika builds on Professor Supriya Singh's work to consider the impact of the global financial crisis on migrant remittances.

### Producing the market for alcohol: the Victorian example

*Grazyna Zajdow has generously allowed us to reprint her paper which she presented at last year's TASA conference. Grazyna is a senior lecturer in the School of History, Heritage and Society Deakin University.*

Email: [grazyna.zajdow@deakin.edu.au](mailto:grazyna.zajdow@deakin.edu.au)

### Abstract

This paper explores the way that the state of Victoria in the late 20th century, in common with other advanced liberal regimes, produced the space for a free market in alcohol to use Nikolas Rose's term. This was in a country which had traditionally regulated alcohol production, distribution and retail sales for the health and welfare of the society as a whole.

From the mid 1960s a series of Royal Commissions and inquiries recommended the progressive dismantling of regulations related to the availability of alcohol in the state. This culminated in the 1985 Nieuwenhuysen Inquiry into alcohol regulation which was given the specific mandate to produce the conditions for what has been termed the Night Time Economy. This paper will trace some of the historical, cultural and economic changes which have happened and how these changes can be understood as an example of providing the space for a market in alcohol.

### Introduction: Producing the Night Time Economy

Around the world cities have been transforming themselves from dormant and remnant leftovers of the 19th century industrial revolution to the invigorated post-industrial cities of the 21st century<sup>1</sup>. In Britain, cities like Manchester, in the

US Baltimore, and in Australia Melbourne, Geelong and Newcastle, have been reborn by what is termed the Night Time Economy (NTE) [Hobbs et al, 2003; Hadfield, 2006].

The NTE came about as a result of the state combining with private industry to create an area where (mostly young) people can drink, gamble and dance most of the day and night. With the NTE there has been a retreat by the state from a close regulation of the sale and distribution of alcohol, and city centres have been turned over to private security coupled with extensive CCTV and other electronic surveillance.

Hadfield (2006, p. 45) outlines how it was planned that the NTE would become the 'driver of this civic renewal, streets brought to life by large numbers of visitors, or – more accurately-consumers'. The consumer is central to this, and this emphasis on the consumer undermines all efforts at public health and welfare attempts to come to grips with substances like alcohol and their detrimental effects, since within the neoliberal free-market society, all citizens are by definition consumers, 'obliged to be free' as Rose (1999: 100) notes, and forced to make individual choices, unburdened by state rules and regulations. In the NTE risk is individualised, presented as a series of mathematical calculations within limited parameters. These are decisions in which individuals must weigh up the (known) benefits and risks of any particular behaviour.

Individuals are considered rational, mature and able enough to carry through the education they have been given. Added to this individual interest, is the interest of business, and the NTE produces strong pressures in favour of business over the 'rational' citizen who may disagree with the conditions produced, or indeed the 'irrational' consumer and their health and welfare (Hobbs et al. 2003).

So-called 'binge-drinking' among young people has been the focus of public debates in the recent past, and politicians, industry spokespersons and academics have all become involved. Excessive drinking by young people has been a fear among middle-class people in Europe since at least the 18th century (Roberts 2004), but it has been a particular focus of the early 21st century. Much academic work has charted the 'moral panics' around young people since the 1950s (Cohen 2002), but the late 20th century saw the fear of young people and alcohol recede in the face of the terror of illicit drugs (Zajdow 2008). However, with the growth of the NTE in cities around the English-speaking world, and the determination of advanced liberal states to lower alcohol taxes and allow twenty-four hour alcohol consumption, the

fear of young people and their consumption of alcohol has rebounded. This can be seen in media coverage of the violence and mayhem in some parts of cities like Melbourne and Newcastle (Rood 2007; Houston 2008; Moore 2008).

The NTE exists as part of the alcohol marketplace which has seen the global price of alcohol drop substantially, greater availability of on- and off-licensed premises and the treatment of alcohol as just another commodity, to be scrutinised perhaps a little, but not much more, than most other consumer goods. In Australia this has happened through the enforcement of the National Competition Policy (NCP) and the deregulation of many licensing provisions by state governments. This paper looks at one part of this process through the 1985 Victorian licensing inquiry by Nieuwenhuysen, as well as some of the others like the NCP.

