

ST GLADYS IN EYE OF A STORM

ICAC drama The manner in which the NSW Premier has suddenly been dragged to centre-stage has shocked many observers, writes Andrew Clark.

Double, double, toil and trouble; fire burn and cauldron bubble." Like the Three Witches' ruminations on the murderous ambitions of Macbeth, ICAC has seared through NSW politics. It has destroyed the careers of two Liberal premiers, Nick Greiner and Barry O'Farrell, made the state Labor Party unelectable for at least 12 years, and is now casting a darkening shadow over the current Liberal Premier, Gladys Berejiklian.

Like one of the Bard's plays, it is a political saga dripping with irony and tragedy. At the centre is Berejiklian, who, by almost common consent, has been a star performer in a year of disaster – bushfires and the COVID-19 pandemic – and has not, so far, been accused of any wrongdoing.

But this week she became collateral damage in a second NSW Independent Commission Against Corruption investigation into disgraced former NSW Liberal MP, and Berejiklian's lover for five years, Daryl Maguire.

Over coming days, Berejiklian, 50, who has been Premier since 2017 and a state MP for 17 years, may struggle to see any political light.

Publicly, she remains defiant. "I have always acted in the best interests of the people of this state," she maintained for the second time while addressing the media yesterday.

"I've not done anything wrong. At all times I have maintained a distinction between my personal and private life and the public office I hold. If I was aware of any wrongdoing, I would have reported it," she said.

However, if Berejiklian does fall victim to ICAC's sword, she will, on the evidence produced so far, pay the price of a lost career

and total public humiliation over an unwise choice of lover. She will join a group ranging from former British cabinet minister John Profumo to vanquished US presidential hopeful Gary Hart.

But today's NSW iteration has a fundamental twist to such an old story. In this case, it is the woman, ie Berejiklian, who holds the political power, and, unlike Profumo and Hart at the time of their transgressions, she is not married.

Such a stunning development, which has hit NSW political circles with the force of a proverbial neutron bomb, is set against a backdrop of turmoil in the contagion-plagued neighbouring state of Victoria, amazing scenes in the US amid the threatened death throes of Donald Trump's presidency, near panic as the virus cuts a renewed, deadly swath across America and Europe as the northern hemisphere winter approaches; and a campaign funding scandal engulfing the LNP Opposition in Queensland just 18 days ahead of a state election.

The heart of the Berejiklian matter is ICAC. Formed in 1989 by the newly elected NSW Liberal government, it was the brainchild of Gary Sturgess, a former journalist on the now-defunct *Bulletin* magazine, and currently the NSW Premier's Chair in Public Service Delivery at the Australian School of Business at the University of NSW.

The Sturgess plan was to establish an investigating body with quasi-judicial powers to maintain a check against foul deeds in what had been Australia's most corrupt state. Allegations of collusion with developers, the greenlighting by corrupt police of chosen gangsters to ply their evil trade, and horse race fixing were commonplace in the state.

The new Liberal premier, Nick Greiner, saw ICAC as an effective institution to combat what he had referred to as the "stench" of corruption engulfing the state. However, in the first of many the Shakespearean turns



Saga of shame

ICAC's political toll

1992	2013	2013	2014	2019	Oct 12, 2020
NSW Liberal premier Nick Greiner forced to resign after an ICAC finding of "corruption" in his appointment of an independent MP to an overseas posting in an attempt to improve his minority gov't parliamentary numbers.	ICAC recommends charges against former NSW Labor Gov't ministers Eddie Obeid and Ian MacDonald over a mining contract. Both are later jailed.	NSW Liberal Gov't Energy minister Chris Hartcher resigns after ICAC inquires into a trust fund allegedly used to lure donations from banned developers.	NSW Liberal premier Barry O'Farrell resigns after his claim of a "massive memory fail" over the gift of a bottle of wine valued at \$3000 from Australian Water Holdings, which wanted to invest in some of the state's water assets.	NSW ALP Secretary Kaila Murnin is removed from office after she admitted in an ICAC hearing that she had heard a Labor MP's confession about accepting a \$100,000 donation from a banned Chinese property developer, Huang Xiangmo, who has since been expelled from Australia.	NSW Liberal Premier Gladys Berejiklian admits during an ICAC hearing that she had a "close personal relationship" with disgraced NSW Liberal MP Daryl Maguire, following ICAC bugging of phone calls between Ms Berejiklian and Mr Maguire.

