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REVIEW

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From the Editor

MIKE NAHAN

It is easy to ridicule UN gabfests. They generally achieve nothing other than provide a stage for the unelected to bully governments and corporations into doing their bidding, and at the recently completed Earth Summit in Johannesburg the unelected outnumbered the elected by ten to one. The gabfests consume massive amounts of money and resources—indeed the Earth Summit cost taxpayers around the world a minimum of \$1 billion. Thankfully, the bill was largely borne by our European friends. Furthermore, the gabfests regularly give a stage to the world's most despicable despots such as Mr Mugabe, who received a standing ovation at the Earth Summit after blaming whitey for his domestic problems.

Nonetheless, the Earth Summit achieved a good deal. First, economic freedom won over eco-socialism. The prevailing theme of the Summit's 30,000-word communique is that wealth and markets make for a healthy environment. The vision proffered by the NGOs and their UN mates—that environmental disasters warranted eco-socialism, was rejected.

Second, a new coalition of nations was formed which effectively thwarted the push by the Europeans and their friends in the UN and the NGOs. The G77 group, (composed largely of less developed countries) together with the US, Australia, Canada, Japan and sometimes the UK, took on the Europeans and won. They rejected Europe's push for targets on renewable energy such as wind and solar power. Instead, the conference gave the green light to 'efficient affordable and cost-effective energy technologies, including fossil fuel technologies'. Global warming was barely mentioned, except in the Australian media. The proposal to set up a World Environmental



Organization—naturally under the auspices of the UN, located in Europe and with special rights for NGOs—was killed off. The Europeans and their NGO friends' attempts to outlaw the use of genetically modified crops received no support either, except from a few 'Uncle Tom' NGOs from developing countries, such as Malaysia's Third World Network. Europe's push to stop the development of new dams to save water was ignored. Indeed, the Ugandan delegation was successful in getting new hydropower re-instated as renewable energy.

The rainbow coalition of NGOs, less developed countries and the UN failed to materialise. Indeed, the LDC joined the other camp—the pro-growth countries. In truth, this was always on the cards. LDC may be burdened with despots and dictators, but they are not dumb. They want what we have, not what the NGOs want to give them—which is more of what they already have: poverty, lack of markets and technology, and too many dictators. The LDC have made this view crystal clear at every UN forum for decades. The NGOs' plan for Johannesburg was to buy the LDCs' support for eco-socialism with the lure of foreign aid. Accordingly, aid became the main focus of the Earth Summit and many environmental

NGOs became aid agencies. It did not work. After 50 years, LDC leaders know that foreign aid, even if delivered, does not provide a path from poverty. Some even know that socialism does not work. They also know that the many NGOs would, in the end, give preference to rhinos over people.

The Summit also gave rise to a new pro-market and pro-development group of NGOs who provided an effective alternative voice to the anti-globalization groups which have long dominated the sector. Many of the most articulate of this new breed of NGOs, such as the Free Market Foundation of South Africa, the Inter Region Economic Network of Kenya and the Institute of Public Policy Analysis of Nigeria, come from Africa.

Finally, Greenpeace and Friends of the Earth were exposed to the world for what they are—eco-fascists. These organizations were exposed as the lobbyists behind the decisions by the dictators of Zimbabwe and Zambia to withhold maize from their starving masses because it may be genetically modified. This was done in the full knowledge that GM maize has been eaten by over 300 million North Americans for six years without a single problem, and has been cleared for human consumption by every health agency in the world.

The Summit had its low points. The lowest being the joint statement made by the World Business Council for Sustainable Development (representing 160 of the world's largest corporations including, ironically, Monsanto) and Greenpeace urging countries to ratify the Kyoto Protocol. Karl Marx was probably right when he predicted that capitalism contained the seeds of its own destruction.

IPA

REVIEW

Ethical Investment— Deconstructing the Myth

JIM HOGGETT AND MIKE NAHAN

DO AUSTRALIANS want social engineers to control their investments? Clearly some do—as illustrated by the existence and growth of so-called ethical funds.

Judging by the number of advisers jumping on to the ethical bandwagon—including every university in the country, many of the largest investment houses, the accounting profession, industry lobby bodies, philanthropic foundations, government departments and virtually every non-government organization—one gets the impression that ethical investment is the ‘next big thing’.

And if its motto—‘doing well by doing good’—rings true, it could well be.

The ethical funds industry has been given a huge boost by the *Financial Services Reform Act*—thanks to its friends in the Australian Democrats. The Act, passed in the dying hours of the last Government, imposes disclosure requirements on all funds managers which will, in effect, force them to inquire into the labour, environmental, social and ethical standards of the Australian corporate sector.

Unfortunately, most of the information available on ethical funds is provided by their many promoters and is unreliable. Indeed, there is a conspicuous dearth of independent research, a distinct absence of basic descriptive information.

On examination, most of the claims made by the industry do not stack up in theory or in practice. Indeed, the industry has the hallmarks of Hans Christian Andersen’s fable of the Emperor With No Clothes—

that is, people loudly touting the merits of ethical investment which in reality are non-existent. Yet few bystanders are willing to disclose the fact for fear of being branded as unethical.

Well, let us be the innocents who expose the naked emperor.

WHAT IS AN ETHICAL FUND?

It should be possible, theoretically, to define an ethical fund objectively on the basis of the criteria it uses to select its investments and on the basis of its own revealed ethics. In practice, this is impossible for the simple but fundamental reason that there is no single, accepted body of ethics in Australia. So ethical funds are self-identified.

Many of the funds are defined by the nature of the businesses in which they do *not* invest. For example, they may refuse to invest in nuclear power, armaments or tobacco. This so-called ‘negative’ screening is based on the perceived ethics of the activity itself rather than the ethical standards of those conducting it. The negative screen may be wide- or fine-mesh which allows a great deal of ethical flexibility.

If the screen is fine enough then it takes on the characteristics of ‘positive’ screening, where the fund operates not by exclusion of objectionable activities but by inclusion of desirable activities. These might include firms engaged in environmental improvement, waste recycling or social support.

There is some fuzziness in definition here, as ‘positive’ screening can also be conducted on the basis of the

good behaviour of the management and staff of the corporation being considered for investment. This is not a judgement on their personal ethics but typically on their perceived treatment of customers and employees, compliance with laws, participation in socially acceptable extra-mural activities, annual reporting and general perceptions of honesty and integrity.

In practice, the operation of the positive and negative screens renders the general concept of the ethical fund quite meaningless.

If we consider ethical funds as a group, it is not possible to assert that their investments are in some way purer than the generality of investments.

This is because ethics are multifarious and, consequently, ethical investments are the generality of investments. This is shown by the fact that all of the top ASX 250 firms are included in at least one ethical fund or another. In other words, almost any legal business activity will be regarded as ethical by a sufficient group of investors to be included in an ethical fund. As the *Wall Street Journal* has reported ‘One person’s taboo is another person’s sacred cow’.

Individual funds do offer investors a choice if they want to avoid or support certain forms of economic activity. What the ethical fund sector cannot do is provide a comprehensive definition of what is an ethical business nor can it delineate the ‘ethical sector’ of Australian business.

An ethical fund is therefore not ethical at all in any general sense—merely a vehicle for a more-or-less

restricted group of personal preferences. Each ethical fund will have a different ethical set with a range as diverse as the market.

The last point brings into sharp focus the fact that the ethical funds are a self-identified group which have appropriated the mantle of ethics without any objective test. There is no reason why every fund which is run according to some ethical standard—which in practice could mean almost all funds because the Government enforces such standards—should not describe itself as an ‘ethical’ fund.

This is not to say that so-called ethical funds are illegitimate, merely that they are misdescribed. As a group they reflect the diverse and often conflicting beliefs within our society, which has a wide margin of tolerance for differences in opinion and behaviour.

Ethical funds would be better described as personal preference funds or personal choice funds. This would be a less misleading term and would avoid the discriminatory implication that other funds are not ethical simply because they do not describe themselves as such.

HOW SOUND IS THE ETHICAL SCREENING?

If ethical investment depends on personal preference and can thus comprehend most activities, investors need to choose their fund carefully to ensure that at least it reflects as many of their particular preferences as possible.

For several reasons this is not as straightforward as it seems.

The difficulty of fitting a personal ethical spectrum to discrete portfolio choices is demonstrated by the diverse composition of the ethical funds. Australian Ethical Equities Trust, for example, screens out gambling, tobacco, alcohol, mining and armaments. Hunter Hall has a similar screen, but may invest in alcohol and mining. Westpac Australian Eco Share Fund, on the other hand, invests in mining, energy, alcohol and

gaming. Sustainable mining has been termed an oxymoron by environmentalists, but both BHP and Rio Tinto are included in the portfolios of a number of ethical funds. Tobacco seems to be avoided by most ethical funds, except indirectly through the medium of retail trade and hotels where it is generally included.

Another difficulty for investors is that the basis on which funds are rated as ethical is not transparent. For example, the *Corporate Monitor* ratings are explained in general terms

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but it is not possible to infer the weightings given to different types of business or to assess how much of the analysis is subjective. The precise basis for the Monash University ratings is also not revealed.

Ethical screening, not surprisingly given its idiosyncratic nature, can throw up startling anomalies:

- Hunter Hall is a highly regarded ethical fund which positively screens for a limited range of investments. Its largest investment is Cussons, a British soap manufacturer. Cussons passes Hunter Hall’s ‘ethical’ screen because it does not test its products on animals. Yet a leading ingredient in many of Cussons’ product is palm oil, the production of which, in turn, is a major contributor to the clearing of tropical rainforest.
- AMP is screened out of certain ethical funds because of its invest-

ment in Stradbroke Pastoral which has the right to clear large tracts of land. It is penalized for holding these rights, which it has not exercised, thus being categorized ethically with those pastoralists who clear (legally or illegally). Ironically, at the same time, AMP is one of the largest providers of ethical funds in Australia.

- Michael Walsh, a leading analyst and promoter of ethical funds, has questioned investment in stem cell research on the grounds that it is ‘controversial’ rather than ethically unsound—an example of the precautionary ethical principle?
- The Wilderness Society will not certify Australian native timber under the official stewardship scheme while the Timber Industry Superannuation Scheme, which presumably regards itself as ethical, will not exclude a range of uses, including woodchipping.

Ethical screening would almost certainly eliminate any investment in governments which produce and use armaments, engage in mining and greenhouse activities, promote and run the biggest gambling operations in Australia (lotteries) and reap the biggest profits from the production and sale of alcohol and tobacco and from private gambling.

Indeed, Noel Hyland, Investment Analyst with Australian Ethical Investments stated ‘One hesitates to say the Australian Government isn’t ethical but according to our criteria it isn’t. There are things ... Governments do that are excellent like running hospitals but they spend huge amounts of their budgets on roads and defence’.

One final point relates to the trustees of ethical funds. Trustees are legally bound to act in the interests of their beneficiaries, not for social, non-financial causes. There is a risk with ethical funds that trustees could be exposed to claims of acting outside their powers if they sacrifice their beneficiaries’ interests for causes promoted by outside interests.

THE FINANCIAL PERFORMANCE OF ETHICAL FUNDS

Sweeping claims are regularly made about the superior financial performance of ethical funds.

A common claim is that screening out 'negative' activities need not reduce the performance of funds. This assumes that the screened investments will yield the same returns as the excluded investments or that the managers of ethical funds are better at picking corporate winners.

The promoters often take it a step further and say that they can and do systematically beat the market. Their assumption is that ethical companies (which they define and identify) are inherently better performers because of the superior integrity of their management and staff.

Neither of these propositions is sound in theory or practice.

Indeed, the recent performance of a large group of 'positive' companies (high tech and telcos) has been worse than many of the 'negative' ones (tobacco, mining, alcohol, gambling). Ali and Gold recently undertook one of the first independent examinations of the performance of ethical funds in Australia. Amongst other things, they found that excluding 'sinful' industries—such as alcohol and gambling (which the majority of Australian ethical funds do)—between 1994 and 2001 would have resulted in a performance shortfall of 0.70 per cent per year, reducing the broad market return from 12.7 per cent to 12 per cent. Their data showed that the gap between the sinful industries and the rest of the market grew markedly as the new economy stocks waned.

The result from the US is even starker. As shown in Figures 1 and 2, over the three years from June 1999 to June 2002, alcohol companies outperformed the market (S&P 500) by 58 per cent and gambling stocks outperformed the market by 103 per cent. Defence and tobacco stocks also significantly outperformed the market during this period.

Moreover, there is no convincing evidence that managers of ethical

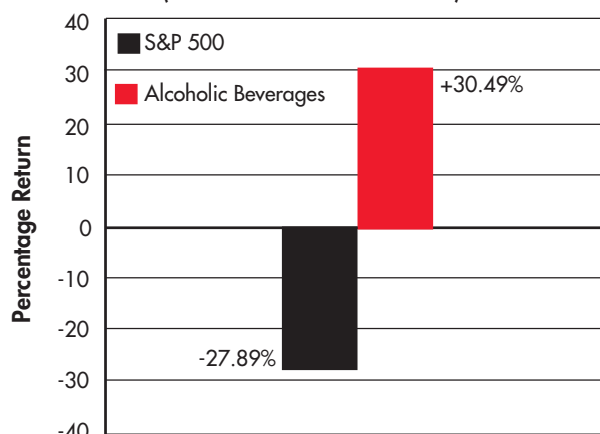
funds are better at picking winners than the other fund managers. This is as theory would indicate. As Michael Knoll has argued, if ethical funds narrow the portfolio choice for non-financial reasons, this will increase the risk for the fund and prevent investment in some potentially high-performing companies.

The second assumption, that 'ethical' firms are inherently more efficient/profitable, is only sustainable in extreme cases where roundly unethical corporations actively engage in fraudulent or illegal activity and are caught and punished or self-destruct. Even such corporations as Enron may successfully pose as highly profitable and ethical. Indeed Enron and WorldCom were favourites of the ethical funds industry in the US.

The vast majority of Australian businesses comply with our laws and act honestly. Across this huge spectrum there will be enormous differences in relative efficiency and ability to take risks and make profits. These discrepancies will be almost entirely unrelated to the multiple shadings of integrity between the pathologically upright and the barely legal. The qualities of efficiency and successful enterprise are likely to be evenly distributed over the integrity spectrum.

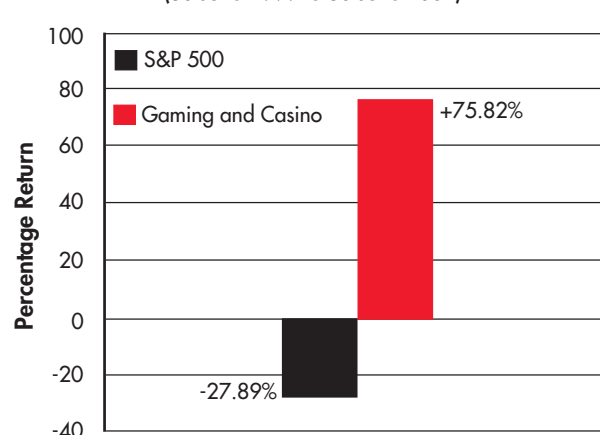
One indisputable and significant financial disadvantage suffered by ethical funds is the extra costs they

Figure 1: 3-Year Alcoholic Beverages vs S&P 500 Index (30 June 1999 to 30 June 2002)



Source: www.vicfund.com

Figure 2: 3-Year Gaming and Casino vs S&P 500 Index (30 June 1999 to 30 June 2002)



Source: www.vicfund.com

incur to screen investments for non-financial purposes. These can include the external costs of rating services or consultants and/or the costs of in-house teams directly checking, monitoring and auditing the environmental performance, labour standards (local and overseas), compliance history, social contribution and the integrity of executives and staff.

WHAT DO THE FIGURES TELL US?

The available data on ethical funds in Australia covers too short a period for meaningful comparisons to be made or assertions of superior performance to be substantiated.