### The Nieuwenhuysen Report, 1985

The Nieuwenhuysen report on liquor licensing in Victoria in 1985, which led to a dramatic change in the liquor licensing regime in 1986 had some very specific outcomes to pursue. The terms of review were

'To Inquire into, review and report' on the 1968 act.

(a) have particular regard to:

(i) The interests of liquor consumers;

(ii) The interests of both existing and potential employers and employees

in the liquor and hospitality industries;

(iii) Community attitudes towards the degree of restriction which should

be placed upon the sale, distribution and consumption of liquor; and

(iv) The significance of the hospitality and liquor industries in the

development of the tourism industries in

Victoria. (Nieuwenhuysen, Vol. 1, p. xxv)

While Nieuwenhuysen did not set the terms and the language they were couched in (these were obviously set by the government of the day), the language itself has already taken on an economic dialect. The use of the term 'consumers', the setting out of the interests of employers and employees, and the importance of the tourism industry all point to the neoliberal bent of the state government at the time (even a Labor one, as it was). In the advanced liberal regime, the citizen becomes the consumer, and the role of the state is to get out of the way, as much as possible, of the market and the consumer. Rose argues that the state, under conditions of advanced liberalism,

does not just aid the existing market to operate as freely as possible, it functions to organize 'all features of one's national policy to enable a market to exist, and to provide what it needs to function' (Rose 1999: 141). Advanced liberalism forces government to revise the 'image of economic space and the means by which it can be acted upon' (Rose 1999: 144). The report and its consequences illustrates how this was done in Victoria.

What the report sought to do was to provide the conditions to produce NTE, that is, to produce the licensing conditions which would allow the creation of 'entertainment precincts' that would draw in people from outside the areas for drinking and gambling. Nieuwenhuysen was directed to produce the regulatory situation that would enhance the NTE in Victorian cities. What he was not asked to do was to inquire too deeply into the social and health consequences of differing alcohol licensing regimes, nor to consider non-economic knowledge in making his final recommendations.

Nieuwenhuysen did not do any independent research into the known social and health consequences of alcohol, instead relying on what Davies, in particular had found. By specifying his goals in this way, the report shines light on the way that advanced liberal societies now consider the differing social and economic goals of a society to be oppositional or antagonistic (Rose 1999). It also illustrates the way that 'evidence' is contested and social policy is subverted by reference to the primacy of the economy and the various stakeholders.

It is worth looking at the two previous reports and their principal terms of reference.

The 1965 Phillips Royal Commission was required to:

inquire into, report upon, and make recommendations...with respect to the sale, supply, disposal or consumption of liquor, and in particular...the following matters, namely:-

1-social consequences-

(a) To what extent is the consumption of liquor a significant factor in causing

(i) accidents (both road and industrial);

(ii) crime;

(iii) divorce and broken homes;

(iv) child delinquency and neglect

(v) ill health

(b) What is the incidence of alcoholism (habitual excessive consumption of liquor) in Victoria and what relationship, if any, exists between alcoholism and the sale, supply, disposal, or consumption of liquor? (Phillips, Report of the Royal Commission, 1964-5, p. 3)

The Royal Commission was then required to look at aspects of the hours and conditions, accommodation, economics, permits, entertainment on Licensed Premises, special areas, and administration of the Licensing Act.

In 1977, a review of the Liquor Control Act, 1968 by the QC J. D. Davies was asked to report upon and make recommendations with regard to the Act. The main terms were:

1. the present day interests, requirements and needs of the public generally in respect of the sale, supply, disposal and consumption of liquor;
2. the present day interests of those sections of the community engaged in the sake, supply and disposal of liquor; and
3. the experience of all concerned parties in the control of the sale, supply, disposal and consumption of liquor in accordance with the objectives and provisions of the Liquor Control Act 1968 (Davies, 1977, p. 1).

The primary aims of the various inquiries was transformed from a principal interest in the social consequences of the supply and disposal of alcohol, to the interests of the public generally in this, to the interest of consumers and then the employers and employees in the industry. By the time of Nieuwenhuysen in 1985, economic requirements and the requirements of the market were becoming increasingly important, and he needed to produce the space for the market in alcohol, rather than principally inquire into the social problems related to alcohol and how best to deal with them.