SOURCE: FINANCIAL REVIEW

Top: Then Liberal MP Daryl Maguire meets Chinese President Xi Jinping in 2014 in Sydney with then NSW treasurer Gladys Berejiklian.

in ICAC's 31-year history, Greiner himself was one of its early victims.

Three years after its formation, ICAC conducted an inquiry into Greiner over allegations he misused his position as premier to secure the resignation of an Independent MP, and one-time Liberal education minister, Terry Metherell, to achieve a political advantage in a Parliament where Greiner was governing with the support of independents. His offer of a plum NSW government posting overseas for Metherell was interpreted as using government power to secure political advantage, or, as ICAC initially calculated, a "corrupt" act in the meaning of ICAC's own enabling legislation. This ICAC decision was later overturned by the NSW Supreme Court, but the damage had been done, and Greiner had left Parliament.

In 2014, then NSW Liberal premier Barry O'Farrell became another ICAC victim. He resigned after what he described as a "massive memory fail" in relation to accepting a \$3000 bottle of wine from Nick Di Girolamo, the then-chief executive of the company at the centre of an ICAC investigation, Australia Water Holdings. It was claimed during earlier ICAC hearings that AWH lobbied O'Farrell to facilitate the rolling out of water infrastructure under AWH's patronage.

The issue that tipped the balance in O'Farrell's case was his failure to declare the wine gift. This led to an interpretation that by not declaring it, O'Farrell did not want people to know about the gift, although his "massive memory fail" constituted another possible explanation.

Nobel winners bring game theory to auction action

Opinion

Richard Holden



Perhaps the central consideration of the field of economics is understanding how markets work. And markets are fundamentally about bringing buyers and sellers together. That raises the question of how that will happen, and whether transactions can be structured in a way that makes buyers or sellers better off.

One of the most pervasive methods of bringing buyers and sellers together is an auction. The Greek historian Herodotus documented auctions in Babylon 2500 years ago. Today, auctions are used to sell everything from government bonds and other financial securities to fish, radio frequencies and even key words or advertisements on internet platforms.

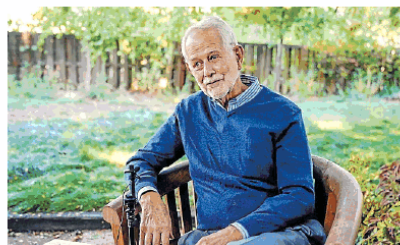
But what is the best way to structure an auction if you are the seller. Should it be "sealed bid" or "open outcry"? Should the price start out low and ascend, or high and

descend? Should the winner pay her own bid (a first-price auction), or the bid of the second-highest bidder, or the third? Should there be an entry fee, or a reserve price – and if so, what should it be? Perhaps the seller should share some of her information, like test-drilling results for natural resources.

This year's Nobel prize in economic sciences was awarded to Paul Milgrom and Robert Wilson, both of Stanford University, "for improvements to auction theory and inventions of new auction formats".

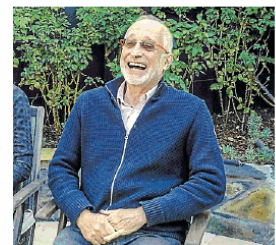
By applying the tools of game theory (for which John Nash, John Harsanyi, and Reinhard Selten shared the Nobel in 1994), Milgrom and Wilson made profoundly important contributions to our understanding of auctions.