What the data do show is that most of the ethical funds have experienced significant slides in returns

in recent times with some ethically highly rated funds performing particularly badly. This may well be the outcome of investing in apparently ethical sectors such as IT and communications which have proved to be financially risky.

Looking at the last twelve-month period, the S&P/ASX 300 index shows a return of minus 3.82 per cent. The Westpac Monash Eco index shows minus 8.87 per cent and the Ethinvest Environmental index shows minus 12.9 per cent.

Looked at globally for the same period, the Dow Jones Global index shows a negative return of 9.88 per cent compared with a negative 20.23 per cent for the Dow Jones Sustainability Global index. The Australian market generally has performed better than the rest of the world, but its ethical funds seem to have performed relatively badly to about the same degree.

Analysis of the extra cost involved in administering ethical funds suggests an average loading of about 18 per cent, with wide variation of between 4 and 43 per cent.

Longer term data are hard to come by and proper comparison would require at least the full length of an economic cycle. One somewhat more extended comparison by *Corporate Monitor* found that, of the eleven funds it surveyed, four outperformed the ASX 300 index over the past five years. This implies that the majority did worse than the index.

The evidence from the US is that, over the 1990s, ethical investments were often able to match the market with some funds able to beat the market on a consistent basis. This is now, however, proving to be another mirage of a bubble economy.

Ethical funds in the US and in Australia have tended to invest in fashionable companies, in growing industries which, in the 1990s, tended to be socially 'acceptable' industries, such as dotcoms, telcos, and services. As shown above, the leading firms of the 1990s are now lead-

ing the market down and the old economy stocks are the rising stars. As a result, most ethical funds are struggling.

The bubble economy, which saw the firms which never made a profit produce price/earning ratios in excess of 100/1, is unlikely to return in the near future. It was these very same claims and investments which allowed the US ethical funds to beat the market. As with the dotcom bubble, the ethical bubble has now burst.

Another claim made by ethical investors is that it provides the capacity to change the world. That is, it allows people to withdraw money from 'unethical' firms (thereby depressing their stock values and rais-

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ing their cost of capital) and to direct these funds towards 'ethical' firms (thus increasing their value and decreasing their cost of funds).

Unfortunately for those who have made the sacrifice, there is little empirical evidence that ethical investment has any effect on individual stock prices and thus on the behaviour of firms. Indeed, none of the 'sinful' industries has suffered any adverse impact on price and cost from the efforts of the ethical investment industry.

If there is such uncertainty about the nature and performance of ethical funds, why do they continue to grow? The answer appears to be twofold. First, promoters of ethical funds are many and expert and ethically challenged when it comes to providing facts and performance. Second, investors may receive a 'psychic income' from apparently doing good.

One suspects, however, that as investors become aware that the ethical bubble has burst, the psychic rewards will be overwhelmed by the desire for hard returns.

CONCLUSION

The evidence suggests that ethical funds generally under-perform when compared with the market because they restrict their choice to a narrow, and therefore riskier, range of investments. Moreover, there is no indication that the ethical screens proffered by ethical funds identify better managed or less risky firms.

The debate over performance is clouded by the impossibility of defining a core, let alone a unique, set of ethics that could be used to identify objectively an ethical fund. 'Ethical' funds do not exist as a separate class. Most Australian funds could justifiably claim to be ethical. Self-described ethical funds are no more than personal preference investment vehicles.

The lack of transparency of the various ethical rating systems no doubt stems from, but is not excused by, this problem of definition.

One clear conclusion is that, while the Government's ethical disclosure rules may have little effect on the morality of fund managers or corporations, they will force the generality of funds and corporations to carry the extra costs of reporting and monitoring behaviour—but without winning the moral cachet that goes with 'ethical'.

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REVIEW

Dangerous Liaisons

DON D'CRUZ

WHEN Prime Minister Howard travelled to Indonesia this year, he was snubbed by a number of leading Indonesian politicians, among them most notably Amien Rais.¹ According to media reports, Rais, the influential speaker of Indonesia's People's Consultative Assembly, cancelled a planned meeting with Mr Howard because he believed Australia was supporting independence movements in West Papua and Aceh.² This was a charge that the Prime Minister naturally denied. After all, it was something for which neither he nor his Foreign Minister Alexander Downer had ever expressed support.

The truth is that taxpayer-funded Australian non-government organizations (NGOs) are supporting independence movements in Indonesia. And Indonesia is not the only country where the Australian taxpayer is footing the bill so that NGOs can agitate in support of policies that are contrary to the official foreign affairs' line. To Indonesian eyes, these actions appear 'Australian'. After all, these are Australian-based organizations, staffed by Australians, receiving Australian Government money and boasting links to the highest levels of Australian society.

Australians should be allowed to support independence movements in Indonesia and elsewhere with their own money and resources—so long as they do so lawfully. It is an entirely different matter for NGOs which are carrying out aid projects on behalf of the Australian Government. They have responsibilities first to guarantee the safety of their workers, but more importantly to see that aid is delivered in a professional and impartial manner.

It is clear that Australian foreign-aid NGOs played an important role

in facilitating Australian involvement in East Timor. Although it was ultimately the decision of the Howard Government to intervene directly, Australian NGOs and activists played a vital role in keeping the issue of East Timorese independence on the agenda, generating favourable media reports, aiding demonstrations, lobbying politicians, and raising the matter at international fora and the like.³

As Michelle Grattan wrote during the Prime Minister's recent visit to Indonesia:

The fears held—despite Australian denials—by many Indonesians about West Papua are understandable. After all, it's only several years ago that Australia said—and certainly believed—that East Timor should remain part of Indonesia. International circumstances and Australian opinion changed. Some Indonesians no doubt believe the same metamorphosis of opinion may happen with West Papua.⁴

Given their obvious importance to fledgling independence movements, it is not surprising that pro-independence advocacy by Australian NGOs is viewed with suspicion in Indonesia and may be hindering the further normalization of relations between Australia and Indonesia.⁵

AUSTRALIAN MISCHIEF IN INDONESIA

One taxpayer-financed body heavily involved in pressing its own foreign policy approach is APHEDA (Australian People for Health, Education and Development Abroad), or Union Aid Abroad. In its Annual Report, APHEDA talks about its 'campaigns in support of independence in West Papua, Palestine and Western Sahara'.⁶

APHEDA's operations in Indonesia were, at least in 1999–2000, partly funded by AusAid—the Australian

Government Foreign Aid Agency. Moreover, it is AusAID's capacity-building support that allows APHEDA to keep its entire network in place with people and programmes in ten countries. In 2001, some \$3.1 million out of APHEDA's total income of \$4.4 million (excluding income in kind) was provided by the taxpayer. Government funding increased from \$1.7 million in the previous year.

AusAID money has assisted APHEDA to run a trade union training programme in Bandung, Indonesia. This in turn has resulted in APHEDA getting intimately involved in controversial industrial disputes. APHEDA and its Indonesian partners led a strike against the Shangri-La Hotel chain at the end of 2000. The strike resulted in civil disturbance with riot police called in, and in court action with an Indonesian civil court handing down a \$4 million judgment against the unions and some 400 striking staff being dismissed.⁷ This hardly constitutes suitable activity for an Australian-funded aid agency.

APHEDA is no ordinary NGO. It has links with some of the most senior members of the Australian Labor Party. Although chaired by former Secretary General of the Waterside Workers Federation and committed life-long Communist Tas Bull,⁸ its management committee includes ALP Federal member for Reid, Laurie Ferguson and ALP President Greg Sword, as well as Sharan Burrows, the President of the ACTU.

Sword made headlines in 2000 when he signed a 'memorandum of understanding', along with other union leaders, with a representative of West Papuan independence activists which, among others things, called for a United Nations-sponsored referendum on its future.⁹

As most commentators observed, it was an action that ‘embarrassed the ALP’ with the then shadow Foreign Minister Laurie Brereton being forced to state that, despite what some senior members of the ALP had indicated, the Labor Party did not challenge the sovereignty of Indonesia.¹⁰

Another notable member of the board is Janet Hunt, who was formerly the executive director of the Australian Council of Foreign and Overseas Aid (ACFOA), the peak body for foreign-aid NGOs in Australia.

APHEDA is not the only taxpayer-funded participant in Indonesian politics. Indeed, Australian Volunteers International (AVI) also provides a stark reminder of how committed activists can pursue their passions with little regard to the integrity of the aid agencies for which they work.

AVI’s problems were exposed when an *Australian Story* documentary programme (on ABC TV) about Kirsty Sword, the new wife of East Timorese president Xanana Gusmao, revealed that she had engaged in a range of covert activities while employed by Australian foreign-aid NGO AVI as a teacher.¹¹ Andrew Bolt summed it up neatly when he wrote: ‘bravery is one thing, but spying while pretending to be an Australian aid worker is dumb and dangerous—to many others’.¹²

Irrespective of what one thinks about the cause of East Timorese independence, Sword’s actions were reckless given the degree to which Australian aid workers and citizens in general were compromised by her activities. But far more troubling has been the lack of concern by groups such as AVI when their failings were exposed.

AVI, which is largely funded by Australian taxpayers, also has a number of high-profile Australians associated with it. Its patrons include Sir Zelman Cowen (former Governor-General), Gough Whitlam (former Prime Minister), Elizabeth Evatt (former Family Court Judge), Justice Michael Kirby (current High Court judge), Ian Sinclair (former leader of

the National Party) and Peter Howson (former Liberal minister). To Indonesian eyes, this NGO would also appear to have close links with the Australian Government and Parliament.¹³

To date, it appears that AVI has not conducted any internal investigation into the Sword case. Even more worrying is the assertion made by the head of AVI that AusAID have no concerns about this incident. This raises serious questions about the level and quality of supervision by AusAID.

The Australian Council of Foreign and Overseas Aid’s (ACFOA) Code of Conduct is commonly used by aid agencies as ‘proof’ that they observe the highest standards of behaviour. The assertion by AVI that they had not breached ACFOA’s Code of Conduct might lead to the conclusion that amateur espionage is an acceptable part of Australian aid work abroad.

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In the documentary on Kirsty Sword, one interviewee noted ‘what she did in practice was to be a money launderer, to be a networker, to be a translator, to be right at the very heart of the web of networks and intrigue, and comings and goings related with the clandestine movement’.¹⁴

These observations are intriguing because they were made by Pat Walsh who was ACFOA’s human rights coordinator at the time of Sword’s activities and the long-time editor of *Inside Indonesia*.¹⁵ Given that ACFOA seems not only to have known about but also condoned Sword’s activities (Walsh was Sword’s referee), one has

to question ACFOA’s capacity to define and enforce acceptable standards of behaviour.

The recent debate about anti-terrorism laws drew a response verging on hysteria from Australian NGOs. One interesting comment came from Nathan Laws, the international programs manager at Australian Legal Resources International (ALRI), who was quoted in a major paper as saying: ‘There are concerns if the bill is passed in its present form, organizations that directly support and provide advocacy for independence movements may be deregistered by the Attorney-General and face other consequences resulting from a freedom movement being classified as a terrorist organization.’¹⁶ The representative from ALRI, which operates in Indonesia and the Middle East, among other places, did not elaborate on what he meant by ‘direct support’, but it is a troubling notion when dealing with NGOs operating in strife-torn parts of the world.

**RIGHTS-BASED APPROACH
TO DEVELOPMENT**

There are a number of reasons which explain this politicization of foreign aid. A compliant and ineffectual bureaucracy in AusAID is certainly a factor. A lack of media scrutiny is almost certainly another factor. It is instructive just how little media interest and investigation there was when Rais and other senior Indonesian politicians made their claims.

The main reason for this politicization is the rights-based approach to development which is the orthodoxy in the Australian foreign aid community. As APHEDA’s Website clearly states: ‘Union Aid Abroad-APHEDA’s international program has developed from a rights based approach.’¹⁷

This approach argues that rather than human rights being a subset of development, development is a subset of human rights.

The key benefit that the approach offers the more politically-motivated activists is that it provides them with a *carte blanche* excuse to interfere in

the internal politics of other countries on the grounds of human rights. As John A. Gentry put it in a *Washington Quarterly* article, 'human rights are powerful recruiting tools and powerful propaganda tools in the already lethal arsenal of separatists and revolutionaries.'¹⁸ After all, rights are absolute by definition and require no compromise.¹⁹ Just as defending the 'rights' of asylum seekers allows activists to justify any actions and statements, so too does the rights-based approach to development allow NGOs to argue that virtually any action is permissible in pursuit of helping the people who they 'serve' to actualize their rights. The defence of cultural rights and human rights becomes an excuse for the 'end justifying the means'.

The dangers of this are expressed by aid agency Worldwrite in their report released at the Earth Summit:

Not only does the obsession with cultural difference [human rights] mask inequality but there is a greater danger in the way it is used to undermine autonomy and national government, interfere in the affairs of sovereign states and prescribe what is appropriate for the developing world.²⁰

ACFOA's Code of Conduct not only enshrines this defective reasoning, it acts as a shield to deflect scrutiny by creating the illusion of proper standards.

Despite some misleading claims in the media,²¹ there is nothing in the Code that actually promotes neutrality and impartiality as major values to guide the conduct of Australian foreign-aid NGOs. In fact, the explicit absence of such a statement is what hits one hardest about the Code.²²

Another curious omission is any requirement for NGOs to observe the laws and sovereignty of the host countries in which they operate. In some respects, the omissions are far more notable than what is actually said.

Add to this cocktail foreign aid NGOs with little accountability, a lack of transparency, poor governance

and staffed by a combination of idealistic activists and committed campaigners, and one has a recipe for politicization and, eventually, disaster.

AND THEN THERE'S THE MIDDLE EAST...

Indonesia has not been the only country where Australian foreign-aid NGOs have received unwanted attention. Oxfam Community Aid Abroad (OCAA) recently came under fire for its perceived lack of neutrality in the Middle East. OCAA was labelled an 'eager propagandist' having 'chosen to ignore the long history of entirely unreliable (i.e., false) re-

Another curious omission is any requirement for NGOs to observe the laws and sovereignty of the host countries in which they operate

ports designed to delegitimize Israel, as well as the background of the brutal Palestinian terrorist campaign that led to the Israeli response'.²³ Having checked OCAA's web site, this accusation is not an unreasonable one, with OCAA refusing to label any Palestinian activity—even suicide bombing—as terrorism!²⁴

APHEDA is also active in the Middle East. In addition to supporting West Papuan independence activists, APHEDA is also staunchly pro-Palestinian.

According to a so-called 'fact-finding' mission report by APHEDA: APHEDA's first projects were with Palestinian refugees, as a re-

sponse to the violation of the Palestinian peoples' human rights and their struggle for self-determination. APHEDA's program aims to demonstrate solidarity and commitment with the Palestinian people through humanitarian assistance, advocacy and lobbying.²⁵

This fact-finding mission's report contains a litany of unsubstantiated charges against Israel. And, although the report claims to have consulted a 'wide range' of sources, the list of all those interviewed fails to contain a single representative of the Israeli Government.²⁶ Given this selectivity, it is hardly surprising that the report extensively discusses Israeli military actions but ignores the reason for them. Surely, no intelligent criticism of any alleged human rights violations by Israel can take place without a discussion of Israel's grave security environment. An environment where the constant threat of terrorism places a tremendous strain upon the normal functioning of any democratic nation.

While the report says that 'Israel must renounce state-terrorism', the report almost comically makes no reference to Palestinian terrorism.²⁷ Of more concern, it argues that 'resistance is inevitable' on the part of Palestinians.²⁸

The main problem with APHEDA's pro-Palestinian advocacy is that APHEDA's projects in those areas are largely Australian-government-funded.²⁹ As such, APHEDA is not just the ACTU's aid agency, it is acting as an 'agent' of the Australian Government. This makes the strident advocacy of APHEDA on these issues totally unacceptable.

