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## REVIEW

Editor: Mike Nahan. Publisher & Executive Director: Mike Nahan. Production: Chris Ulyatt Consulting Services Pty Ltd.  
Designed by: Colin Norris, Kingdom Artroom. Printed by: Print Hotline, 47 Milligan Street, Perth WA 6000.  
Published by: The Institute of Public Affairs Ltd (Incorporated in the ACT) ACN 008 627 727.  
Level 2, 410 Collins Street, Melbourne Victoria 3000. Phone: (03) 9600 4744. Fax: (03) 9602 4989. E-mail: ipa@ipa.org.au Website: www.ipa.org.au

Front cover design by David Hughes Inside cartoons by Peter Foster [(03) 9813 3160]

Unsolicited manuscripts welcomed. However, potential contributors are advised to discuss proposals for articles with the Editor.

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# From the Editor

MIKE NAHAN

The food-processing industry should be booming, but it isn't and is not going to be until there are changes in our workplace culture.

As the special report in this edition makes clear (pages 17–24 below), while there are some very real success stories (most notably, wine) the industry, in general, is going backwards. Exports are stagnant, returns are abysmal, productivity is low, plants are closing, jobs are being lost, and multinational investors are passing us by.

This situation has long been an open secret in the industry. The industry has also been the subject of more government probing and promotion than just about any other industry, with little success.

This has the hallmarks of being a national disaster. Not only does the food industry employ 168,000 people directly, it is the largest market for our rural products. Moreover, there are indications that the situation is going to get worse, and that for some firms the situation may be irreversible.

The key problem is not just poor workplace relations, but a great reluctance to face up to them. Many firms are in denial mode. Others habitually look to government to take the lead. Others still are inhibited from joining any squabble with unions by the very real threat of brand-name damage. As for the union movement, many elements are retreating into militancy, turf wars and a zero-sum mentality. Leadership is required now.

Leadership of a different sort will also be needed from the new Minister for the Environment, David Kemp, as he attempts to shift the focus of debate on environmental issues from the 'deep greens' to the 'browns'—that is from the crisis merchants to the problem solvers; from the PR flaks to the scientists; from the activists to the community and the individual. This will not be easy. The deep greens are vocal,



organized, media-savvy and extremely well-funded. The 'browns', by contrast, are quiet, dispersed, media-shy and operate on the smell of an oily rag. Moreover, the deep greens have invested heavily in the Kyoto Greenhouse treaty—not only as a powerful symbol of the 'catastrophic failure of unchecked capitalism', but also as an overarching institution by which they can help control 'the system'. One of Dr Kemp's key tasks will be to say 'no' to Kyoto.

A place to start the shift is with the science. For many deep greens, science, scientific methodology and facts are simply malleable campaigning tools. As a result, environment policy and priorities have a false sense of urgency, and are used to get other people to solve non-problems.

Danish environmentalist Professor Bjørn Lomborg has made a substantial contribution to debunking the methods and myths of the deep greens in his recent book, *The Skeptical Environmentalist*. Professor Lomborg's path to the book is an interesting one. He started out to defend the environmentalists against the criticisms of Julian Simon—who argued that the population explosion was a dud. Instead, after analysing the data, he was convinced that Simon was by-and-large right. He went on to examine the evidence behind a range of other campaigns favoured by environmentalists and found

them to be equally flawed. Not surprisingly, the book has received wide review and attacks by many environmentalists. Ian Castles, former Australian Statistician, discusses the attacks on Lomborg and what this says about the debate on environmental issues (see 'Scientists, Statisticians and the Prophets of Doom' on pages 6–10).

One of the key themes to come from the recent Federal election, is that the élites in Australia have lost touch with, and respect for, the general population. As with the republic and aboriginal reconciliation, Howard's battlers rebuffed the élites on the issue of refugees. Again, instead of trying to understand public opinion and debate the issues, the élite heckled, threatened and called them racists.

This is not healthy. Élites are needed to ensure that issues and ideas are developed and tested. If they lose touch with the public, populism will rule. We need to put the élites back in touch with Australian cultural norms on issues such as immigration, Aboriginal affairs and globalization. Bob Birrell and Katharine Betts make a contribution to this process with their review of the evidence about public opinion on immigration (see pages 3–5). What they find is not racism, but deep concern about 'hard' multiculturalism.

Finally, to 'their ABC'. Another outcome of the election was the ABC collective's overwhelming victory over those of us who want a more inclusive ABC. Through a campaign based on rumours, accusations and innuendo, they got the hapless ABC board to fire Jonathan Shier. We can only hope that the ABC Board will find the mettle to hire and then support a new reforming Managing Director of the ABC. In anticipation of this, Glenn Darlington, former Director of ABC Radio in WA, outlines some important ideas for reform (see pages 36–37).

IPA

REVIEW

# Australians' Attitudes to Migration

BOB BIRRELL AND KATHARINE BETTS

**S**INCE the early 1970s, a majority of Australians have favoured a reduction in Australia's immigration programme or no increase. Through most of this period the largest group was those who wanted to see a reduction. The latest opinion poll on the question (September 2001) shows that 41 per cent think that we are bringing in too many immigrants, 44 per cent think that the current numbers are about right and 10 per cent think that the numbers are too low. Figure 1 shows that the 41 per cent figure is low relative to earlier polls. It probably reflects a recognition that since coming into office the Coalition Government has tightened the intake. It may also reflect the relatively buoyant state of Australia's labour market.

There are a variety of factors shaping this negative orientation. They include doubts about the alleged economic benefits of immigration and, in some quarters, fears about the long-term environmental implications of population expansion. But overriding these concerns are some much deeper worries about how immigration is affecting Australia's social make-up and identity. It is these concerns which make immigration such a hot issue in Australian politics.

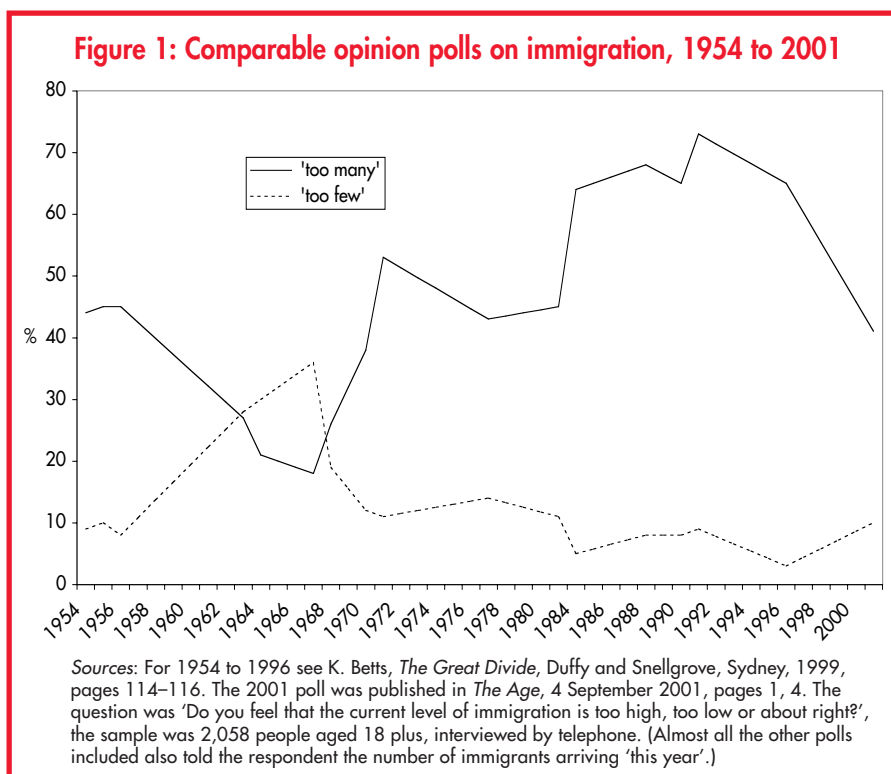
Figure 1 shows that Australians are less dissatisfied with immigration policy today than they were in the late 1980s and early 1990s, but that, unlike the mid-1960s, there is virtually no constituency for a larger intake. It is true that persons born overseas, particularly in non-English-speaking-backgrounds (NESB) are more favourably disposed towards

high migration. But few seem prepared to vote for political parties seeking their support on the immigration issue. This is evident from the results of the November 2001 election. The Howard Government, as we all know, took a strong stand on border control. Ethnic and liberal humanitarian leaders alike cast this stance as akin to playing the race or anti-immigration card. If there were a constituency of NESB origin Australians uneasy about their status in Australia and, on this account, likely to interpret the tough border-control measures as a covert attack on them, one would expect them to vote accordingly.

The Unity Party offered itself as a political focus of these concerns in Melbourne and Sydney electorates

with high migrant concentrations. It conspicuously failed, however, to attract voters, migrant or otherwise. It lost more than half its vote between the 1998 and 2001 elections, including in electorates such as Fowler and Reid in Sydney where migrants (including recent arrivals to Australia) make up a high proportion of voters. Though Labor won easily in these electorates, there was actually a substantial swing to the Coalition on a two-party-preferred basis. The only evidence of any support for open borders in the 2001 election was that registered by the Greens, but that support was on a small scale and occurred primarily in more middle-class electorates.

Why is this so? Australians are much like their counterparts in



Western Europe. Since the early 1970s, not one Western European Government has kept a migration programme in place (whether on a temporary or permanent basis). None provide for family reunion except for spouses and dependent children. This is largely because of the social tensions stemming from the aftermath of the 'guest worker' era of the 1950s and 1960s. Most Western European nations had taken large numbers of culturally distinct peoples during this era, including Turks in Germany, North African Muslims in France, and former colonials from India, Africa and the West Indies in Britain. In each instance, this prompted popular worries about the ways migrants were allegedly reshaping the social fabric of their society and about related national identity issues. The outcome was that this removed any prospect of an active immigration programme from the political agenda throughout Western Europe.

There are parallels and differences with Australia. Government and elite support for multiculturalism has made the expression of blatant hostility to migrants on cultural and racial grounds (such as that voiced by the *Front National* in France) illegitimate here. Most Australians

now agree that people should not suffer prejudice on account of their religion or ethnic background. But equally, as Table 1 shows, most Australians also expect migrants to embrace their new home and to 'do in Rome as the Romans do'.

Despite nearly 20 years of official multiculturalism, most Australians in 1994 wanted migrants to 'live like the majority'. This is true even of most migrants. The only group to show substantial enthusiasm for a form of (hard) multiculturalism, in which ethnic communities are sustained across the generations, were people with a university degree. Public commentary which insists that ethnic diversity is good in and of itself has very limited support; rather than delighting in this diversity most Australians fear that it leads to national division. There is, however, broad support for (soft) multiculturalism whereby migrants are encouraged to integrate within mainstream Australian society free of any prejudice associated with their cultural or birthplace backgrounds.

The pattern of immigration to Australia over the last couple of decades has added to fears about hard multiculturalism. Since the early 1980s, more than half the net migration to Australia has been from Asian

and Middle Eastern sources. The people entering Australia from these countries have settled overwhelmingly in Sydney and Melbourne. At the same time, this newer stream of migration has been accompanied (particularly in the 1980s) by a militant, hard form of multiculturalism, which proposes to recast Australia as a community of communities. As a consequence, immigration and multiculturalism tend to be seen as synonymous. In reality it is very unlikely that ethnic communities will be reproduced across the generations, as some hard multiculturalists would like. This is because there is a high degree of intermixing and intermarriage amongst most ethnic groups. Nevertheless, recent migrant settlement patterns give some credibility to critics who assert that we are becoming increasingly divided along ethnic lines.

The greatest challenge is in Sydney—the focal point of the new migration stream. By 1996, 32 per cent of all residents of Sydney were born overseas. A third of these, or 10 per cent of Sydney's total population, were born in Asia. The reasons for this outcome are the concentrated patterns of settlement among new arrivals. By 1996, 73 per cent of all persons in Australia who were born in the Lebanon were living in Sydney, as were 56 per cent of all persons born in China, 54 per cent of the Hong Kong-born, and 39 per cent of the Vietnam-born. Most of these people (particularly those with limited financial resources) were settled in the poorer South-Western suburbs of Sydney. In several of these, including Auburn, Canterbury and Fairfield, 70 per cent of the adult population was overseas-born by 1996, with the great majority of these coming from NESB backgrounds.<sup>1</sup>

It may be, as with past settlement patterns of Southern Europeans in Melbourne and Sydney, that some of these concentrations will disperse. Nevertheless, the pattern described above is plain to see, and not just for

**Table 1: Attitudes to multiculturalism, sample grouped by education and birthplace, May 1994 (percentages)**

'Which of these statements comes closest to your view? "We should welcome and respect migrants who have different ways of living and behaving" or "Migrants should learn to live and behave like the majority of Australians do"?'

	Respect different ways of living	Migrants should live like the majority	Don't know or no response	Total
Whole sample	35	61	4	100
Education				
non-university	26	70	4	100
University	58	39	3	100
Birthplace				
Australia	34	62	4	100
not Australia	39	57	4	100

Source: Irving Saulwick and Associates, reproduced in Betts, *op. cit.*, page 130.

those who live in Sydney. Recently they have been accompanied by a series of incidents allegedly involving criminal ethnic gangs. These developments have engaged popular fears that immigration and multiculturalism are turning Australia into a series of communities divided on ethnic lines. This is one reason why immigration is so controversial in Sydney. It also helps to explain the hitherto unheard of situation in post-War Australian State politics where a Premier (in this case Bob Carr) has no qualms about stating an uncompromising low-migration stance.

While these concerns are evident, it is hard to see any Australian Government embracing an immigration policy like that currently pressed by elements of the business community. In effect they want to quadruple the annual net intake so that Australia can approach 50 million by the middle of this century.<sup>2</sup> Immigration on this scale would have to be drawn from the newer Asian and Middle Eastern sources. It would imply an even greater ethnic transformation of Australia's major cities, with all the challenges to national identity accompanying such changes.

The business community (and worried liberal humanitarians) appears to have difficulty understanding why Australians feel so threatened. In our view, the core issue concerns conceptions of community. Most Australians have a sense that they belong to a distinctive national community; they identify with this community and are proud to belong to it. Bloodlines do not come into this; immigrants who want to join the team are accepted. Nonetheless, this sense of belonging has a quasi-ethnic feel to it, which is another way of saying that it is an affair of the heart as much as of the head.

Successful business people, and many high-level public servants (and academics, especially in the humanities and social sciences), focus on an international or cosmopolitan community. Our interpretation of the

opinion poll data indicates that mainstream Australians do not. They do not see themselves as working overseas, or as having business contacts and colleagues in other countries, or caring about the opinion of foreign élites. Australia is their 'community of fate' and because of this, its boundaries are important to them.

It is a matter of some urgency for this majority that their national community remains meaningful and that it is seen to be operating as a unit capable of acting on their behalf. High migration, combined with élite celebration of cultural diversity, appear to be regarded by many Australians as a direct challenge to any notion of community which emphasizes what is shared in common. Unregulated migration of people arriving uninvited and demanding to be accommodated as refugees is another direct challenge. Hard multiculturalism implies that being an Australian is losing its meaning, while unregulated immigration implies that their community has no boundaries and has lost the capacity to determine its membership.

#### NOTES

- 1 For details, see Bob Birrell and Byung-Soo Seol, 'Sydney's ethnic underclass', *People and Place*, vol. 6, no. 3, 1998.
- 2 Rebecca Kippen and Peter McDonald calculate that if Australia were to reach 50 million people by 2050, net migration would have to rise to 460,000 per annum immediately, and if we were to stabilize at 50 million it would then have to stop. See 'Achieving population targets for Australia: an analysis of the options', *People and Place*, vol. 6, no. 2, 1998, pages 11–23. Net overseas migration for 1999–2000 was 99,000.

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I P A

## Musing...

### Brain Gain not Drain

by MIKE NAHAN

Is Australia suffering from a brain drain? Not according to the data.

Although we frequently hear laments about the loss of highly skilled Australians in search of work, the fact is that, on aggregate, Australia is experiencing a very large brain gain.

Over the five years to 1999–2000, 94,130 Australian residents with professional qualifications departed our shores, with the United Kingdom being far and away the main destination, followed by the USA, Singapore and Hong Kong. Although this sounds like a large number, it accounts for less than two per cent of all professionals working in Australia.

Characteristically, departing Australian professionals do not stay overseas for good, indeed most return within a couple of years.

During this five-year period, 190,656 professionals came to work in Australia. As a result, Australia experienced a net gain of 96,526 skilled professionals. Indeed, Australia experienced a net gain in every professional category and in each of five years, the only exception being natural and physical science professionals, for which there was a net loss of 213 over the period.

Unlike departing professionals, professionals coming to work in Australia tend to stay—often for good.

#### Australia: Departures and Arrival of Professionals (1995-96 through 1999-2000)

Departures	94,130
Arrivals	190,656
<b>Net Gain</b>	<b>96,526</b>

Source: B Birrell, I. Dobson, V. Rapson, and T.F. Smith, *Skilled Labour: Gains and Losses*, Centre for Population and Urban Research, Monash University, July 2001.

