Job for teens ‘off menu’

STEVE LEWIS
PHIL JACOB

THEY have provided hundreds of thousands of jobs to young Australians, facilitating an employment rite of passage that starts with your first burger flip.

But fast-food giants McDonald’s and Hungry Jack’s will be forced to employ fewer young people in the future, after being stripped of millions of dollars in taxpayer-funded incentives to hire casual staff.

The move has angered McDonald’s as a key badge on a candidate’s CV.

“We believe that our traineeships provide brilliant opportunities and are a worthwhile investment,” McDonald’s HR director Joanne Taylor said.

The company’s alumni includes current McDonald’s chief executive Catriona Noble and Kmart managing director Guy Russo.

The move is unlikely to be welcomed by employers, who rate a stint at McDonald’s as a key badge on a candidate’s CV.

Among other changes, the Government will nearly triple the employer incentive – to $3350 – for companies that take on apprentices in areas of skills shortages, such as building and construction.

McDonald’s employs nearly 90,000 people in Australia – with a spokesman saying more than two-thirds were school-age employees.

The Government bonus will be capped at 21,000 places and forms part of a number of changes aimed at reducing a big drop-out rate of around 52 per cent for apprentices across Australia.

Senator Chris Evans is bracing for backlash from McDonald’s and other companies which have relied on the $4000 trainee incentive to hire thousands of youths.

Under the current system, employers are paid the same amount irrespective of whether their employee works a full 38-hour week, or just a few hours a day.

The Government says this has led to a “perverse incentive” for employers like McDonald’s to hire part-time trainees, who often complete their training in a year.
No certainty, that’s for sure

Richard Alston says forecasters should accept the world is an unpredictable place. But then they’d be out of a job, wouldn’t they?

It’s a human inclination to crave certainty, or at least expert guidance, on the way ahead. We know no one rings a bell at the bottom of the market, but when do we jump in, given there are so many political and economic uncertainties? Will Europe muddle through or is the European model flawed? Is it the end of the China boom or merely a healthy correction? Why can’t we foresee the big issues?

The truth is, that question could be asked not only about the global economy, but about the fall of communism, the causes of the First World War, Pearl Harbour, Three Mile Island or September 11 — all of which came out of a clear blue sky. So what are we doing wrong, and can we ever develop foresight? Should we put our faith in Nobel prize-winning economists, leading analysts, top politicians, successful business leaders, Warren Buffett, respected retired central bankers or none of the above?

A few years before the outbreak of World War I, an influential book, The Great Illusion, by historian Norman Angell implied conflict could not break out because the effect of war would be too economically devastating. In the lead-up to World War II, despite Winston Churchill’s endless warnings about the threatening rise of Germany, appeasement was a popular sentiment, one which preferred not to contemplate the unpalatable alternative.

After an event, people will say a momentous happening was obvious; we have a powerful belief that what makes sense today must have been predictable yesterday. But in reality, no one has a crystal ball, and lack of foresight is inevitable because the world is unpredictable.

When an inquiry or royal commission, with the benefit of carefully considered hindsight, has solemnly identified all the things that should have been done better, we all conclude the mistakes of the past were the results of ignorance and incompetence, and could have been remedied by greater insight.

For me, one of the biggest lessons from the global financial crisis was that being guided by expert commentary and predictions can largely be a waste of time. Most books are written to tell, and sell, a story, and newspaper headlines to sell more papers. Readers don’t want to find themselves drowning in a sea of uncertainty or equivocation. Authors have an inbuilt bias towards projecting great confidence about the future course of events, even when the reality is that no one is qualified to do so.

Because the vast majority of us are not experts in macro-economic policy, let alone predicting the future, we inevitably outsource judgment to those who put themselves forward as having superior insights. Despite the number of experts who now claim to have predicted the global financial crisis, many equally intelligent and well-informed people did not believe that disaster was imminent.