In the case of APHEDA, this also begs a broader question about whether the Government wishes to see the strident form of Australian trade unionism exported to other countries. Thanks to funding from Australian taxpayers, the ACTU can afford not only to train union activists in countries such as Indonesia, Cambodia, the Philippines and East Timor,³⁰ but in virtually every Pacific nation as well. ▶

Not only do Australian taxpayers fund the spread of Australian unionism throughout the globe, but they also provides APHEDA and the ACTU with the means of keeping in place a network of activists.³¹ APHEDA's taxpayer-funded network of activists does not just work overseas; it also functions domestically on issues such as refugees, anti-globalization and reconciliation.³² The importance of these networks to the union movement was spelt out in the ACTU's key strategic planning document *Unions@Work*.³³

Moreover, APHEDA would not appear to have the necessary credentials for many of the projects for which it receives government aid funding. For example, the union movement has virtually no links or skills bases in the agricultural sector, yet it received funding to teach permaculture in the Solomons, Cambodia and Palestine, organic agriculture in Vietnam and sustainable agriculture in Bougainville. Of course, APHEDA and the union movement could purchase the necessary skills from outside the union movement. But the point is that the union movement itself does not bring unique skills which would offset its lack of suitability for the receipt of government funding.

Relations with our most important neighbour are being severely undermined by government-funded NGOs acting as supporters of independence movements. Quite reasonably, political figures in Indonesia can ask whether Australia is seeking to bring about the disintegration of their country.

Just as seriously, such actions that are funded by the Australian Government jeopardize the effectiveness of this aid and even the lives of other Australians. If Indonesians see Australian funding being directed towards some of the many 'independence' movements, Australia will be mistrusted, as is already evidenced by the actions of the speaker of Indonesia's People's Consultative Assembly.

Respected commentator Paul Kelly highlighted 'the essential prob-

lem' when he said that the issue of West Papua, like East Timor before it, 'has its own dynamic and is beyond the control of our political leaders.'³⁴ In sub-contracting so much of its aid funding to partisan NGOs, Australian Governments of both political persuasions have inadvertently created the danger of seeing those same organizations seize their policy agendas, effectively wresting control of parts of our foreign policy.

The problems outlined here are so systemic and the consequences so grave, that the government must re-examine the 'license to operate' for many of these NGOs. Interfering in the internal politics of other countries is dangerous. When an NGO receives benefits from the taxpayer, then it is even more unacceptable. The government must act in order to protect the majority of aid workers who are there not to 'play politics', but to assist the poor. In doing so, it will also preserve the integrity of Australian foreign policy.

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- 30 APHEDA's activities in East Timor are partly funded by contributions from the Walter Construction Group, Leightons, and Multiplex. See APHEDA, *Annual Report 2001*. Downloaded at: http://www.apheda.org.au/images/annual_report_2001.pdf
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Tasmania's No Tiger, But Why?

JEFFREY RAE

OVER the 1980s and 1990s, Tasmania's economic performance has consistently been inferior to that achieved in the rest of Australia. The shortfall in performance is significant and has occurred right across the key indicators of economic performance—economic output, productivity and investment—as well as labour market outcomes, including job creation, participation in the labour market and unemployment.

Over this period, Tasmania's relative economic performance compared with the rest of Australia has deteriorated, particularly since the recession of the early 1990s. Again, the State's slide in relative performance has been evident right across the key economic indicators.

The Tasmanian Government is making serious attempts to turn around the State's dismal economic performance. It is, however, too early to say whether the economic development initiatives that it has put in place will be able to stabilize, let alone close, the performance gap and how long it might take to do so.

HOW BADLY HAS TASMANIA PERFORMED?

Over the last two decades, Tasmania achieved only about one-third of the growth in economic output posted by the rest of the country. Moreover, the 'output gap' was even greater compared with Queensland and Western Australia, where output grew faster than the national average.¹ More recently, the 'output gap' between Tasmania and the rest of Australia has narrowed somewhat. Nevertheless, since the recession of the early 1990s the Australian economy has grown at two-and-a-half times the rate of Tasmania.²

The rate of growth in productivity in the Australian economy as a

whole—as measured by the value of output per head of population—grew by more than one-and-a-half times that of Tasmania over the most recent economic cycle. Tasmania's performance was the worst of all the States and was even considerably worse than South Australia, the next worst performer. As the ABS has pointed out, the differences were significant.³

The rate of investment in Tasmania has been lower than the rest of Australia and appears to be declining. Given the critical role that investment plays in output and productivity growth, the State's investment performance suggests that the longer term prospects for the Tasmanian economy are, at best, subdued.

Tasmania's performance was the worst of all the States and was even significantly worse than South Australia, the next worst performer

Participation in the State's labour market has been lower than the rest of Australia, unemployment is higher than the rest of Australia and there has been no growth in full-time employment in the State. The few new jobs that have been created, have been part-time ones. Overall, these labour outcomes strongly suggest that the State's labour market is performing very poorly and that the impediments to better performance are both extensive and deep-seated.

The subdued and deteriorating prospects for the Tasmanian economy have encouraged increasing numbers of Tasmanians to leave the State and seek their fortunes elsewhere. Those leaving are concentrated among the State's young adults and those with tertiary qualifications—in other words, those with the potential to make the greatest contribution to the State's economic development. Those leaving the State have done so despite the fact that significant income redistribution due to Commonwealth fiscal policy has helped cushion the impact of Tasmania's poor economic record on household incomes.

Tasmania has not been an attractive place for either interstate or overseas migrants to settle permanently. Moreover, the numbers of those from outside the State who have settled permanently have not been anywhere near sufficient to offset the numbers of Tasmanian residents leaving the State. As a consequence, the State's population has been declining. The population decline is expected to continue for the foreseeable future.

WHAT'S WRONG IN THE APPLE ISLE?

There are two remarkable features of Tasmania's poor economic performance compared with the rest of Australia. The first is that its dismal performance has been evident for so long that it has acquired the well-worn status of the 'Tasmanian problem'. The second is that the causes and consequences of the 'Tasmanian problem' have been examined extensively and regularly since Federation.

Since Federation, there have been over 75 reports on the 'Tasmanian problem'.⁴ The latest was a joint State–Commonwealth inquiry conducted by Peter Nixon, which reported in 1997.⁵ The major inquiries before that were

by Sir Nicholas Lockyer in 1926,⁶ Sir Bede Callaghan in 1977,⁷ the Centre for Regional Economic Analysis at the University of Tasmania in 1987⁸ and Charles Curran in 1992.⁹

All of these inquiries have pronounced adversely on the State's economic performance. All have diagnosed a common set of causes. None has led to comprehensive microeconomic reforms.

Tasmania's small size and its remote location have clearly contributed to its dismal economic performance over recent decades. That said, they are not the only causes of the 'Tasmanian problem'.

Based on a report I did recently for the New Zealand Business Roundtable, it is clear that the poor design of certain Tasmanian institutions has contributed to its dismal economic performance.¹⁰ The Hare-Clark system of voting for the Tasmanian Lower House of Parliament tends to deliver minority government. Minority government and an Upper House generally dominated by independent members have resulted in a political reluctance to address issues no matter how urgent they became. Although a majority Government emerged from the last State election, it remains to be seen whether the recent reduction in the number of Parliamentarians in Tasmania will be enough to correct this bias over the longer haul.

Poor public policy choices have also contributed to the dismal performance of the Tasmanian economy. The bottom line is that public policy at both the State and Federal level has created an environment that is unattractive to business, even though that was never a goal of either level of government.

State regulation has generally stifled business innovation and prevented competition. Before the recent reforms by the Bacon Government, the same point could have been made about the level of State taxation. This bias is most pronounced in the environmental area. There, Tasmania has developed an image of being opposed to economic development, regardless

of how well environmental impacts are, in fact, being managed. For example, the rights to object to development proposals are more generous in Tasmania than in any other Australian State.¹¹

Despite generous Federal parliamentary representation, Tasmania has been unable or unwilling to prevent many Federal policies that clearly disadvantage the State.

The first example is the Commonwealth's attempt to promote industrial development through high tariffs. This policy was clearly at the expense of States such as Tasmania that were more heavily reliant on primary industries—particularly agriculture, forestry and mining.

The second example concerns Federal regulation of the labour market. The centralized system of setting wages and conditions has involved a loss of flexibility for different businesses and in different circumstances. The States with smaller and more narrowly based economies, such as Tasmania, are less able to accommodate this loss of flexibility. While there have been reforms

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in the Federal regime over the 1980s and 1990s, significant rigidities remain.

The final example is cabotage—the policy of reserving coastal shipping services to vessels registered in Australia and crewed by Australian seamen. Cabotage has meant that the cost of coastal shipping services in Australia

has been well above international levels. This has worked against the use of sea transport for interstate trade in those areas where Tasmania may be expected to have a competitive advantage. Given Tasmania's total reliance on shipping for moving most of its imports and exports, cabotage has had the effect of limiting Tasmania's capacity to export to both mainland Australia and the rest of the world.

WHY HASN'T THE PROBLEM BEEN ADDRESSED?

The Bacon Government has made progress on addressing some of the fundamental causes of the 'Tasmanian problem'. Since its election, the Government has moved the State budget into surplus and reduced the relative severity of State taxes compared with the other States. In this time, the State has seen some improvements in its economic performance compared with the rest of Australia, so much so that the population loss of recent years due to interstate migration has been halted, at least for the moment.

Nevertheless, much remains to be done. Most pressing is the need to reform Tasmania's regulatory burden, which has a negative effect on business and economic efficiency. This would not only have an immediate economic benefit for the residents of the State, but it would also help to counter the widespread perception that the State is opposed to economic development and activity.

Given the chronic and persistent nature of the 'Tasmanian problem', it is reasonable to ask why microeconomic reform is so long coming in Tasmania. Part of the explanation undoubtedly lies in the unique nature of the Tasmanian Parliamentary system and the political inertia it has encouraged. Such a bias, however, does not explain why the Tasmanian electorate has not demanded institutional and policy reform. It is not as if there have not been enough demonstrations of what microeconomic reform can achieve, both in the rest of Australia and elsewhere.

I have no doubt that Federal fiscal

policy has contributed to a lack of awareness in the Tasmanian electorate on the need for fundamental institutional and policy reform. There are two reasons for this.

The first reason is that the impact of Tasmania's poor economic performance on the States' households has been cushioned, to some extent, by the interplay of progressive income tax scales and targeted social welfare assistance.

Over the 1990s, the average Australian household paid more in tax than it received in social security benefits, and the gap has progressively increased to around 5 per cent of household income. In sharp contrast, the average Tasmanian household received in social security benefits about what it paid out in income tax. In other words, Tasmanian households make no significant contribution to the cost of the other Commonwealth services they receive—such as those of the Defence Force, the Federal judiciary and Commonwealth regulatory agencies—their costs are borne by the rest of the country. In round terms, the benefit to Tasmanian households is equivalent to around \$500 million a year.

The second reason underlying the lack of awareness about the need for microeconomic reform is that Tasmania is the major beneficiary of the system of Commonwealth payments to the States and Territories.

Commonwealth payments to the States and Territories are an important source of revenue for all jurisdictions. These Commonwealth payments seek to address the difference in revenue-raising powers and functional responsibilities of the different levels of government. They also seek to equalize the fiscal capacities of the States to deliver services—through a process called Horizontal Fiscal Equalization (HFE). This refers to the difference, in per capita terms, between the cost to a State of providing a range of services common to all States and the financial resources available to it. Under HFE, the smaller States, such as Tasmania, receive a greater share of Commonwealth payments to the States to

enable them to discharge their standard functions without having to impose above-average revenue-raising measures on their residents.

In 2002–03, it is expected that Commonwealth payments to Tasmania through the State's Consolidated Fund will comprise 68 per cent

Federal fiscal policy has contributed to a lack of awareness in the Tasmanian electorate on the need for fundamental institutional and policy reform

of total receipts. In contrast, the revenue raised by State's own taxes is expected to provide only 20 per cent of total receipts.¹² Were Tasmanians to have to pay the full cost of the services that are currently provided by the State Government, State tax rates would have to be increased nearly three-and-a-half times what they are at present. This underestimates the increase that would be necessary to sustain existing service levels, as it does not take into account the behavioural response that could be expected to the tax increase. Were the State to have to face up to this issue, we would find out whether Tasmanians really value the services in question more than what they cost to provide—at the moment we simply do not know the answer.

The bottom line is that Tasmanians are getting, courtesy of the Commonwealth, substantial direct and indirect income transfers that are not dependent on the State performing well economically. The contrary is the case in fact. The extent of these mandated transfers will tend to increase, the worse the State performs. This tends to insulate Tasmanian living standards, to a significant degree, from the full

impact of poor economic performance. In turn, this means that the electorate is likely to be less concerned about the contribution of poor institutional design and poor policy choices to economic performance than one would otherwise expect.

In other words, Commonwealth fiscal policy is, albeit unintentionally, a significant impediment to the Tasmanian electorate appreciating the urgency of the need for microeconomic reform in the State.

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What Is Sustainable Development?

JULIAN MORRIS

THE term ‘sustainable development’ has been around for about 30 years, but has only recently been popularized. It derives originally from the biological concept of ‘sustainable yield’—that is to say, the rate at which species such as cod and elephants may be harvested without depleting the population. Starting in the late 1980s, environmentalists and government officials began applying the terms ‘sustainability’ and ‘sustainable development’ when discussing environmental policy. Thus, numerous measures aimed at conservation and pollution-prevention have been justified on the grounds that they are necessary to promote sustainable development. More recently, and in light of the AIDS crisis in Africa, the interpretation of sustainable development has been broadened to include issues such as healthcare and education, the lack of which are seen as constraints on economic development.

One popular interpretation of the term ‘sustainable development’ presumes that poverty, environmental degradation, disease, and other problems afflicting the world are predominantly caused by, and therefore are the responsibility of, wealthy countries. This view—which is widely held by organizations claiming to represent the interests of the environment, consumers, the poor, and the sick—claims that people in the rich world consume too great a proportion of the world’s resources and emit too great a proportion of the world’s pollution; they exploit people in the poor world by paying too little for coffee and bananas and by making them pay too much for pharmaceuticals.

The solution typically offered by those who follow this interpretation of ‘sustainable development’ is to impose outcome-oriented policies on people in wealthy countries: sweeping restrictions on the use of resources, wide-ranging interventions in the governance and behaviour of multinational companies, and restrictions on international trade. The argument is made (mostly by the UN, European governments and the EU institutions themselves) that centralized control over the use of resources is necessary in order to prevent humans from depleting the stock of resources below a

Sustainable development has been broadened to include issues such as healthcare and education

level that would enable people in the future from living in as pleasant a manner as the current generation.

But an alternative view holds that most of the problems of the poor world result not to any great degree from the actions of those in the rich world but primarily from the adoption of unsustainable policies by their own governments. In particular, attempts to plan economies have proved disastrous in the Soviet Union and elsewhere. Lack of adequately defined and readily en-

forceable property rights—often the result of well-meaning but utterly misguided government intervention—holds back economic development in many countries, while red tape stifles entrepreneurial activity and perpetuates poverty. Foreign aid and development assistance have ensured that people in poor countries remain poor, and their leaders remain unaccountable.

Sustainable policies are those which do not prescribe an outcome for society, but allow individuals in society to improve their own lot without harming that of others. These policies, based on the creation and maintenance of market institutions—property rights, the rule of law, free markets—together with limited government and free speech, have largely been adopted by the wealthy world.

INSTITUTIONS FOR SUSTAINABLE DEVELOPMENT

Institutions are the framework within which people act and interact—they are the rules, customs, norms, and laws that bind us to one another and act as boundaries to our behaviour. Institutions reduce the number of decisions that we need to take; they remove the responsibility to calculate the effect of each of our actions on the rest of humanity and replace it with a responsibility to abide by simple rules. In a system in which rules emerge spontaneously and rule-selection occurs evolutionarily, good rules will tend to crowd out bad rules. That is to say, over time, rules that result in better outcomes will be preferred to rules that result in worse outcomes.