It was Wilson who first recognised, in 1969, that the Bayes-Nash equilibrium concept developed by John Harsanyi in 1967 would permit an analysis of auctions with "common values". That is, the object up for auction is worth the same to whomever wins it, but bidders have different information about that value. This analysis gives rise to the notion of the "winner's



Robert Wilson, left, and Paul Milgrom won this year's Nobel prize for their theory of auctions. PHOTOS: AP

curse". If bidders get different signals about the value of the object – say a mining right or a financial security – and they bid more the higher their signal, then the winning bidder will be the person who got the highest signal. But that means their estimate of the value is higher than that of all the other bidders! Failing to account for this would lead to overpaying. But people fail to do so quite often – as a previous economics laureate Richard Thaler has pointed out.



The first of Milgrom's many contributions to auction theory began in the early 1980s when he considered the realistic setting in which values are partly common and partly private for each bidder. In buying a house or a car you will naturally consider your own idiosyncratic tastes, but also the tastes of other people because those affect resale value. My favourite example of this was a PhD classmate of mine who insisted he was going to buy an expensive car and

Earlier, ICAC had recommended that the former NSW Labor Party powerbroker Eddie Obeid and former state energy minister Ian Macdonald be referred to prosecutors to consider criminal charges after it found they had acted corruptly. Both were found guilty and were jailed. ICAC handed down its findings after three separate inquiries into corruption in the former NSW Labor government that held office from 1995-2011.

ICAC's then-commissioner, the late David Ipp, found Obeid, his son Moses, Macdonald, and five business figures acted corruptly. It concluded that the process of opening a coal mine in the Bylong Valley in NSW in 2008 was rigged with Macdonald's help in his capacity as energy minister, making the Obeid family and some business associates tens of millions of dollars.

Meanwhile, blame for the NSW ALP's poor electoral performance in what had often been labelled a "natural Labor state" has been apportioned all over the place, but a significant factor is the bad odour resulting from the various ICAC probes. Crushing electoral defeats in 2011 and 2015, and a narrow loss to the Berejiklian-led Coalition last year, attest to a political party struggling to emerge from the ICAC-bequeathed stench of corruption.

They're about humbling a democratically elected leader for the sake of doing it.

Senior political figure in NSW

The ALP's problems deepened last year when NSW Labor Party general secretary Kaila Murnain was removed from office after she admitted in an ICAC hearing that she had heard a Labor MP's confession about accepting a \$100,000 donation from a banned Chinese property developer, Huang Xiangmo. Murnain said she was told to cover up a "distressed" confession from state Labor MP Ernest Wong about a meeting in 2016. The latter had been intimately involved in organising a Chinese Friends of Labor fundraising dinner attended by Huang, and former Labor leaders Bill Shorten and Luke Foley.

Wong told her Huang, who was banned from donating to NSW political parties because he was a property developer, had given Labor large donations, and that other donors had lied about their contributions. Murnain called since-disgraced Labor Party senator Sam Dastyari, who advised her to "go and see your lawyers". Huang has since been expelled from Australia.

Not to be outdone in the election fundraising scandal stakes, the Liberal Party was earlier a victim of another ICAC probe. In 2013, the year as ICAC recommended charges against Obeid and Macdonald, the NSW Liberal government's then energy

minister, Chris Hartcher, resigned after ICAC issued a search warrant against him. This related to the establishment of a trust fund to solicit donations to the Liberal Party, with the claim that it had accepted funds from developers, who were banned from donating.

By Tuesday, after the Berejiklian-Maguire affair bombshell, feeling about ICAC was running high in NSW political circles on both sides of the political fence.

One senior NSW political figure, who insisted on anonymity, told *The Australian Financial Review*: "The consensus in NSW politics about ICAC is that it is about heads and headlines. Unless they've got a king hit simmering at the back of the stove, what have they done here?"

"They've brought to the world bugged telephone conversations in which she [Berejiklian] has not demonstrated to have undertaken anything for him [disgraced former NSW Liberal MP Daryl Maguire] whatsoever."