Nieuwenhuysen stated a number of times through the report that the licensing system in Victoria was too complex to administer and produced financial burdens on the industry, thus undermining profitability. The future of the industry, according to Nieuwenhuysen was to create a 'European-style' drinking culture, far from the spectre of prohibition. That prohibition had never existed in Victoria was not relevant to his narrative. However, the report must be seen in a historical view.

Since WW1 and until 1965, on-premises drinking was dominated by the hotels and what was termed the 6 o'clock swill. All hotels were compelled to shut by 6pm, and this produced particular problems with drunkenness as can be imagined. In

1965, a Royal Commission led by Justice Phillips recommended the relaxation of closing times to 10pm, although there was no wholesale movement away from hotels as the prime sites of public drinking. Off license premises were also limited in their hours of business. The review of the 1968 legislation by Davies (1977) basically endorsed the direction taken by Phillips with some marginal changes in licensing regulation. An interesting result of Phillips was the growth of what were termed BYO restaurants, that is, restaurants that were not allowed to sell alcohol, but which allowed patrons to bring their own bottles of wine to be consumed with dinner. Hotels were still required to provide accommodation and bottle shops attached to hotels were the main providers of take-away alcohol sales. There was also a limit placed on individual off-license holders of 8% of the market, that is, no individual license holder could own more than 8% of the market.

By 1985, the Victoria state government directed the economist John Nieuwenhuysen to inquire into the licensing system with the view to opening up the market in any way possible and produce the conditions for the NTE. He did this most effectively, directing the state to 'govern at a distance', giving control of liquor licenses to a licensing commissioner based in government department, rather than have a statutory independent position, and slashing the number of license types from over twenty to eleven (even though he would have liked even fewer license types). The number of on license premises grew from 4,000 in 1985, to over 19,000 in 2008 (Houston, Johnson and Austin 2008). Valverde points out that governing at a distance via licensing rather than direct government control 'is an assumption so thoroughly naturalized in contemporary common-law regulatory practice as to be completely invisible' (Valverde 2003: 237). This is apparent in the unstated assumptions in all the reports, but particularly Nieuwenhuysen. Nieuwenhuysen was at pains to point out that ideology had been banished from his vocabulary. He wrote:

The report is not based on deference to some arbitrary doctrine, such as *laissez faire*. It does, however, assert that State intervention in a market needs to be justified by a logically related object. It also contends that the liquor Controls Act's countering of market forces is not logically related to a policy of reducing alcohol abuse in Victoria (Nieuwenhuysen, 1985, Main themes p. 3).

This theme was reiterated by an economic consultant to the inquiry who wrote:

In my view, the liquor industry is substantially overregulated particularly with respect to supply conditions. Yet there are I believe compelling reasons why some form of regulation of these liquor industry activities will continue to be necessary. This issue concerns the best form of these regulations' (Lloyd, 1985, p. 16).

This concern with regulation is tempered by a number of codicils for Lloyd (as for Nieuwenhuysen). These include the belief that excessive drinking is the problem and that only a small proportion of drinkers do indeed drink excessively (a view shared by many others), and that the costs of excessive drinking are generally borne by the drinker themselves or by others close to them, rather than there being wider social harms. What was important for alcohol policy was to identify the drinkers and where the harm was, rather than imposing costs upon all drinkers via alcohol taxes and limited availability. Nieuwenhuysen and Lloyd both cast these as practical problems, rather than the epistemological problems that they really are. In particular Nieuwenhuysen does not accept the evidence produced by epidemiologists that show it is the average level of consumption across a whole population that indicates the likelihood of problems. The conflict between public health and welfare and market demands is highlighted in the 1985 report. The 1977 report by Davies did accept this the link between average consumption and the likelihood of problems, and thus

Davies was reluctant to open up the market with just minimal restraint. The single distribution argument (or the Ledermann hypothesis) was not, as it still is not, universally accepted and because of this debate, Nieuwenhuysen dismissed its relevance. The most complete studies at the time (Moore and Gerstein 1981; Bruun et al. 1975) did however subscribe to the thesis and concluded that the single distribution was probably correct. 'Our assessment of the distribution literature does suggest that overall trends in price and availability are likely to affect the entire distribution of consumption; there is no evidence that a large fraction of drinkers is entirely immune to such forces' (Moore and Gerstein 1981: 66)3.