The simple rules which seem to work best are those we associate with

the flourishing markets of capitalist democracies: property rights, freedom of contract, and liability for intentional harmful acts. These institutions encourage adaptation, by giving people an incentive to invest in improvements to their property; they stimulate creativity and invention, by ensuring that innovators and creators can reap the rewards of their work; they promote mutually rewarding associations and transactions, by creating a framework for interaction that is compatible with human nature.

While informal mechanisms—customs and norms, for example—work well for groups that are relatively homogenous and where there is little trade with outsiders, they impose significant constraints on the ability for groups to improve their lot. Societies that have adopted formal market institutions—property rights, contract law, tort law, trademarks, patents, copyright, and so on—have tended to do much better economically and socially than societies that relied primarily on informal institutions. They have also done better than societies that have attempted to control the economy centrally, either directly or through mandatory regulations.

Market institutions not only promote more rapid economic development than other, more centralist institutions, they also promote levels of environmental protection and conservation of natural resources that are closer to the wishes of the people. Let's examine why this is in a little more detail.

PROPERTY RIGHTS

The institution of private property has—perhaps more than any other policy or action in the history of the world—enabled people to escape from the mire of poverty. Property rights are capital; they give people incentives to invest in their land and they give people an asset against which to borrow, so that they might become entrepreneurs.

To understand the importance of property it is only necessary to look at places where formal property rights

are severely curtailed. The 500–600 million rural poor in India are oppressed by tenure rules which make it difficult for them to rent, buy or sell property formally. Land transactions typically involve paying large bribes to local officials, who have a vested interest in maintaining the status quo. As a result, they are unable to turn their land into capital; they are barred from entering the market economy and remain enslaved to lives of subsistence farming.

In addition, the institution of private property gives people an incentive to invent new technologies, because individuals know that they will

The simple rules which seem to work best are those we associate with the flourishing markets of capitalist democracies

be the principal beneficiaries of any investments they make in research and development. Technological innovation not only enables peasants to improve their lot, it also benefits those with whom they trade by lowering the cost of purchasing food and other goods and reducing the risk of famine. But these diverse new crops and other technologies will be stifled if those who might innovate them are not allowed to benefit from the investments they make through ownership of property. The individual's incentive to invest in his land and innovate new methods of production will be greater when he can own and exchange property.

INTELLECTUAL PROPERTY RIGHTS

Intellectual property (IP) rights stimulate innovation—and in particular,

they are important for products and processes that require large investments in research, development and marketing but for which the costs of copying are relatively low, for instance, chemicals, pharmaceuticals, and biotechnology, which each rely heavily on patents. The music, film, book, art and software industries each rely heavily on copyright. Meanwhile, all manufacturers and sellers of brand goods (which is most manufacturers and most sellers) rely on trademarks and service marks to guarantee the identity (and hence brand-associated characteristics) of products.

There are of course drawbacks to IP, including temporarily higher prices of the protected goods, a reduction in the number of goods directly derived from those that are patented, the legal and administrative costs involved in enforcement, and so on. These drawbacks have led several commentators to conclude that patents and other forms of intellectual property are not desirable. The problem with focusing on these drawbacks, however, is that in doing so one often forgets that the inventions and creative works might never have come about but for the existence of IP.

In sum, were we to abandon or significantly diminish our system of intellectual property rights, we might gain in the very short term through lower cost products, but the cost in the medium-to-long term would be felt in terms of fewer products, as well as higher expenditures on trade secrecy and other means of protecting knowledge, which might well increase the cost of products.

FREEDOM OF CONTRACT

Another fundamental institution for sustainable development is freedom of contract. This includes both the freedom to contract—the freedom to make whatever agreements one desires, subject to fair and simple procedural rules—and the freedom from contract—the freedom not to be bound by the decisions of others. Freedom of contract is a fundamental part of the freedom to associate with oth-

ers. It includes the freedom to transact—to buy and sell property—and as such it is an essential adjunct to the right to clearly defined and readily enforceable property rights.

Contracts create greater legal certainty and thereby encourage people to engage in trade and investment. Armed with enforceable property rights and contracts, the peasant can become a merchant, a businessman, an entrepreneur.

THE RULE OF LAW

Private property rights, the freedom to contract, free speech, and the judicial system which upholds these are fundamental to real sustainable development. People must be certain of the rules that govern their behaviour, and they should not be subject to arbitrary law enforcement (characteristic of corrupt government). They should also have a remedy at law for violations of contracts and property rights.

FREE TRADE

Free trade is of course implied by the requirement of freedom of contract, but because of controversies over its merits, it is helpful to consider its effects in some detail. Free trade increases wealth and wealth leads to improvements in human welfare. Free trade increases the efficiency of resource use: in the absence of market distortions, production will occur in the most appropriate place, taking into consideration the cost of all factors. And free trade can have direct environmental benefits. For example, trade in ivory increases the value of ivory to people living in poor parts of Africa, who then have stronger incentives to protect elephants and the habitat in which they live—if they have sufficiently strong rights in the wildlife.

Reducing trade barriers is essential for sustainable development. The agreement reached at Doha in November 2001 to launch a new round of trade liberalization through the World Trade Organization (WTO) offers the opportunity of huge benefits to people everywhere. These benefits,

however, will be reduced to the extent that trade sanctions are permitted on the basis of environmental concerns.

Whereas environmental protection may be used as a pretext for trade sanctions, the European Union may impose sanctions in order to protect its industries from lower-cost competition. For example, it might employ the 'precautionary principle' and invoke the Biosafety Protocol to justify restrictions on imports of agricultural goods from developing countries where biotechnology has been employed to improve yields. It might thereby more than wipe out the gains

The challenge for those eager to see the world become a more sustainable place is clear: stop squealing about the importance of global governance and instead promote good governance

made possible by reduced tariffs on such products—harming in particular poor countries, which would have to face the choice of higher levels of exports to the EU or higher yields. Either way, farmers in poor countries would lose and farmers in the EU get the protected markets they seek.

DECENTRALIZED DECISION-MAKING

Decisions to limit human activities should be taken at the most local level possible but must be bound by the other principles that prevent abuses of local power. The merits of existing

global environmental agreements should be investigated, with a view to withdrawing from any agreement not shown to have clear net benefits for mankind. Decisions must be informed by sound science—that is science which has undergone a rigorous process of peer review.

TOWARDS GOOD GOVERNANCE FOR SUSTAINABLE DEVELOPMENT

This combination of property rights, freedom of contract, the rule of law, decentralized decision-making and sound science provides the basis upon which sustainable development can take place. In short, they represent good governance. And good governance also leads to good government—democratic, transparent and accountable—which is also something that everyone (except those who benefit from rent-seeking and corruption) wants.

Sadly, as *Sustainable Development: Promoting Progress or Perpetuating Poverty?* attests, few countries have come close to instituting such systems of good governance. Ironically, perversely, those nations that have come closest—the US especially—tends to be derided as 'unsustainable' by those who hold an outcome-oriented view of sustainable development. As if wealth and high levels of consumption were in themselves signs of unsustainability.

The challenge for those eager to see the world become a more sustainable place is clear: stop squealing about the importance of global governance and instead promote good governance—decentralized ownership of resources and other assets, decentralized government, well-defined and readily enforceable and exchangeable property rights, the rule of law, free markets and free trade.

Julian Morris is Director of the International Policy Network. This article highlights ideas explored in the new book, Sustainable Development: Promoting Progress or Perpetuating Poverty?, edited by Mr Morris. It can be obtained at phileppa@policynetwork.net

IPA

REVIEW

On the Trail of Burke and Wills

ANDREW McINTYRE

FOR anyone who hasn't been to the outback in the last few years, there are a few surprises. The idea of isolated and remote regions, with inaccessible towns joined by four-wheel-drive horror roads, rough pubs serving mutton and boiled potatoes, nasty bore water and quaint backward ways, is truly a thing of the past.

This winter, your intrepid writer went on a trip following the trail of Burke and Wills (which, now I discovered, is *de rigueur*); Cooper Creek, Birdsville, Boulia, over the Selwyn Range to their most northerly camp, number CXIX, near Normanton in the savanna gulf country. What started as an adventure of discovery—GPS, CB radio, 4X4, rugged tyres, extra water, food, etc.—turned out to be something more like a Disneyfied theme-park holiday. Well almost.

Don't get the wrong idea. Australia really still has the space, the uncluttered boldness of landscape, and we should be grateful that, as citizens, we own it all. The 'grey nomads', who invade the tropical 'top end' in winter for months on end in their mobile homes, think it's bloody paradise. So what has changed?

Well, technology has changed almost everything. For a start, most of the roads are excellent. Remember the Birdsville Track? Nowadays, it is a highway plied by luxury coaches full of oldies ('terrorists') that stop at the famous Birdsville pub for a toilet break. Forget the 4X4. Any delicate, inner-suburban European car would do the trick. Forget the food. Every outback town has a well-stocked supermarket with smoked salmon, humus, Asian spices and fresh bread. Forget the water. Water in every tap from Broken Hill to Karumba is as clear and as good as the Melbourne drop. Petrol, and excellent, trained

mechanics are everywhere. Every service is as predictable and reliable as in any outer suburb of Sydney or Melbourne.

And the outback pubs. They have become theme-park pubs of the outback, with walls lined with memorabilia of another age, post-modern corrugated iron (city architects have left their mark), with trendy chalkboard menus and fun bumper stickers ('The only wilderness is between a greenie's ears', etc.), with 'museum' rooms full of what 20 years ago would have been considered your grandfather's farming junk.

Even the ordinary non-theme pubs have changed. With prosperity come

I don't think I have ever seen so many Telstra phone booths in my life; in every single town, and, it seemed, on every single corner

the obligatory aluminium window frames (usually *faux-tudor*), the new beer-resistant pile carpet, the outside façade completely covered with Four X signs, and painted vulgar colours (Normanton is famous for its purple pub, listed in every tourist guide), the inside plastered with wall-to-wall TV monitors beaming in up-to-the-minute horse and dog races from around the country. Isolated? Hardly.

Makes you wonder about the rum-pus with Telstra. I don't think I have ever seen so many Telstra phone booths in my life; in every single town,

and, it seemed, on every single corner. In the remotest, most unlikely places, the familiar phone booth, with micro-wave link and solar power, a fully automatic and autonomous phone, complete with instant dial tone, infallibly works as reliably and as clearly as my own phone in the city. And, when you phone home, looking directly out on gibba desert, that's bloody impressive.

I then noticed the radio masts sticking up everywhere in the empty landscape. They deliver untimed local calls to every homestead around.

I even discovered that you can run teleconferences from Birdsville, and that they are giving away the hardware for high-speed Internet services in remote areas for free. And the cockies there get the service at a cut rate. Having a look at some of the house prices up around Barky (Barcardine) and Longy (Longreach), I realized that they certainly don't pay the same for their real estate.

I haven't even got onto the beaut' cars they drive out there, let alone air-conditioning, refrigeration and air transport. On entering a pub in the outback town of Tibooburra, I took surprise at the menu which announced 'Fresh Oysters'. I exclaimed rather too loudly, 'fresh oysters?!' The immovable publican's wife, with hands firmly planted on her hips glared at me and bluntly added, 'What do you bloody think they are, stewed socks?'. Let me tell you, the outback has changed. Whatever hardships are endured there, they are certainly more existential than material.

Burke and Wills would have died for Telstra Home Link when they needed it.

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

I P A

What the Economic Rationalists (Dries) Really Believed

JOHN HYDE

ALMOST 20 years after the election of the Hawke Government, with the economy bowling along despite world-wide tendencies, the economic reforms of the 1980s and early 1990s are being forgotten and dry economic-rationalist beliefs misrepresented. First, let us remind ourselves of just how successful the Australian economy has in fact been since the 'recession we had to have' at the beginning of the 1990s.

Despite the 'Asian meltdown' and recent world-wide economic sluggishness, it has grown at 3 to 4 per cent annually, year after year. During the whole of the 1990s, annual multifactor productivity gains averaged around 2 per cent (2.4 per cent in the final six years) compared with a historical average of 1.5 per cent. Over the decade, that half of one percent added 5.8 per cent to average incomes. Admittedly, it was a time when most economies did well, but we did particularly well. Comparing Australia with all of Western Europe, the US, Canada, New Zealand, Japan and itself: its per capita GDP declined from 132.3 per cent of the average in 1950 to 99.9 in 1975 and to 88.6 by the time of 1992 recession. But, reversing a 40-year trend, it then rose to 95.5 per cent by 1999.¹ Unemployment has now been reduced from around 11 per cent to around 6.3 per cent.

Of course, the Howard Government, elected in 1996, claims the

credit—what administration would not? It shouldn't claim too much, however. Reforms that improve productivity have long lags because they depend so much on new investments in capital and skills. Before Howard, there had been a sharp change in the approach to governing, most notably, but not only, by the Hawke Governments in Canberra and the Kennett Governments in Victoria. This tendency, too, had been part of a world-wide trend. Australia had started late, but then did more, more quickly, to deregulate and privatize than did most countries. Advocates of economic

**Reforms that
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freedom had predicted the nature and, less accurately, the extent of the benefits achieved. Surely the changed policies explain the reversal of Australia's long downward trend.

The beliefs that drove the changes have been referred to as 'dry' and, sometimes in pejorative contexts, 'economic rationalist'. As I understand core dry belief, it calls for less intrusive but stronger Government that concentrates on protecting the 'institutions' by which individuals co-operate and compete voluntarily. The ideal is thus not an end but a way to an optimistically viewed future.

For a while, much conventional wisdom had it that the ideological struggle between liberalism and collectivism ended in liberal victory in 1989 with the fall of the Berlin Wall. In Australia, however, except in a few universities, it had ended well before the 1980s. Collectivism was still practised, but its defence was by then conducted mainly by vested interests which defended tariffs, tax breaks, regulations, occupational licences, etc., by minimizing the costs and asserting spurious community benefits. In the intellectual tradition of Adam Smith, Dries attacked their tortured logic.

They adhered to the modern political convention among Western nations, but honoured in the breach at some point by probably them all, that citizens should be of one class only—that is, that the law should be blind to at least race, religion, sex, and wealth. But why stop there? The powers of the Crown are held in trust and, by the criterion of equal status in law, apartheid, ethnic subsidies and in-

dustry protection are all unsatisfactory.

In the intellectual tradition of John Locke, Dries accorded moral status to individuals who are, therefore, entitled to choice but cannot escape the consequences of their choices. They respected a spontaneous non-political order, a community of self-motivated free citizens; that is, 'civil society'.

They could be distinguished from their opponents by the greater trust they had in the institutions of civil society. Order has many sources beside Government. Embracing all, there is that sense of right and wrong we once called morality. There is also sympathy for other people once referred to as charity or simply kindness. Without these virtues, families would be impossible, commerce would be impossible, sport would be impossible, Government would be impossible and social living would be impossible. Beneath the 'moral umbrella' there are the written and unwritten codes of various markets; the written laws of cricket; the rules of courtship and so on and on. They have all evolved by trial and the rejection of error and are not easily rewritten. Nor is Government the only mediating organization. There are families, friendships, schools and universities, clubs and associations, trade unions and companies, to name only some others.

Dries, nevertheless, did not question Hobbes' observation that without effective authority 'the life of man [would be] solitary, poor, nasty, brutish and short'. They were not anarchists, but people who fought the misuse of legitimate authority—an authority which they preferred to be limited and circumscribed by 'checks and balances'. They urged Governments to restrict their legislative enthusiasms to their protective roles and to laws that were even-handed. Only weak Governments gave in to the ever-present demands that they protect people from competition, or impose socially

or politically correct behaviour in matters best left to civil society.