# Scientists, Statisticians and the Prophets of Doom

IAN CASTLES

**I**N *The Unnatural Nature of Science* (1992), Lewis Wolpert, FRS, Professor of Biology at University College, London, concluded that 'Science is one of humankind's greatest and most beautiful achievements and for its continuation, free and critical discussion, with no political interference, is as essential today as it was in Ionia'.<sup>1</sup>

In principle, the international science community accepts the vital importance of such 'free and critical discussion', and asserts the need for these values of science to be applied to the world's problems. The most recent such proclamation came from 63 academies of science after a meeting in Tokyo in May 2000:

Science is, in a very fundamental sense, the process of seeking the truth. The values of the scientific enterprise—openness, community, quality and respect for evidence—are of great importance and application to the search for sustainability. The scientific community must be involved in the broad interactive process of establishing societal priorities ... and in fostering the public understanding and the political will to ensure that progress moves in directions that correspond to those priorities.<sup>2</sup>

Regrettably, however, there are many in the science community who are more strongly committed to implementing *their* priorities than to the values of the scientific enterprise. This has recently been demonstrated in their enraged reaction to *The Skeptical Environmentalist* by Bjørn Lomborg,<sup>3</sup> a book that takes issue

with the claim that the pursuit of economic progress inevitably leads to an ever-deteriorating environment. Lewis Wolpert, for one, has found it convincing:

At last a book that gives the environment the scientific analysis it deserves, and provides understanding of the problems, the risks and the solutions. Essential reading.<sup>4</sup>

But many other scientists are unhappy at the attention that is being given to an alternative view, as James Woodford revealed in his

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**Regrettably ... there are many in the science community who are more strongly committed to implementing their priorities than to the values of the scientific enterprise**

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review of the book for *The Sydney Morning Herald*:

For 350 pages, backed up by nearly 3000 footnotes, the Danish statistician critically examines the slogans and arguments that have galvanised much of the developed world into environmental action. It is a book that the green movement would love

to see pulped; several people I have spoken to about the text have asked me not to give Lomborg any more publicity.<sup>5</sup>

Three of Lomborg's critics confronted him on the *Earthbeat* programme on ABC Radio on 13 October. Alexandra de Blas introduced the segment with the comment that the new book 'has environmentalists and scientists from around the world fuming'<sup>6</sup>—and she introduced Tom Burke, environmental adviser to Rio Tinto and BP, as the author of what she called a 'damning paper' on the book.

This was the pamphlet *Ten Pinches of Salt*,<sup>7</sup> which was released by the UK Green Alliance on the same day as Lomborg's book was published by Cambridge University Press. At the launch, Burke labelled *The Skeptical Environmentalist* 'a dishonest and discreditable smear on the many millions of professionals and volunteers working to improve the environment', and claimed that the positions that Lomborg had attacked were 'a caricature of his own invention which bear no resemblance to the arguments currently deployed by environmentalists'.<sup>8</sup>

On *Earthbeat*, Alexandra de Blas asked Burke to outline his main concerns with the publication. He began his response by challenging Lomborg's credentials. He (Burke) had 'actually talked to Greenpeace, and they are very clear that they have no record of Bjørn Lomborg ... as an activist member'. When Lomborg responded that he had 'never been out in a rubber boat' but was 'a suburban kind of Greenpeace member', Burke replied:

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That doesn't make you an environmentalist, Bjørn. I mean that would make me a statistician because I've done some calculations.<sup>9</sup>

Tom Burke is certainly not a statistician, and it is not possible to identify his area of expertise either from his pamphlet or his comments on *Earthbeat*. In the former, he acknowledged that the Club of Rome had been wrong to argue that 'natural resources are running out', and that 'Paul Erlich [sic] did make, and lose, his famous wager with Julian Simon'. But he asserted that, as of now, 'Environmentalists do not believe that natural resources are running out', and questioned 'what is gained in 2001 by resurrecting a long dead argument only to kill it all over again'.<sup>10</sup>

Far from being 'long dead', the argument is alive and well in the scientific community: it is just that it is now presented in a somewhat more sophisticated guise than the simplistic models made notorious by the Club of Rome and the writings and lectures of Ehrlich (Professor of Biological Sciences at Stanford). For example, the statement in May 2000 by 63 academies of science declared that human consumption reduces 'the future availability of materials and energy', and that 'if current trends in ... consumption of energy and materials ... persist, many human needs will not be met and the numbers of hungry and poor will increase'.<sup>11</sup>

Perhaps the academies do not realize it, but this assertion effectively implies that 'natural resources are running out'. If they are not, why would growth in the usage of such resources work against the satisfaction of human needs, and lead to increases in the numbers of hungry and poor?

Burke recognizes that 'Professor Erlich [sic] did predict in his book *The Population Bomb*, published 23 years ago, that "In the course of the 1970s the world will experience starvation of tragic proportions—

hundreds of millions of people will starve [sic] to death". And he even goes on to argue that Ehrlich

was, as we all too often witnessed from the comfort of our living rooms, right... But I cannot recall, and Professor Lomborg does not cite, another occasion on which he made this prediction.<sup>12</sup>

This is wrong on a number of counts. First, Lomborg *does* cite another occasion—an article in *The New Scientist* in which Ehrlich urged the US to announce 'that we will no longer send emergency aid to India where sober analysis shows a hopeless imbalance between food and popu-

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**Burke is apparently unaware that the spectre of the imminent deaths of hundreds of millions raised by Paul Ehrlich ... was not a 'prediction': it was the most optimistic of three 'scenarios' that [Ehrlich] offered**

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lation'.<sup>13</sup> Second, there were many more such occasions: in 1969, a *New York Times* correspondent reported that the Stanford biologist 'turns out a steady stream of popular articles and books warning of unimaginable famine, nuclear destruction and plague if something isn't done quickly about rising population'.<sup>14</sup> Thirdly, no one denies that there are and always have been starving people in the world, including in the 1970s: images on television screens can only testify to that tragic fact, not to the existence of 'unimaginable famine'.

But finally, and most importantly, Burke is apparently unaware that the spectre of the imminent deaths of hundreds of millions raised by Paul Ehrlich in his 1968 book was not a 'prediction': it was the *most optimistic* of three 'scenarios' that he offered as a description of the 'kinds of disasters that will occur as mankind slips into the famine decades'—and he challenged his readers to create a more optimistic one.

Paul Ehrlich was explicit that his scenario presuming 'the death by starvation of perhaps as many as half a billion people' was a 'cheerful' one with 'considerably more appeal than the others'. His fear was that it involved 'a maturity of outlook and behaviour in the United States that seems unlikely to develop in the near future'. For example, it would require the suspension of food shipments to 'India, Egypt and some other countries which [the US] considers beyond hope'; the imposition of 'a moderate food rationing program' in the US itself; and the development of a plan to contain the world's population to two billion in 2025 and 1.5 billion in 2100.

The scenarios that Ehrlich considered more likely envisaged either an early global war induced by pressures on food supplies, with more than 100 million Americans dying from the fallout from Chinese thermonuclear devices 'transported in submarines [and] detonated in the sea off our West Coast'; or famines, plagues and anarchy leading to 'a general thermonuclear war' in the 1980s, making the entire globe uninhabitable by humans. The most intelligent creatures ultimately surviving this catastrophe would be cockroaches.<sup>15</sup>

Understandably, Tom Burke and the millions he believes to have been smeared by Lomborg's analysis would prefer these false prophecies of doom to be forgotten. They would like to anathematise Matt Ridley, author of *Genome*, for his advice to every environmentalist to read Lomborg's book 'so that the appalling errors of

fact the environmental movement has made in the past are not repeated'.<sup>16</sup>

Under the sarcastic heading 'Simon says', Burke alleges that Lomborg dismisses the issue of waste by leaning heavily 'on data from his mentor, Julian Simon', and claims that *The Skeptical Environmentalist* 'fails to mention toxic or hazardous wastes'.<sup>17</sup> To a lay person, this does not appear to be so. For example, Lomborg cites US statistics showing decreases between 1986 and 1995 in the concentrations of pollutants in mussels of '28 per cent for cadmium, 36 per cent DDT, 48 per cent polychlorinated biphenyl (PCB), 56 per cent dieldrin, 62 per cent polycyclic aromatic hydrocarbons (PAH) and 86 per cent butyl tin'; and Danish statistics showing 'declines of DDT and PCB in saltwater fish of more than 90 per cent since 1973'. And he quotes from the latest US *State of the Coastal Environment* report the statement that 'most pollutant concentrations are decreasing and none is increasing'.<sup>18</sup>

Burke goes on to give the following summary of Lomborg's account of the relationship between air pollution and income levels in developing countries:

Air pollution in the rest of the world, where two-thirds of humanity live, need not be *considered*, in Professor Lomborg's view, because this will *cease automatically* as they get richer. This confuses cause and correlation, not a mistake you would expect from a statistician.<sup>19</sup>

But Lomborg *does* consider air pollution in developing countries and *does not* claim that it will cease automatically as they get richer. Indeed he recognizes that the tendency is for air pollution to continue to rise in developing countries until incomes reach medium levels. Beyond those medium income levels, however, he argues that the tendency is for air pollution to fall (not 'automatically', but as a result of public preferences and political

decisions) to 'the level [those countries] had before they started developing'.

Lomborg assembles the evidence for these propositions in the form of charts showing the connection between GDP per capita and particle and SO<sub>2</sub> pollution for 48 cities in 31 countries, for each of the years 1972 and 1986. The analysis includes cities in the developed world and in

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**Lomborg provides strong evidence that in mixed market economies with democratic institutions, the growth of income above a medium level ... will lead to environmental improvement**

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China, India, Thailand, the Philippines, Korea, Brazil, Chile, Colombia and Venezuela. It shows that, between these two years, both types of pollution fell for all nations at all levels of wealth. Lomborg concludes that 'developing countries can not only achieve both economic growth and a better environment, but over time will get even better environment for a given amount of wealth':

This is because developing countries can buy progressively cheaper, cleaner technology from the West. The key factor here is that technology makes it possible to achieve growth as well as a better environment.<sup>20</sup>

Many scientists have become so accustomed to thinking of growth and the environment as opposites that they are unable to accept the clear message of the empirical

evidence on this fundamental point. Thus Ian Lowe, Emeritus Professor of Science, Technology and Society at Griffith University—another critic of *The Skeptical Environmentalist* on the ABC *Earthbeat* segment—claimed that

... to say the problems [of the environment] will be solved by greater wealth and private property rights is economic dogma, ... not science. There's no convincing evidence that greater wealth *necessarily* leads to environmental improvement. Even Bjørn's figures show that in some cases greater wealth makes the environment better, in others it clearly makes it worse. It all depends on the starting point and what options people have.<sup>21</sup>

Again, this is a distortion of Lomborg's argument. It is the *denial* of the proposition that problems of the environment can be solved by greater wealth that represents dogma, not science. Of course it is *possible*, with ill-considered policies, for the average wealth of medium income countries to increase and for the environment to deteriorate: this was demonstrated by the experience of the Warsaw Pact countries in the 1950s and 1960s. But Lomborg provides strong evidence that in mixed market economies with democratic institutions, the growth of income above a medium level (a level that much of the developing world has either achieved or can be expected to achieve in the not-so-distant future) will lead to environmental improvement and not the reverse.

A major reason for this, as Lomborg points out, is that advancing technology facilitates both growth in average incomes and improvements in the environment. Ian Lowe cannot see this because his conceptual schema puts technology and 'wealth' into separate boxes, and assigns the interest in 'wealth' to a discipline whose practitioners are supposed to have no understanding of technology:

One particular problem in Australia is that much of the advice reaching government comes from economists who have no understanding of technology... (K)ey areas of the Commonwealth Public Service are thickly infested with economists, carrying with them *the bizarrely simplistic view that technological change is predominantly an economic activity*. There is every reason to argue that technological literacy should be more widespread; in a modern society it could almost be argued to be a prerequisite for positions of responsibility to understand the general principles of technology.<sup>22</sup>

On the *Earthbeat* programme on 13 October, the third of the invited contributors, Stephen Schneider, responded as follows to Alexandra de Blas' inquiry as to why he was so 'red hot under the collar' about Lomborg's book:

Well, for those of us who in my case have spent about three decades working with thousands of scientists and policy analysts and others, trying to figure out something about ... the future we face ... we end up with a maddening degree of uncertainty... We fight amongst ourselves ... and have virtually no agreement and now all of a sudden I see in *The Skeptical Environmentalist* the sub-title 'Measuring the Real State of the World', and the person who's a non-contributor to the debate has selected largely out of context the happier news.<sup>23</sup>

Schneider, who is Professor of Environmental Biology and Global Change at Stanford, was 'angry' at CUP for publishing Lomborg's book. Asked by de Blas whether this was 'just a case of the Old Boys' Club getting their noses out of joint because there's a new voice with a very different message', Schneider responded:

It was published from the social and political science part of the shop, yet this book requires a

tremendous amount of natural science, physical and biological sciences, upon which a lot of these conclusions about social science are based. And what Cambridge should have done ... and I've held them ... quite derelict for this, [was] have reviewers across all three of the groups ... so they could have found out whether the grounding in the other disciplines was a balanced treatment... And I think had they done that, they would have made a very different conclusion about publishing the book.<sup>24</sup>

It is not clear that this is so: Lewis Wolpert, for one, would presumably have advised Cambridge to publish the book if his opinion had been sought. And many of the 'thousands of scientists and policy analysts and

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**Advancing technology facilitates both growth in average incomes and improvements in the environment. Ian Lowe cannot see this because his conceptual schema puts technology and 'wealth' into separate boxes**

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others' to whom Schneider refers might not agree that an intelligent and persuasive voice should be denied a hearing for the reasons that he gives.

It is perhaps fortunate for Stephen Schneider that Bjørn Lomborg did not review Schneider's contributions to the debate on global climate change and associated issues during the past 30 years. Some of

these are worth recording here—not for the purpose of casting doubt on Schneider's distinction as a scientist, but in order to show that the stones he throws at Lomborg come from the occupant of a glass house. Here is Schneider's assessment of the prospective direction of global climate change, from a book published in 1976:

I have cited many examples of recent climatic variability and repeated the warnings of several well-known climatologists that a cooling trend has set in—perhaps one akin to the Little Ice Age—and that climatic variability, which is the bane of reliable food production, can be expected to increase along with the cooling.<sup>25</sup>

In 1989, by which time Schneider was calling for immediate action to check the prospect of global *warming*, he gave this view of the way scientists should contribute to the debate:

... like most people [we scientists] would like to see the world a better place, which in this context translates into our working to reduce the risk of potentially disastrous climatic change. To do this we need to get some broad-based support, to capture the public's imagination. That, of course, entails getting loads of media coverage. So we have to offer up scary scenarios, make simplified dramatic statements, and make little mention of any doubts we might have. This 'double ethical bind' we find ourselves in cannot be solved by any formula. Each of us has to decide what the right balance is between being effective and being honest. I hope that means being both.<sup>26</sup>

In a recent lecture in India, Deepak Lal, Professor of International Development Studies at UCLA, recalled how he became involved in debates on the environment when he was preparing the 1990 Wincott Lecture:

Having read the scientific literature I was appalled at how the

scientists—like Stephen Schneider—openly admitted they were creating alarm for a phenomenon they themselves recognized as highly speculative. My lecture not surprisingly ended up as an attack on this scientific attempt to bamboozle the public.<sup>27</sup>

While Schneider sees himself as justified in making ‘little mention’ of his doubts, he condemned Lomborg on the *Earthbeat* programme for having ‘a confidence that’s not based on any significant analysis by him, or any properly balanced citation from the literature’.<sup>28</sup> As the preceding discussion shows, Lomborg’s analysis cannot be so lightly dismissed. As a professor of statistics in a school of political science, he is better equipped to assess the relevant evidence, and to understand the processes by which societal priorities are determined, than many of his critics.

At the conclusion of the *Earthbeat* segment on ABC Radio on 13 October, Lomborg summed up his position as follows:

Yes, I’m a political scientist, economist, statistician. Yes, we do actually look at things in a different way. I asked the question which is fundamental to democracy and to our prioritisation process: ‘So overall, how are things going?’ A lot of these people would like to sit on the debate and say ‘We have the right answer’. Well, no, they have the right understanding in many of these models, but the basic question of what should we do, how things are basically going, needs also to come out there, and that I think has not been coming out from science. But certainly we need to get that overview of the world and that is what I’ve tried to provide.<sup>29</sup>

Lomborg has made an outstanding contribution to the discussion of some of the most vital issues of our time. If parts of his analysis are unsound on scientific grounds, it should not be beyond the capacity

of scientists to demonstrate this in free, critical and civil discussion. Those who have chosen instead to distort or suppress his message, or to

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engage in ill-tempered abuse, are doing a disservice to themselves, their disciplines and the scientific enterprise.

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**I P A**

**REVIEW**

# Electorate Wins Battle, Élites Winning War

GARY JOHNS

**F**OLLOWING the Federal election, the former ALP pollster, Rod Cameron, remarked that in the contest between the electorate and the élites, the élites always win. He was clearly wrong on illegal immigration. The electorate chose a Prime Minister to reflect its concern about who comes to Australia, and who gets to stay. The electorate was being lectured by the élites to accept people who had enough money to purchase an illegal passage to Australia, having already passed through a number of countries where they could have sought asylum. The electorate concluded that the 'boat people' were not fair dinkum; they were incensed that the illegals hijacked the *MV Tampa* and used extreme means to pressure Australia to accept them.

In her book, *The Great Divide*, Katharine Betts wrote of 'the deep divide between professionally-educated internationalists and cosmopolitans (people who are attracted to the wider world of "overseas" with all its problems, challenges and difficulties) and the much larger number of lower-class parochials, people who value the character of their national home and rely on its borders to protect them from external turbulence and distress.... The former tends to approve of immigration while the latter does not.' A 'correct' attitude to immigration is a powerful indicator of one's membership of the élite.

There are other areas where the divide between the élites and the electorate is significant. On these and most other issues, Cameron is right, the élites will win. Ross Terrill

(*The Australian*, 21 November 2001) summed up the élites as follows:

They see only what they believe. In their hearts, they know what is best for us. They wince at basic Australian values. The triumph of the West in the Cold War has left them well, cold.... They like every brand of diversity except the political kind.... In a nation with an egalitarian tradition, it is startling to see a huge gap between grassroots opinion and a lockstep stratum of journalists, academics, bureaucrats, publishers and other granny-state enthusiasts fuelled by taxpayer dollars. These gatekeepers think Howard is illegitimate because on race, Asia, reconciliation, UN admonitions [over human rights] to Australia, and the Republic, he does not share their views.