In my almost eight years as a member of the Howard cabinet, many of the final decisions came down to presentational judgment calls, which, to a scrupulously impartial observer (if such a breed exists), might have gone either way, depending on the factors taken into account. Of course politics is the art of the possible — trying to solve pressing problems without alienating the masses. It should therefore not surprise when politicians’ decisions are overlayd by their world view — that’s why we elected them in the first place.

But there are serious knowledge shortcomings with political decisions made by government. Cabinet ministers rely heavily on submissions from departments, which often have their own agendas and are expert at snowing hapless ministers and decision-makers with voluminous and repetitive submissions. Finance and Treasury will usually have a cost-based focus, which can lead to a negative view of the wider merits of a proposal.

It therefore becomes important that ultimate decision-makers such as cabinet ministers are properly equipped and prepared by life experiences for decision-making. Those with significant private-sector and real-life experience prior to coming to government are more likely to have broader insights. If you have spent long years only as a party secretary or union boss, you are more likely to have a narrower view of life.

Very experienced politicians like Bob Hawke, Paul Keating and John Howard were able to draw on long years of observation of the tricks of the bureaucracy, as well as to take a more objective helicopter view of community needs. Those like Kevin Rudd and Julia Gillard, with relatively little practical exposure to the private sector are more inclined to be driven by core constituencies and the 24/7 news cycle.

But perhaps the greatest knowledge trap of all is falling foul of the law of unintended consequences.

Free tertiary education in Australia must have seemed like a great idea at the time. It was only later it became apparent that it really involved a large number of low-income earners cross-subsidising students with very good future income-earning prospects and a clear capacity to contribute to the cost of their own education. More recently, laws reintroduced by the current federal government, supposedly to protect a few workers against unfair dismissal, have instead led to 20,000
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subconsciously more likely to want to
doctis bad economic news and to
more readily dismiss dire economic predictions.

Leonard Mlodinow, a physicist and
expert in randomness, argues that "a
lot of what happens to us is as much
the result of random factors as it is of
skill, preparedness and hard work".

Take the two Stanford University
students, Sergey Brin and Larry Page,
who, a year after founding Google,
were willing to sell the company for
US$1 million, but the buyer said no,
the price was too high! You couldn't get
luckier than that. Ability may increase
our chances of success but left-field
chance events, such as a big lottery
win or a crippling car accident, can
make or break us.

Mlodinow provides an illustration
of the non-performance of experts. In
one study from 1995, market
recommendations by some of the best-
paid Wall Street superstar analysts
merely matched the market return.

And in a study of 153 newsletters, a
Harvard researcher found "no
significant evidence of stock-picking
ability". Kahneman quotes a recent
study of 284 people who made their
living by "commenting or offering
advice on political and economic
trends". The results were devastating.
The experts performed worse than if
they had simply assigned equal
probabilities to each of three potential
outcomes. The more famous the
forecaster, the more flamboyant the
forecasts.

As our minds crave a coherent
explanation, we have a deep-seated
need to feel in control of our lives and
we are likely to attach more weight to
the content of messages than to
information about their reliability, and
to discard crucial qualifiers, such as
small sample size.

One of the biggest impediments to
objective assessment is our inbuilt
wish to interpret evidence to conform
to our pre-existing bias or political
world view (the confirmation bias). So
two similar people can end up with
diametrically opposed interpretations
of events and therefore make
fundamentally different risk
assessments.

Nassim Taleb, author of the 2007
book The Black Swan, about
unpredictable events and randomness,
also points out that the tendency to
build coherent narratives of the past
makes us more susceptible to
subconsciously exaggerating the limits
of our forecasting ability.

We often crave the simple, plausible
line. The narrative fallacy, a phrase
popularised by Taleb, is the practice,
beloved by television news journalists,
of taking minor variations and
weaving an explanation into them,
thereby creating an illusion of
understanding.

So, one day stock prices rose
because fears over Europe abated, and
next day they fell because of
reawakened concern over Europe,
without any supporting evidence being
advanced for either proposition. The
trouble is that no one knows who to
believe and there is so much
background noise — no wonder
Warren Buffett studiously avoids
living anywhere near Wall Street.