Society itself was, they believed, beyond the wit of man to comprehend, let alone design. Attempts to create Utopias have an appalling record. Nevertheless, while remarkably resilient, societies can be reduced to unsatisfactory conditions, as in Bosnia, Chechnya and Afghanistan, and Dries believed that

Dries could be distinguished from their opponents by the greater trust they had in the institutions of civil society

judicious use of authority should preserve them from destabilizing forces. To be safe, however, social engineering should be only piecemeal, with each piece tested by experience, abandoning that which did not work. Many people who claim to believe as much are, nevertheless, remarkably tolerant of destabilizing forces such as inflation and the privileges granted to industries, professions, races, geographic regions, trade unions and so on. It may be that not everyone associates inflation and privilege with poor economic growth, social immobility and resentment. A more compelling reason for government's willingness to degrade the currency and favour the powerful is the ability, under any system of government, including democracy, for concentrated and organized interests to prevail over dispersed and unorganized interests.

Dries' world-views did not include men and women of such su-

perior understanding, morality and wisdom that they could be trusted even to identify, let alone to run, the ideal society. They were not given to hero worship!

These beliefs determined their attitudes to specific government policies, of which it is possible here to make only some very general observations.

They certainly did not think, as they are often accused, that unfettered market forces should or could be the sole determinant of resource allocation. They instead asked whether market failure or government failure presented the bigger problems in particular cases. They never doubted that serious market imperfections provide sufficient reasons for imperfect governments to intervene. No economic rationalist denies that governments should, for instance, ration common property, such as wild fish stocks, and finance the provision of true public goods, such as defence and streetlights. However, they noted that while action by collective agreement can choose between already-recognized possibilities, it is poor at discovering new ones.

They asked governments to maintain property rights, in some cases establishing these, to maintain the rules of the marketplace, and to punish malfeasance. Private property is a necessary condition of saving and market exchange. Further, its several rights identify private domains from which the state is excluded and it is from within these that resistance—in the courts and ballot boxes or even by revolution—can be organized and financed. Remarkably, Australian labour market law takes rights from the most basic of all property: that which a person has in his own labour. The awards and picket lines that deny people the right to sell their own labour are affronts to civil liberty.

More recently, the growth of second- and third-generation welfare dependency and the high incidence of anti-social and self-destructive

behaviour among a welfare-dependent underclass have concerned Dries. Although those people who fall by life's wayside should be picked up, no good comes of pretending that welfare payments do not change incentives—note the huge increases in the numbers drawing sickness or single parents' benefits.

Gratuitous insult is objectionable but, if opinion is to progress and bounds are to be placed upon the arrogance of governing elites, people must be able to express opinions that other people believe to be wrong. Dries therefore fell out with the politically correct.

Becoming tired of being presented with unexplained changes in the rates and even directions of environmental trends leading always to disaster, they also clashed with Green activists. They suspected that these doomsayers were not, like the boy who cried 'Wolf!', merely seeking attention, but that they wanted the powers that only crises can justify.

Favouritism that is of the very nature of commerce, where customers and staff are protected by their ability to walk away, is, in politics, where citizens cannot walk away, corruption. Australian politicians don't accept personal bribes. They are, nevertheless, corrupted when they extend privileges to those who are so organized or merely so concentrated that they can deliver blocks of votes or resort to politically-damaging lies. Dries may most readily be identified by their efforts to bring impartiality to law-making and administration; in short, by their opposition to privilege. They, however, advocated a way, not a destination.

NOTE

1. I am indebted to Ian Castles, the former Australian Statistician, for this calculation.

John Hyde is a Senior Fellow with the Institute of Public Affairs. This article is based on his forthcoming publication, Dry.

I P A

Education Agenda

KEVIN DONNELLY

Wide Open Guide to Teaching

How do Australian teachers and schools decide what should be taught during the school year? Better still, how do Australian teachers decide whether their teaching is effective as demonstrated by improvements in student learning?

Those countries, such as the Czech Republic, the Netherlands, Singapore and Korea (who achieve the best results in international tests such as the 1995 Third International Maths and Science Study) answer the foregoing questions by relatively straightforward means.

Teachers have a syllabus for each subject which maps out what should be taught over the year, there is regular testing to establish whether students are up to the required standard and those students who fall behind are given particular attention.

The result is that teacher training and school textbooks reinforce what should be taught, teachers and parents have a clear idea of what students should learn, and test results are available to measure school effectiveness.

Better still, instead of teachers trying to devise a curriculum for each school (something that most are incapable of doing), all their energy and resources are directed at ensuring that classroom teaching and learning are successful.

As always, Australian education is different. Whereas older parents and teachers will remember the days of centrally devised syllabuses, regular testing and classroom inspection,

since the late 1970s our schools have embarked on a far more radical and uncertain alternative.

Heralded by the then Keating Government's national statements and profiles, all States and Territories have embraced what is termed an 'outcomes-based' approach to education (OBE). Instead of stating what should be *taught at the start of the year*, teachers are given a series of outcome-statements detailing *what students should know or be able to do by the end of a level or year*.

Instead of clearly and succinctly detailing important knowledge, understanding and skills related to particular disciplines, as does a syllabus, outcome statements are, on the whole, vague, general and imprecise.

History disappears to be replaced by hybrids such as Study of Society and the Environment (SOSE), for example, and instead of stating that students should learn about the origins of the First World War, an outcomes statement would say that students should 'demonstrate knowledge and understanding of important historical events that have shaped Australia'.

In English, for example, instead of stating that students should be able to identify and use present perfect, past perfect and future perfect tenses, an outcomes statement would say that students 'should identify and use the conventions, structures and language features of different texts'.

The style of teaching and learning associated with OBE is also quite unlike the pedagogy associated with a syllabus approach. Instead of teachers taking charge and 'teaching', they are called 'facilitators' and the em-

REVIEW

phasis is on group work and 'self-directed' learning.

So-called rote learning is forsaken under the outcomes-based approach, with the result that students no longer memorize their times-tables or practise mental arithmetic. In English, the more structured approach to teaching reading is ignored in favour of the 'look and guess' approach associated with 'whole language'.

As a result, it is not uncommon for first year university students to be incapable of writing a grammatically correct sentence or of structuring a coherent essay. Anecdotal evidence from Melbourne University maths and science departments suggests that courses have been regularly 'dumbed down' because of falling standards.

As noted in the Australian Council for Educational Research (ACER) report on Australian students' performance in the recent Programme for International Student Assessment (PISA) which focused on literacy:

Errors in spelling and grammar were not penalized in PISA—if they had been, probably all countries' achievement levels would have gone down, but there is no doubt that Australia's would have. *It was the exception rather than the rule in Australia to find a student response that was written in well-constructed sentences, with no spelling or grammatical error.* (Emphasis added)

The rationale for OBE includes the belief that teachers and schools should be free to devise their own curricula, and that mastering generic skills and processes is more important than acquiring a structured and coherent body of knowledge.

Advocates of OBE also argue that learning must be 'spontaneous' and 'creative' and that to achieve 'life-long learning' education must be immediately relevant, contemporary and related to the student's background and interests.

Given OBE's failure, it should be no surprise that there is growing opposition, both here and overseas, to this approach to curriculum development. In the USA, the American Federation of Teachers ranks the curriculum of the various States and argues that learning must be based on the established disciplines and be concise, clear and unambiguous.

Many States in the USA are also removing 'social progression' on the premise that if students have not successfully passed a particular year level, then they should not be promoted. Picking up on successful systems, such as the Netherlands, there is also the realization that teachers need to be more structured and focused in lesson delivery.

Finally, in a speech earlier this year at the Curriculum Corporation's annual conference, the Chief Executive Officer of Australia's Curriculum Corporation finally admitted that Australia's experiment with outcomes-based education had failed.

Bruce Wilson not only admitted that outcomes-based education failed to successfully define expected student learning, but also admitted the approach was inherently flawed and represented an 'unsatisfactory political and intellectual compromise'.

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IP A

Musing...

Biotech—the Green's Waterloo?

by Mike Nahan

When they pick their campaigns, the Greens are usually careful to ensure that their doomsday claims will not be refuted—because of either a lack of interest or the complexity of the science.

They appear to have made a serious error with genetically modified food. Sure, they have succeeded in effectively banning the technology in Europe. Outside of Europe, however, the use of GM crops is burgeoning. This year, around 34 per cent of maize, 71 per cent of cotton, and 75 per cent of soybean grown in the US will be genetically modified. Canada, Australia, Argentina, China and Brazil are also enthusiastically adopting the technology. Despite the Green's five-year \$350 million campaign to stop the adoption of GM crops by developing countries, India, Indonesia and South Africa have recently approved the technology.

What went wrong? First, their doomsday claims have proven to be not only plain wrong but perverse as well. No superweeds, no allergies, no illnesses, no health risks and certainly no fatalities have ever been linked to GM foods. Moreover, the benefits of the technology are now irrefutable. For example, GM cotton in China costs 25 per cent less and requires 85 per cent less pesticide than the conventional crop. Furthermore, it saves hundred of lives by reducing the risk of pesticide poisoning.

Notch up one for humanity and good science.

**RIGHTEOUSLY WRONG**

Any serious student of political thought must spend at least part of his or her time puzzling over why so many intelligent people can get so many things so entirely wrong. It's tempting to go for an easy answer: those on the other side are dumb; those on the other side are evil.

Tempting, but wrong. I spend many an evening with Philip Adams. That is to say, I have ABC Radio National's 'Late Night Live' playing, enjoying Adams' beautiful voice, being infuriated by his and his guests' opinions. Despite them being wrong, it is clear that many of his guests are brainier than me, better informed about their subjects. And while I have no great opinion of myself as a judge of human character, in spite of the evil that would inevitably flow from many of their proposals (if *only* they could see it), those guests of Adams seem to be sincere. When accused of being evil, Gary Oldman's character in the movie *The Fifth Element* says 'I know' with a tone of neither triumph nor shame, but grim acceptance. Real people are not like that.

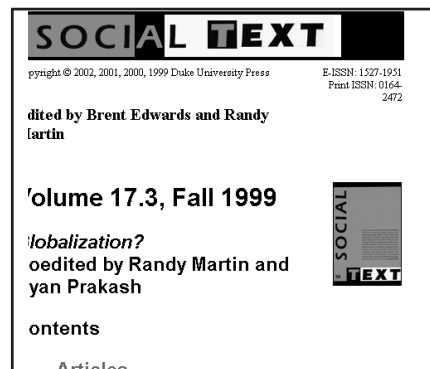
No, we are in large part motivated by what we see as the good, but grievously inept in both our judgements and our actions. That includes those of us who are, I believe, more right than wrong and thus subscribe to this journal. Where we are not positively seeking the good, we usually convince ourselves that our actions are, at least, not bad. If the people responsible for evil acts actually felt themselves to be evil, police would rarely obtain a confession.

For those serious about developing reliable systems for discovering

truth and avoiding injustice, acceptance of this pathetic fallibility of people is a prerequisite.

In the physical sciences, the systems for weeding out some of the human error involve publication of results to allow critical review and an insistence on the repeatability of experiments. In political practice, the avoidance of injustice does not rely on the selection of the perfect leader (since there is no such person) but on the assembly of multiple sources of power, so that each can inhibit or correct the others. Contra Lord Acton, the main problem with absolute power is not that it corrupts absolutely or otherwise, but that by definition there is an absence of corrective mechanisms to the powerful one's mistakes (or corruption).

Between the physical sciences and political practice is a large area where discernment of truth requires



judgement. It does not lend itself to simple measurement so, accordingly, room is left for those who prefer more subjective, more value-driven, criteria to participate in the public debate. Such inadequate measurements that are available often seem quite unconvincing when compared with impassioned advocacy.

ERN MALLEY LIVES

Ever since McAuley and Stewart pulled their shenanigans with the editor and readership of *Angry Penguins*, it has behaved avant-garde journals to take steps to avoid publishing works of parody.

Yet this, precisely, is what the US journal *Social Text* did in 1996. Published by Duke University Press, this un-ashamedly Marxist journal on 'Theory, Culture, Ideology' carried the elegantly titled paper 'Transgressing the Boundaries: Toward a Transformative Hermeneutics of Quantum Gravity'. Hah! This was written by Alan Sokal, a left-leaning physics chap from New York University who disliked the way in which post-modern literary theorists had hijacked concepts from modern physics without any real understanding of what they denoted. His paper (all 39 pages of it!) was published in the Spring/Summer 1996 edition of *Social Text*, completing Sokal's 'modest (though admittedly uncontrolled) experiment'. The experiment was to determine whether 'a leading North American journal of cultural studies' would 'publish an article liberally salted with nonsense if (a) it sounded good and (b) it flattered the editors' ideological preconceptions'. A second, unintentional, experiment followed. Sokal's 15-page explanation of his experiment was submitted to *Social Text* but was rejected ... 'on the grounds that it did not meet their intellectual standards'. Go to:

www.physics.nyu.edu/faculty/sokal

The *Angry Penguins* incident is described at:

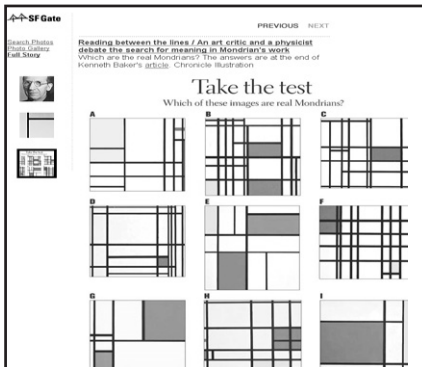
www.lib.latrobe.edu.au/AHR/books/WR/tdajmextract.html





ART AS AN EXPRESSIVE MEDIUM?

In 1975, Tom Wolfe published *The Painted Word*, a lengthy and truly wicked essay describing how 'Modern Art has become completely literary: the paintings and other works exist only to illustrate the text.' This, of course, was necessary once it became unacceptable to use painting to actually represent anything. There were hiatuses in the dominance of non-representationalism, such as the decade in which artists lent their brushes to the cause of social justice by adopting Soviet-style Social Realism, or the decade of exaltation of the mundane (Pop Art), but as nineteenth-century art was defined by Impressionism, so the twentieth century will in the future be remembered for its art showing *nothing*.



Of course, the showing of nothing was to make room for the brutal transmission of raw emotion, communicated at a level below the literary structures of the mind. Which begs the question of whether such communication was possible.

This question cannot be definitively answered in the negative. But particular examples of claimed

communication can be *tested*. One of the more familiar twentieth-century artists was Dutchman Piet Mondrian. His famous works were all assemblies of black horizontal and vertical lines on a white background, with some of the contained rectangles filled with a primary colour. A moderate example of a critic's opinion is: 'Mondrian's "Composition in Red, Yellow and Blue" ... shows the tension of the era of Nazi oppression with its incompatible scales and sight lines'.

Is such a simple work capable of expressing tension, let alone Nazi tension? Any emotion at all?

Dr Alan Lee of Flinders University decided to test this by the simple expedient of creating a bunch of fake Mondrians using a computer (thereby removing all emotion from their creation) and testing whether people could tell the difference.

Guess what? They couldn't.

Lee discusses this with Robyn Williams on ABC radio at:

www.abc.net.au/rn/science/ockham/stories/s645908.htm

Use the link at the bottom of this page to see the real and fake Mondrians:

www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2002/04/28/PK201672.DTL

GROWTH IS GOOD FOR THE POOR

The triumph of fuzzy theorizing, unsubstantiated but oft-repeated assertion and wishful thinking is not limited to the fields of art and literary criticism. There is also economics and politics.

Of all the accusations thrown at globalization, the one most accepted by even fair-minded people is that while it may be good for the world in aggregate, for total economies, and for wealthy countries,



something must be done for the poor, who it leaves behind.