These are the topics on which élite and general opinion divide, but what is the foundation of the divide? John Stone (*The Australian*, 26 November 2001) observed that the success of the large-scale immigration programme after the Second World War was based on the assumption of assimilation. He claimed that 'cultural compatibility and national cohesion' would lie at the heart of the future debate on immigration. The original contract in immigration was that Australia would accept outsiders as long as they became like us. The tail has begun to wag the dog. So it is with other debates in the élite–electorate divide.

It is not racist to suggest that some cultures are incompatible with a liberal democracy. It is not anti-

Asian to seek an engagement beyond Asia or to seek to enhance Australian ties with our most powerful ally, the USA. It is not anti-reconciliation to reject the separatist elements implied in the reconciliation agenda, which include calls for a treaty. It is not anti-human-rights to limit the law's ability to deliver non-legal outcomes, such as a better life. It is not anti-Australian to seek the political stability of the present Constitution. Of course, in matters subject to referendum, the electorate has the whip hand. Australia will become a republic when the republican élites agree on a model that is acceptable to the electorate.

An important task for the non-orthodox élites, the iconoclasts, is to reclaim the ground that the élites have stolen from the electorate. The élites suggest that to be in favour of their agenda is to be internationalist and cosmopolitan. They imply that the desire for a secure border and a comfortable home culture are incompatible with a cosmopolitan Australia. The electorate's agenda, however, is just as likely as the élite's to be consistent with a successful Australia in a global economy. The élite's agenda is more likely than the electorate's to ensure a loss of national sovereignty, and to spawn politics that are less democratic, less amenable to control by the electorate.

What is the future for the élites under the Howard regime? Unfortunately, they will carry on as before, preparing for the day when a 'legitimate' Commonwealth government returns. They, especially those who are non-science academics at public

universities, will use public funds to pursue favourite political agendas in the name of academic freedom. The Australian Research Council grants for 2000 and 2001 in the humanities and the social, behavioural and economic sciences offer a clear insight into the direction of a key section of elite thinking—academia. There were around 300 ARC grants in the Humanities and Creative Arts. Potentially, these cover the whole gamut of interests in these disciplines. An extraordinary outcome of the grants is that fully 45 relate to Aborigines. The elite obsession with Aborigines endures. For the social, behavioural and economic sciences (excluding health sciences), the research busies itself overwhelmingly with agendas of race, gender, immigration, and human rights.

There are plainly silly things, such as the project that aims to collect and interpret Indigenous Australian knowledge on weather patterns, environmental and climatic change. These are to be incorporated into the Bureau of Meteorology's Web page to provide 'much needed' information on Indigenous people's understanding of their environment. I am sure that farmers, golfers and anglers will be fascinated.

More serious are the political agendas, the foremost being an Aboriginal Treaty. Marcia Langton, long-time Aboriginal activist, has been funded to examine treaty- and agreement-making with Indigenous Australians, to 'contribute to the efforts by Indigenous organizations to secure political and economic rights through agreements with governments, industry and the community.' This is political advocacy. It does not even pretend to generate new or original work. Why was it funded?

Historians are being called as expert witnesses in cases involving indigenous litigants. Apparently, historians 'perceive serious difficulties in the Court's treatment of qualitative [read oral], historical

material, resulting in a possible denial of access to justice.' The investigation asks whether historians as expert witnesses can retain both their historical professionalism and adapt to the requirements of the courts, or whether the courts' rules of evidence themselves require adaptation. The agenda is clear—the

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***The elite's agenda is more likely than the electorate's to ensure a loss of national sovereignty, and to spawn politics that are less democratic***

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recent invention of belief will have to be believed by the white man's court, lest it offend the sense of justice that the indigenous litigant feels is his due.

The human rights anti-capitalist agenda in the grants list is strong. 'Human rights abuses are perpetrated by multinational corporations, yet they are subject to few laws protecting human rights. Given the global power of these bodies, it is imperative and inevitable that greater legal accountability mechanisms will be developed.' This statement simply begins with a straw man, the ubiquitous demon, the multinational corporation. It proceeds on the assumption that multinationals are not already subject to sufficient legislation. As the study applies to Australia, this is certainly the case.

Another study asserts that 'Young women who leave school early are the most economically disadvantaged young people in the labour market'. It exclaims, 'the research findings will enrich gender justice and social theory.' In other words,

the research is designed to promote a cause, it is social science as advocacy. The fact that young women may fall pregnant in order to receive a pension may not suit gender justice and social theory. The findings of that research will have to contend with the findings of another. The other one 'will advance theoretical understanding about social justice' by clarifying 'whether authorities are seen to be legitimate or otherwise, and the conditions under which people are perceived to be entitled to benefits.' Which, translated, means that you can bite the hand that feeds you.

There are no grants for studies of wealth creation—although there is one study of the impact of China's entry to the WTO; no studies on a more efficient tax system—just the claim that 'current changes to taxation and welfare programs increase inequality'; no studies on the size of government, or the cost of restrictive practices such as the Kyoto agreement, or further deregulation of the labour market—although one promotes the union movement's labour rights agenda of the WTO. There is a study of the impact of international competition on whitegoods manufacturing, with a view to a positive response. There is a technical study of lucerne production for salinity management, and some modelling of investment and interest rates. There are no grants that study possible contradictions between Aboriginal culture and the ability to participate in the mainstream economy, or of the limits to Australian's attitudes to acceptable behaviour from those who wish to become citizens.

The electorate won the battle of *Tampa*, but the elites, through their vanguard in the humanities and social sciences, may be winning the war.

*The Hon. Dr Gary Johns is a Senior Fellow at the IPA and leader of the NGO Project.*

**IPA**

**REVIEW**

# Family and Work

ANDREW McINTYRE

## Liability Phobia

**Or, How WorkSafe Makes Work for WorkSafe, Infantilizes the Population and Allows Citizens to Divest Themselves of any Alertness or Responsibility**

The boss has a lot to think about in his job. He has his demanding clients, he has his apprentice and other employees to look after and he has his challenges with the work he is actually doing and how to give it his best shot. On top of all this, he knows that he has lots and lots of government regulations to worry about. Let's not go near the GST; he does that bit on the weekends.

Now, the boss is quite aware of safety issues. Hell, he wouldn't want his workers to go off sick. Besides, he likes the bastards. He's learned a lot on the job, from experience, accidents, near misses and common sense ... until the Work Place Safety Inspector starts coming around to justify his own salary.

'I need to talk to the boss', he says to a worker.

'Well, he's the guy on top of that ladder, putting a few screws in the wall'.

'Sir, I need to warn you that the maximum height allowed off a ladder is 2.1 metres. If you need to go up further than this, you will have to obtain a mobile scaffolding or an EWP.' [Elevating Work Platform—note ed.]

The boss is safely up three-and-a-half metres against a flat wall. Well, it feels safe. I mean, would you go up a ladder if you didn't think it was safe? Would you?

'Jeez, mate, why weren't we told about that one?' the boss says.

WPSI replies, 'Sir, it is in your best interests that you obtain and read these requirements from your local WorkSafe office. However, now that I have spoken to you, I will need to make an official document of the verbal instructions. You will be given a copy'.

You see, the trouble for the boss is that these rules from the safety legislation come thick and fast. No letter to tell you. But where do you find out about it? He swears that no bugger behind the counter in his

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**Half of Australia probably needs a bloody '2WE' hazard logo on the wall outside their tool sheds**

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local WorkSafe office is any help; has to get all the literature (sic) and work it all out for himself. Thinks he'll have to retrain as a librarian. I mean, did you know that you can't even store more than 25 litres of inflammable material in your work shed? That means paint, mate. Well, thinners at least and the petrol for the motor mower. Half of Australia probably needs a bloody '2WE' hazard logo on the wall outside their tool sheds.

Another day, the boss was putting up a big sign just above a single-storey verandah. In the old days, his client

got the crane to lift the sign, and with his apprentice holding it in position, he would whack the sign onto the wall. That was then. Now it takes six men to mow a meadow. Well, you've got your crane, but now you have to have an EWP at \$86 per hour, even though, the last time, the boss stood on the flat roof of the verandah. But with the EWP, he needs two extra guys at \$25 per hour to stand under each end of the verandah to let the public know what's going on (in case they hadn't noticed). Reminds him of the days when a guy with a flag walked in front of steam trains. And then there's yet another extra guy standing next to the EWP driver just in case something goes wrong, like the boss up there is busting for a leak and the EWP driver hasn't noticed, or in case he has a heart attack and the boss is left there overnight.

The boss's mind wanders on to his electrical equipment. Every last extension chord, plug, saw and drill has to be tested and tagged every three months by a Qualified Electrician before he can even dream of bringing it onto the work site. Year in, year out. Well, except his radio. The battery-operated drill is OK too, but not the charger. If one tag is missing, anywhere, that's it. The WorkSafe guys close down the site and put everyone off the job.

The boss eventually gets down to the local branch of WorkSafe to get his Literature. He is greeted by a staff member on crutches. Nothing like training on the job, but let's hope he wasn't cutting corners on the WorkSafe regs.

*Andrew McIntyre is Public Relations Manager at the Institute of Public Affairs.*

**I P A**

Compiled by IPA staff, columnists and consultants ...

## VIVE LA BIOTECH!

And now for some good news. It turns out that genetically modified foods are actually safer than Mother Nature's version. Says who? The biotech-squeamish Europeans, no less. Over the past 15 years, the EU spent \$64 million on 81 research projects to examine the risks involved in genetically modified crops and products. Not a single study found 'any new risks to human health or the environment, beyond the usual uncertainties of conventional plant breeding.... Indeed, the use of more precise technology and the greater regulatory scrutiny probably make them even safer than conventional plants and foods.' We hope the French don't have a collective nervous breakdown.

## NEVER LET A DEAD WHALE FLOAT BY

In mid-September 2001, a dead whale was found in Bass Strait. In a press release, the Australian Conservation Foundation (ACF) concluded that 'it must have been killed by seismic blasts from oil exploration'. Why? Because it was found 'floating belly-up with its guts hanging out'.

The ACF did not claim any expertise about whale physiology, nor did it even examine the dead beast. But it did know that Esso was planning to begin exploration in the region and that the public and the press would lap up any bad news story about dead whales. The dead whale presented a golden opportunity to undermine the 'petroleum-based economy' and to raise funds.

They were right about the press—their friends in the ABC and *The Age* ran the story for all that they could. They were also right about the fundraising opportunity. There was a problem, however, with the facts. As it turned out, Esso had not yet started

exploration and there had not been any seismic testing within 12,000 miles of the area in over twelve months.

Oh well, what are facts in this post-modern world—particularly when a dead whale is involved?

## GREENPEACE RESORTS TO UNTRUTHS—AGAIN

Greenpeace has been forced, once again, to apologize for lying.

In testimony before the New Zealand Royal Commission into Gene Technology last year, Greenpeace claimed that there had been a number of serious breaches of security at GM trials in New Zealand.

Usually, Greenpeace's claims are treated as fact by a fawning media. This time, however, they were confronted by an ex-judge who demanded evidence.

As it turned out, the only breach of security involved green activists invading and destroying a GM potato crop against the wishes of the regulatory authority and in breach of the law. All the other claimed breaches turned out to be false.

As a result, Greenpeace was forced to apologize for submitting false testimony to the Commission and to withdraw its testimony. It was not, however, prosecuted for destroying property and retains its charity status in New Zealand and around the world.

## A 'LIVING WAGE' FOR FINGER PAINTERS

During the last election, after no doubt extensive research, the Australian Democrats concluded that the core of our economic problems lies with our failure to value artists and creative types enough. Their solution was 'a living wage' for artists so that they could be free 'to use their vision and

innovative thinking to provide an (economic) edge'. Freed from the tyranny of audiences and money, singers could enlighten us dull types as we trudge to work each day. Adelaide could become the body-piercing capital of the world, creating a whole new export industry based on new tools and innovative design. Canberra could become the mime capital of the world, creating and exporting to the world new forms of parliamentary debate. We could start a whole community in the rainforest based on selling cheap wood carvings to visitors in Bali. If only...

## BIG BROTHER BOTHERS ACADEMICS

As students know, few things are rarer on campuses than a professor at her desk. The standard replies from departmental secretaries are 'she's working from home today' and 'no, she has no mobile phone'.

The engineering faculty at RMIT decide to tackle the issue with a 'working from home diary'. Under the policy, academics will need to inform the administrative staff of their intention to work from home by listing their movements on a white board—something that has been standard in most other workplaces for a century.

What was the response from our ivory towers? Ms Pierce, the union rep, threatened a lock-out, claiming that 'academics shouldn't have to explain all their movements'. The academics were naturally more aggrieved, with one claiming that 'such an insidious means of keeping a tight rein on staff is having a debilitating effect on academics and leading to a decline in quality of higher education in general.'

Boy—are they a fragile lot!

IPA

# How the Anti-Sweatshop Movement Hurts the People it Claims to Help

IVAN G. OSORIO

**A**USTRALIAN NGOs are increasingly active in opposing 'sweatshops' in the Asia-Pacific region. For instance, Oxfam Community Aid Abroad has a 'NikeWatch' campaign which aims to 'persuade Nike and other transnational corporations to respect workers' basic rights.' These campaigns typically generate positive press attention, but what real effect do they have? Look to America's extensive anti-sweatshop movement for the answer.

## THE HOTTEST CAUSE ON CAMPUS

Earlier this year, students at Northwestern University, near Chicago, held a six-day camp-out on the library plaza to get their school to join the labour-union-backed Worker's Rights Consortium (WRC), a group formed to monitor clothing manufacturers' labour practices. The university's administration surrendered to their demands on 30 April. In May, the president of the University of Iowa ended a two-year protest by a student anti-sweatshop activist group by instructing the school's trademark licensing director to give the six companies that manufacture the university's logo apparel 30 days to sign a university code of conduct or lose their contract. Similar stories abound at other American colleges where the 'anti-sweatshop' movement is the hottest cause on campus.

Many student activists are attracted to the movement thanks to the

media firestorm created by one man, Charles Kernaghan.

## THE NATIONAL LABOR COMMITTEE

Charles Kernaghan leads an organization called the National Labor Committee (NLC) whose stated purpose is to expose management abuses of workers in foreign factories that supply American retailers. The Committee brings to its banner idealistic college students and religious activists concerned about the poor, and it enjoys incredible success with the media. According to *The Los Angeles Times*, 'the committee's work would amount to little without magnification by the media.'

Kernaghan uses well-planned campaigns to set the terms of the 'sweatshop' debate and put his targets on the defensive. He selects high-profile companies and well-known celebrities who value their public image and fear for their reputations. The Gifford campaign was ideal: it combined the largest retailer in the world and America's queen of morning television talk.

After his attack on Gifford, Kernaghan made similar charges against the K-mart clothing line endorsed by former *Charlie's Angels* television star Jaclyn Smith. Other companies followed: Walt Disney, Liz Claiborne, Eddie Bauer, The Gap, and the Milwaukee-based Kohl's department store chain. Last Christmas, Kernaghan held a ceremony to hand out 'Golden Grinch' awards to Nike,

Kohl's, and Wal-Mart, alleging that they tolerated sweatshop abuses on the part of their overseas suppliers.

## WHAT ABOUT THE POOR?

Charles Kernaghan and his allies may inspire college students to feel good about themselves, but do they help the poor?

Of course, the pay and working conditions in impoverished countries such as El Salvador and Nicaragua are often below developed nations' standards. But the *maquiladora* plants—Latin American textile factories that enjoy duty-free re-export rights into the United States—offer real alternatives to no work at all.

In Nicaragua, where the NLC has concentrated much of its effort, the Las Mercedes Free Trade Zone has spurred the country's recent economic recovery. Its 17 factories employ over 8,000 workers, mostly producing clothing. According to Nicaraguan Central Bank estimates, by 1996 the Zone enjoyed total exports of US\$160 million and had attracted US\$45 million in direct foreign investment. That year, the zone accounted for 22 per cent of Nicaraguan exports, which totaled US\$721 million, including US\$50 million in *maquila* value added. The previous year, Nicaragua enjoyed foreign investment of only US\$60 million. Duty-free zones like Las Mercedes attract manufacturers in labour-intensive industries such as textiles and apparel.

Kernaghan's activism does these workers no favors. He admits that 'the

people in that [host] country don't want a boycott that will hurt their jobs.' Yet NLC's strategy of attack and exposure produces harmful boycotts. 'I don't have a right to own products made by slave labour,' student activist Michael Guidice told *Newsday*. 'Just by being trendy and going to the Gap or Banana Republic has consequences on people around the world.' But they are not the kind of consequences Guidice thinks.

Interviewed by the *Milwaukee Journal-Sentinel*, Kernaghan said that wages were the central issue and acknowledged that working conditions are not in dispute: 'Frankly, the factories offshore look better than the factories in the US. I know it gets pretty hot in there, but that isn't the issue. It's the low wages, the union-busting.' The *Journal-Sentinel* sent reporters to Nicaragua last year to get a first-hand look at Chentex, one of the factories targeted by Kernaghan. It reported that they 'found people working hard for their money but saw no instances of physical or verbal abuse or other problems raised by the National Labor Committee.' The reporters described the factory as 'crowded but reasonably clean inside.'

*Journal-Sentinel* reporter Doris Hajewski interviewed Mariana Martinez, a Chentex sewing-machine operator, who has worked in the free-trade zone for three years. Martinez said she was treated well at Chentex, better than at the factories where she worked before. 'We never are out of work,' she said. 'There are helpers who bring work to the operators. At other factories, I had to get up from my machine and pick up the pieces.' Martinez earned US\$31 for two weeks' work at her previous employer. At Chentex, she makes US\$54 to US\$62 for two weeks, above the average of \$100 a month for Nicaraguan workers. She said she does not belong to a union. 'For the moment,' she said, 'I'm fine like this.'

