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Drugs war reforms will sink on fear and sunk cost fallacies

by [Noel Turnbull](#)

The calls from police and various former politicians for drug policy reform will no doubt sink as deep as the money wasted year in and year out on the unsuccessful war on drugs — partly out of fear of being soft on law-and-order issues and partly because politicians are keen believers in the sunk cost fallacy.

The drugs war is a prime example of something that politicians and some corporate leaders do all the time — get caught up the sunk cost fallacy, which might be colloquially designed as sending good money after bad.

From drugs, to transport ticketing systems, policies, events, product developments, factories, new businesses and wars, many otherwise calculating political and corporate leaders become quite irrational when it comes to having to say enough is enough.

The massive UK health IT project and Victoria's myki ticketing project, for instance, are good examples of just how much money can be spent on things that don't work properly and that are largely justified by the amount of money already spent (the sunk cost fallacy).

For politicians part of the problem is just the difficulty of saying: "sorry I was wrong." For some, such as Tony Abbott, the difficulty is physical. For example, when expressing regrets about endorsing Germaine Greer, he had his hands clenched tightly together at his waist. An unfortunate ABC close-up showed that the hands had a slight tremor, presumably from the effort of trying to say sorry while simultaneously avoiding the sort of aggressive reaction to hostile media questions he has displayed in the past. For others it is a fear of being pilloried by opponents or the media. Others are just stubborn. Churchill, for instance, persisted in trying to sink the *Tirpitz*, diverting valuable resources from the Normandy landings, even though the ship was never likely to set to sea again. In none of the many Bush administration figures' biographies does anyone actually admit that Iraq might have been a big mistake.

The US has been following a Cuban sanctions policy, which has been failing for 53 years and, as Miami businessman [Carlos Saladrigas](#), says, in *The Economist*: "In business we know that if a strategy hasn't worked for 53 years, you change it.". For corporate leaders though the problem is sometimes easier than for polities. Investors welcome moves to abandon projects that are not producing. Incoming CEOs can easily dump projects from the past, book the losses with little or no cash impact,

and then hopefully reap the benefit in bonus payments when profits subsequently improve.

The Melbourne grand prix is another good example of the problem. The grand prix loses (the taxpayer picks up the tab) about \$55 million a year and, if its contract is extended, total losses will probably amount to close to a billion dollars by the end of the renewed contract.

Of course, the grand prix organisers, in a series of increasingly unbelievable statements, keep claiming it is all justified by TV audiences allegedly a billion strong, exposure for Melbourne, and various economic studies claiming benefits originally in the \$100 million range, although now much less than that and all exposed as fallacious by the Auditor-General. Interestingly, while the SCG and MCG can tell you by the tea interval on any day very precisely how many people came through the gates to watch a Test match, the grand prix is always estimated. These estimated figures, according to the GP people, make the GP Australia's biggest one-day event. The reliability of the estimates is perhaps highlighted by the fact that it is actually a four-day event. The reality is that there are many events much bigger, for instance attendances at royal shows around Australia attract about 2.8 million visitors a year with another 1.8 million attending country shows. The Royal Adelaide Show, for instance, attracts (on a pro rata basis) more people than the grand prix, pays rates to the local council and costs taxpayers much less than the GP.

So why do governments keep supporting it? In the case of the Bracks-Brumby governments, it was all very easy. They didn't want to be seen to be "losing" something Jeff Kennett had "won" and their polling showed that dumping the race might be seen as favouring inner-city trendies over normal, petrol-headed Australians in outer suburbs. The Baillieu government is probably afraid that dumping the GP will be seen as more evidence of the "do nothing government" reputation they are said to be acquiring. Yet dumping it would probably have the positive effect of reducing the complaints that will come over coming years from nurses, teachers, police, ambulance drivers, mental health staff and many others that "Victoria can spend a billion dollars subsidising the GP while not spending on (insert appropriate words) ... programs."

None of the Bracks-Brumby-Baillieu governments' real reasons for hanging on to the grand prix are easy to spin so they are left hiding behind GP organiser claims, which are increasingly incredible. Despite gotcha media, political opponents and angry shareholders probably the only really effective strategy in all these cases is just to say "sorry — this was wrong, now we're going to try something else." But that appears to be a very hard thing to do — and there is always a media secretary or consultant who can come up with a good reason why it won't work.

**Declaration of interest: the author was a founder of the Australia-Cuba Friendship Society, lives near the Melbourne grand prix track and his former firm worked for many IT&T companies.*

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