Nice theory but, of course, it is utterly wrong. Want proof of that? Go to:

http://econ.worldbank.org/files/1696_wps2587.pdf

This paper from the Development Research Group of the World Bank methodically examines the impact of national policies on the poorest 20 per cent of the population. It uses data from 92 nations over 40 years. Readers will not be surprised to find that the things that are good for the poor are per capita GDP growth and low inflation. Per capita GDP growth, in turn, derives from openness to trade, the rule of law and governmental fiscal discipline.

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.

The 'R' Files

ALAN MORAN

A Ticket to Ride: Melbourne's Privatized Public Transport

Recently, there has been considerable press comment on Melbourne's public transport system. Commentary has tended to bag the system but the facts—and the consumer reaction in terms of patronage levels—are very different.

Because governments insist on low fares, few of the world's major cities have public transport systems that operate without taxpayer support. Australian cities are no exception. But Melbourne's 'Met' during the Cain–Kirner years also plumbed the depths of operational inefficiency. It was a business operated for the benefit of its workforce and union reps with little attention paid to the needs of customers.

According to the Auditor-General, poor cost-control also meant that even excluding some costs, such as dedicated track, etc., in 1992 the Melbourne 'Met' operated with a huge \$549 million deficit. The deficit represented a taxpayers' subsidy of 57 per cent of costs. By 1996, the Kennett Government's in-house reforms had cut \$245 million from the deficit, reducing the subsidy to 37 per cent of costs.

Goaded by a transport workers' strike designed to sabotage the first Melbourne Grand Prix, in 1997 Kennett decided to privatize the 'Met'. Unlike other privatizations, trams and trains were sold off for negative sums—the 'buyers' agreed to specified levels of service in return for on-going but diminishing subsidies. In discounted cash-flow terms, the privatization (which was actually an asset lease, rather than a sale),



netted the government an estimated \$1.8 billion. This reflects the base subsidies being progressively reduced from an annual \$264 million to zero by 2009.

As with other Victorian privatizations, the Kennett Government did not allow a single business to buy the full set of services. The Government also avoided the UK mistake of setting up separate businesses to manage the track and the operations. Instead, the assets were separated into five components. Three different owners now manage the three train and two tram services. A UK firm, National Express, owns three of the businesses; one of the other two is owned by the financially troubled French-based company, Vivendi; and the other is jointly owned by another French company, Transdev, and Transfield.

The preparation for privatization involved setting service standards with incentives and penalties designed to bring improvements. The measures of efficiency now adopted are far more comprehensive than those used in the pre-privatization period. Though these incentives/penalties are considerably smaller than the base subsidies, performance measures after three years demonstrate a solid improvement. The published figures are shown in the Table below.

These measures actually understate the improvement. A highly sophisticated set of performance monitoring measures is used by the Government and the operators. This examines each service at various stages of its journey and amalgamates these findings with cancellations. It shows a 35 per cent reduction in delays and cancellations since privatization. This was a target that the companies were only required to reach within ten years.

Other improvements are evident in surveys of public satisfaction with the service.

The Kennett Government's tram and rail privatizations, like some of its other asset sales, appear to have been too successful in the sums they raised. At least one of the buyers has been struck by the same 'winner's

Table 1: Melbourne Train and Tram Punctuality and Reliability Performance

	Punctuality % at destination		Cancellations %	
	1998–99	2001–02	1998–99	2001–02
Train	93.9	96.7	1.0	0.5
Tram	68.5	70.8	1.1	0.4

Source: Victorian Department of Infrastructure

curse' that has pounded the balance sheets of some of the electricity industry's new private owners, and is playing havoc with the share price of Macquarie Bank following its 'success' in bidding for Sydney Airport.

A shortfall in labour productivity gains is one reason for buyer disappointment. The new owners may, however, have had some over-ambitious plans in this direction. The Kennett reforms had cut out more than half of the previous levels of staffing, through rationalizing activities and eliminating fare collectors. Employment in the system had been reduced from 19,000 in 1990 to 9,000 in 1998. Further savings have been made since privatization. But deep employment cost-cutting would require more radical moves, such as greater use of part-timers, introducing split shifts, and multi-skilling to employ drivers in other activities in the low-demand periods between the peaks. Such radical reform would entail a degree of confrontation with the unions that the new owners have recognized would prove far more difficult to win in Victoria than has been their experience in Europe.

Unanticipated revenue deficits from the Melbourne sport of fare evasion is another reason that the owners' profit expectations may have fallen short. Notwithstanding stern adverts and vigorous policing, the companies claim that fare evasion is \$50 million a year in excess of expectations. There have also been deficiencies in the automatic ticket system which has had adverse revenue implications.

These factors have led to some uncertainty about the level of patronage being achieved, and the past level that formed the basis for the private owners' incentive-based remuneration levels. They constitute the pivots around which the private owners and the Government are currently negotiating a re-set of the privatization conditions.

Interestingly, although the Bracks Government rarely misses oppor-

tunities to bash the Kennett Government's privatizations, it is hard-headed enough to recognize that ministers and public servants cannot run these enterprises.

In fact, the Bracks Government has taken energetic steps to ensure that the owners are locked in. Thus, in February of this year, in the process of agreeing to pay \$110 million in settling some long-standing claims with the companies, the Government demanded, and got, a doubling of their performance bonds to \$210 million as a quid pro quo. This increases the penalties the companies would incur if they simply walked away from the contracts.

Following 20 years of declining patronage and a half a century of falling market share, the system has seen a remarkable trend reversal

Indeed, irrespective of its ideological preferences, the Bracks Government can hardly be displeased with the privatization outcome. The impressive turnaround in punctuality and reliability is well-documented. Partly because of this, following 20 years of declining patronage and a half a century of falling market share, the system has seen a remarkable trend reversal.

The Auditor-General, in his 1998 report on the reforms, noted that from 1993 they had gradually turned the tide of two decades of declining patronage. Patronage in 1996–97 was at the highest level for two decades. Even so, although passenger numbers

increased, public transport's share of the travel market continued unchanged. As a share of the motorized journeys, it was under 8 per cent in 1998. Privatization has turned this round. The Government now estimates that the public transport share of the travel market is back to 9 per cent. This has even prompted public transport aficionados to dust off their Mission Impossible plans for a 20 per cent market share by 2020.

Melbourne public transport's achievements are rarely noticed amidst the venomous chorus of criticism from user groups and those opposed to private ownership. This is partly due to the private owners' hesitancy in trumpeting their achievements in the light of ongoing contractual disputes with the government. It also may be due to the Bracks Government's diffidence in promoting a major success that it inherited. In this respect, Transport Minister Peter Batchelor was an indefatigable opponent of the Kennett reforms. Referring to the public transport privatization in May 1998 he said, 'Mr Kennett's transport privatization is obviously based on voodoo economics. They will sell our trains and trams and it will cost us more'.

But three years' solid performance of Melbourne's privately-owned public transport has demonstrated the opposite to be the case. Melbourne's trams and trains show a remarkable record of success. The experience illustrates yet again that the incentives and financial disciplines inherent in private ownership bring dividends both in terms of services that are better attuned to the needs of the consumer and reduced costs. Public transport in Melbourne demonstrates that even the most difficult industries can function more successfully if their assets and employees are transferred out of the public sector.

Dr Alan Moran is Director, Deregulation Unit, at the Institute of Public Affairs.

I P A

Letter from London

JOHN NURICK

Crash Through or Crash

In its first four years, our Labour government kept public spending well under control—better than the Conservatives would have. This was an absolutely deliberate policy, intended to reassure the money markets and the middle classes that ‘New Labour’ could be trusted with the economy. From that point of view, it worked. Inflation stayed low, growth was satisfactory and every budget was in surplus, and last year the voters duly gave Labour a second term with another decisive majority.

Nothing is an unmixed blessing in politics, however, and Labour’s fiscal control has had serious adverse consequences too. First, it delayed needed investment in services (for example, health, universities, roads, railways). Second, it reduced the effort that ministers, civil servants and managers could put into planning structural reforms of the services that would make them more effective and efficient in the medium and long term. (Also, because the budgets were balanced largely by increasing taxes on pension funds, it reduced people’s incentive to save for their own retirement even as the government was trying to encourage saving: but that’s another sad story.)

As a result, after four years of Labour, most public services had not improved at all. The railways and the London Underground had got worse. This didn’t stop Labour being re-elected in 2001 with another big majority, though that owed more to the failings of the Conservatives than to love for Labour. Between now and the next election—three or four years away—Labour must deliver real, visible improvements in the public services people use themselves or learn



about from family, friends and the media.

But four years isn’t long, certainly not long enough to devise, implement and reap the benefits of structural reform of a health service or university system or railway that has been starved of investment for decades. So, having ducked the challenge in its first term, Labour has little choice but to throw money at basically unreformed services.

The first signs are that this isn’t working (surprise, surprise!). Consider the National Health Service, which is a couple of years into its largest sustained increase in funding ever—and seeing a substantial *fall* in productivity.

It’s easy to see why. Cash-strapped hospitals and surgeries have been postponing maintenance and basic renewals, so now there’s money available it may be more urgent to mend the roof than treat more patients. NHS pay rates—those of nurses in particular—have fallen behind those in the private sector or even in other public services. And that’s just the pay rates: hospitals saved money by keeping nurses at the same pay grade while giving them more work and more responsibility—and counting on their professional dedication to deliver the

unpaid overtime. Now there’s more money around, people are less willing to bust a gut for nothing. Meanwhile, there are a raft of new reporting and monitoring requirements which are needed for good management and evidence-based medicine, but which take up staff time.

Finally, the government has decreed that billions of pounds will be invested in information technology for the NHS. Patient records shared between GPs, hospitals and diagnostic units; hospital management systems; purchasing systems; in fact the full electronic Monty, all coordinated and authorized from the centre. But big public sector IT projects have an appalling record of delays, cost blow-outs, mismanagement and failure under Labour and Conservatives alike—in the courts, the passport service, air traffic control, the child support agency, the revenue, the post office, and on and on. What’s proposed for the NHS and its million employees is bigger, more complicated and more ambitious than any of these. Progress is already months behind the timetable announced in March this year.

The man holding the purse strings is our Chancellor (treasurer) Gordon Brown, who isn’t normally a total idiot. So why is he putting his money (or rather our money) on policies that have failed in the past? One theory is that he believes public spending is good in itself—in which case questions of ‘success’ or ‘failure’ don’t arise. I think it’s more like desperation. Reform will take too long, so it’s time to crash through—or crash.

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

REVIEW

What's A Job?

KEN PHILLIPS

Myths and Lies

A number of myths underpin the claim to moral authority of the Australian industrial relations system. Workers are supposed to be all goodness and exploited. Bosses are supposed to be evil at worst and unreasonable at best. The industrial relations system and the players in it are supposed to limit 'unreasonableness' so that harmony abounds.

The problem is that the myths are so divorced from reality that they are now doing serious damage.

'Bosses' are mostly non-human, complex legal entities, but are represented by humans who are themselves workers. Industrial relations is more about regulating relationships between hierarchies of employees, particularly in public and private bureaucracies, than it is about boss-worker relationships.

Most workers are part of the bulging middle class (and if not, they aspire to) and most of them become middle class with time. Poverty is more a product of ill health and other issues than it is an outcome of class-driven oppression. The self-employed are their own bosses and have ballooned in numbers. How can they be exploiters of themselves?

This gulf between myth and reality presents a great challenge to the relevance of the industrial relations system, because if exploited workers cannot be identified, the system has no-one to 'protect'. In response, operatives working inside the system have devoted a lot of effort over the last ten years to ensure that if exploited workers cannot be found, they can at least be invented. The myth is being re-marketed.

Two of the 'exploited worker' inventions are easy to identify.

First, every one of us is supposed to be exploited because we are now working longer hours than ever before. Consequently, we are allegedly destroying our families and the fabric of our society. This is, however, a lie. On average, we work fewer hours today than we did 40 years ago. In the 1960s we worked 39 hours per week, which dropped to 34.5 hours in the 1980s—which is around the same figure we work today.

Yet the lie of longer working hours is behind the 'unreasonable hours' test case made before the Australian Indus-

Many myths are harmless, but the exploited outworker myth destroys jobs...

trial Relations Commission in 2002 and is the justification for the current 36-hour week push in the building industry.

Second, invented exploited workers are those we can imagine, are unlikely ever to meet, but with whom we can feel empathy. Clothing 'outworkers' have fitted this category for nearly ten years. And millions of dollars of marketing funds from churches, unions and State governments have driven extensive media stories portraying poor people slaving for hours over sewing machines on pitifully low wages of \$2 to \$5 per hour. Critical to this invention of the exploited worker is the difficulty of verifying the figures without resort to extensive research.

The claims of low outworker wages, however, have proven to be bogus, but the extent to which the myth-mongers have been willing to peddle their lies has only just been revealed. In another of those 'exploited outworker' stories, an August 2002 edition of Channel Seven's *Today Tonight* show championed a leader of the Textiles Clothing Union doing a 'bust' of a 'sweat shop'. They confronted and harassed the Asian male manager of the small factory demanding that he reveal how much he was paying the machinists. He spoke little English but through an interpreter replied '\$13 per hour'. The interpreter said to the reporter, in English, '\$13 an hour', which the reporter 'relayed' to the TV audience in shocked tones as '\$5 an hour'. The reporter's voice-over continued, 'These workers earn as little as \$2 to \$5 an hour slaving around the clock for a pittance'. A qualified, independent translator has verified the real interchange.

On the basis of these lies about low wages, the Australian clothing manufacturing award was exempt from award simplification in the 1990s, New South Wales introduced vast new regulations to control the clothing industry in 2001, and clothing companies have been targeted by brand-name destruction campaigns. Now, 78 per cent of clothing sold in Australia is made overseas compared with 25 per cent in 1985. Many myths are harmless, but the exploited outworker myth destroys jobs.

When industrial relations operatives are prepared to sacrifice truth and jobs to justify their system, they actually strip the industrial relations system of moral authority.

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

I P A

Summaries and excerpts from interesting reports

SCIENTISTS FIND MORE OIL

There may be far more oil and gas within the earth than previously thought.

- In 1995, *The New York Times* reported that geochemist Jean Whelan of the Woods Hole Oceanographic Institution in Massachusetts had found evidence that oil was moving upward into reservoirs from somewhere far deeper.
- On 16 April 2002, *Newsday*, the Long Island newspaper, published a startling report that old oil fields in the Gulf of Mexico are somehow being refilled.
- Scientists, led by Mahlon Kennicutt of Texas A&M University, speculate that the new oil is surging upward from deposits well below those currently in production.

This raises new questions about the origins of oil and natural gas. It has commonly been thought that they are the decayed remains of long dead plants and animals. However, as hydrocarbons are found at extreme depths, this explanation becomes increasingly implausible.

Astronomer Thomas Gold of Cornell University argues that oil and gas are in fact the remains of methane left over from the earth's origin.

With growing improvements in technology that are making possible oil drilling at greater and greater depths, it may soon be economically feasible to explore and produce oil from these deep deposits.

Economist Julian Simon long made the point that the size of proven reserves cannot be divorced from the price of oil. At current price levels, only about 40 per cent of oil can be extracted from existing fields; the remaining 60 per cent cannot be produced economically and is therefore not included in proven reserve estimates.

As Bjørn Lomborg points out in his new book, *The Skeptical Environ-*

mentalist (Cambridge University Press), \$40 per barrel oil will immediately increase world reserves from a 40 years' supply to 250 years because vast known oil shale deposits will become economically viable.

Source: Bruce Bartlett, senior fellow, National Center for Policy Analysis, 29 May 2002. For text [<http://www.ncpa.org/edo/bb/2002/bb052902.html>]

BRITISH CRIME EXPERIENCE

Over the past several years, crime has risen in Great Britain. Today, the chances of a person being mugged are six times greater in London than in New York City. In her new book, *Guns and Violence: The English Experience*, Joyce Lee Malcolm explains Britain's crime epidemic. Malcolm argues that two major changes in British law created the current crime-prone environment: the criminalization of self-defence and the increasing restriction on handguns, culminating in the 1997 ban of handgun ownership.