Another example of the economic assumption underlying Nieuwenhuysen and the job he was given to do was what was called the 8% rule. Until the law was changed in 2006 as a result of pressure from within the state and the National Competition Council, no individual owner could hold more than an 8% share of the liquor licences for take-away alcohol. When the anti-monopoly provisions were finally lifted, both Coles and Woolworths (the grocery duopoly which was

carving up the take-away market between them but were thwarted by the 8% rule) were in breach of this requirement. By the end of 2005, it was estimated that these two players held \$60m worth of liquor licences in Victoria (Jones 2005). Because of their size and clout, the supermarkets could sell alcohol at far cheaper prices than small retailers.

These are the efficiencies called for by Nieuwenhuysen that produced Australia's very cheap alcohol. By 2005, Australia was in the top third of countries in the price of alcohol, that is, the lowest real price of alcohol, and like many other countries, economic pressures were pushing the price down even further (Marsden Jacobs Associates 2005). Thus what Nieuwenhuysen helped produce were the conditions for the Night Time Economy.

## Conclusion

The report by Nieuwenhuysen displays some fundamental shifts in the way the state viewed alcohol and its place in the economic market and reinvention of Melbourne as a night-time city. While it was evident in the shifting terms of reference of the three inquiries from 1965 onwards that there was to be a freer market in alcohol in Victoria, it was not until 1985 that the citizen as consumer was given the front seat and there was an explicit demand that the inquiry produce the conditions necessary for the development of the NTE. Alcohol became a commodity like any other to be regulated only in terms of the very limited harms it might produce for the individual citizen-consumer. His enquiry's terms of reference, as well as his final recommendations (which have not been outlined in this paper), reflected the growing dominance of neoliberal ideas in the market and enabled narrowly defined economic interests to flourish through the establishment of the conditions for the NTE.

## Notes:

1 It will be interesting to see how cities like London and Dublin finish up after the GFC.

2 Currently the Liquor Licensing Commissioner is based in the Department of Consumer Affairs. The minister responsible currently oversees legislation that includes the Prostitution Control Act, Landlords and Tenants Act, Consumer Credit Act, as well as the Liquor Control Reform Act 1998.

3 This debate is still ongoing, although most literature does support it (see Stockwell, Zhao & Thomas, 2009).

4 A consultant's report to the National Competition Council reiterated the findings of the scientific literature

that 'a high alcohol price is one of the single most effective methods of reducing alcohol consumption and harms' (Marsden Jacobs Associates, 2005, p. 6) but this did not seem to make an impact on NCC decisions related to the regulation of the market for social rather than economic reasons.