But shouldn't we expect much more
from the experts? Well, maybe not.
They may be experts in their field, but
once they get into the public arena
they are subject to many very human
inclinations — generating a headline,
building or maintaining a reputation,
taking short cuts by extrapolating a
trend, displaying excessive confidence
over vexed issues, wanting to project
an aura of confidence, and selecting
facts to fit their world view.

Who would pay attention to an
expert who merely agonises over the
manifold complexity and uncertainty
of the world around us?

Financial firms employ thousands
of fundamental analysts dedicated to
finding the cause of price movements.
The implication is that if we know the
cause, we can better anticipate future
events, manage the risk, and make
sensible predictions.

Meanwhile, the efficient market
theory holds that all knowable
information about a stock's value is
already reflected in its share price, so
you can't predict price movements at
all. And according to the late Benoit
Mandelbrot, the father of fractal
geometry and an expert on the risk/reward trade-off, the seemingly improbable happens all the time in financial markets. "Extreme price swings are the norm — not aberrations to be ignored." Markets are inherently fragile and risky, easily panicked by fear or greed and increasingly likely to suffer a technical meltdown.

Leading fund managers increasingly rely on machine-driven algorithms used in high frequency and black box trading. While precise estimates are hard to come by, it’s thought between 40 per cent and 60 per cent of all trading volume on US exchanges is high frequency, and that the average holding period for such stocks is 11 seconds. But as the May 2010 so-called flash crash demonstrated, a technical interruption, let alone a calculated cyber attack, could cause untold market havoc. Many day traders make myriad tiny transactions in a day, blissfully ignoring the danger.

The reality is that critical information is often unknowable. The modern world is too complex and unpredictable for any decision-making mechanism to be consistently right, whether it is based on economic or political incentives.

Taleb describes it in the following way: "Our world is dominated by the extreme, the unknown and the very improbable — and all the while we spend our time in small talk, focusing on the known and the repeated.”

We think we know a lot more than we do (the illusion of understanding), and we are getting our knowledge from sources who know little more than we do (the overvaluation of factual information).

One of the biggest losers of the unforeseen GFC is the economics profession. The former chairman of the US Federal Reserve, Alan Greenspan, was universally lauded during the glory years, but has since conceded he misread the signals. In the UK, then chancellor of the exchequer, Gordon Brown, said in 1999 that the UK had "put an end to the damaging cycle of boom and bust”, only to find 10 years later that Britain had plunged into its worst postwar recession. Reserve Bank of Australia governor Glenn Stevens, a leading economist, said: “I do not know anyone who predicted this course of events.”

Perhaps the most valid general criticism of the events leading up to the GFC was that central bankers, economists and policymakers worried too much about the price of goods and services, and neglected the price of assets. They took little interest in the inner workings of the financial system, and became seduced by models such as value-at-risk, and overconfident about their capacity to understand complex computer models and arcane financial products, such as derivatives and a vast range of securitised products.

Everyone relied on everyone else, particularly credit agencies, to do the time-consuming financial validations. Few financial economists focused on illiquidity or counterparty risk, or how to handle moral hazard (offsetting the cost of risk).

In my experience, the greatest consumer service governments can render is to require simplicity in financial products and contracts, where lawyers and suppliers often have a vested interest in complexity. Who bothers to read five- to 10-page privacy policies?

Much market behaviour is far from rational — people miscalculate probabilities, misinterpret information and allow emotions to cloud their judgment. They tend to be overconfident about their own skill and judgment and often simply extrapolate from recent trends, seeing plenty of blue sky when history should make them more cautious. Fear of failure is an engrained human characteristic, so potential loss can make them extremely and irrationally risk averse, thus magnifying price falls when bubbles burst.

When chance is involved, people’s thought processes are often seriously flawed. They are reluctant to accept the role of randomness, although it is fundamental in nature and everywhere in our daily lives.