In 1997, after the Dunblane Massacre, Britain outlawed all handguns. The penalty is 10 years in prison. However, this has not decreased gun crime, but encouraged it:

- During the two years following the 1997 handgun ban, the use of handguns in crime rose 40 per cent.
- During seven months of 2001, armed robberies in London rose 53 per cent.

Moreover, the British Government forbids citizens from carrying ANY article that might be used for self-defence. This has led to bizarre scenarios:

- In 1994, the police arrested a homeowner for using an imitation gun to detain two burglars who had broken into a home.
- A British Petroleum executive used an ornamental sword blade to de-

fend himself against attack and was later convicted of carrying an offensive weapon.

In Britain, self-defence must be 'reasonable' as determined after the fact by the courts. However, the courts are so exacting with this definition that a recent British law textbook says that the right to self-defence is so mitigated 'as to cast doubt on whether it still forms part of the law'.

Source: Paul Craig Roberts, 'How the British Maximize Crime,' [www.townhall.com], 1 August 2002, based on: Joyce Lee Malcolm, *Guns and Violence: The English Experience*, Harvard University Press, May 2002.

INTERNET BRINGS FREEDOM

Their governments don't like it, but citizens of such countries as Iran and China are turning to the Internet to exchange forbidden ideas and taste a measure of freedom denied them in everyday life.

- An estimated two million Iranians on any given day log on to Yahoo chat networks to discuss forbidden topics such as hip-hop music and feminism—and a world of scientific and technological information is only a mouse-click away for those with more serious tastes.
- Although the government has launched several failed attempts to filter Websites and restrict them, the Internet is providing access to ideas and forums that run counter to Iran's fundamentalist theocracy.
- Nearly every university in the nation is now wired to the global network, as are hundreds of elementary schools and high schools.
- Normally forbidden sexual topics are popular and the Internet is about the only safe haven for expressing criticism of the government.

In Communist China, it is actually easier and cheaper for a resident of Beijing to hook up to the Internet than it is for most Americans.

- The World Wide Web is available for 36 cents an hour, payable with the phone bill.
- Private citizens in China were granted access to the Internet in 1995, and in a largely futile effort, the authorities channelled all incoming Internet traffic through filters that blocked out objectionable sites such as those of *Playboy*, the Dalai Lama and *The New York Times*.
- Observers report that the Internet has undermined people's dependence on the government-controlled media.
- But newly-trained 'Internet police' patrol Websites and chat rooms, weed out seditious thought and pornography, and read the e-mail of those suspected of crimes.

Sources: Nazila Fathi, 'Taboo Surfing: Click Here for Iran...' and Erik Eckholm '...And Click Here for China,' both in *The New York Times*, 4 August 2002.

COMPUTERS' FALSE PROMISE

Computers have revolutionized business, changing the way business is done and creating large productivity gains. However, according to Larry Cuban's new book, *Underused and Oversold: Computers in the Classroom*, computers have not achieved a technological revolution in education.

In the past decade, computers have flooded US schools. Cuban reports that:

- Between 1997 and 1999 the ratio of computers to students dropped from 1:21 to 1:10.
- There was a similar drop in machine-to-student ratios for Internet-connected computers.

- Consultants and McKinsey and Company estimated that, in 1999, computer spending reached \$119 per pupil as opposed to \$75 per pupil in 1995.

However, Cuban finds that there has been no significant innovation or development with computers. He finds that 'teachers have adapted [the computer] to existing ways of teaching and learning that have dominated early childhood education for decades'. Instead of creating new teaching paradigms and designing new systems to take full advantage of computers, teachers are merely augmenting their curriculum.

Things are similar at universities. In a 1997 survey of 750 professors nationwide, Cuban reports that:

- 62 per cent never used computers while teaching a class.
- 85 per cent never had students use computers in class.
- The two machines faculty most often used in the classroom were the VCR and the overhead projector.

Cuban concludes that computers in classrooms have not boosted achievement scores, increased knowledge about computers or prepared students for the New Economy. He argues that parents should care more about reading and writing scores than how many computers are in a classroom.

Source: David Skinner. 'Computers Don't Help,' *Public Interest*, Number 147, Spring 2002. Based on: Larry Cuban. *Underused and Oversold: Computers in the Classroom*, Harvard University Press, 2002.

ETHANOL FORGES AHEAD

A number of factors are boosting the political prospects of ethanol—the US government-subsidized gasoline additive made from corn. The energy bill that Congress will consider this fall has a mandate—supported by leaders in

both parties and the White House—that 5 billion gallons of ethanol be added to gasoline within 10 years, up from 2 billion today. So farmers and farm-state politicians like it.

There are signs that the oil industry—which has fought ethanol in the past—may be coming around.

Ethanol is now being seen as a possible stabilizer of world oil markets. It seems that only economists are unconvinced, having protested as government subsidies poured in during the decades-long development effort.

- Cornell University's David Pimentel calculated in 1979 that growing corn, fertilizing it, harvesting it and making it into ethanol consumes more energy than it produces—and asks, 'If it's so damned great, why do we need to subsidize it?'
- Commenting on the political factors building in ethanol's favour, Brookings Institution economist Robert Litan comments, 'You can't go to the Iowa primaries without supporting ethanol.'
- He adds that ethanol, 'from an economic point of view makes no sense.'
- Even some politicians from non-corn states are outraged—with California's Senator Dianne Feinstein complaining, 'This is a ridiculously expensive way to subsidize farmers.'

And while critics warn that food prices will rise if more corn goes into gas tanks rather than being fed to cattle, years of artful lobbying and overlapping ethanol subsidies and mandates seem to have confused even some experts as to its true costs.

Source: John J. Fialka, 'Years of Subsidies Now Put Ethanol on Verge of Victory,' *Wall Street Journal*, 23 August 2002.

Letter from America

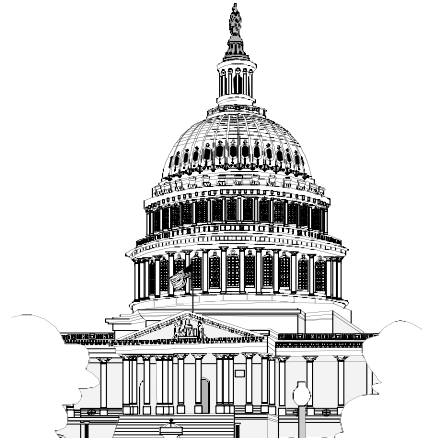
NIGEL ASHFORD

Economic McCarthyism

The US economy is going through a difficult period of slow growth, growing unemployment and a weak stock market. The result has been increasing pessimism about the short-term future of the economy. Whenever a society or economy has problems, there are always politicians and pundits eager to pin the blame on some group. In the 1950s problems were attributed to the influence of communists. This was known as McCarthyism after Senator Joseph McCarthy threw accusations of communist sympathies at anyone he disliked. The preferred scapegoats of today are businessmen. Rather than explaining that the causes of the slowing economy are taxation, regulation and government spending, the media place the blame on the fraudulent behaviour of corporate executives.

The collapses of Enron, WorldCom and Global Crossing show that corporations have serious problems. The demands of many commentators to institute new regulations on accounting, auditing and corporate governance, however, ignore the fundamental causes. No new laws are necessary to criminalize fraud. It already is, and some executives will undoubtedly be prosecuted and sent to jail. Vigorous enforcement of the existing laws is required. Nonetheless, the collapse of these companies was not due to fraud. It was due to too much debt and risky major investments. Fraud either played a very minor role in the companies' losses or was the result of attempting to hide the precarious financial situation from shareholders.

The central question is why did company executives pursue such strategies of debt and risk? The answer can be found in the US corporate tax code. It allows the deduction of interest pay-



ments, but not dividends, as an expense. This encourages corporations to rely on debt to finance investment rather than shareholders. The US corporate tax rate is among the highest in the world. Furthermore, personal income-tax rates are much higher than the rate for long-term capital gains. This encourages corporations to rely more on capital growth than dividends as a means of satisfying shareholders. The tax incentive therefore is to pursue risky investments that promise high capital gains.

The tax system also encourages the use of stock options because such 'performance-based' incentives are tax deductible for the company. Corporate compensation above \$1 million per year is not. Stock options encourage risky investments because the executive would only exercise the option if investments were positive. They suffer no loss if investments fail.

The primary message of the current problems of corporate America is to change the tax system to remove the current bias in favour of debt and risk. The solution is to reduce corporate income tax rates, and to reduce personal income-tax rates to remove the difference with the rate for capital gains.

Fortunately, despite the glee of anti-capitalist politicians and writers, the scandals have not damaged the fundamental confidence of the Ameri-

can people in the free market system. Karolyn Bowman of the AEI has conducted a comprehensive survey of polls on attitudes to business before and after the recent scandals. [www.aei.org/psbowman13.htm] Americans overwhelmingly believe that the free enterprise system is the major cause of America's success; that it will continue to keep the nation prosperous; and that the strength of the country is mostly based on the success of American business. Despite all the recent bad publicity, two-thirds still have favourable views of business corporations.

They are still suspicious of large corporations. One of the reasons may be that they have a totally inflated view about corporate profits. When asked to estimate 'what percentage profit on each dollar of sales do you think the average manufacturer makes after taxes', the mean estimate was 34 per cent. The actual profit was 1.3 per cent. The disconnection between myth and reality may explain why most believe that corporations make too much profit.

They are, however, even more suspicious of government intervention in business. Most believe that the government has gone too far in regulating business. Two-thirds believe that government should not introduce new laws on business, but focus instead on the enforcement of existing laws.

Americans recognize the existence of corrupt businessmen and believe that they should be vigorously prosecuted. But they still have faith in the free enterprise system and can distinguish between the system and a few bad people. Economic McCarthyism has failed.

Dr Nigel Ashford teaches in the Institute of Humane Studies at George Mason University, and is co-author of US Politics Today (Manchester University Press).

I P A

REVIEW

Court Ruling Clarifies Farmers' Rights

IAN MOTT

A landmark Queensland Planning and Environment Court ruling has provided the first clarification of existing use rights for native forest owners. Most state planning legislation has specific provisions to ensure that existing lawful uses may continue without the need for consent. But the case has sent a loud signal to farmers that they can continue with practices that cause degradation, but God help them if they try to fix the problem. It will be a strong guide for any subsequent rulings in other States, but it has come at considerable cost to the farmer involved.

Mr Jim Barns does not fit the common profile of a farm forester or, indeed, a farmer, for Jim is one of Queensland's most successful farmers with interests in sugar cane, a 'Paul Keating' scale piggery, coastal property and native forestry.

A government that was serious about promoting the integration of forestry and other agriculture could find no better role model. Jim has owned a fully forested property of 158ha at Coolum in Queensland, since 1975. The property has seen regular selective harvesting of commercial species, while many of his neighbours were sub-dividing their properties, and it is now the largest non-corporate forest left in the shire.

And it is well worth noting that over this time he has made better returns per hectare from this native forest than he did from renting out his cane farms. But, like so many cases, this selective harvesting has produced the classic symptoms of 'high grading', where continual removal of the faster growing

commercial species has allowed less productive, shade-tolerant species such as Bloodwood and Brush Box to dominate.

In late 2000, and on the best advice of a number of very experienced and qualified foresters, Jim commenced a harvesting operation to correct this silvicultural imbalance. Like all good forestry operations, Jim's plan was to make it

Jim Barns has given private forestry in Australia the all-important first test case that confirms that a forestry use is intermittent and not abandoned between harvests

pay for itself while addressing long-term management issues.

All the professional advice called for significant site disturbance to maximize regeneration of the original, more desirable, species. These species need disturbance for successful regeneration. And, given that future harvests would be entirely performed by machine, he realized that this might be hindered by leaving a large number of stumps in the ground. Any regeneration failures would also need site preparation

and planting by machine, and the agreed-upon solution to all three issues was for the stumps to be removed while the machinery was on site.

Trees were also felled in an apparently haphazard manner, but this was to ensure that the seed-laden heads landed in existing gaps. The logs were to be carefully extracted by an excavator with a special 'log grabber' to minimize damage to remaining trees.

A harvest plan was drawn up, based on a full flora and fauna study and in consultation with the contractor. Heavy intervention was planned for the 40 per cent Blackbutt forest, light intervention for the 40 per cent Wallum (scribbly gum and paperbark) forest with no intervention in the remaining heathland. The EPA was only concerned about the heath, an endangered regional ecosystem, not the Blackbutt forest which was classified 'not of concern'.

Maroochy Shire had already indicated a desire to acquire the property for inclusion into the adjoining Noosa National Park, but they balked at the independent valuation. The Council then brought action in the Planning and Environment Court claiming that Jim's forestry practices amounted to 'clearing'. Yet, under the Queensland *Vegetation Management Act*, 'forest practices' are not clearing.

The court ruled that Jim's existing use for forestry could continue without the need for Government consent but then ruled that his attempts to fix his silvicultural imbalances amounted to a material change in scale and intensity that

did require consent. So he lost his case—at a personal cost in excess of \$150,000 in legal fees. The Judge then gave the parties twelve months to agree on conditions for continuing his forestry purpose.

The Shire, in what appears to be an extraordinary attempt at an improper exercise of power, refused to accept the State Forest Code of Practice for Timber Production as an appropriate framework for Mr Barns' on-going operations. They persisted with conditions that would effectively destroy the economic viability of his farm.

When this inability to come to an agreement was reported to the Judge at the final hearing in April this year, a visibly irritated Judge advised the Court that he had no power to impose conditions on Mr Barns' existing use. His authority extended only to the small portion of the forest that had been harvested prior to the granting of the original injunction.

Jim Barns has given private forestry in Australia the all-important first test case that confirms that a forestry use is intermittent and not abandoned between harvests. He has also confirmed that this existing use may continue without need for consent under new planning instruments provided there is no material change in scale or intensity.

It has clarified the extent of forest owners' protection at law but has also exposed certain political and administrative assurances as worthless. Understandably, Jim's perspective on the future of private forestry is now somewhat at variance with the usual saccharine extension pap. And it is for this valuable but costly removal of ambiguity that he has won the lasting respect of real farmers with real forests.

Ian Mott is a farmer, journalist and President of the Regrowth Foresters Association.

I P A

■ STRANGE TIMES ■

Compiled by IPA staff, columnists and consultants ...

PROTECTING KANGAROOS' RIGHT TO STARVE

In July 2002, the Australian Army base at Puckapunyal was invaded by over 200,000 kangaroos. Somehow, the herd got through the electric fence, consumed all the fodder and were facing mass starvation. With drought ravaging the land, there was no food outside the fence either (which is why the 'roos invaded the army base in the first place).

The Army decided to do the humane thing and cull some of the animals to ease suffering, avert mass deaths and avoid destruction of habitat.

Enter the animal rights activists, who put their bodies on the line to stop the cull. Their reasoning: 'since we would not destroy humans who are starving, we should not do so to 'roos. It is preferable to let the 'roos starve to death'. In short, they want to protect the animals' rights to starve to death.

UNITED NATIONS COMMISSION ON DICTATOR'S RIGHTS

In August of this year, the United Nations Commission on Human Rights accepted the recommendation of its African members (it was their turn to choose) that a representative of Colonel Qaddafi become the Commission's new chairman. Now, what is Libya's record on human rights? Summary executions? Yes! Execution of political prisoners? Check. Torture? Certainly, including 'applying corkscrews to the back', 'pouring lemon juice in open wounds', 'suffocating with plastic bags', and 'attacking with dogs'. There is also the small matter of the regime's bombing of the Pan Am jet over Lockerbie, Scotland. By the way, this is the very same Commission which last year voted the

United States out and Sudan in, and frequently sends an envoy down under to lecture Australia about its racist and evil policies.