## References

- Bruun, K; Edwards, G; Lumio, M. et al, (1975) *Alcohol Control Policies in Public Health Perspective*, Helsinki: Finnish Foundation for Alcohol Studies.
- Cohen, S. (2002) *Fold Devils and Moral Panics: The creation of Mods and Rockers*, London: Routledge. 3rd Ed.
- Davies, J. D. (1977) *Report of the Board of Inquiry into the Operation of the Liquor Control Act 1968*, Melbourne: Parliament of Victoria.
- Hadfield, P. (2006) *Bar Wars: Contesting the Night in Contemporary British Cities*, Oxford: Oxford University Press.
- Hobbs, D; Hadfield, P; Lister, S. & Winlow, S., (2003) *Bouncers: Violence and Governance in the Night-time Economy*, Oxford: Oxford University Press.
- Houston, C. (2008) 'Brumby Warned of Lock Out Risk', *The Age*, July 22, p. 7.
- Houston, C. Johnston, C. & Austin, P. (2008) 'This is Melbourne at Night', *The Age*, February 23, p. 1.
- Jones, E. (2005) 'Liquor Retailing and the Woolworths/Coles Juggernaut', *Journal of Australian Political Economy*, 55, pp. 23-47.
- Lloyd, P. J. (1985) 'The Economics of Regulation of Alcohol Distribution and Consumption in Victoria', *The Australian Economic Review*, 69, pp. 16-29.
- Marsden Jacob Associates, (2005) *Identifying a Framework for Regulation in Packaged Liquor Retailing*, Report prepared for the National Competition Council as part of the NCC Occasional Series, Melbourne.
- Moore, M. H. & Gerstein, D. R. (1981) *Alcohol and Public Policy: Beyond the shadow of Prohibition*, Washington D. C: National Academy Press.
- Nieuwenhuysen, J. (1986) *Review of the Liquor Control Act, 1968*: Report, Melbourne: Government Printer.
- Phillips, P. D. (1964) *Report of the Royal Commission into the Sale, Supply, Disposal or Consumption of Liquor in the State of Victoria*, Melbourne: Parliament of Victoria.
- Roberts, B. (2004) 'Drinking Like a Man: The Paradox of Excessive Drinking For Seventeenth-Century Dutch Youths', *Journal of Family History*, 29, 3, pp. 237-252.
- Rood, D. (2007) 'Tough Laws Aim at CBD Violence' *The Age*, August 31, p. 5.
- Rose, N. (1999) *Powers of Freedom: Reframing Political Thought*, Cambridge: Cambridge University Press.
- Stockwell, T; Zhao, J. & Thomas, G. (2009) 'Should Alcohol Policies Aim to Reduce Total Alcohol Consumption?: New analyses of Canadian drinking patterns', *Addiction Research and Theory*, 17, 2, pp. 135-151.
- Valverde, M. (2003) 'Police Science, British Style: pub licensing and knowledges of urban disorder', *Economy and Society*, 32, 2, pp. 234-252.
- Zajdow, G. (2008) 'Moral Panics: The old and the new', *Deviant Behavior*, 29, 7, 640-664.

## Cross-border Lives and Economic Fluctuations



*Dr Zuleika Arashiro has a PhD in politics and international relations from La Trobe University. Her research concentrates on asymmetries in the international system and development perspectives. She is currently Research and*

*Policy Manager for Financial Inclusion at the Brotherhood of St Laurence.*

Contact: [zarashiro@bsl.org.au](mailto:zarashiro@bsl.org.au)

In the wake of the Global Financial Crisis (GFC), predictions of a fall in international migration and migrants' remittances flows were common. With the peak of the crisis left behind, we can now see how its relationship with migration has evolved. With regard to the international migration flow, the GFC has not been capable of determining a massive change. Despite the fact that Migrants tend to be disadvantaged in relation to nationals due to the combination of job insecurity, unemployment and poor access to social safety nets; despite this a drastic movement of migrants back home has not materialised (Fix et al. 2009). This should not be a surprise. Migrants' initial push to leave home may be financial, but the decision to move overseas involves a complex set of considerations which takes into account phases of hard working conditions and the promise of long-term advantage. For many migrants, the decision is also influenced by a careful assessment of the implications to the wellbeing of the family members left behind, highlighting the importance of understanding transnational economic and social networks when examining the micro-level impact of the GFC.

It is also worth remembering that trends in international migration are not purely determined by individual choice, but are heavily shaped by developed countries. In April 2009, Japan introduced its paid repatriation program to guest workers from Latin America (Fix et al. 2009). Through the program, those workers are offered financial support sufficient to cover travel expenses back home but under the cost of having their work permits temporarily suspended. Spain has also offered Latin American migrants financial incentives to leave the country (Groundview 2009). In the UK, non-permanent residents are facing new restrictions of access to health and social services, and in Australia stricter measures adopted over the last months aim to accommodate the country's economic need for skilled migrants

(Koser 2009) with domestic political and social challenges. While these changes will not necessarily lead to a long-term stalling of the intake of migrants, in the short-term they function as an additional stress factor to migrants, eroding their living conditions in host societies.

### Juggling cross-border budget

The GFC implication for international remittances has varied for different countries, but the global trend was downward. While the World Bank estimated a decline of 6.1 per cent in the global level of remittances to developing countries in 2009 (Ratha 2009), regional data for Latin America and the Caribbean shows an average fall in remittances of approximately 11 per cent in 2009 (Orozco 2009). Mexico, with its heavy dependence on the US market, experienced a remittance decline of 16 per cent. Due to the contribution of international remittances for poverty reduction and household finance in many developing countries, it is not hard to imagine that fluctuations in remittances will directly impact on the livelihood of both migrants and their families overseas.