Richard Alston is an adjunct professor of information technology at Bond University and a member of the international advisory board of CQS, a US$12 billion hedge fund based in London. He was the federal minister for communications, information technology and the arts and deputy leader of the government in the Senate from 1996 to 2003.
FINANCE IN A RANDOM UNIVERSE

It may seem perverse to disparage expert advice and then offer some of one's own, but there are some valuable lessons to be learnt by individual investors in an endlessly uncertain marketplace. Most people need to lock in a preferably guaranteed income stream, such as an annuity or superannuation pension, or at least a steady blue chip yield. The safest course may be to take a random walk and stick close to the index, but for those who can afford a little spice in their financial lives, there is no shortage of sage advice.

There is also no substitute for reading and research, but the key is to sift the nuggets from the white noise – presumably why Margaret Thatcher famously claimed never to read newspapers. We shouldn’t ignore all predictions, but we should never bet the farm, or put most of our eggs in one basket. Diversity across asset classes is a tried and true axiom. Calculated borrowing is one thing, but too many non-professionals are tempted to back their judgment and take a punt – a case of the triumph of hope over experience.

Having a contrarian streak so that we can better withstand both the temptation to triumph and the fear of disaster by not succumbing to greed or panic, is a good start. In the meantime, if we are to be prepared at all times, the main lesson is never to be highly leveraged. Even a cursory look at the GFC fallout shows that, whether it was Lehman Bros in the US or Babcock & Brown in Australia, debt conservatism is the key to relative success.

And for those wanting to learn the art of investing, you probably can’t do better than listening to those with proven expertise, and not being seduced by the siren call of commentators.

RICHARD ALSTON

Alan Greenspan has conceded he misread the signals ahead of the GFC. Photo: GETTY

Few predicted the Japanese attack on Pearl Harbour, 1941. Photo: FAIRFAX PHOTO ARCHIVE
Helping people accept that there is a random element to life may also help them make better decisions in times of social and economic upheaval.

Photo: GETTY
Labor awarded highest marks on education issues

SCHOOLS

By Emma Macdonald
Education Editor

Local education groups have delivered their verdicts on the major parties’ education policies being put forward at the ACT election — with Labor outclassing the Liberals in its overall report card grading.

The Australian Education Union (AEU) gave Labor a B-plus and a D to the Liberals. The union, which has placed a large ad to publicise its decision, has traditionally delivered a report card on the major parties before each election, noting that education came a narrow second to health as the top-ranked voter issue in this week’s Canberra Times poll.

The ACT Council of Parents and Citizens also delivered a B to Labor and a D to the Liberals, while the Australian National University, University of Canberra and Canberra Institute of Technology Students Associations delivered separate grades on a range of student issues, with the Greens scoring the best overall results, followed by Labor.

The AEU’s ACT branch secretary Glenn Fowler said the union, which represents the government school sector, “is not affiliated to any political party and began this election period with an open mind”.

The union welcomed Labor’s pledge to provide more than $200 million to public education for building upgrades, new schools, literacy and numeracy co-ordinators, and incentives to retain teacher-librarians. “We are, to some degree, reassured that extra money to private schools will be a downpayment on the Gonski reforms,” he said.

Mr Fowler accused the Canberra Liberals of “demonstrating no real commitment to public schooling. There is increased money for school upgrades, but annual funding promises are thin on the ground. The provision of 20 extra school counselors and the doubling of the Teacher Professional Learning Fund are welcome, but these increases represent less than 1 per cent of the annual education budget.”

The P&C gave Labor an A for school infrastructure, but an E for promoting parent participation. The Liberals received an E for parent participation, sustainability and school autonomy while its top mark was a B for infrastructure spending.

The ACT Greens received a B for recognising the value of the Gonski Review recommendations, canteens and nutrition and sustainability, and Ds for parent participation and infrastructure — receiving a C overall.

Council president Viv Pearce said the results were a concern no matter which party won. “Whoever forms the next ACT government must realise that we need more than token efforts to fix a few specific needs. They must address the wide spectrum of educational needs in the ACT and provide adequate resources to ensure all our students have the opportunity to achieve their full education potential,” she said.