"But ICAC is demonstrating that it can tap the phone of a NSW premier and expose a private relationship in which the Premier - at least on the face of it - has done nothing wrong. They haven't got her saying, 'let me talk to the minister for planning on that' or 'let me consider my briefing notes on the rezoning of the airport site'."

"They can tap a phone and demonstrate and humble the democratic leader of a state. On the basis of this [episode], a [proposed] federal ICAC might investigate irregularities and corruption in water policy but it may outweigh any good by rampaging and trampling on basic civil liberties."

"This is a pretty extraordinary thing they've done in the absence so far of any evidence of any transgressions. They're about humbling a democratically elected leader for the sake of doing it."

"You'd like to think there's a reason for this gross trampling of privacy. In that sense, one wishes that in the end there will be some impropriety. Unless there is, all they've done is humble a political leader with a strong suggestion of guilt by association."

"Who are we to lecture that she has had a private relationship with a sleaze, providing [she isn't] entrapped into anything improper? Who are the toffee-nosed commentators who said she should be more careful in her choice of partner?"

There will be many more twists and turns in this saga, and it is important to point out that ICAC has had a significant and obviously positive impact on the level of corruption in NSW since its formation.

However, the comments of the senior NSW political figure underline two points: we do not know, at this stage, where this extraordinary saga will lead to, but an inquiry into a disgraced former Liberal MP has sensationally pole-axed a Liberal Premier who was known, just a few days before, as "Saint Gladys."

Talk about collateral damage. **AFR**

have it painted "plaid", despite the fact that this would crater the resale value of an otherwise expensive car.

In addition to developing novel and elegant theory, Milgrom and Wilson helped develop new auction formats for important settings where there are multiple objects and the value of different goods is interrelated. Spectrum-frequency bands, electricity and batches of distressed debt are all notable examples. For instance, economies of scale and scope in electricity distribution make the value of different

One of the most remarkable things about the laureates is their breadth.

units interrelated.

Milgrom and Wilson, along with Preston McAfee, developed the "Simultaneous Multiple Round Auction" for the 1994 US Federal Communications Commission's radio-spectrum auction. This format has become the standard way of selling spectrum licences around the world.

Like 2012 economics laureates Alvin Roth and Lloyd Shapley (recognised for their work on "matching"), Milgrom and Wilson's work

concerns "market design" - how to use the tools of economics to make markets work better in terms of efficiency and equity.

When the US Treasury gets a better price for bonds, taxpayers benefit. When parts of the spectrum are allocated to their highest-value user, consumers tend to be better off, and so on. One of the most remarkable things about this year's laureates is their breadth. Both made foundational contributions to game theory - helping develop tools for analysing games that are sequential in nature (rather than one-shot or static). Milgrom, along with John Roberts made seminal contributions to the field of "organisational economics". And Milgrom has also been at the forefront of the interface between economics and computer science - fittingly, in the design of auctions.

Analysing and designing auctions in complicated "real-world" settings requires both mathematical rigour and a pragmatic sensibility. This year's laureates are richly blessed with both of those attributes. And by combining them they have helped design auctions across many different markets, all around the world, in a more efficient and effective way.

The Nobel committee has shown impeccable taste in choosing to honour Milgrom and Wilson this year. **AFR**

Richard Holden is professor of economics at UNSW Business School.

LOOKING FOR A CHRISTMAS EDGE

Retail Shops are finding innovative ways to compete at a critical time of the year, writes Kelly Tyko.

Watty Brooks Hall, the owner of the Brooks Collection, plans to keep her iPhone charged and ready for more FaceTime calls this holiday shopping season.

Her Collierville, Tennessee, gift shop introduced virtual shopping for consumers who don't feel comfortable coming inside but want to see the pottery, gifts and home-wares up close. Hall also plans to post more photos on Instagram and Facebook, where engagement has been up since the pandemic took hold.