More than a financial transaction, the remittances phenomenon is embedded in transnational cultural and social networks (Singh 2009). Recent studies conducted by the United Nations International Research and Training Institute for the Advancement of Women (UN-INSTRAW) provide rich insight into the complex transnational relations that are formed around remittances. They show that the feminisation of migration, with more women migrating "independently" rather than the historical pattern of "family dependant" (UN-INSTRAW 2007), has posed new challenges to examining the interconnectivity between financial and social issues at a transnational level. There is indication, for instance, that migrant women tend to send back a higher portion of their income than men, and that remittance persists even in the advent of economic adversity (Roberts and López 2008). In order to keep sending money to their families overseas within constrained budgets, migrants sometimes contract loans and endure stricter financial conditions in their host country. For the ones who stayed in the home country, livelihood may be fundamentally dependent on the foreign money. The UN-INSTRAW case studies point out recipients often use the money to cover essential expenditures such as utility bills, rent, food, and children's education, and the assistance from the migrant member can be especially important for vulnerable groups, such as the elderly and children (UN-INSTRAW and UNDP 2010).

## Where can research go?

As in the past, political tensions around international migration and the social anxiety it produces, place international human movements at the centre of struggles between economic, social and political forces.

While migration has occurred for centuries, over the last three decades, transnational financial and social networks have gained a new strength in the context of liberalisation of economies, demographic changes in developed countries, technological development and persistent economic disparity between North and South. Innovative inter-disciplinary approaches are urgently needed for a more integrated understanding of the implications of economic downturns to those now living cross-border lives.

Beyond the development finance perspective, studies on the dynamics of these networks can help us understand how global economic relations are entwined with the social fabric, both within and across countries. It is often estimated that the economic sustainability of most developed countries will largely depend on the labour of new inflow of migrants in the coming decades. If that is the case, the more we learn about migrants beyond their economic value, the better placed we will be to facilitate their social participation, rather than reproducing the 'guest-host' exclusionary construct.

## References

- Fix, M, Papademetriou, D., Batalova, J., Terrazas, A., Lin S., and Mittelstadt, M. 2009. *Migration and the Global Recession*. A Report commissioned by the BBC World Service. Migration Policy Institute, September: [www.migrationpolicy.org](http://www.migrationpolicy.org)
- Groundview. 'Global financial crisis and reverse migration.' Groundview bi-monthly journal, 2 December 2009: <http://groundview.wordpress.com/>
- Orozco, M. 2009. *Understanding the continuing effect of the economic crisis on remittances to Latin America and the Caribbean*. Washington, DC: Inter-American Development Bank and MIF-Fomin.
- Koser, K. 2009. 'The Global Financial Crisis and International Migration: Policy Implications for Australia.' Lowy Institute for International Policy, July: [www.lowyinstitute.org](http://www.lowyinstitute.org)
- Robert, E., and López, D. 2008. 'Mujeres migrantes en el nuevo orden internacional. Como las mujeres se ven especialmente afectadas por la crisis?,' Paper presented at the "Tercer Encuentro sobre Remesas y Desarrollo: Crisis económica mundial y su impacto en el envío de remesas," 28 November, Santo Domingo, Dominican Republic: <http://www.un->

[instraw.org/en/publications/lectures/mujeres-migrantes-en-el-nuevo-orden-internacional/download.html](http://instraw.org/en/publications/lectures/mujeres-migrantes-en-el-nuevo-orden-internacional/download.html)

UN-INSTRAW. 2007. 'Feminization of Migration 2007,' Gender, Remittances and Development *Working Paper 1*, <http://www.un-instraw.org/en/downloads/gender-remittances-and-development/working-paper-1-feminization-of-migration/view.html>

UN-INSTRAW and UNDP. 2010. 'Migration, Remittances and Gender-Responsive Local Development.' Individual case studies; Senegal, Philippines, Lesotho, Albania, and Dominican Republic: <http://www.un-instraw.org/en/publications/final-reports/index.php>.