Other workers' stories belie the NLC's portrayal of *maquiladora* workers as miserable. Jose Villares, who attaches waistbands to jeans, used to

be a member of the Sandinista-backed union—which Kernaghan supports—but quit late last year. 'They represent just one view,' he said. 'They're always complaining, not offering solutions.' He previously worked at a market in Managua, carrying baskets. He said he is much better off now. 'I have a good salary now, and I'm not going to risk going back to working in a market from 5 a.m. to midnight, making 60 cordobas (US\$4.65) a day,' he said. With overtime, he now makes 3,500 cordobas (US\$271) every two weeks as a machine operator, well above the

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## **In Nicaragua, where the NLC has concentrated much of its effort, the Las Mercedes Free Trade Zone has spurred the country's recent economic recovery**

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country's US\$100 monthly average. 'I'm 20 times better now,' he said.

Candida Rosa Lopez, an employee at a Nicaraguan garment factory had a simple message for individuals in developed countries concerned about working conditions in Latin America. She told a *Miami Herald* reporter: 'I wish more people would buy the clothes we make.'

### **SUPPLY AND DEMAND STILL IN EFFECT**

Kernaghan says, 'We want to keep the jobs in those countries. What we are saying is just ask the companies to do the right thing.' But raising wages while ignoring market considerations would have the opposite effect. 'In the long run, this plant would see their demand for jeans dry up,' said University of Wisconsin economist Rob-

ert Haveman in response to the *Journal-Sentinel's* questions about the protests against Milwaukee-based Kohl's. Syed Akhter, chairman of Marquette University's marketing department notes that many labour-intensive jobs are simply uneconomical to perform domestically. 'It would make sense for the US to produce something else,' he said. 'From an economic perspective, it all boils down to a law of supply and demand. As long as people are willing to work at those wage rates, they'll be able to hire more people. If Kohl's listens to the protesters, Nicaragua will no longer be an attractive site for retailers.'

Late last year, Jem III, another Taiwanese plant, gave reality to the economists' predictions when it announced it was shutting down operations in Nicaragua, leaving 400 people out of work. On 11 January 2001, approximately 2,000 Chentex workers protested against the National Labor Committee because they feared the negative publicity could cause the plant's closure.

Late last year, Nicaraguan Foreign Minister Francisco Aguirre-Sacasa accused US anti-sweatshop activists, including the National Labor Committee, of doing a dishonest 'hatchet job' on Nicaragua's textile assembly plants. He warned that their actions could lead to the loss of jobs and investment in Latin America's poorest country, which has an unemployment rate near 50 per cent. 'They are not trying to help our workers: by causing firms to leave they are going to leave our workers in the lurch.... They don't want to clean up our industry; they want to shut it down,' he said. 'We are on the first rung of the ladder. It is important we are not knocked off.'

*Ivan G. Osorio—a native of Nicaragua—is editor of Labor Watch, published by Capital Research Center (CRC), a Washington-based think-tank that studies philanthropy and the nonprofit sector. A longer version of this article appeared in the July issue of Labor Watch. It is available online through CRC's Website: [www.capitalresearch.org](http://www.capitalresearch.org).*

**I P A**

**REVIEW**



# IPA WORK REFORM UNIT SPECIAL REPORT



## Take Away Take-Away

### The Self-Induced Destruction of the Australian Food Manufacturing Industry

#### INTRODUCTION

The Australian food-manufacturing industry is in trouble. Despite its potential, food companies are disinvesting and shifting production facilities offshore. Exports are declining. Productivity is low. The sharemarket performance of most leading firms has been simply terrible. The industry is shedding labour. And there is evidence that the process of decline is locked in and will be difficult to reverse.

Given that the food-manufacturing sector is the main market for many agricultural products and increasingly the main vehicle for the export of commodities, a declining food-manufacturing sector augurs poorly for the rural sector as a whole. All Australians are losing.

While there are many causes, the key problem is a complacent and often destructive workplace culture that pervades the industry.

This report attempts to highlight the cultural problems facing the industry.

#### THE MACROECONOMIC PICTURE

##### Overview

The food-processing industry has long been seen as the great hope of the Australian manufacturing sector. Food-processing is easily our largest manufacturing sector. In 1997–98, it employed 168,000 people and had a turnover of \$47 billion. Both domestically and internationally, the industry has experienced quite rapid growth in demand—some 50 per cent higher than manufacturing as a whole.<sup>1</sup>

On paper, the food-processing industry has most of the essential fundamentals in place—something that cannot be said for many areas of manufacturing. It enjoys a relatively large and affluent domestic market—one of the largest in the Asian region. It enjoys a diverse range of low-priced, high-quality food inputs. As a country, Australia has an excellent reputation around the world as a grower of food. We sit on the edge of the fastest-growing market for processed food in the world—Asia. And the Australian industry already includes most of the world's major food multinationals.

Aside from a large domestic market, Australia offers multinational firms a pleasant and competitive base for exporting to Asia. Australia offers a far more attractive place to live for European and US expatriates than almost any country in the

Asian region. Moreover, Australia has experienced excellent economic fundamentals for the better part of a decade and, in particular, in recent years, has had a super-competitive exchange rate.

Despite its potential, the food-manufacturing industry has long been a disappointment. Although some sections of the industry, such as wine, have prospered, indeed boomed, many sections of the industry have failed to live up to their potential.

That disappointment is now turning into despair. The industry is not just failing to meet expectations, but is in decline. Indeed, there are signs that the industry may have missed the windows of opportunity through which they could attract processing plants geared to the regional Asian markets. As a result, Australia is now not only facing the loss of export opportunities, but divestment in plants serving the domestic market as well.

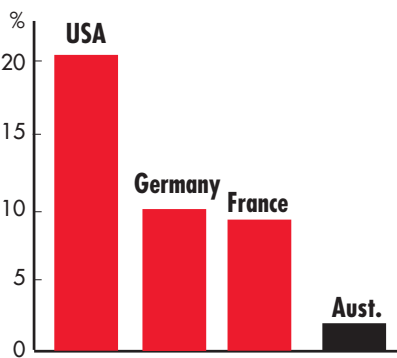
##### Poor Export Performance

Aside from processed minerals, the food-processing sector has long been seen as the most impressive prospective manufacturing sector in terms of exports. Over the 10 years to 1996, world trade in processed food more than doubled to US \$464 billion, with the fastest growth, in terms of consumption, being in our region

Accordingly, the food-processing industry has been a prime target of State and Federal governments' attempts to induce higher exports, which has entailed hundreds of millions of dollars in expenditure. The industry has been given high prominence in Australia not only because of its inherent potential but also because of its link to our large and often struggling rural sector. Trade in processed food is increasingly becoming a necessary means for exporting agricultural products and thereby sustaining the agricultural industry. Processed food now makes up 75 per cent of total global agricultural trade, compared to 50 per cent in 1985.<sup>2</sup> Value-adding not only assists in circumventing the many protective barriers that inhibit commodity trade but creates new markets and products as well.

The export potential and related government assistance has not paid off. The Australian food-processing industry export performance has been poor. During the mid-to-late 1990s ▶

**Figure 1: Growth in Processed Food Exports, 1994–98**



Source: UNCTAD/WTO, 1998, Cited in Instate, *op. cit.*, 2000.

(see Figure 1), while world trade in processed food was growing in excess of 10 per cent per year, Australia's exports grew by a mere 1.8 per cent per annum. Some areas did exceedingly well—in particular, beverages. Wine exports grew by 85 per cent and dairy exports

recorded export growth of 30 per cent over this period. The rest of the food-processing industry had stagnant or declining exports and a shrinking share of the world market.

Australia's performance was poor, not only relative to its own potential but also relative to other high-cost, mature economies such as the US, Germany and France.

#### *Declining Investment and Lost Opportunities*

The 1990s should have been a decade of growth for the Australian food-manufacturing sector. Globalization of the industry offered the potential for Australia to attract the new generation of plants focused on supplying the Asia-Pacific region. Along with export decline, however, the industry appears to have missed the potential investment boom.

After the Second World War, the world food-manufacturing industry was structured to satisfy national markets from a large number of relatively small plants producing a plethora of local brands. Most food manufacturers owned and operated their own plants. Over the last 15 years this has begun to change. In response to global forces, multinational firms have secured a greater share of the world processed-food markets—though in recent years they have started to struggle. Generally, their global strategies are to cut the number of brands they manage, and to focus on building and strengthening this smaller number of global brands. They are also closing ageing plants and replacing them with large, sometimes massive state-of-the-art plants which focus on regional rather than national markets. There has also been a trend towards contracting-out the manufacture of niche products where the volumes are too small for large plants.

These—as with most global forces—present both an opportunity and a threat to Australia. The opportunity, which on any academic analysis looks very prospective, is that Australia stands a chance to attract new investment, particularly targeting the Asia-Pacific region. The risk is that if we fail to attract the new investment, we could lose existing national plants as they reach the end of their technological lives.

On the evidence, risks have outweighed opportunities.

There is a number of examples where world-class food firms have not just looked at, but invested in, Australia for the regional markets, particularly in the early-to-mid-1990s. For example, Campbell's bought Arnott's in the early 1990s specifically to develop biscuit markets and to export to Asia. Nestlé expanded its operations in Australia for the Asian and local markets. Indeed, quite a number of local manufacturers expanded capacity with an eye on the export market.

While there are some success stories, these are swamped by tales of disappointment.

In Victoria—which accounts for 32 per cent of the national food industry—15 significant food-processing plants have closed over the 14 months from April 2000 to August 2001, with a loss of over 2,000 jobs (see Table 1). Victoria is merely the starkest example of a national trend.

Some of the closed operations are simply shifting to other Australian locations, such as the Qantas Food Centre and part of the Heinz operations. Some of the changes are the outcome of productivity improvements that will enhance competitiveness. Nonetheless, many of the closures represent firms

**Table 1: Food Manufacturing in Victoria  
Lost Investment—Lost Jobs  
Major business closures and lost investments since April 2000**

Company	Location	Date	Jobs Lost
Bonlac	Drouin	April 2000	150
	Camperdown	April 2000	35
	Toora	April 2000	65
Kraft Foods	Leitchville	May 2000	86
Nestlé	Warrnambool	June 2000	122
Heinz	Dandenong	July 2000	192
Goodman Fielder	Ballarat	October 2000	70
Qantas Food Centre	Lost to Queensland	November 2000	130
Bonlac—Spring Valley	Cheltenham	November 2000	170
		December 2000	35
Arnott's	Burwood	May 2001	600
Southcorp	Melbourne	May 2001	220
Nulty's Bakery	Ballarat	May 2001	30
Unilever	Mulgrave	August 2001	160
Berri	Reservoir	August 2001	50
Nestlé	Maryborough	August 2001	140
<b>Total</b>			<b>2255</b>

leaving Australia. Indeed, it is not just the production facilities that are leaving, but head office operations, as has happened with Campbell's and Nestlé going to New Zealand.

There are also examples of major global firms, such as Barry Callebaut—one of the world's largest and most successful chocolate manufacturers—coming to Australia to investigate building a plant to service the regional market, but leaving in frustration. [See Case Study 2 below.]

There is also evidence that the investment made in the 1990s, to take advantage of growth in export markets, has met with disappointment. A recent survey of food manufacturers found that capacity utilization in the local industry was low, significantly below 60 per cent.<sup>3</sup> Although there were several reasons given for the excess capacity, a common reply was 'misjudgments about the likely rapidity of growth of domestic and export markets'.

There is powerful evidence that we have missed the window of opportunity that existed in the 1990s, and that the worst, in terms of disinvestments, is coming. As the CEO of a major listed Australian manufacturer stated:

I'm very worried about the future of our firm, say in two to three years' time. The Asia meltdown weakened Asia, but the rebound is already starting and that's what I'm worried about. For example, new equipment will be installed in Asia. If we don't act fast, we will miss the opportunity. The multinationals who have invested in Asia are 40–70 per cent cheaper than us. I worry about how we are going to compete.<sup>4</sup>

### Poor Stock Market Results

The overall stock market performance of Australian food manufacturers has been dismal (see Table 2). Of the 15 large food manufacturers listed on the Australian Stock Exchange (excluding fish and grain processors), only four beat the market over the last two years. Indeed, only four stocks achieved an improvement in value. Most experienced large double-digit declines in share value. Indeed, the market index for the food-processing sector has declined by around 25 per cent in absolute terms and by nearly 50 per cent against the overall market (the All Ordinaries).

While the stock market is volatile, the track record of the food-processing sector indicates major and pervasive problems with value creation. The problem of profitability is not restricted to a few firms, but rather is persistent throughout the industry. The listed firms that have achieved growth in market value have done so to a great extent by way of mergers and acquisitions rather than through organic growth. Moreover, the problems cannot be put down to a slow domestic market, as the Australian economy exhibited solid overall growth as well as good growth in food sales over this period.

The reasons for the poor performance are clear: namely, in Australia there is little competitiveness in value-adding. As

reported in a recent study:

During interviews with very senior and experienced managers in large companies, they said that in Australia, value-adding ...was unlikely to confer competitiveness and often diminished it.<sup>5</sup>

### Low Levels of Productivity

The underlying reason for the failure to live up to expectations—whether in terms of export, investment or profits—is low levels of productivity.

There has been a number of studies of the industry in recent years, and all of them identified unrealized potential and an urgent need to address issues. While these studies are inordinately delicate in their use of terminology, and coy when talking about workplace relations, their concerns come through.

Arguably, the best study was undertaken by McKinsey & Company under contract to the Australian Manufacturing Council—a tripartite body that has now been disbanded. It found that Australian food-processing plants were, on average, just 68 per cent as productive as similar plants in the US, and some 39 per cent behind their competitors in Denmark.<sup>6</sup>

The key factors identified by McKinsey for Australia's weak performance were low capital investment, the small size of most Australian plants, weak commitment to innovation and poor labour relations.

Other reports have confirmed these findings and, importantly, have found little change in the subsequent six years.

Although the studies tend to focus on solutions aimed at other factors—most commonly investment and innovations—labour relations is clearly the key issue.

As McKinsey & Company stated: 'poor labour relations [in the industry]... retarded rationalization, investment, and process modernization'.

In other words, poor workplace relations

**Table 2: Australian Listed Food Manufacturers**  
Change in share value, 3 July 1998 to 26 November 2001

Manufacturer	Nominal Change
Australian Pure	-58%
Buderim Ginger	-38%
Con Foods	-62%
Chiquita S.P.Ltd.	-51%
Farm Pride Foods	-32%
FFI Holdings	9%
Green Foods	-16%
Goodman Fielder	-40%
King Island	70%
National Foods	-4%
Network Foods	-32%
Snack Foods	213%
So Natural	-50%
SPC Ltd	71%
George Weston	-30%

Source: ASX

have undermined competitiveness directly, as well as indirectly, by inhibiting capital investment, plant rationalization and innovations.

The conclusion from the studies is to focus on workplace issues. After all, policies that focus on the easier, less contentious issues, such as investment and innovation, are likely to yield little value if they are going to be undermined—as McKinsey found—by poor labour relations.

### *What is Wrong with the Workplace Culture in the Food Industry?*

No report has ever sought to look closely at the labour relations issue as it plays out 'on the ground'. To address this, the IPA has assembled a number of case studies which bring out both the nature and the extent of the problem.



## **Case Study Number One:** **A story of a business that is in Australia, had a disaster, scaled back and divested overseas!**



### **Heinz and Its Former Dandenong Plant**

Were you one of those Aussie kids who loved slurping through a bowl of Heinz Alphabet Spaghetti soup, spooning for your favourite noodle letter? Or are you a Big Red tomato soup lover? These are just two of nearly 350 food products that used to be made at the Heinz plant at Dandenong in outer Melbourne, which closed in July 2000, and which are now made overseas, often using Australian-grown produce.

The sequence of events that culminated in the Dandenong plant's closure point to one thing: that persistent, intractable labour strife, particularly during vital, yearly production periods, was the reason that the plant closed. The process of labour trouble and plant closure stretched out over at least 15 years. Up to 500 jobs have disappeared and millions of dollars in import costs are now borne by Australians each year. In fact, the jobs should still be in Australia earning export income.

The story of the Heinz Dandenong plant closure sets the scene for understanding how Australia's insular, cultural approach to labour relations is destroying our potential in food manufacturing, and killing jobs.

Heinz is one of the world's largest food conglomerates. Founded in the USA in 1869, in 2001 Heinz has sales approaching \$US10 billion, with 45,000 people working in 50 companies on 6 continents, and marketing, producing and distributing more than 5,700 products. Some of the recognizable Australian brands include Watties, John West, Greenseas and Weight Watchers. Since the closure of the Dandenong plant, New Zealand has become Heinz's regional production base, supplying Australia, Japan, the Asia-Pacific region and to some extent North America.

The Dandenong plant was established after the Second World War and produced soups, spaghetti, canned beans and, in the 1990s, microwave and snack-pack type products. It was sited on a sprawling industrial plot well clear of residential areas but close to a good urban workforce and on a major rail route that delivered Latrobe Valley briquettes for its furnaces. It had plenty of room to expand, had minimal

environmental issues to manage, and huge infrastructure in terms of equipment, warehousing and administration.

The key to understanding the Heinz business that was at Dandenong, is tomato paste. Tomato paste is used as the base ingredient for a vast array of food products. (Have a look at the labelled ingredients on processed food in your pantry and tomato paste will feature in a significant number.) The Shepparton/Echuca area in central Victoria is the tomato-growing centre of Australia. The growing season is from mid-January to May. Fresh tomatoes have a 'bin' life of perhaps a week, and degrade quickly.

During the growing season, tomatoes were trucked from Shepparton/Echuca to Dandenong to be evaporative-reduced into tomato paste. Approximately 10 bins of tomatoes would reduce into 1 'slab' of paste that was airtight-sealed and preserved naturally in this form for years. During the 1980s and 1990s each paste slab was worth about \$A3,000. Paste would be reconstituted as required during the year for use as the base ingredient for products from Dandenong. Paste was also exported. The only drawback in this production process was the comparatively high cost of transport of tomatoes (which are 90 per cent water) from Shepparton/Echuca to Dandenong.

What killed the Dandenong plant, the jobs and the export income was the almost religious way in which labour disruption would be observed every year—particularly during the critical tomato-growing and processing periods. During the late 1970s, 1980s and 1990s, not one year passed without a strike or industrial action that sabotaged production and saw valuable tomatoes rotting in the bins. One year witnessed a six-week strike during harvest time.