BEAM THEM UP SCOTTY!

WWF—a multinational, public relations firm specializing in scaring the hell and money out of people—came up with a novel spin last month. It predicted that interstellar migration to no fewer than two planets was on the cards by 2050 unless we changed our modern ways.

Less uniquely, WWF also put the boot into the rich US, claiming that it had the biggest 'footprint' of precisely 12.2 hectares per person.

But does this imagery work? The ageing baby-boomers who are the main supporters of WWF were raised on Star Trek and Dr Who. Indeed, in the last Australian Census, more than 70,000 Australians declared their religious faith to be 'Jedi'. Moreover, many spent their youth looking for the elusive big foot or yetis, and taking drugs. They may actually think that space travel and big foot prints are good.

ECO-FRIENDLY EXPLODING CARS

Veronica Webb's eco-friendly electric car turned into a fire-spewing death machine, burning down her Florida home and killing her beloved dog, Hercules.

Despite her long devotion to various green causes, the six-month pregnant supermodel says that she's through with electric cars after her Chrysler Gem overloaded while charging late last Monday night, sending flames through her air conditioning system and consuming everything in its wake.

'We got the car because it was supposed to be great for the environ-

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ment, but no-one ever warns you how dangerous they are', Webb said.

Firefighters told Webb that good intentions often turn lovely homes into blazing death zones. 'They said they see this kind of thing with electric cars all the time,' she says. 'Electric cars and golf carts are always overloading their chargers and burning up, but no-one knows about it.'

GREENS ARE NOT ALL WRONG

The greenies are highly expert spin merchants and it is not surprising, therefore, that they see through the oil giant BP's spin.

A coalition of green groups recently gave BP the inaugural 'Best Greenwash Actor' award for 'using an environmental veneer to disguise continued poor practice'.

Now the 'poor practice' claim is probably just more green spin, but they are right on the money about BP's greenwash. Over the last few decades, BP has been an aggressive acquirer of petroleum assets, making it the second-largest petroleum firm in the world. Its non-petroleum activities are trivial. It is the leading proponent of drilling in the Alaskan arctic wildlife refuge and was a large contributor to the G.W. Bush presidential campaign.

Yet, rather than own up to what it is—a highly successful petroleum firm—it has launched a rebranding campaign that includes a flower-like logo and a change of name to 'Beyond Petroleum'.

DON'T WORK TOO HARD

The London *Times* reports that the EU Commission has ordered Britain to impose a maximum 48-hour week on British workers. Consistent with its usual approach to matters of individual choice, the Commission is arguing that a UK law allowing workers to volunteer for additional hours should be scrapped. The real

reason for this step? EU aversion to free competition between its various members. If the workers are allowed to work longer hours in one country, then that would be 'unfair' to other more repressively regulated member states. Pan-European working-time legislation is only a small part of this process, which one day may even be extended to taxation. That's bad news for the EU's few remaining free market hold-outs. There is already grumbling that tax rates in certain EU countries are 'unfairly' low, so watch for increasing calls for tax harmonization, a process that will only drive taxes in one direction: Up.

ENVIRONMENTALIST LAMENTATIONS INTRODUCTION OF ELECTRICITY

Gar Smith, editor of the Earth Island Institute's online magazine *The Edge*, spoke about what he considers the virtues of poverty during an interview with CNSNews.com.

'The idea that people are poor doesn't mean that they are not living good lives', Smith said.

Smith called the developing world's poverty 'relative' and explained 'you can't really have poverty unless you have wealthy people on the scene'.

Smith decried the introduction of electricity to the poor residents of the developing world.

'I don't think a lot of electricity is a good thing. It is the fuel that powers a lot of multi-national imagery', Smith said.

According to Smith, electricity can wreak havoc on cultures. 'I have seen villages in Africa that had vibrant culture and great communities that were disrupted and destroyed by the introduction of electricity', he said.

With the introduction of electricity, the African villagers spent too much time watching television and

listening to the radio, allowing their more primitive traditional ways to fade away, according to Smith.

Smith lamented that 'people who used to spend their days and evenings in the streets playing music on their own instruments and sewing clothing for their neighbours on foot-peddle-powered sewing machines' lost their culture with the advent of electricity.

'If there is going to be electricity, I would like it to be decentralized, small, solar-powered', Smith said.

Smith challenged Americans to give up their own modern conveniences.

'The real question is what personal conveniences and self-indulgences are you willing to give up in order to stop destroying the planet?' he asked rhetorically.

The US is not a model for the rest of the world to follow because 'the level at which Americans consume is unsustainable', according to Smith. He projected that if the rest of the world consumed at rates similar to the US, the environmental degradation would require 'three extra planets to exploit'.

He called the notion that the US needs to export the 'American way' of life nothing more than 'myth making' and revealed that many of his friends have already voluntarily given up automobiles in favour of bicycles and mass transit.

Smith used the collapse of communism in the former Soviet Union as an example of how to solve ecological problems.

'There is a solution to climate change and pollution. We saw it happen to Russia when their economy collapsed. Their industrial plants closed down, the skies got clear. Their air is a lot cleaner now,' Smith said.

God helps us all!

I P A

Book Reviews

No Nuggets Here

Stephen Holt reviews

Nugget Coombs: A Reforming Life

by **Tim Rowse**

Cambridge University Press, 2002
\$59.95 (419 pages)

Back in 1984, Hugh Stretton, whose word is law in such matters, described Dr H.C. ('Nugget') Coombs as one of Australia's premier 'Social Democratic Intellectuals'. Beginning in the dark years of the early 1930s, Coombs set out 'to improve the world' using a network of national institutions, including the Commonwealth and Reserve Banks, the federal public service and the Australian National University, as his springboard.

Coombs' career as a reformer is clearly of great interest to the Australian reader and yet Tim Rowse has ended up writing an exceedingly dull book about him. The reader's heart sinks as earnest summaries of the deliberations of impersonal bureaucratic committees in which Coombs was involved alternate with a succession of paraphrased policy statements.

Rowse has unwisely succumbed to the cult of impersonality which was a deliberate part of Coombs' *modus operandi*. A commitment to seeking reform through committees and institutions placed a premium on 'amiable impenetrability'. The best way to further social democratic change in Australia was by damping down confrontation of any kind, whether personal or ideological. For his part, Rowse was never going to do anything that would disturb the calm as indicated by his willing compliance

with a ban placed on interviews with Mrs Coombs.

Reading Rowse's account can, in truth, only be persevered with because of a prior knowledge of the important events making up Coombs' life and times.

The Great Depression of the 1930s was, for Coombs, 'the most significant event' he ever experienced. An important reason why the Scullin Labor Government failed to cope with the Depression was because it lacked advice from sympathetic experts who understood precisely how complex eco-

Coombs was bent on using public-sector institutions to foster social change and yet the collapse of the Keynesian paradigm made this approach seem passé

nomie and financial mechanisms operated. Labor always seemed to prefer simple views and solutions. The Depression confirmed its atavistic distrust of the banking system (dismissed as 'the Money Power'), making it vulnerable to crackpot remedies peddled by Jack Lang or Major Douglas.

The challenge was serious and Coombs' response was suitably bold. He enrolled at the London School of Economics where a doctoral thesis on central banking was

intended to train him up as an expert who would solve technical problems for a reforming government without arousing hostile conservative passions.

Coombs joined the Commonwealth Bank after he returned to Australia, but his agenda was effectively stymied, the ALP still stubbornly equating university-educated economists with deflationary orthodoxy.

The Second World War, when government control of the economy foreshadowed an eventual Hayekian road to serfdom, was Coombs' salvation as a reformist. He was summoned to Canberra where he advised the Treasury on the conversion of the banking system into a publicly regulated wartime utility. After 1942, the Labor Government appointed Coombs to administer its schemes of wartime rationing and post-War reconstruction.

When peace came, government intervention turned to the task of overcoming poverty through full employment. Coombs sought to counteract Labor's nativist economic outlook by seeking to link the creation of more liberal post-War international trading arrangements to this mighty objective.

Coombs adapted Sidney and Beatrice Webb's strategy of 'permeation' to suit Australian circumstances. He was not wedded to a single party, although Liberal party hotheads insisted he was. Worthy aims were best achieved by forging and maintaining agreement among key policy-makers and then getting their priorities rubber-stamped by elected politicians. Polarization was, for Coombs, a dirty word. He did not support Chifley's attempt to nationalize the private banks because it was controversial and di-

visive. It hindered the development of a cooperative understanding between private and public bankers.

Menzies defeated Labor in 1949, but Coombs stayed on as Governor of the Commonwealth and then the Reserve Bank until he retired in 1968.

The presence in the Menzies cabinet of a rural socialist rump in the form of the Country Party provided Coombs with enough leverage to continue to peddle, if ever so discreetly, a social democratic line. Until the Reserve Bank was created in 1960, the private banks were subject to a regime of semi-voluntary regulation administered by the Commonwealth Bank which, at the same time, was active in offering 'socialist competition' in the market for financial services.

Coombs opposed the eventual splitting-off of the Reserve Bank from the Commonwealth Bank for as long as he could. He also sought, although without success, to outflank rivals in Treasury by implanting like-minded economists in the Australian National University. Such setbacks were indicative of a broader unfavourable trend. Coombs could delay, but not prevent, the historic transition from a Chifley-style guided economy to a Hawke-era market mediation.

The Keynesian apparatus of 1945 was in truth fatally flawed. Australia's full employment policy, despite its inflationary potential, did not rest on stable institutionalized wage restraints. Its nemesis came in the 1970s when wage pressures spiralled out of the control of the Arbitration Commission.

Coombs, as an adviser and consultant to the Whitlam Government, was fated to witness the destruction as well as the creation of Australia's post-War settlement. His 1972 appointment as a high-powered economic adviser highlighted Labor's continuing shortage of technical expertise.

The failure of the Whitlam experiment marked a crisis of faith for Coombs. He was bent on using public-sector institutions to foster social change and yet the collapse of the Keynesian paradigm made this approach seem passé. Coombs sought to re-energize policy-making by pressing for a more 'responsive' style of public administration. Bureaucrats, he insisted, needed to take account of a range of new lobby groups, including women, arts practitioners, Aborigines and the conservation movement.

The painful split between ministers and career public servants that occurred when Whitlam was Prime Minister troubled Coombs deeply. As a remedy he recommended the creation of a Cabinet Office to promote 'rapport'. This proposed body was to be fully amenable to the ministry of the day. It was to be composed 'for a particular government predominantly of persons sympathetic with their general political philosophy'. It is likely that such an arrangement would have served to further speed up the promiscuous mingling of lobbyists, advisers and career bureaucrats in Canberra.

Rowse's coverage of Coombs' post-Whitlam years is too patchy to allow us to judge in detail if these notions of responsiveness and rapport were as inimical to good governance as any policy of 'relevance' tends to be. It is clear, though, that Coombs caused needless heartache as Chancellor of the Australian National University when, in an effort to get rid of confrontation by caving in to it, he opted for appeasement when faced with a demanding group of modish New Left students.

Coombs was active as a policy advocate, concentrating in his latter decades on indigenous issues and the environment, up until he suffered a serious stroke two years before his death in 1997. He never experienced a period of idleness mixed with good health in which

to reflect calmly on whether any of the changes he was busy forging might have consequences other than the ones he intended. This is an important question for reformers, past and present, and the stages of Coombs' career are directly pertinent to it, but sadly Rowse's lifeless account seems almost deliberately intended to stifle rather than stimulate ongoing interest in his reforming aspirations.

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I P A

Trade Matters

David Robertson reviews

Australia and the Global Trade System: From Havana to Seattle

by Ann Capling

Cambridge University Press, Victoria, 2001; pb \$A39.95 (260 pages)

This history of Australia's participation in international trade negotiations over the past 50 years is detailed and comprehensive. It draws on careful research into official files and interviews with key participants in these seemingly unending negotiations. This study pays tribute to these 'trade warriors', though in retrospect many of the policies pursued were dubious.

The conclusion of this study, that 'Australia has been a deeply influential player in the multilateral trading system since its creation' (page 7) overstates the evidence offered.

- Australia took a high profile in the 1946–48 ITO negotiations, when it argued on behalf of under-developed countries that full employment and economic development should be included. But 'the negotiating

skill and expertise demonstrated' (page 35) also contributed to the US Congress rejecting the Havana Charter. A hollow victory!

- During the difficult early years of the GATT, Australian governments' propensity for trade preferences and protectionism threatened to undermine the fledgling institution. In the McEwen era (1947–71), these policies also imposed severe costs on the Australian economy.
- The brief period of economic reform under Whitlam, which included the 25 per cent across-the-board tariff cut, was reversed with the return of the Fraser Coalition Government.

When the Hawke–Keating Governments adopted economic reform in the mid-1980s (symbolized by floating the Australian dollar and reducing trade barriers unilaterally), this philosophy was absorbed into the tool-box of trade negotiators just embarking on the Uruguay Round negotiations. Convening the Cairns Group and undertaking some 'honest brokering' in services' trade enabled Australia's negotiators to influence outcomes and to mediate among the major players (the EU and the US), as well as engaging important non-OECD members. This contribution to the multilateral trading system is justly acclaimed.

At the beginning of her book, Ms Capling defines her purpose, 'to provide a political analysis ... of trade policy and trade diplomacy' (page 7). Yet on the next page, she claims to examine 'the role of the State in Australia's political and economic development', and 'the interplay between competing economic and political interests in policy-making'. The absence of any economic analysis of trade and the linkages between the domestic economy and international trade and capital flows leaves serious gaps in this story-line.

For example, trade negotiations under fixed exchange rates were quite different from those after 1983, when the Australian dollar had floated and capital flows were deregulated. The grudging recognition of comparative advantage and trade theory (page 114) does little to fill the economic vacuum, and probably weakens the relevance of political determinants of trade policy. Any policy has both costs and benefits that have to be evaluated. References to reciprocity, non-discrimination and transparency throughout the volume need explanation. Without an understanding of the economics behind these three founding principles of the multilateral trading system, there is no standard against which

No recognition is granted for US success in establishing and sustaining the multilateral system of trade and payments after the chaos of the 1930s and World War II

to assess the political outcomes. The political inclination towards preferences in Australia until the mid-1960s—now reappearing in the preoccupation with 'free trade' agreements—indicates more interest in reciprocity than in multilateralism. Usually, large economies (US, EU, Japan) show most interest in reciprocity because they have the bargaining power to influence their terms of trade.

Not only trade negotiators have promoted Australia's profile in the multilateral trading system. Aca-

demic economists such as Corden, Swann and Lloyd advanced trade theory, as did Garnaut, Snape and others who do get passing reference in the volume. The 'power of (economic) ideas' to influence policy-makers is not addressed, while the 'essentialism' of politics is rampant. The role of the Tariff Board (and its successors) in changing attitudes is surely relevant to the politics of trade policy.

Another strange imbalance in this book is its undisguised dislike of all things American. All US motives are regarded as malign and no recognition is granted for US success in establishing and sustaining the multilateral system of trade and payments after the chaos of the 1930s and World War II. US trade policies—like Australian—are also the product of its domestic policies. Western Europe's self-centred and discriminatory trade policies, on the other hand, are largely ignored or condoned here. Only in references to agricultural trade is the European Commission criticized, although Australia's trade relations with the Commission have been poor throughout.

The book closes with an assessment of the future of the WTO, besieged as it is from many directions. Satisfying developing-country interests while keeping the major players (US and EU) in 'the club' will not be easy, especially with increasing resort to preferential trade agreements, which break all three of the founding principles of the multilateral trading system. Overcoming these difficulties depends on commitments by governments to engage with civil society at home and to pursue genuine multilateralism in WTO meeting rooms. This volume provides much advice on how Australia should proceed—and many traps to be avoided!

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