Ratha, D. 2009. 'Migration and Remittance Trends 2009: A better-than-expected outcome so far, but significant risks ahead.' Posted on 'People Move. A blog about migration, remittances, and development,' 11 March. <https://blogs.worldbank.org/peoplemove/migration-and-remittance-trends-2009-a-better-than-expected-outcome-so-far-but-significant-risks>

Singh, S. 2009. 'Research Snapshot.' *Exchange* 3, 4-5.

---

## Books

In this issue of exchange, we feature an extract from *The 86 Biggest Lies on Wall Street* by John R. Talbott, former Goldman Sachs investment banker and UCLA business management scholar. Talbott compellingly un.masks how the Wall Street economy works, by offering what he sees as 86 fallacies that have traditionally guided the dominant market logic. For this extract, Lee chose two lies: #7 and #81.

## Lie #7: Free-market capitalism works best with no regulation and no interference from government.

It has been drummed into us for the last thirty years, since Ronald Reagan took office, that capitalism and the free markets work best when they are completely unregulated. Free-market economists have viewed regulation as nothing more than interference in the operation of a perfectly unregulated free market. They view markets as some sort of divine entities that reach a magical equilibrium that benefits all, and they see any interference, especially from government, as distorting this harmonious picture.

True students of economics will understand that there can be no free markets without regulation. If you look at the countries of the world, those that are doing the best not only have a capitalist economy, but a strong rule of law and typically a democratic government. It is not just that free people admire democracy and free markets, it is that free markets are not sustainable without the

rule of law. Laws, regulations, and rules are exactly what capitalism needs to survive. You could not have a market-based economy without a rule protecting property rights. Contracts need to be enforced. Fraudulent commercial activity needs to be prevented. These are all government functions that private business cannot perform on its own.

So it makes no sense to talk about a completely unregulated free market. It is an oxymoron. It is internally inconsistent and illogical. You cannot have a free marketplace without regulation. Of course, some countries of the world, like Peru and India, have too much regulation. If regulation creates so many bureaucratic steps and fees that entrepreneurs are prevented from starting new businesses, then regulation can be deemed excessive and can hinder economic growth.

That is the opposite of what we currently have in the United States today. We have a free enterprise system that not only is unregulated, but one in which industry is writing its own regulations by controlling congressmen in Washington through its campaign donations and lobbying.

When the cigarette companies were forced under new regulation to limit the advertising and promotion of their deadly product, Philip Morris's own law firm ended up writing the legislation for Congress. Hedge funds on Wall Street are the largest contributors to Congress and today still remain unregulated and non-reporting. In 1999, banks paid Congress to repeal Glass-Steagall. In 2001, Congress was paid to not impose any regulations on derivatives. In 2004, commercial banks, another major contributor to Congress, were allowed to increase their financial leverage from ten times to over forty times their equity base.

We used to argue that what was good for GM was good for America. In the brave new world of globalization this is no longer true. GM sells automobiles to Americans, but it hires Mexicans and Indonesians to build them. Since the wages paid to workers by corporations is the single largest expense item on their income statements, big companies are not interested in figuring out how to improve the quality of life of average Americans. Rather, they want to figure out how to eliminate the minimum wage law, how to reduce the power of unions, and how to lower wages and benefits for the average American—all necessary for boosting profits if the company is not innovating and growing.

## **Lie #81: Government regulation is bad for economic growth and prosperity.**

Another supposed truism in economics is that excessive government regulation is bad for a country's economic growth and prosperity. Imagine my surprise when the statistics work for a paper that Dick Roll and I wrote in 2002 showed that greater government expenditures in a country was correlated with greater country wealth—just the opposite of what traditional economics would have expected to find.

What the results of the study indicated was that bigger, more successful, wealthier and more developed countries typically had bigger governments as a percentage of GDP. Correlations such as this say nothing about the proper causality direction. It very well could be that more developed, richer countries grow for other reasons and then make a conscious decision to make their governments bigger. You could argue that this might be what happened in Europe, or even in the United States until recently. Capitalist and democratic institutions, including a strong rule of law and set of regulations, allowed these developed countries to grow rapidly and become wealthy. Once they had achieved substantial wealth, they then began to ask questions about how their less advantaged citizens were living. Many came to the conclusion that it was proper to increase the size of government to allow transfer payments from the well-off to the needy, the sick, the disabled and the elderly. Under this explanation, countries grow rich first and then decide to build big governments.