From the narrow perspective of negotiations, this industrial terrorism had its own logic. By hitting the company when it was at it is commercially most vulnerable, the unions could extract the greatest short-term concessions. These tactics, however, were overplayed and eventually sent a message to Heinz that Dandenong could never operate at peak potential

and that the losses suffered through degraded tomatoes and poor production would be ongoing. Industrial relations problems persisted in a strategic manner through the year, typified by black-banning of the operation of strategic machines at critical times.

The plant management structure came to reflect this industrial relations dynamic. Dandenong management was top-heavy, with a local industrial relations department. Normally, production plants of comparable size would not have such a section. The outcome was that production supervisors and foremen had no capacity to manage their sectors, as even minor issues were always referred to the industrial relations department. Instead of issues being fixed, they expanded into processes of endless negotiations with opposing sides looking to justify their existence by achieving 'trade-offs'. To counter this negativity, every management fad was tried to improve staff relations. Group-bonding sessions, 'fun' times, formalized heartfelt exchanges all featured—and were all dropped. Human resources managers came and went, with few lasting more than two years. There was no long-term strategy directed to achieving a harmonious fix, and the destructive under-performance persisted to the end.

Heinz never officially declared that it intended to close the plant, until the very end. But in retrospect, the process of closing Dandenong evolved over about ten years, as Heinz quietly and strategically developed alternative production infrastructure.

In about 1989, Heinz investigated building a new tomato-paste extraction plant near Shepparton. The key to its investigation was an assessment of the attitude of potential workers in the area. In the local rural community they found attitudes of independence and 'get up and go', and a keenness for the plant. A new high-tech plant was built and, during the early 1990s, tomato-paste extraction was progressively transferred from Dandenong to Shepparton.

Retrenchments quietly began at Dandenong in the early 1990s. Plant upgrades that could have been done, weren't done. For example, Dandenong was largely clad in 1950s' asbestos sheeting, which was safe while left untouched, but needed to be replaced if the plant was to stay. The sheeting remained. Land around the plant was sold by Heinz for residential development, thereby constricting its physical buffer zone. In the late 1990s, the plant's administration was shifted from Dandenong to the Melbourne suburb of Caulfield. In July 2000, the plant closed, but by then only 190 people were left on site.

Heinz now sources and reduces its tomatoes in Shepparton/Echuca, and exports the paste to New Zealand for processing into finished products.

Heinz has learnt some valuable lessons about doing its business in Australia. Australia is a great place to purchase fresh produce, can be innovative in marketing and new ideas, but it's a very dangerous place in which to try to add value.



## Case Study Number Two:

*A story of a business that wanted to come to Australia, had a good look, saw a disaster and went somewhere else!*



### Barry Callebaut and Its Non-plant

Barry Callebaut is one of the world's largest and most successful chocolate-manufacturing and marketing companies. Consolidated sales in the current six-month period (2001) rose 18.8 per cent to \$3 billion. This vertically integrated company, listed on the Swiss stock exchange, produces approximately one-third of the world's bulk chocolate, processes 14 per cent of the world's cocoa production and 14 per cent of the world's cocoa beans. It operates a global network of 24 state-of-the art production plants in Europe, Africa, North America, South America and Asia.

Like other global food manufacturers, Barry Callebaut seeks to position itself to service the emerging Asia-Pacific markets now and into the long-term future. Australia is an important, developed regional market for their products. In 1995, the company undertook an extensive due diligence exercise on the prospect of siting its first Asia-Pacific plant in Australia.

Australia was not chosen, and instead a plant was built in comparatively high-cost Singapore. The \$80 million high-tech Singapore plant employs about 45 well-paid people. Many of the raw ingredients are sourced in Australia, processed, valued-added and sold back to Australia and to other Asia-Pacific markets.

A key factor in not choosing Australia was the problem of poor and seemingly insoluble labour issues. The conclusion in 1995 was that because of persistent, negative labour issues, a plant could not confidently be built within the budget or timeframes required, or operated at the levels of productivity necessary to warrant the investment.

Barry Callebaut stays abreast of the Australian scene, and if requirements ever warranted, Australia could possibly be included in a further due diligence exercise for a second Asia-Pacific plant along with other regional options. Barry Calle- ▶

bauts's position as a purchaser of Australian raw products and seller of value-added products to Australia, means that the company has good, up-to-date working knowledge of the state of the Australian work culture. Their contact with Australian food manufacturers is extensive. Their knowledge of the problems that Australian food manufacturers have on labour issues reinforces its 1995 decision not to locate in Australia. Future reconsideration of Australia as a prospective site for a plant would require clear evidence of a significant and positive shift in the Australian working culture.

The implications of the Barry Callebaut story are not just the direct loss of investment, jobs, cost of imports and loss of export revenue, but also of Australia's reputation as an investment option. As a world leader in the global food chain, Barry Callebaut has contacts with other major food producers, particularly in Europe, and with global fund managers. The 'word of mouth' message for potential investors that the Barry Callebaut story delivers, is that Australia is not a viable option in the food-manufacturing sector. The message is as clear for Australian investors as it is for global ones.



### **Case Study Number Three:** ***A business that tried to come to Australia, experienced a disaster, won't stay here but probably wouldn't say so***



## **Saizeriya and Its Vacant Block of Land**

Saizeriya is one of Japan's modern innovative success stories and defies the gloom pervading that country. Go to any major Japanese city and you are bound to find one of Saizeriya's authentic Italian restaurants, with imported Italian chianti and pasta, a true Italian atmosphere and prices that are way below those of their rivals. It is this combination that created a profitable food giant with an ambition to have 800 outlets by 2010.

A key to Saizeriya's success is the supply-chain possibilities offered by the new global economy. Fresh produce is sourced in Italy and washed, chopped and diced before being flown direct to Japan. The extensive food preparation completed at the source of growing avoids the high labour costs involved in traditional Japanese restaurants and delivers higher quality control.

Australia was to be a beneficiary of this global economic dynamic. Saizeriya has been courted by the progressive City of Melton, in outer Melbourne, to set up a food-processing facility in its municipality. All the elements existed for success. High-quality, fresh produce is being grown in the city surrounds and could easily expand. The road-air link infrastructure is of world-class standard. Melbourne is a city of significant Italian heritage and has extensive local expertise in Italian cuisine. An educated, eager workforce is at hand, and the Victorian Government has keenly supported the project with free land. Saizeriya took the big step and committed to constructing the first phase of what should have been a \$A400 million investment. These investments were to be a key to a \$1 billion industrial zone being planned by the Shire of Melton, which has put together an integrated industry development package to attract significant interest from likely businesses.

However, someone forgot to factor in the unwritten rules of the Australian approach to controlling work. Unwittingly, Saizeriya broke those rules, and that breach has probably killed the project.

The problem is simple. In doing its operational planning, Saizeriya cast around to construct an enterprise agreement to cover labour issues. They entered discussions with the National Union of Workers (NUW) and reached an agreement that was signed off in the Industrial Relations Commission (IRC). Then the turf war broke out. The Australian Metals Workers Union (AMWU) claimed rights to operational coverage of the plant. In pursuit of its claim, the AMWU banned the delivery of building materials to the construction site to try and blackmail Saizeriya into giving the AMWU operational coverage. In doing this, the metal fabrication company Alfasi, whose workers are AMWU members, stopped the supply of metal to the site, under pressure from the AMWU and in defiance of IRC and Federal Court orders. If Saizeriya were to somehow circumvent Alfasi's ban, the AMWU could easily impose another ban on other critical building materials.

This tragic case reflects the uniquely Australian approach to regulating work, where nothing is ever what it seems. The formal rules are irrelevant to the true game that only becomes apparent when exposed. The subtext of mafiosi-like control of work sets the real rules at which the formal legal system is a neutered bystander. The controllers of this mafia/union game use the banner of workers' rights to mask their own self-interest. That Australian workers will never know these lost jobs is not of concern to the AMWU. The only job the AMWU will accept is an AMWU job.

Currently, the factory site is an empty shell and is more than 12 months behind schedule. Saizeriya has people to feed in its restaurants and cannot wait. It is having to move on.

One can already see the scenario in Japan when Saizeriya holds a luncheon for any of its willing institutional investors. Instead of Australian beef stock being one of the possibilities on the lunch menu, Australia as a laughing stock will feature on the discussion menu.

**Arnott's at Burwood, the Neutering of  
 Management, and Time to Close**

Arnott's is one of Australia's great business success stories, with more than 3,000 local staff. Founded in Australia more than 130 years ago, Arnott's is a brand-name icon for quality in biscuits. Chocolate-biscuit lovers will know Tim Tams and most Australians recognize the brand image of the colourful parrot eating a biscuit held in one claw. To the shock of many Australians, Arnott's was purchased by the giant Campbell's Soup company of Canada during the 1990s.

Campbell's has global sales approaching \$Can 6.7billion, specializing in soups, biscuits and confectionery. Arnott's is recognized by Campbell's as a product with 'powerful brand potential in the Pacific markets'. The acquisition of Arnott's was a key move by Campbell's in its global strategy to develop and supply biscuit markets. This is highlighted by the Campbell's reported 2 per cent growth in biscuit (and confectionery) sales in 2000, which made an important contribution to profitability 'primarily due to the performance of the core cracker business of Arnott's in Australia....' Within this strategy, Campbell's has a commitment to improving gross margins through 'continued productivity gains in manufacturing facilities'.

In 2001, Arnott's announced the closure of its principal manufacturing plant in the Melbourne residential suburb of Burwood, and the relocation of the Australian manufacturing and warehousing facilities to Queensland. 550 jobs are to be eliminated. The reaction from the unions at Burwood and from the Victorian Government was one of wild condemnation. Total Campbell's' budgeted cost for the 'reconfiguration' exceeds \$Can30 million.

In 1994, Campbell's purchased the New Zealand 'Koki' biscuit brand and business with the associated New Zealand-based manufacturing facilities.

Campbell's has said little about the reasons for the closure of the Burwood plant. Ageing equipment and proximity to residential dwellings have been offered as two factors; however, a study of the labour situation reveals a pervasive problem.

The Burwood plant has not suffered from excessive strike action, but rather low-profile and persistent labour-management problems. This is best comprehended by understanding the site-specific Enterprise Agreement covering Burwood. The key feature of the Agreement is the requirement for a 'Joint Improvement Committee' which was 'charged with the responsibility for the implementation of

the contents of the agreement...' The Committee has 15 members with only six appointed by management. The Committee meets every two weeks with a formal agenda circulated beforehand. The Committee can create sub-committees that have to have employee dominance. Before the Committee can make operational recommendations, matters have to be referred to the Single Bargaining Unit of the more than four unions on site.

The matters over which the Committee has authority include, but are not limited to:

- Planning processes for quality control.
- Stipulation of human resource management planning.
- Systems of employee payments and timekeeping.
- Employee attendance levels and management of absent employees.
- Shift times relating to sales movements.
- Production and delivery rosters.
- Career paths and training.
- Engagement and pay rates of casual and/or contract employees.
- The insurance broker company to provide site services.
- The provision of mobile phones.

In effect, Arnott's had signed an Agreement that destroyed the ability of the Burwood site managers to manage, and where control of the plant was assigned to the employee collective under the authority of the Committee and the Bargaining Unit. The outcome was a management system that was highly formal, bureaucratic, slow and ineffectual. The misnamed 'managers', in effect, acted as lobbyists to the Committee and as promoters of their preferred employees for election to the Committee. 'Managers' on salaries of \$70,000 a year took their instructions from junior employees. To have any impact on how the site was to operate, 'managers' had to be deft at the manipulation of employee and union site politics. This management system clearly could not have delivered the levels of continuous productivity improvement that Campbell's apply as a benchmark to their global operations. Closing the site fixes the management problem.

The shift of the manufacturing facilities to Queensland does not guarantee that Arnott's production will remain in Australia. Campbell's owns the Koki biscuit-manufacturing facilities in New Zealand. It has a stated commitment to use Arnott's brand-name power to develop the Asia-Pacific

biscuit market. The physical location for manufacturing need only be within the Asia–Pacific region to satisfy the business development strategy, and Campbell’s has long-term location

options. To remain viable, the Queensland plant will need to prove that it can meet the continuous, productivity improvements in line with Campbell’s global standards.



## Case Study Number Five: A business that is here, had a disaster, found a better way and is establishing alternative facilities



### Nestlé at Campbellfield and When Will it Close?

Nestlé prides itself on being the world’s largest food company. Headquartered in Vevey, Switzerland, Nestlé had global sales in 2000 of \$A83.2 billion, with \$A2.2 billion drawn from the Oceania region.

Nestlé was established in Australia in 1908 and has up to a dozen major Australian manufacturing plants, located principally in and around Sydney and Melbourne. Well-known consumer brands include Nescafé, International Roast, Milo, Carnation, Kit Kat, Smarties, Minties, Life Savers, Lean Cuisine, Maggi, Peters Ice Cream, Go Cat, Lucky Dog and Friskies. In addition, extensive hospitality and industrial food products are supplied to the Australian market as well as a full range of products to the Pacific Islands.

In the last 10 years or so, Nestlé has experienced increased difficulties with labour issues at key Australian production plants.

In the mid-1990s, a seminal dispute occurred at the Kit Kat production plant in Campbellfield, Melbourne, which resulted in a six-week lockout. To ensure continuity of supply to the Australian market, Nestlé imported Kit Kat from its York plant in the UK. It has been reported that the landed

UK Kit Kat was up to 10 per cent cheaper than the locally produced product. This is understood to have initiated reassessment of the Australian production facilities. Local regulations concerning vegetable oil content in chocolate were a factor in the price differential, but with recent food regulation reforms designed to meet international standards, the local Kit Kat product is now truly global. Nestlé recently developed a hybrid of the well known Kit Kat called Kit Kat Chunky, which has proved highly successful and which is, in part, imported from Malaysia.

In 2001, the company had a three-week lockout of employees at a major yoghurt-making plant in Echuca, Victoria, following six weeks of industrial action at the plant over disputes in enterprise negotiations. At the time of the dispute, it became known that Nestlé was in exploratory discussions with other State Governments.

In mid-2001, Nestlé announced plans to close its Maryborough confectionery-manufacturing plant in central Victoria, and to move its regional confectionery business headquarters to Auckland.

## CONCLUSION

In summary, the trend is clear. We are witnessing a collapse of the food-manufacturing industry, with major food production plants being stripped from Australia.

There are several causes for this, but the key issue from which we hide is that our workplace culture is failing us. We do not, as a society, offer certainty to major food players that we, collectively, want to join them in their global business strategies. Without this desire, we cannot succeed.

We have a sickness that only we can fix. If we do not act soon, the case will become terminal. The first task must be to identify and accept that we are our own problem. The IPA’s intent is to disclose this truth.

A more detailed IPA commentary on this research can be read at our Website: [www.ipa.org.au](http://www.ipa.org.au).

## NOTES

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- 2 Charlebois, P., and Schimdhuber, J., ‘Agricultural Trends and Issues to 2001’, *The OECD Observer*, No. 205, April/May 1996.
- 3 Instate Pty Ltd, *op. cit.*, page 31.
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# Trade Laws and Pharmaceuticals

ALAN MORAN

## TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS (TRIPS)

While 11 September generally marked a loss of innocence of the Elysian Western world, one threatening upshot has had little recognition. This was the US Government's forcing down the price of Cipro, Bayer's anti-anthrax drug. The pressure placed on Bayer to reduce its already highly discounted price to the US government included the threat of patent termination. For its part, 'the Peoples' Republic of' Canada actually rescinded the company's patent, before recanting.

The green light offered by the US and Canada to emasculating these property rights was not lost on other nations. The quasi-expropriation greatly strengthened the case that Brazil and other countries had been making in campaigns to have the patents on AIDS and other life-saving drugs suspended. Those campaigns have been strongly supported by anti-business Non-Governmental Organizations, led by the Catholic Aid Agency CAFOD and Medecins Sans Frontières.

The property rights to patented goods are recognized under a specific TRIPS agreement of the World Trade Organization and were an important feature at the November 2001 meeting in Doha, Qatar. The Doha Declaration, which launched a new round of trade negotiations, recognized the value of patents to the development of medical innovations. However CAFOD maintains that developing countries 'faced

down the US and big pharmaceutical corporations to ensure that public health needs come before patent protection'. This is code for the existence of provisions that may allow patents to be more readily overruled.

## PATENTS AND INCOMES

Ever since the city of Florence granted Filippo Brunelleschi the first-ever patent in 1421, innovation has been a prime source of increasing income levels. The far-sighted act by the Florentine authorities was

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***Expropriating property rights to innovations is no less corrosive to general welfare than expropriating shares or bank balances***

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quickly followed by those in all jurisdictions seeking increased wealth through commerce. It recruited property rights, the rock on which a nascent capitalism was being built, to a whole new theatre of growth propulsion.

It takes patience and deep insight to recognize the penalties to a nation's well-being when it overrides property rights. A strong, if superficial, case can be made for seizing property rights of assets, intellectual

or otherwise, that already exist. Low-cost redistributive benefits are seemingly freely available where assets' production costs are 'sunk'.

As a result, individually owned property rights have, through the centuries, proved enticing targets for forced acquisition—both to political entrepreneurs and to well-meaning social activists. Developments in North America and pressures elsewhere in response to the AIDS pandemic and other medical crises show that patent rights are no less vulnerable.

Patented pharmaceuticals are characterized by considerable 'sunk costs'. According to McKinsey,<sup>1</sup> actual manufacturing and administrative costs (for a vaccine) are less than 10 per cent of the total price. The other costs include R&D and trials at 30 per cent; sales, taxes and royalties 24 per cent; and distribution at 15 per cent.