The Association of Independents Schools said it was pleasing to see both main parties recognise the place of non-government schools in the education landscape although the two had approached the issue in different ways.

The association has lobbied for an increase in recurrent funding for independent schools to 25 per cent of the cost of educating a student in a government school as well as raising funding for students with a disability and more capital investment.

Executive director Andrew Wrigley said: “The Canberra Liberals have committed to progressively increase recurrent funding to non-government schools to 25 per cent over an eight-year period. This would provide a level of certainty to schools in the preparation of their future operating budgets. ACT Labor has committed to a $19.5 million package of needs-based increase to non-government schools. Eleven-million dollars would support non-government students through a needs-based grants process. It is fair to say that there is a clear choice for voters.”

Director of Catholic Education Moira Najdecki said: “All political parties have responded to our key election commitments. The responses provide a very real policy difference for how ACT Catholic schools will be funded into the future and provide parents at Catholic schools a distinct choice when they go to vote on Saturday.”

The ANU and CIT students associations also rated parties on a range of issues affecting higher education in the ACT.

The Greens received As for environmental policies, supporting women and sexuality and gender issues, labor received As for indigenous student support, gender issues, student access and equity, but Cs for student housing, access and equity, women’s issues. The Liberals received a D for women’s issues, Cs for student housing, access and equity, environment and gender issues.
THEY have provided hundreds of thousands of jobs to young Australians, offering an employment rite of passage that starts with a burger flip.

But fast-food giants McDonald’s and Hungry Jacks will be forced to employ fewer fresh-faced workers in the future after being stripped of millions of dollars in taxpayer-funded incentives to hire casual staff.

The move comes as part of a major overhaul of Australia’s apprenticeship and training system, with the Gillard government slashing training incentives from $4000 to $1500 for part-time employees.

Skills Minister Senator Chris Evans has braced himself for a backlash from McDonald’s — Australia’s biggest employer — and other companies which rely on the $4000 incentive to hire thousands of young people.

McDonald’s director of HR Joanne Taylor said: “We believe that our traineeships provide brilliant opportunities and are a worthwhile investment. They provide a strong foundation for a career with us or within other industries.”

The company employs nearly 90,000 people in Australia and a spokesman confirmed more than two-thirds of those were school-age.

Boasting famous alumni such as current McDonald’s CEO Catriona Noble and Kmart managing director Guy Russo, the move is likely to disappoint other employers, who rate a stint at McDonald’s as a key badge on the CV.

Current HSC student Zoe Alexiou has been working at McDonald’s for four years, insisting it had played a crucial role in her development.

“I’ve received a lot of training with McDonald’s. It’s a combination of online modules and on-the-job training,” she said.

“Over the four years that I’ve been working I’ve seen the opportunities that McDonald’s offers.

“I’ve done my research and know that Catriona Noble started as a crew member and now she’s the CEO. That’s exactly what I want to do.”

Among other key changes to the scheme, apprentices in areas of skills shortages such as building and construction will see their government-funded incentives nearly triple to $3350. This does not apply to the food retail industry, whose casual staff are not classed as apprentices.

The government bonus for the building industry will be capped at 21,000 places and forms part of a number of changes aimed at reducing a horrendous drop-out rate of around 52 per cent for apprentices across Australia.

Under the current system, employers are paid the same amount — irrespective of whether their employees work a full 38-hour week or just a few hours a day.

The government said this has led to a “perverse incentive” for employers such as McDonald’s to hire part-time trainees, who often complete their training within 12 months.
BY THE NUMBERS

- McDonald's number of staff: 90,000
- School-age staff: 60,000
- Average age of McDonald's employee: 29.5

FAMOUS EX-MCDONALD'S BURGER FLIPPERS:
- Guy Russo, Kmart managing director
- Kim Wilson, Editor-in-Chief of New Idea
- Gary Hardgrave, ex-federal minister