Texas-based men's store Stag Provisions is also engaging more with shoppers on social media. And it will stock more comfortable clothes such as T-shirts and track-suit pants as people continue to spend a lot of time at home.

Small retailers across the US have had to get creative to keep the lights on after dealing with temporary closures and restrictions amid the coronavirus pandemic. Now they're preparing for a holiday shopping season unlike any they have experienced.

National retailers are amping up the pressure with earlier promotions to spread through the season, but small stores may benefit because of their size and ability to personalise the shopping experience.

Many shoppers say they want to shop locally during the holiday season.

"We deliver. We ship. We do kerbside," Hall says, adding that her shop near Memphis doesn't sell merchandise on its website.

"It's just trying to keep a small business alive is what it boils down to."

Given concerns about social distancing, supply chain disruptions and other challenges posed by coronavirus, getting ready for the crucial season poses new challenges - and perhaps opportunities - for businesses.

Michael Herrmann - who 25 years ago bought Gibson's Bookstore, New Hampshire's oldest independent book shop, established in 1898 - is planning for lower in-store sales but higher online sales. In addition to adding kerbside pick-up, the store is holding events online.

"I think it keeps crowds from being in the store at the same time to mitigate the risk. We're going to offer every opportunity to accommodate as many people as we can," he says. "Our main goal is to get to the other side with everybody healthy in the store and still in good shape financially."

Retailers big and small are preparing by beginning holiday promotions earlier than ever, encouraging shoppers to beat the rush and pushing more sales online.

Federal health officials are encouraging more online shopping and are discouraging traditional Black Friday shopping, which

is known for its crowds and long lines. In new guidance, the Centres for Disease Control and Prevention included "shopping at crowded stores just before, on or after Thanksgiving" on a list of higher-risk activities to avoid.

Amazon moving its annual Prime Day sale from July to October is expected to drive more sales online, including at small businesses. This year, the Seattle-based e-commerce giant launched a small business promotion and said it would invest an additional \$US100 million (\$139.4 million) to promote third-party sellers for its annual sale and throughout the holiday season.

The conditions retailers have to deal with this season could lead more shoppers to shop small, giving some of the businesses hit hardest by the pandemic a competitive edge.

"I think the malls are in trouble, but people are more comfortable shopping in a smaller environment," says Dave Facenda, owner of Untucked, a men's clothing shop on North Carolina's Outer Banks barrier islands. He is already pivoting in the pandemic; his store is selling more ties for Zoom calls but renting fewer tuxedos for weddings.

Many shoppers say they want to shop locally during the holiday season. According to a recent Google survey, 66 per cent of shoppers say they plan to shop more at local small businesses.

While some stores are concentrating on people shopping early, Stag Provisions co-owner Don Weir thinks it is possible some shoppers will come out closer to Christmas.

"I feel like it may be a late run on holiday [shopping] if the COVID numbers continue to decrease and the restrictions continue to lift," he says.

"Nobody really knows what October, November and December will look like, but we don't anticipate a mad rush in October."

Early in the pandemic, many small businesses made a bigger push to digital sales, with some adding kerbside pick-up while stores were closed because of lockdown restrictions, says Matthew Wagner, vice-president of revitalisation programs at the non-profit National Main Street Centre, a subsidiary of the National Trust for Historic Preservation.

"Now the push is to try to elongate this season, alleviating some of the crowd factor," Wagner says.

A recent survey by the centre found more than 40 per cent of businesses added kerbside because of the pandemic and more than 20 per cent had added touch-free payment systems.

Harley Finkelstein, president of e-commerce platform Shopify, expects it to be a challenging season.

"The 2020 holiday season will shine a spotlight on resilient retailers and create a blueprint for the commerce landscape of the future," Finkelstein says.

"This year we're going to see role reversals with independent businesses and the entrepreneurs behind them leading the retail industry." **AFR**

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Shoppers are reluctant to head to big stores such as Bloomingdale's. PHOTO: BLOOMBERG AFR141 0037