Hence, ostensibly, an average vaccine could be sold at 10–20 per cent of its present price without the owner being out of pocket. Marginal costs would be covered. But the initial benefits of cheaper access would be engulfed in a subsequent reduction in the availability of new innovations. Expropriating property rights to innovations is no less corrosive to income levels and general welfare than expropriating shares or bank balances. The damage to incentives to save and invest overwhelm the benefits from the original redistribution no less slowly than do the benefits of nationalizing other property.

This makes the reaction of the US to the anthrax scare particularly ►

worrying, given that it is the world's leading exponent of the sanctity of property rights.

## **IMPEDIMENTS TO CHEAP PROVISION**

Two features of modern commerce and law operate to prevent goods being supplied more cheaply to developing countries. These are:

- Delivery costs far in excess of payment capabilities.
- Trade laws impeding the offer of lower-cost drugs.

### **High delivery costs**

In many cases, treatments are not available because the target countries lack the necessary infrastructural support. Even expensive products often require considerably more money to transport, store, administer and supervise than the drug itself.

This appears to be the case with some AIDS treatments. Attaran and Gillespie-White<sup>2</sup> found that only 22 per cent of the possible anti-AIDS drug patents were in fact in force in African countries. Low commercial prospects are a major cause of this. Africa comprises only one per cent of the world pharmaceuticals market and the whole of the Third World constitutes only 0.5 per cent of the world market for anti-AIDS drugs.

In light of the poor commercial demand, many pharmaceutical suppliers already offer these products to poorer countries at cheaper prices. Although no business could survive in the longer term by simply covering its marginal costs, many pharmaceutical firms offer very sharp discounts on their brand name sales of certain drugs to the poorer countries. The problem is that even at rock-bottom prices, funding is not available for some of the highest-profile needs—Tanzania and Nigeria, for example, have total annual health budgets equivalent to \$US8 per capita compared with the cheapest generic AIDS treatment of \$US350.

Given the poor commercial possibilities for drug sellers within most Third World markets, many pharma-

ceutical businesses are evidently willing to discount their products heavily, but it is unreasonable to expect them to incur losses. Obligating them to do so would constitute a discriminatory tax on a particular industry, a measure that would tend to reduce its capacity to compete for capital and other resources *vis-à-vis* other industries. The major task is for international aid agencies, and private donors such as the Global Alliance for Vaccines and Immunization (GAVI) to offer incentives.

One development in the second half of the twentieth century that has markedly increased costs and reduced the availability of drugs has been changes to liability law. These were the outcome of increased

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## **Third World nations will be the heaviest losers from requirements that force down prices by compromising property rights**

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aggression in pursuit of damages at law from goods, including medications, that failed to provide the advertised relief or which have had untoward side-effects. Peter Huber calls the outcome a 'liability tax', arguing that

If the courts declare there is to be a safety tax on a vaccine at such and such a level, the tax will surely be paid, whatever other arrangements the buyer or user of the vaccine or the FDA, let alone the manufacturer, may prefer or can afford.<sup>3</sup>

Court claims have vastly increased the risks of developing new medical treatments. It is not possible to counter these increased costs by

buyers agreeing to waive their rights to sue for compensation. Nor do courts confine themselves to granting damage compensation to those in their own country. As Union Carbide found in the 1984 Bhopal catastrophe, a well-heeled business is hostage to lawyer-financed claimants even when a Government bears responsibility for such claims. The development of the law on liability makes it particularly unlikely that any medical business would find it prudent to develop products purely for the use of people in developing countries.

### **Trade laws impeding the offer of lower-cost drugs**

A great deterrent to selling goods cheaply in some markets is the prospect that these goods may be re-exported and undermine profitability in other markets. Such fears are considered to be less pressing in the case of vaccines, which require controlled distribution channels to ensure the product's quality. But vaccines comprise only 1.6 per cent of global pharmaceutical sales, and most other products require less precise handling.

Government competition officials have often exacerbated this deterrent on supplying low-priced goods to selected markets. Trade practices officials tend to be strongly opposed to price discrimination. The knee-jerk reaction to a dissimilar price for a similar product is that the barriers allowing this should be removed.

In Australia, Allan Fels personally led the ACCC assault to allow parallel importing of compact discs. In that case, the ACCC argued that higher prices to Australian customers were only possible because the record companies were improperly preventing material from being imported from countries that enjoyed lower prices. Eventually Parliament legislated to forbid companies contracting to prevent exports into Australia of product that had been sold in other countries.

# Cultural Wars

RON BRUNTON

This meant that CDs in Australia would be no dearer than those in any other country, an outcome that naturally attracts considerable populist appeal. But the outcome for the production chain is a reduction both in revenue and in the incentive to produce the innovative works.

Much the same goes for other products. If title is fully transferred on sale, there are no opportunities to control subsequent resale. The seller faces the prospect of a niche market price, designed to cover marginal costs only, becoming the general price.

In the case of a pharmaceutical manufacturer, selling at a heavily discounted price into a Third World market presents considerable risk to commercial viability unless subsequent on-sales can be controlled.

## CONCLUDING COMMENTS

Property rights have allowed considerable advances in pharmaceutical development. These advances have contributed massively to longevity and the relief of suffering. But future advances will be denied by weaker property rights in the form of diminished patent protection or attenuated rights to control on-sales of supplied products.

Third World nations will be the heaviest losers from requirements that force down prices by compromising property rights, and their self-appointed champions are doing a great disservice pursuing such goals.

## NOTES

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- 2 Attaran A. S. and Gillespie-White L., 'Do Patents for Antiretroviral Drugs Constrain Access to AIDS Treatment in Africa?', *JAMA*, 17 October 2001.
- 3 Peter W. Huber, *Liability: The Legal Revolution and Its Consequences*, Basic Books, 1988. <http://www.phuber.com/huber/liab/chap1.html>

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IPA

## Why We Weren't Told

Public discussion of Aboriginal issues has undergone a major shift over the past couple of years. Commentators who would never identify themselves as being from the 'right' now talk about the catastrophic social conditions that exist in many Aboriginal settlements without placing all the blame on mainstream Australian society. Some even raise the possibility that aspects of Aboriginal culture may be dysfunctional in the modern world. Certainly, a few prominent 'protectors of the Aborigines' have not yet caught on to what has happened and still demand that white Australians continue with the self-flagellation regime. But when someone such as Hal Wootten, the most 'caring' of the five Black Deaths in Custody Royal Commissioners, and one of the early promoters of the 'child removals were genocide' line, is reported as saying that Australians need to ask whether Aboriginal child-rearing practices encourage later violence, the world has clearly changed.

Although even in the worst years of political correctness there were occasional articles in the popular press providing honest portrayals of the conditions that many Aborigines faced, there was a considerable degree of self-censorship amongst journalists who knew what was going on. In some ways this was not surprising, for the consequences of offending the Aboriginal industry could be serious. Recently, Rodney Henderson, an old mate from Sydney, told me about how his friend Graham Gifford was banned from the pages

of all Fairfax publications nearly a quarter of a century ago, after writing articles describing conditions in Arnhem Land. Graham died just a few weeks ago, and it is fitting to remember a decent man whose distress at what he saw when he was living at Maningrida caused him to become one of the early victims of the destructive sentimentality that has afflicted Aborigines for so long.

In 1977, Gifford wrote two articles for *The National Times*, one under a pseudonym. The first, called 'True tales of modern tribalism', dealt with child sexual abuse and violence against women at outstations, and fairly pointed to the incompatibility between traditional culture and human rights for women and children. This caused an outcry from the caring classes. The anthropologist Ian Keen saw the piece as part of a backlash against Aboriginal land rights, and expressed his sorrow that *The National Times* had chosen to publish 'ill-researched, biased and inflammatory nonsense'. A Christian minister said that the article contained 'monstrous lies'. Another writer was distressed that it was not illegal to publish such a story. *The National Times* received only one letter of support—from Elizabeth Durack, who praised the article for lifting 'just the corner of the wrap' from a situation that others were ignoring.

The second piece, 'Grog and petrol sniffing' was published under his own name. As well as describing the extent to which Maningrida was being devastated by these two scourges, Gifford condemned the noble savage fantasies that were inspiring many white proponents

of Aboriginal causes. 'Alas', he wrote, 'the Australian Aboriginal is no better and rather less cultured and educated than the rest of us, and he is being completely demoralized and converted into an idling sponger by the almost limitless handouts from the white Australians.' While the language was not particularly diplomatic, there was nothing wrong with the analysis, which has now become commonplace.

This time, the letters of denunciation did not just go to *The National Times*.

Marcia Langton, then General Secretary of the Federal Council for the Advancement of Aborigines and Torres Strait Islanders, and now Professor of Aboriginal Studies at Melbourne University, wrote to the Press Council stating that such an article 'should not be allowed in print'. She was particularly offended by the sentence I quoted

above, claiming that it denigrated all Aboriginal people. She said that this was 'the opinion of a one-eyed racist, akin to the statements from the mouths of the brutal station owners who have treated their black employees like animals in order to exploit a higher rate of profit'.

The letter had its intended effect. On 13 January 1978, Arthur Heinrichs, Secretary of the Press Council, wrote to Ms Langton, advising that 'I am now given to understand that no publication of John Fairfax and Sons Ltd. (of which *The National Times* is one) in future will accept material from

Mr Gifford'. Instead of being outraged by this kind of censorship, the Press Council clearly thought that it was appropriate.

In a powerful article just published in the professional journal *Anthropological Forum*, the distinguished anthropologist Peter Sutton despairs about the suffering he has witnessed in Aboriginal settlements he has known since the mid-1970s, and deplores the extraordinary number of premature deaths through homicide, suicide and alcohol-related disease. He

refers to the 'raw evidence of a disastrous failure in major aspects of Australian Aboriginal affairs policy since the early 1970s' and suggests that all the policy directions that have been promoted by the intelligentsia in the past three decades have to be reconsidered if there is to be any meaningful response to this failure. One of the people whom Sutton thanks for

contributing to his paper is Marcia Langton.

It is far too late, of course, but it would be nice to think that Professor Langton now feels that she wronged Graham Gifford, as well as those of her fellow Aborigines who suffered in silence as a consequence of the climate of suppression that she helped to bring about.

*Ron Brunton is a Senior Fellow with the Institute of Public Affairs.*

I P A

## Remembering George Harrison— and the Taxman

To some, the songs of The Beatles may be the cotton candy of '60s music, but let it be remembered that the Fab Four also brought us a true gem of political commentary penned by none other than the late George Harrison.

### 'Taxman'

*Let me tell you how it will be  
There's one for you, nineteen for me  
'Cause I'm the taxman, yeah, I'm the taxman*

*Should five per cent appear too small  
Be thankful I don't take it all  
'Cause I'm the taxman, yeah I'm the taxman*

*If you drive a car, I'll tax the street  
If you try to sit, I'll tax your seat  
If you get too cold, I'll tax the heat  
If you take a walk, I'll tax your feet*

*Don't ask me what I want it for  
If you don't want to pay some more  
'Cause I'm the taxman, yeah, I'm the taxman*

*Now my advice for those who die  
Declare the pennies on your eyes  
'Cause I'm the taxman, yeah, I'm the taxman  
And you're working for no one but me.*

To those critics who deprecate this recording for propagandizing on behalf of their own (new) 'class' interests, we say that these are lyrics that speak to the plight of all taxpayers.

Despite the ethereal concerns for which George Harrison became best known, these lyrics, we submit, show the quiet Beatle to be a master of political realism. We miss him already.

Source: 'Confession of a Compliant Taxpayer', by Dwight R. Lee, *The Lighthouse*, Vol. 3, Issue 48, 3 December, 2001.

# Keep it Simple, Stupid— the New Tax Reform

ANGELA RYAN

**I**T seems that everyone has had enough of tax reform—and no wonder! The most visible signs from our new reformed tax system include:

- an administrative system burdened by the weight of having over-extended itself for years;
- tax practitioners feeling so overtired that they are at risk of collective chronic fatigue syndrome, with worse to come as the tax professions hæmorrhage with their best and brightest looking for an easier life; and
- the business community, big and small, less satisfied than ever with the work required just to comply with their tax obligations.

That is not to say that there may be some enduring benefits from tax reform. But in securing those benefits, somewhere along the tax-reform road the whole show went off the rails. So what went wrong, and what can be done about it?

## **BIG DREAMS, BIGGER LET-DOWNS**

One of the reasons for the current malaise with our tax system is undoubtedly the expectation built up by such a long public debate on big-picture tax reform, where it became all things to all people, before any detail was announced. In the inevitable compromise that comes with any reform requiring Parliamentary approval, it was never going to be able to deliver.

Worse still, because reform is so difficult to achieve, there was enormous pressure to include all elements in one package and to get it through

on a timeline that matched the three-year Parliamentary term. It was an understandable, and perhaps even necessary, step given the constraints, but it created the seeds of discontent.

The initial tax package was going to see the introduction of a GST, a whole restructuring of the administration of income-tax payments through

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***The GST on its own was a massive undertaking. Adding so much more on to the agenda was inviting system burn-out***

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the Pay As You Go system and a raft of business tax reforms, that were all, on the original timetable, to be introduced from 1 July 2000. The GST on its own was a massive undertaking. Adding so much more on to the agenda was inviting system burn-out.

The scope was truly breathtaking. The intentions were good, but the outcomes never could have been in such a pressure-cooker environment. Some elements of the package were delayed, others were altered beyond recognition, and still others turned out to have rather different implications once the legislative fine-print became available.

## **THE CLOCK IS RUNNING**

Time constraints are Public Enemy Number One when it comes to valuable tax reform. Some time pressure can be a good thing to get the wheels of bureaucracy turning. But when the pressure becomes a straitjacket that dictates the outcomes to a point where they are degraded, it is time to find a better way of doing things.

In the rush to legislate, impossible timelines are set. Exhausted people toil to turn out draft legislation so that other exhausted people can try to apply the emerging barrage in practice. There is little or no time for quality control and peer review of legislative drafting, little or no time for meaningful consultation, and little or no time to educate administrators and practitioners about the new law before it comes into force. Often, in fact, the law is applied before final legislation is passed.

There is little acknowledgement of the problems this creates for systems development or business planning and advice. It also tends to lead to verbose law which, in turn, increases administrative and compliance costs.

## **IMPROVING THE PROCESS**

As unexciting as it may sound, the key to a better tax environment lies in a better tax policy and law-making process. A structured process can help put the brakes on when required, and ensure that simplicity is not lost in the maze of competing reform objectives. Getting this process right should be the next tax frontier to be tackled.

There is some prospect of useful progress in this area. The GST industry partnerships, the Small Business Consultative Committee ▶

and other forums are evidence that business input has become an increasingly welcome ingredient in reviewing and assessing tax administration and law. The Tax Advisory Board has commissioned work on the process of consultation and tax-law development. The Coalition has announced that it will appoint an Inspector General of Taxation who may be able to provide some improvements in this area.

The aim is to get higher-quality policy decisions that can be translated into clear and better legislation. Better legislation will, in turn, deliver more certainty, stability and consistency in tax law, and that will reduce compliance and administration costs.

Ideally, the approach would be applied in a consistent and comprehensive manner to all tax change. It is based on ensuring greater interaction between the people that make the tax law and those that work with it from the initial development of a fiscal strategy right through to post-implementation review.

Such an approach has been part of the New Zealand tax-policy and law-making process for some years and has resulted in a much more harmonious relationship between taxpayers and the tax authorities, and enduring and far-reaching tax reforms.

### **ELEVATING SIMPLICITY**

Good tax policy, to an economist, involves three key features—equity, efficiency and simplicity. The difficulty in designing good policy is getting the balance between these three elements right.

It appears more than coincidence that simplicity is usually last on the list—the element to be juggled once the strategy for equity and efficiency has been worked out. Treating simplicity as a poor first cousin to equity and efficiency is a major shortfall in current policy design that also needs to be taken up in this era of reform fatigue.

If it seemed that introducing a GST was hard, try measuring it

against the task of making the existing tax system simpler! Many countries around the world have tried and failed to bring genuinely simpler tax arrangements to their citizens. The last two major tax reform efforts in Australia promised simplicity but delivered quite the opposite.

Why is simplicity so hard to achieve? It is partly a product of the more complex world in which we live. Cross-border transactions, including electronic ones, are challenging the old ways of doing things. But that is not the whole story. Governments around the world have been voracious in their pursuit of more revenue. Tax authorities have, by various methods, been pressed to squeeze more dollars out of the existing tax bases. Complexity has often emerged as a result.

The time factor is a big issue here, too. The usual process involves committing to a policy position before the impact of that position, in

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## **The last two major tax reform efforts in Australia promised simplicity but delivered quite the opposite**

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terms of data collection costs for taxpayers, has been established. As a result, a complicated end result can emerge, even when all the players wanted something simple. The policy-makers sign on the dotted line when things look simple—but having made an irrevocable commitment, they are forced to live with, and try to defend, the complex implementation consequences.

The idea of integrated teams (from the Office of Parliamentary

Counsel, ATO and Treasury) working within the bureaucracy to develop tax law was recommended by the Ralph Review and is still being considered. It gives some hope that the same people who generate the policy ideas in Treasury will actually get their hands dirty filling in the forms that the policy change requires, and vice versa. Seeing the compliance cost fruits of a policy idea is probably the best way of ensuring those compliance costs are minimized in future.

An example of the way in which tax arrangements are adding to compliance costs might help. A simple formula can be used to establish income tax deductions for motor vehicle running expenses. This greatly reduces the compliance costs for taxpayers by relieving them of the need to keep every invoice relating to car expenses through the year. (If a taxpayer chooses to keep a log book rather than use a formula, invoices must be kept, but petrol and oil expenses can still be estimated.)

Then the GST was introduced. The easy way to allow for input tax credits on motor vehicle running expenses would have been to allow for a proportion of the income tax deduction to be claimed. Instead, every taxpayer has to keep every invoice for every motor vehicle expense if he wants to claim any input tax credits for those expenses. Imagine the national cost of keeping and recording all that information.