But the causality could just as well go the other direction. Maybe larger governments were helpful in building a successful economy. Until very recently, this statement would be taken as blasphemy at almost every major business school in the country. Almost every business school today teaches that government is the enemy of business and that government, with its unnecessary regulations, inhibits growth and prosperity.

But new academic work in the field of democratic and capitalist institutions demonstrates that government regulation and rule-making is a necessary component of any successful capitalist economic system. The free market and capitalism are based on rule-making. You cannot have a properly functioning free market without rules.

Libertarians, led by Milton Friedman, have gone so far as to suggest that the only proper role of government is national defense. Such a statement indicates to me that Friedman did not completely understand the foundations of the free market

system he so revered, or maybe he had just learned to take them for granted. Certainly a Congress to enact laws that the people find necessary and reasonable and a court system to enforce those laws are essential ingredients in building a free market.

I believe that in his heart, Milton Friedman wrestled with the notion of whether democratically elected government should control the market and write regulations for it, or whether the free market should operate outside of government controls and mandates. His belief that governments often do wrong, even when they have good intentions, coupled with the fact that he didn't want anyone to interfere with what he saw as the beauty in the equilibrium of the free market, I think led him to mistakenly believe that free markets should operate outside of the purview of government regulation.

This is the mistake we have made for the last thirty years. We have allowed our financial markets and our commercial market place to become completely unregulated. We have assumed that the companies themselves would police their activities for fear of losing their good reputations—not realizing, of course, that hedge funds had no reputation to speak of, and could close up shop in a heartbeat if anything went wrong with their highly leveraged investments.

It will not be easy to fix this mistake. As we said, it extends not only from New York to Washington, DC, but to every Main Street in America. If you reinstitute regulation of commercial enterprise in America, you will be sad to find that much of our previous success is illusory. One of the reasons why our government has been slow to reregulate the financial industry is because the de-leveraging that will be involved, as well as the marking of assets to their true value, will cause many companies across the globe to become insolvent. There is no easy way out of this mess. There is going to be great pain involved. I can only hope that we take our medicine sooner rather than later and that we address the critical, fundamental problems in our capital markets and in our economy. Because of the enormous debts we face as a nation and the trillion-dollar-plus operating deficits we are running each year, we do not have unlimited time to fix these problems. It is critical that we make the correct decisions.

<http://www.scribepublications.com.au/book/the86bi-ggestliesonwallstreet>

RRP: \$27.95 Publisher: Scribe

---

## Conferences

The call for papers for the TASA conference is now open. Refereed papers are due on Friday 30 July 2010; general, work in progress and poster submissions are due on Monday 30 August 2010. The TASA conference will be hosted by Macquarie University in Sydney from the 6-9 December. For more details go to <http://www.soc.mq.edu.au/tasa-conference/>

The 2010 ISA world congress is being held in Gothenburg in Sweden 11-17<sup>th</sup> July 2010. <http://www.isa-sociology.org/congress2010/>

At least two thematic group members are presenting papers at the ISA congress. Dina is presenting a paper within the RC02 stream in the session on new approaches to understanding economic inequalities and their significance, and Michael Gilding is presenting a paper in the session on markets and morality. Please let us know if you are attending or presenting a paper [info@economicsociology.org.au](mailto:info@economicsociology.org.au).

---

## The editors

### Dina Bowman

Dina is manager of research and policy for the *in and out of work* transition at the Brotherhood of St Laurence. She is also an honorary fellow in the school of social and political sciences at the University of Melbourne. Dina's research explores the intersections of market and nonmarket work, and the patterns and processes of advantage and disadvantage.

### Lee Glezos

Lee is doing a PhD in Sociology with the Institute of Social Research at Swinburne University in Melbourne. Lee is studying the Australian organic food market, focusing on the association between social movements and the initial emergence of economic markets.