The key point is that while so much effort is put into maximizing the efficiency of the tax system, more needs to be done to recognize compliance costs. These costs impose the same kind of economic burden as efficiency costs. What's more, any Government prepared to tackle simplifying the tax system head-on may find an electorate that is eternally grateful.

*Angela Ryan runs a tax consultancy specializing in education and information for small- and medium-sized enterprises.*

**I P A**

**REVIEW**

# Letter from London

JOHN NURICK

## Just a Little Bit of Democracy: How to Reform the House of Lords

The Blair Government is famous for ‘news management’—although these days the fame is earned less by its success than by the outrage it provokes. The best example is an e-mail a ministerial adviser sent just after the second airliner flew into the World Trade Centre, telling colleagues this was ‘now a very good day’ on which to ‘bury’ embarrassing government announcements.

The next embarrassment hit the Department for Environment, Food and Rural Affairs. For four years a scientific experiment has been in progress to discover whether sheep can carry or transmit mad cow disease. Scientists injected generations of mice with material from sheep brains—except that it now turns out they were not using *ovine* brains but *bovine* ones.

DEFRA released this news quietly, on its Website, at 10:30 pm, under the heading ‘BSE in Sheep: Current Research’. It said that ‘cross-checking’ had ‘raised doubts about the validity of the original sample’, an understatement that ranks with Hirohito’s ‘the war situation has developed not necessarily to Japan’s advantage’.

By the way, the ‘war on terrorism’ has neutered the Conservatives. Never willing to be outflanked on defence and now led by the ex-soldier Ian Duncan Smith, they are being more pro-American than Tony Blair.

Meanwhile, in November, the government published its plan for reforming the House of Lords.<sup>1</sup> This was attacked from all sides as being feeble and undemocratic, because the new house would have no more power and little more democratic legitimacy



than the one we have now. I thought it was awful too—until I read the consultation paper.

Since 1999, the House of Lords has comprised about 530 ‘life peers’ (appointed for life), 92 hereditary peers (elected representatives of the more than 700 dukes, marquesses, earls and so on), and a few dozen bishops and judges. Most are part-time legislators, and none of them are paid for being peers, though they get a modest attendance allowance and expenses. The government’s proposal is for a house of 600 members, still part-time and unpaid:

- 120 elected by proportional representation from regional party lists;
- 120 independents appointed (probably for 10-year terms) by a new Appointments Commission;
- About 330 nominated by the political parties and appointed for the same term as the independents. The Appointments Commission would decide the numbers; each party’s strength would reflect its vote at the previous general election;
- Fewer bishops and judges;
- Perhaps a handful appointed by the Prime Minister of the day to serve as ministers in the government.

Here’s why. One of the strongest principles of our unwritten constitution is the primacy of the House of Commons. Rightly or wrongly, we don’t have a constitutional clause to say what the Commons can or can’t make laws about. Instead, we have conventions that boil down to this: if the government really wants to pass a bad law and has a majority for it in the Commons, the House of Lords should demonstrate its flaws, but should not be able to stop it.

The present House of Lords is confident of its expertise in scrutinizing legislation, but not of its democratic legitimacy. Replacing it with a fully-elected, fully-legitimate upper house would change the balance of power between the two houses, with wide and unpredictable consequences. So the proposal aims for a reformed house with the same power and self-confidence as the present one, and an equally wide range of experience and expertise among its members—but with no hereditary element or appointments for life.

It’s not perfect, but in the circumstances it makes a lot of sense. Probably we’d be better off with a proper written constitution and a proper elected senate—but that’s not on the agenda. Until then, the government’s proposal looks to me as if it will fit quite well into the surrounding institutions.

### NOTE

1. *The House of Lords: Completing the Reform*, <http://www.lcd.gov.uk/constitution/holref/index.htm>.

*John Nurick is a management consultant based in the South of England. From 1985 to 1990, he was editorial director of the Australian Institute for Public Policy, and later edited newsletters reporting on the UK Parliament and European Union institutions.*

I P A

# Letter on America

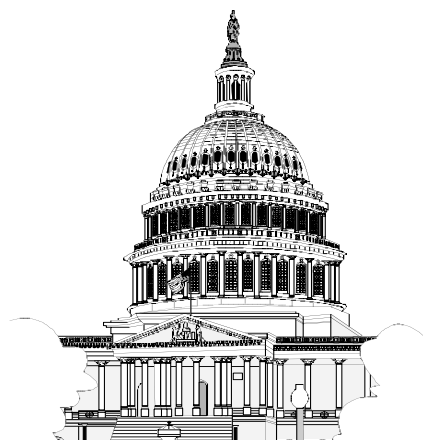
NIGEL ASHFORD

## Touching the Third Rail

While public attention is focused on the war against terrorism, the work of government on other issues continues barely noticed. One of the most significant is the Presidential Commission to Strengthen Social Security, which is expected to propose major changes to the pensions system. [[www.commtostrengthenocsec.gov](http://www.commtostrengthenocsec.gov)]. Previous attempts to raise the issue led to a political backlash from senior citizens, potent with their high levels of voting and political activity. The issue is called the 'Third Rail' of American politics: anyone who touches it will be shocked to political death.

Yet President George W. Bush made partial privatization of Social Security one of his long-term priorities. He recognizes that the system is the federal government's most popular programme, that seniors and soon-to-be-seniors are frightened of the consequences of change, and that any reform will be used demagogically by Democrats as an electoral weapon. 40 million Americans receive a Social Security cheque every month.

Bush also recognizes that the system faces collapse, with devastating consequences for those relying upon it. It is not insurance, as perceived by many. The system is 'Pay As You Go,' in which the payroll taxes of today's workers are spent upon the benefits of today. Money is raised through payroll taxes, which for many are now higher than their income taxes. The money goes into a Trust Fund, which pays out benefits and lends any surpluses to the Treasury, which issues an IOU to the Fund, and spends the money on programmes or pays off government debt. There is no asset fund, but only a promise by the government to tax future workers to pay the IOUs.



The bipartisan Commission has eight Democrats and eight Republicans, made up of academic, business and political leaders. Co-chairmen are Daniel Patrick Moynihan, the highly respected former Democratic Senator from New York, and Richard Parsons, the chief operating officer of AOL Time Warner and an African-American.

In July 2001, the Commission issued its first report, identifying the necessity of reform. Social Security faces bankruptcy, perhaps by 2037, as the baby-boom generation retires, Americans live longer, and the ratio of workers to seniors diminishes. It calculates that by 2016, the number of workers to seniors will be only two to one. Great attention is given to the consequences for minorities. Women are more dependent than men on these cheques and therefore the most vulnerable if the system runs out of money. Blacks receive a raw deal from the programme because they tend to die younger than other groups and thus receive fewer benefits. Hispanics will have a disproportionate burden because they tend to be younger and are more likely to be in the workforce.

The report is emphatic. 'The system is broken. The time to act is now.' It offers specific figures for the consequences for workers and seniors of the failure to reform: up to a 50 per

cent increase in payroll taxes or a 25 per cent reduction in benefits. 'Arguments against reform are equivalent to express advocacy of higher taxes, cutting benefits, reducing other government spending or borrowing on an unprecedented scale.' The Commission's final report will propose some form of personal retirement account, in which a proportion of payroll taxes would be individually controlled by workers to invest in stocks and bonds.

The advantages of individual accounts are manifold. They encourage saving. They increase retirement income. The rate of return on investment is much greater: about 5–7 per cent on the stock market compared to the current average of 1.2 per cent. They improve the knowledge of Americans about what they can expect to receive upon retirement. They increase wealth, which can be transferred to future generations. They do not require higher payroll taxes, and thus increase employment and income. They remove the prospects of a generational war between seniors and workers. They reduce the political risk that future governments will reduce benefits.

Some would go further than the Commission and privatize the whole of Social Security, with dramatic benefits for all Americans. The Cato Institute has calculated the increased income that Americans at all levels would receive if retirement accounts were totally private [[www.socialsecurity.org](http://www.socialsecurity.org)]. Will Bush invest some of his political capital in addressing the issue? That would make him an historic president domestically as well as in foreign policy.

*Dr Nigel Ashford is Senior Lecturer in Politics at Staffordshire University, England, and co-author of US Politics Today (Manchester University Press).*

IPA

REVIEW

# Education Agenda

KEVIN DONNELLY

## Public Education and the SKODA

Imagine a country where all the cars are government-made and millions of taxpayers' dollars are spent every year providing lucky customers with cars that have been 'benchmarked' against world's best.

Imagine thousands of public servants who do nothing else but spend years and years planning the most efficient car possible and ensuring, on the grounds of equity and social justice, that no matter where you live or what your needs, everyone will have the same car.

Those who remember the much-loved SKODA will know what I mean. Government-produced cars are all built to the same specifications and can be relied on to have the same level of performance. In this regard, all customers are treated equally.

Unfortunately, as history has demonstrated, not all is smooth travelling with government-produced cars. Given human nature, people have different needs and wants. Also, instead of being dictated to by the state, most people want freedom to choose from a variety of cars from different producers.

As the Victorian gas crisis demonstrated, there is also the small problem, in a monopoly situation, that when something goes dramatically wrong, then all are made to suffer. Witness the fate of the SKODA.

As with state-produced cars, there are some who argue that the state-run education system has not lived up to expectations. As we know, over the last 20 years-or-so, parents and students have voted with their feet. In Victoria, approximately 40 per cent of Year 11 and 12 senior school students now attend non-government schools.

Whether it is because non-government schools provide a rich diversity of curriculum, unlike government schools restricted by the heavy hand of a centralized bureaucracy, or whether it is because they gain better Year 12 results or higher participation rates, the reality is that many parents are willing to go without and to make the choice.

Of course, no-one should argue that parents who pay up to \$12,000 a year for exercising their choice should be fully reimbursed.

In fact, as Labor and the Democrats well know, this does not happen. A student at the most expensive second-

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**Parents should not be unjustly penalized because they choose one form of education over another**

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ary school, under the new federal formula, attracts \$908. Parents pay the rest as well as paying taxes to support the government system.

On second thoughts, maybe a better analogy than cars and education would be comparing education to health. All taxpayers, via the Medicare levy, pay for government health services. This is the same in education where everyone, whether they use them or not, pays for government schools.

Notwithstanding the service provided by public hospitals, for some reason many prefer, in addition to their Medicare levy, to pay for private cover as well. By choosing the private alternative not only do such taxpayers have greater choice, but they also save

the taxpayer money by not using the public system.

In fact, as an incentive to the wealthy amongst us who selfishly refuse to take out private insurance—and thus clutter up public hospitals when they can afford to be elsewhere—their Medicare levy is higher than those less privileged.

Some argue that those wealthy parents who clutter up government schools, and needlessly waste taxpayers' money by choosing government schools when they can easily afford non-government, should also be penalized for being so selfish.

Of course, the answer should be 'no'. Parents should not be unjustly penalized because they choose one form of education over another. In the same way, those parents who choose non-government schools should not be attacked and vilified because of the politics of spite and envy.

It is a tragic irony that when Australians are quite prepared to support elite sporting initiatives like the Canberra-based Institute of Sports, we have the Australian Education Union, the Labor Party and the Democrats and Greens wanting to turn schools into SKODAs.

Finally, if anyone is serious about the car/school analogy, then instead of giving everyone a car they might not want, why doesn't the government give everyone a car voucher—after all, it is their money. Those happy with the four-door, family sedan can make the choice.

Those willing, through hard work and saving, to add more money to the voucher can, instead of taking the sedan, opt for the more expensive option.

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**I P A**

**WAR**

Having been born in the second half of the twentieth century, I have been lucky enough to avoid any experience of total war. Still, smaller ones have popped up from time to time through the course of my life. The latest in this long line is that in Afghanistan.

The immediate reason for this war we all know about. Yet the mantra of the left, reflexively and insensitively uttered by some soon after that terrible day in September, was that it was all America's fault because of (pick one or more): its past and present colonialism, its capitalist system, its domination by the military-industrial complex, its racism, its attempts at world domination under the cover of globalization and the WTO, or any of its other manifold sins.

However much one's instincts recoil against even considering the thoughts of such people, there is one valid point that they make. As would be expected, they draw the wrong conclusion from this point because they do not understand the essence of the mistake that the United States has made. And they don't understand that it was made in good spirit, with good intentions—intentions that, for the most part, such people applaud.

The point is that, since the Second World War, the United States has abandoned its historical rejection of 'foreign entanglements', and sought to do good throughout the world. Naturally, this good intention has sometimes wavered towards doing good for the United States itself, but for the most part, its foreign policy has

been conducted with a view towards democratizing much of the rest of the world, resisting communism, protecting its allies and spreading the benefits of the market.

All this has turned the US into a nation that appears to have its fingers—and its people—in every pie. This is irritating to many around the world (most Australians seem, for no apparent reason, to be reflexively anti-American even while consuming US movies, TV shows and McDonalds).

A big policy shift towards the direction of that detested 'isolationism'—in the political and military, but not economic, spheres—would, over time, disempower those regimes which use the very obviousness of the United States as a scapegoat for their own internally generated problems.

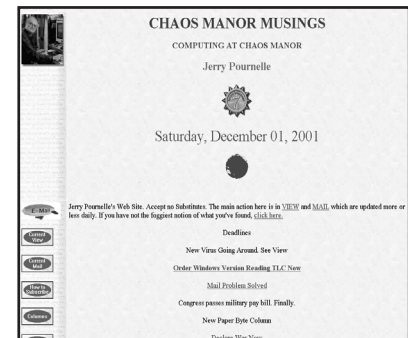
Lest I be misunderstood, the current action in Afghanistan is completely necessary, even though it is truly terrible that many innocent people there have suffered, and will continue to suffer, as a result. But any nation has a responsibility to its own people to respond—not in proportion, but in excess—to such attacks upon itself. Failing to do so is an invitation for yet more attacks. In this sense, the current war is not an act of foreign policy but one of domestic policy.

**JERRY POURNELLE**

'Isolationism' is the pejorative term. But it is also a reasonable word for the policy adopted by the United States during the first century of its existence. A less pejorative

term is 'Republicanism.'

Jerry Pournelle is a science fiction novelist and computer writer. He is also trained in engineering, political science and psychology. His solo science fiction (he collaborates a lot too)



tends to focus on cultural clashes, usually between peoples of relatively primitive societies, and modern or futuristic ones.

On his Website he analyses the position of the United States in the world, using as a model the concept of 'Republic' versus 'Empire'. His thesis is that the nation was established as a republic, designed to be limited only to management of its internal affairs, but that since the Second World War it has been increasingly adopting the characteristics of Empire. Not a territory-grab-style Empire, but an Empire in the sense of wanting to make the world go in a way convenient, or pleasing, to itself.

Whether the US seeks to continue its advance towards Empire, or retreat to its traditional republicanism, does not affect the need respond sternly to the terrorist attacks. Go to:

<http://www.jerrypournelle.com/>



**BUT WHEN DID EMPIRE BEGIN?**

The US involvement in both the First and Second World Wars is often seen as a belated living-up to its 'obligations'. In the case of the Second, it was the Japanese attack on that December 1941 'Day of Infamy' that was the immediate impetus for US participation, helpfully aided by Hitler's foolish declaration of war upon America.

The consensus view on the Pearl Harbour attack was that it was truly an act of infamy. That the US had been engaging in policies against Japan, such as the now commonly employed economic sanctions, is nodded at but is, rightly, seen as no justification for war.

Unless, that is, the mounting body of evidence about President

Congress made a declaration to the effect that the two US military commanders at Pearl Harbour, who were relieved of their commands soon after the attack, had been denied important military intelligence.

If true, Roosevelt's need for a Japanese attack was due to his desire to overcome the still lingering reluctance of the United States to abandon its 'isolationist' policy. Read Robert Stinnett's account of this at:

<http://www.independent.org/tii/forums/000524ipfTrans.html>

**ANTIWAR.COM**

Naturally, the hairy unwashed masses who regularly demonstrate against war typically have leftist inclinations. But this site is actually run by the Center for Libertarian Studies. Since much libertarian reasoning derives from the precept *Though Shalt Not Initiate Violence*, with an emphasis on 'initiate', few libertarians are traditional peaceniks. But with their suspicion of government and their rejection of the starting of aggression, they are inclined to start from a relatively unsympathetic view towards foreign military actions.

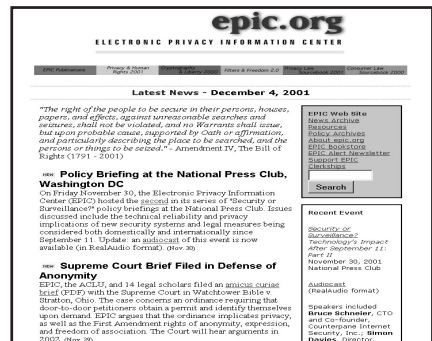
Of course, they are focused very much on the war against terrorism, especially in so far as it has developed into a war upon a nation. Go to:

[www.antiwar.com](http://www.antiwar.com)

**THREATS TO CIVIL LIBERTIES**

Initial surveys in the days soon after 11 September suggested that substantial majorities of Americans

were prepared to accept significant reductions in their freedoms in order to fight terrorism. Those majorities have since diminished, but with the extension of FBI surveillance powers, President Bush's authorization of military tribunals for



trials of non-US-citizens accused of terrorism, and similar measures, watchdogs for civil liberties are perhaps more important than ever. Two of particular value in the electronic sphere are the Electronic Privacy Information Centre, and the Electronic Frontier Foundation. Go, respectively, to:

<http://www.epic.org/>

and:

<http://www.eff.org/>

Also consider signing up for Web journalist Declan McCullagh's 'Politech' e-mail list, which deals with similar matters. Go to:

<http://www.politechbot.com/>

**FEEDBACK**

I would welcome advice from readers on any other sites of interest to IPA Review readers. E-mail me on [scdawson@bigpond.net.au](mailto:scdawson@bigpond.net.au).



Roosevelt's intentions is true. This suggests that Roosevelt intentionally adopted a policy of provocation with the specific aim of securing an attack from Japan. Even for those with a sceptical view of government motivations, this one is a big swallow. But a persistent journalist is responsible for developing much of this theory on the basis of Freedom of Information releases. So much so that, in 2000, the US

# Reinvention—It's as Simple as ABC

GLENN DARLINGTON

**T**HE ABC is important to Australia, it is highly regarded, and it represents a clear, inclusive way to bring our continental community together to celebrate our unique culture. But it is difficult to do that while you are still living in the past and resistant to change.

The ABC is the pre-eminent broadcasting organization in the country, with extensive electronic resources that its commercial counterparts can only dream about. And with the advent of digital broadcast and telecast initiatives, it has the ability to develop, promote and sustain vast quantities of information and entertainment.

But to achieve this, the ABC should put aside traditional thinking, pull down the barriers and develop its resources further, form real partnerships and alliances with other local media and production companies, and welcome them into the ABC as equal partners.

Expelling external influences from the corridors of the ABC, such as the third force of the unions, is essential if the ABC is to inject conducive and creative democracy.

The ABC has a well-deserved reputation as a breeding ground for creative ideas and for people to flow into the commercial sector. While it should encourage more people to join the ABC, the Corporation also needs to abolish restrictive employment policies, establish a succession plan and a revolving-door policy that allows smooth entry and exit for people intent on careers in television and radio.

Although much attention is given to the perception of political bias in

the ABC, the only groups that have a direct influence on the independence in the organization, in my opinion, are the unions. No other group, not even the governments of the day, can stride into the ABC, use the ABC's airwaves, or participate in the selection of staff. I doubt that people in this country would know who the Commonwealth and Public Sector Union (CPSU) was if it weren't for the ABC.

Much of the senior management of the ABC has come from the union ranks of the national broadcaster, and evolution has seen the unions come

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***The ABC needs to develop strategies that bring the warring factions in the organization together, once and for all***

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to dominate ABC management. While the two unions—the Media and Arts Alliance, representing journalists, and the CPSU, representing everyone else—have a stranglehold over staff in Sydney and Melbourne, they do not have the numbers elsewhere in the ABC. However if a national vote is taken in Sydney and Melbourne, staff can close down the ABC across the country.

The ABC needs to develop policies that embrace the community, not

itself. Properly funded and regular research that looks at the needs of people from remote areas is equally important as research on city-based audiences.

While people in the ABC see themselves as guardians of culture, the real equity of the organization is the audience dotted around the country, and its shareholders are the people yet to use the service more regularly.

An Advisory Board of external industry professionals could assist the new managing director in shaping the future of the ABC.

The ABC needs to develop strategies that bring the warring factions in the organization together, once and for all, to deliver programs in a rational manner and ensure that they are implemented.

'One ABC', a tactical retreat into a homogeneous, indefinable bureaucracy, was Brian Johns' idea. With the Government at the time eager to cut the ABC by \$50 million, it was thought that an amorphous ABC would be difficult to dismember, and that sacking 25 per cent of the ABC's management was a pathway for Brian Johns to sell the idea internally. By the time Johns left the ABC, management had been replaced and expanded, and the ABC was saddled with a \$7 million stress-leave bill. It left an additional tier of management that Jonathan Shier removed, albeit at a reported cost of \$25 million.

Radio is radio; television is television; and everything else supports both those divisions, including Enterprises and Content Management. The latter are not the main game. Both ABC Television and ABC Radio need to go down separate paths and develop

programs based on what audiences want. There should, however, be a mechanism for the divisions to come together in areas of mutual benefit. But, despite the public face, both divisions loathe each other.

When the ABC embarked on the second regional radio network in the early 1990s, it took Radio National and ABC Classic FM and posted them on transmitters throughout the country, with RN getting the lion's share. Today, Radio National is transmitted on 230 transmitters and Classic FM on 71. But at a cost of probably \$23 million a year in maintenance costs on the transmitters and about \$20 million in program costs, it is a little indulgent, considering that the audience in many of these locations doesn't even listen to the service.

The ratings of Radio National are just over one per cent and Classic FM just over two per cent.

Many of the Radio National programs would, in fact, make great television programs. With program development research complete, based on merit, selected RN programs could easily make the transition to ABC Television. This gives rise to the question: why doesn't RN simply become a production unit and pass the transmitters they occupy to other, more popular stations in the ABC stable?

On the other hand, the little-known but fastest growing ABC radio service is NewsRadio. Originally it was conceived and developed by the widely respected Dr Ian Wolfe, the then head of News and Current Affairs for ABC Radio. Wolfe begged and borrowed to get the real-time national news station up and running. Sharing Parliamentary broadcasting frequencies in metropolitan areas only, NewsRadio already commands twice the ratings of RN and Classic FM, costs less than one-tenth of the budget of Radio National, and continues to grow. Sacked by Jonathan Shier in 2000, Wolfe was asked to return to the ABC to set up ABC Television's Asia-Pacific news and current affairs. ABC NewsRadio could

move to many of the RN transmitters and provide real-time news coverage across the continent.

It is a proven media strategy that the more local the content, the greater the chance of attracting an audience. Years of audience data show that news and current affairs programs are the principal reason that people are drawn

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## **Programming control of the national stations should be vested in the States—right down to regional stations**

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to ABC Radio. Increasing news coverage at a local and State level would prove to be a cornerstone to audience growth.

And while some defenders of the traditions of the ABC may say that the ABC is not about ratings, it is about spending the public purse and performance, and the independent ratings agencies are in a better position to measure and report that performance.

Programming control of the national stations should be vested in the States—right down to regional stations. It would mean, however, breaking down the traditional fiefdoms within the ABC in Sydney and Melbourne and effectively transferring the responsibility and, importantly, the budgets, to the States.

There has been a lot of debate about ABC TV's 7.30 *Report*, and it is here that the ABC is most vulnerable to the claims of bias. The ABC should re-establish State-based nightly current affairs programs. The move would provide a local television voice for local issues at a time when regional commercial television ser-

vices are cutting back their news services in country Australia. And before anyone says that it is too expensive and can't be done, the States have the resources and more flexible work practices to achieve this.

As the organization's principal medium, ABC Television is also the principal gateway to other services. However, ABC Television operates on a different budget level to the rest of the organization and is expensive to run—it could learn a lot from the ABC's Radio Division in cost-effective program output.

Like its commercial counterparts, ABC TV can separate its commercial activity from editorial content and still benefit from potential revenue. The SBS has been doing this for some time with success, and with little or no comment from critics as to the impact on its editorial integrity. The ABC Enterprises division has for some time peppered the airwaves with product-specific advertising. No one has complained and it hasn't affected the independence of its news programs.

In a global market, the rest of the country is moving towards innovation and alliances. While the private sector is now establishing strategic innovation partnerships with government and educational institutions, the ABC should also be considering this as an option.

The ABC is at the crossroads, and with the appointment of the next managing director, it will have but one chance to carve out its place in the future. What that future holds will depend on his or her ability to quickly achieve the respect of the staff of the country's largest media employer, and continue the reform process, while recognizing that audiences are the ABC's principal equity.

*Glenn Darlington was State Manager, ABC Radio, from 1990 to 1997. He is a principal of Darlington + Associates, an international media consultancy in Perth, Western Australia, and news bureau auTV.*

**I P A**

## Summaries and excerpts from interesting reports

### CANADIAN AND AUSTRALIAN IMMIGRANTS ARE MORE SKILLED AND EDUCATED

Census data for 1990–91 indicate that immigrants to Australia and Canada have higher levels of English fluency, education and income relative to natives than do immigrants to the United States.

This skill deficit for US immigrants arises primarily because the US receives a much larger share of immigrants from Latin America:

- Almost half of post-1980 immigrants to the United States hail from Central or South America (including Mexico and the Caribbean), whereas only 14 per cent of Canadian immigrants and 2 per cent of Australian immigrants come from this region.
- The observable skills of immigrants who don't hail from Latin America are similar in the three countries.

Rates of English language fluency are also lower for US immigrants, particularly for cohorts arriving after 1970.

- Among recent immigrants, only 61 per cent of US immigrants are English fluent, compared with 82 per cent of Australian immigrants and 91 per cent of Canadian immigrants.
- But fluency rates are similar for Australian and US immigrants who come from the same source region; thus when immigrants from Central and South America are excluded, the US fluency rate jumps to 79 per cent, whereas the Australian fluency rate rises only slightly to 81 per cent.

Also, the average educational attainment of US immigrants is one to two years less than natives, while Canadian and Australian immigrants have higher education levels than natives. Excluding those who originate from

outside Latin America, US immigrants average half a year more schooling than immigrants to Australia and Canada.

Australia and Canada admit a large fraction of immigrants through a 'point system' that screens for labour market skills. However, researchers say these patterns suggest that the comparatively low overall skill level of US immigrants may have more to do with ties to Mexico than with the fewer skill-based admissions in the US.

*Source:* Heather Antecol, Deborah Cobb-Clark and Stephen J. Trejo, 'Immigration Policy and the Skills of Immigrants to Australia, Canada, and the United States,' IZA Discussion Paper No. 363, September 2001, Institute for the Study of Labor (IZA), P.O. Box 7240 D-53072 Bonn, Germany, 228-3894-0.

### RESULTS OF COMPUTER-AIDED INSTRUCTION IN ISRAEL

The question of how technology affects learning has been at the centre of recent debates over educational inputs.

In 1994, the Israeli State Lottery sponsored the installation of computers in many elementary and middle schools. This programme provides an opportunity to estimate the impact of computerization on both the instructional use of computers and pupil achievement.

Results from a survey of Israeli school teachers show that the influx of new computers increased teachers' use of computer-aided instruction (CAI) in the fourth grade, with a smaller effect on CAI in the eighth grade.

- Although many of the estimates are imprecise, on balance, CAI

does not appear to have had educational benefits that translated into higher test scores.

- Estimates show no evidence of a relationship between CAI and test scores, except for a negative effect on eighth-grade mathematics scores.
- Estimates for fourth-graders show lower mathematics scores in the group that was awarded computers, with smaller (insignificant) negative effects on language scores.

*Source:* Joshua D. Angrist and Victor Lavy, 'New Evidence on Classroom Computers and Pupil Learning,' IZA Discussion Paper No. 362, September 2001, Institute for the Study of Labor (IZA). For study text, see <http://www.iza.org/publications/dps/dp362.pdf>

### POVERTY ISN'T THE CAUSE OF TERRORISM

Most [American] liberals believe that poverty is the root cause of crime and terrorism, says Bruce Bartlett, and that if poverty were eradicated, crime and terrorism would largely disappear.

If this theory were true, crime and terrorism would rise during economic depressions and fall during boom times. Crime should also be higher in places where poverty is worst, and least where living standards are highest. In fact, the opposite tends to hold.

The recent terrorist attacks on the US confirm this observation.

- Fifteen of the 19 men who hijacked planes on 11 September were from Saudi Arabia, a wealthy country.
- The hijackers were highly educated and from well-to-do families.

In the Middle East, however, largely socialistic and state-centred economic systems do not provide sufficient opportunities for work and wealth creation. Unable to channel their energies into jobs, businesses and entrepreneurship, many well-educated young Arabs look for an outlet among radical groups like *al-Qaeda*.

The Saudi economy is dominated by the state-owned oil and petrochemicals industry, and there is little entrepreneurship. Oil wealth provides a good education for any Saudi male who wants one, but lacking opportunities for careers outside government, few study business, economics or engineering. Many pursue degrees in Islamic studies and are unemployed more-or-less permanently after graduation. Generous government benefits provide for their needs and foreigners do most of the manual labour, leaving large numbers of Saudis with nothing to do.

That system deserves some blame for the events of 11 September.

*Source:* Bruce Bartlett, senior fellow, National Center for Policy Analysis, 31 October 2001. For text, see <http://www.ncpa.org/oped/bartlett/bartlett01.html> For more on terrorism, see <http://www.ncpa.org/iss/ter/>

## COSTS TO DEVELOP NEW DRUGS SOAR

It is two-and-a-half times more expensive to research a new medication now than it was in 1987, even adjusting for inflation. That is the conclusion reached by researchers at the Tufts University Center for the Study of Drug Development.

- On average, it now takes \$802 million, including the cost of

capital, to come up with a new pharmaceutical product.

- While total research costs increased 7.4 per cent annually in the 1990s, clinical costs—the component of research associated with testing drugs on humans—rose 12 per cent annually.
- Due to demands by managed-care buyers that drug companies prove the value of their drugs in larger and longer trials, the number of patients in a new drug trial has increased from about 1,300 in the early 1980s to more than 4,000 for a typical new medicine today.
- The study found that the average development time for new medicines is 12 years.

In the 1990s, drug firms spent an average of \$121 million out-of-pocket in research prior to clinical trials—but that figure rises to \$336 million when the costs of capital are included. The clinical testing stage consumes \$282 million—or \$466 million when capital costs are factored in. The capital costs are determined by figuring how much would be returned by investing the money at 11 per cent over time.

Drug company executives point out that patent-protection laws—which have come under attack by some critics—are vital to encouraging and protecting such huge investments.

*Source:* Gardiner Harris, 'Cost of Developing Drugs Found to Rise', *Wall Street Journal*, 3 December, 2001.

For text (WSJ subscribers):

<http://interactive.wsj.com/archive/SB1007336440403996240.htm>

For study info: <http://www.tufts.edu/med/csdd/Nov30CostStudyPressRelease.html>

## DON'T COUNT ON RELIGIOUS FREEDOM IN ISLAMIC WORLD

Several human rights organizations report that many Muslim-ruled countries have dismal records when it comes to religious freedom and tolerance. Christians are particularly discriminated against.

In fact, Christianity is banned in Saudi Arabia, Afghanistan and Kuwait.

- The latest US State Department religious freedom report rates Afghanistan among the worst offenders—along with Burma, China, Cuba, Laos, North Korea and Vietnam.
- Runners-up include Iran, Iraq, Pakistan, Saudi Arabia and the Sudan, where leaving Islam for another religion is a capital offence.
- Turkmenistan—where four Baptists were tortured for having religious literature in their car—made the list, along with Uzbekistan.
- Nigeria, Indonesia and Sudan lead the world in actual death tolls of Christians, according to the Center for Religious Freedom at Freedom House—and the number of Christians and animists who have perished in Sudan is estimated at 2 million.

By contrast, roughly 1.8 million to 2 million Muslims in the US are free to construct mosques, set up their own nonprofit groups, evangelize for their own religion and raise funds there—protected by the First Amendment.

*Source:* Julia Duin, 'Christians Face Dismal Plight in Islamic Realms,' *Washington Times*, 6 November 2001. For text, <http://www.washingtontimes.com/national/20011106-73789.htm>

**I P A**

# What's A Job?

KEN PHILLIPS

## The Entitlement Con

During 2001, Australia has witnessed immense agitation over lost worker entitlements from failed businesses, with Ansett being the glaring example. Anger has been directed at the Federal Government and unethical bosses, and the issue has been the justification for considerable strike action in attempts to force businesses to deposit money into the union preferred trust fund, Manusafe. More recently, Feltex, a struggling carpet manufacturer, has been hit by a union campaign to pay all of its workers' entitlement into a union-controlled trust fund.

Yet, in all the agitation, the most basic fact has been ignored. Employment law creates the problem and the suggested solutions compound the problem.

In fact, employee anger over loss of accrued entitlements should, in the first instance, be directed at Australia's industrial relations system. In effect, the IR system forces employees to give employers unsecured, non-interest-bearing loans. Failed businesses physically lose the money, but the IR system requires employers to turn employees into creditors against their will.

It works this way. Through the IR system, employers are forced by law to withhold employee income under the banners of holiday pay, sick pay, long service leave, redundancy and other entitlements. The word 'entitlements' is used, but in reality the terms 'loans' and 'mandated worker risk' are more truthful.

The withheld money belongs to employees, but takes the form of unsecured loans to employers.

Employees are reliant on the integrity and good management of employers but have no choice over how their money is managed, or by whom, or whether the loans should occur in the first place.

This state-orchestrated deal puts employees' money at risk to the benefit of employers and unions. It's a game! Employers have a free source of credit and dictate to workers when to take leave at the employers' convenience. Unions secure negotiable 'benefit' issues as points of dispute, thus substantiating the legal façade of inequality of bargaining power, and justifying their position in the Australian corporate structure.

Even if employers don't want to withhold employee entitlements, they can't. Unions fiercely oppose 'cashing out' of worker entitlements and campaign against casualization. These well-known arrangements pay employees their entitlements in higher hourly and weekly rates than those paid to full-time employees. Entitlements never accrue, because money is never withheld and workers are not exposed to credit risk.

Even where entitlements are accrued, the problem of losses would never exist if all employers placed the monies in trust funds. But the standard business practice is to view this as unproductive money. Where trust funds exist, they are most often raided, and employees' money becomes listed as an accounting liability to be paid from future earnings.

The system is clearly unjust. In no other area of society are people forced to lend someone else money, let alone without security or interest!

It's also bad business because when credit is provided without due diligence poor management becomes the norm.

The Ansett débâcle is typical. Through the IR system, Ansett employees were forced to provide free credit to bad managers. If Ansett hadn't had access to \$500 million of easy money, the reality of the business problems would have been forced to the surface much earlier. Instead, employee credit contributed to problem-denial and the downward slide.

The solutions so far offered are inadequate. Government compensation and the union idea of a nationalized trust fund address problem management, but not prevention. The only solution that gives workers safety is to give workers control of their money by cashing out entitlements.

This is how Australia's 1.6 million independent contractors operate. They don't suffer employee-type credit risk because money is not withheld from them. If they provide credit to clients, it's their choice and not required by law. Employees deserve similar rights.

If there is to be a solution, the first step is to change industrial relations laws so that 'entitlement' money can only be withheld on the written authority of each individual employee. This could be phased in to allow businesses to manage cash flow implications. If worker justice is to be achieved, the only solution is to give each worker total control of his money. Let them decide!

*Ken Phillips is a workplace reform practitioner who promotes the principles of 'markets in the firm'.*

**I P A**

**REVIEW**